

Board of Directors

B.D. Narang - Independent Director
Jyothi Prasad - Independent Director
M. Yugandhar - Non-executive Director
V. Mahesh - Non-executive Director
G. Krishna Hari - Non-executive Director
Yogesh Gaat - CEO and Managing Director

Chief Financial Officer

Amrish Shah

Company Secretary

Meenal Talesara

Registered Office

705 and 706, 7th Floor, Hallmark Business Plaza,
SantDnyaneshwar Marg, Opposite Guru Nanak Hospital,
Bandra (East), Mumbai 400 051
CIN:U67190MH2001PLC227379
Tel. No.: 022-3015 2700
Fax No.: 022-3015 2777
E-mail Id: investor.kfsl@karvy.com
Website: www.karvyfinance.com

**Joint Statutory Auditors
B S R & Associates, LLP**

Chartered Accountants
Salarpuria Knowledge City, Orwell
6th Floor, Unit-3, Survey No. 83/1,
Raidurg, Hyderabad 500 081

S S M S & Co.

Chartered Accountants
SRT - 481, Near Neena High School,
Sanath Nagar, Hyderabad 500 018

Bankers

Bank of Maharashtra
Oriental Bank of Commerce
South Indian Bank

Debenture Trustee**Axis Trustee Services Limited**

The Ruby, 2nd Floor, SW, 29 Senapati Bapat Marg
Dadar (West), Mumbai 400 028
Tel. No.:022-6226 0054
E-mail Id:dbenturetrustee@axistrustee.com
Website:www.axistrustee.com

Credit Rating Agency**ICRA Limited**

1105, Kailash Building, 11th Floor,
26 Kasturba Gandhi Marg, New Delhi 110 001
Tel. No.: 011-2335 7940
E-mail Id: mumbai@icraindia.com
Website: www.icra.in

Registrar and Transfer Agent

Karvy Computershare Private Limited
Karvy Selenium Tower-B, Plot No. 31 & 32,
Survey No. 116/22, 115/24, 115/25, Financial District,
Nanakramguda, Hyderabad 500 032
Tel. No.: 040-6716 1500
Website: www.karvy.com

DIRECTORS' REPORT

To the members of,

Karvy Financial Services Limited

Your Directors have pleasure in presenting the 17th Annual Report and the audited accounts for the financial year ended March 31, 2018.

FINANCIAL RESULTS

(Amount in Rs.Lakh)

Particulars	FY 2017-2018	FY 2016 – 2017
Gross Income	40,922.70	28,026.22
Total expenses	38,904.70	32,110.95
Profit/ (Loss) Before Tax	2017.99	(4,084.72)
Provision for Tax	842.15	(1,117.45)
Net Profit/ (Loss) after Tax	1175.84	(2,967.28)

REVIEW OF OPERATIONS

In the year 2017-2018, your company experienced changes on the strategic as well as on operational front. The company concluded a Business Transfer Agreement (BTA) on 1st August 2017 with Small Business Fincredit India Private Limited ("SBFC") for disposing on a slump sale basis and as a going concern, of a part of its retail lending business along-with the branch network and identified employees.. The transaction was consummated on 28th September 2017. Post the BTA, the company has retained certain loan assets in Loan against property, Small Commercial Vehicles and Margin Trade Finance / Loan against Shares categories.

During the year under review, the company's income stood at Rs. 40,922.70 lakh, with a profit after tax of Rs. 1175.84 lakh, as compared to an income of Rs. 28,026.22 lakh and loss of Rs. 2,967.28 lakh in the previous year. The BTA resulted in a profit from sale amounting to Rs. 26,193.99 lakh . As a prudent financial practice the company, in order to reflect a fair position of its loan portfolio, the company has written off loans worth Rs. 23,337.18 lakh where significant challenges were envisaged and substantial delays were foreseen in terms of recovery of such loans.

BUSINESS OUTLOOK

The Indian economy is expected to demonstrate stable growth in FY 2018-2019 despite certain headwinds relating to the sharp increases in crude oil prices and continued anxiety over the health of the banking sector. However forward-looking reforms such as Make in India, Digital India and reforms under the 'Housing for all' shall further support the growth in the coming years. State Governments too have embarked upon many reforms that will boost economic growth. Overall a stable political environment and emphasis on infrastructure and socio-economic reforms are seen as drivers for economic growth.

The government has on several occasions announced its preference towards enrichment of the micro, small and medium enterprises in strengthening the economy, which continues to be the target customer group for the company's lending business. The issues affecting the public sector banks with regards to increasing non performing assets which has constrained their ability to further lend has resultantly led to a robust growth and profitability of the NBFC sector. Your company will refocus on the various opportunities emerging in the financing business within the MSME segment and expand the scale and depth of its operations.

The Management Discussion Analysis (MDA), which forms part of this report, provides a detailed report on the business outlook for the company.

DIVIDEND

Your directors do not recommend any dividend for the year under review.

RESERVES AND SURPLUS

During the year, the company has transferred Rs. 235.17 lakh to the Statutory Reserve Fund in accordance with the provisions of Section 45-IC of Reserve Bank of India Act, 1934.

SHARE CAPITAL

During the year under review, there has been no change in the authorised and paid-up share capital of your company.

CHANGE IN THE REGISTERED OFFICE OF THE COMPANY:

During the year, the registered office address of the company was shifted to 705 and 706, 7th Floor, Hallmark Business Plaza, Sant Dnyaneshwar Marg, Off Bandra Kurla Complex, Bandra (East) Mumbai, Maharashtra -400051 from Building No. 7, Office No. 762, 6th Floor, Solitaire Park, Andheri (East) Mumbai, Maharashtra- 400093, India w.e.f. November 08, 2017.

SIGNIFICANT EVENTS SUBSEQUENT TO THE DATE OF FINANCIAL STATEMENTS:

There are no material changes and commitments for the company to report, that can be considered to affect the financial position of the company after 31st March, 2018 and up to the date of signing of this Report.

DIRECTORS' REPORT

LISTING OF DEBENTURES

During the financial year 2017-18, the company has not issued any new Non-Convertible Debentures. The outstanding amount as on 31st March, 2018, for the Secured Redeemable Non-Convertible Debentures (Structured Products) under various series issued in previous years, stands at Rs. 290.00 lakh while the outstanding amount for 15.60% Unsecured Redeemable Non-Convertible Debentures stands at Rs. 3,000.00 lakh. The company's debentures are admitted to dealing on the BSE Limited (BSE) in the list of securities of F GROUP - DEBT INSTRUMENTS. The details of the debenture trustee are as follows:

Axis Trustee Services Limited, 2nd Floor - E, Axis House, Bombay Dyeing Mills Compound, Pandurang Budhakar Marg, Worli, Mumbai – 400 025; Tel: +91 022 6226 0074 / 75; Fax: 91 022 43253000; Contact Person: Ms. Mangalagowri Bhat.

NETWORTH AND CAPITAL ADEQUACY RATIO

The Company's net worth as on March 31, 2018, stood at Rs. 40,670.50 lakh and the Company's Capital to Risk Assets Ratio (CRAR), calculated in line with the Non-Banking Financial Company Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 ("RBI Directions"), stood at 94.52%, well above the regulatory requirement of minimum of 15 per cent. Your Company's asset size stands at Rs. 30,420.77 lakh. Your Company has received a certificate from M/s S S M S & Co., Chartered Accountants, Joint Statutory Auditors of the Company, pursuant to Non Banking Financial Companies Auditors' Report (Reserve Bank) Directions, 2016, confirming compliance of the conditions with respect to Systemically Important Non-Deposit taking Non-Banking Financial Companies.

CREDIT RATING

Your Company has obtained credit ratings from ICRA for its long term borrowings, short term borrowings and Non Convertible Debentures, which are as under:

Bank Loan Rating	:	[ICRA] A+ (SO) (Stable)
Unsecured Sub-ordinated Debt Programme	:	[ICRA]A+(SO) (Stable)
Secured Redeemable Non Convertible Debentures (Principal Protected)	:	PP-MLD [ICRA] A+(SO) (Stable)

REGULATORY UPDATE

i. DEPOSITS

Your Company is registered with Reserve Bank of India (RBI), as a non-deposit accepting NBFC ("NBFC-ND") under Section 45-IA of the RBI Act, 1934. During the year, your company has ensured compliance with the the Non-Banking Financial Company Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 and Section 73 and 74 of the Companies Act, 2013, and the rules framed thereunder.

The Company has neither accepted nor renewed any fixed deposits during the year. There are no unclaimed deposits, unclaimed / unpaid interest, refunds due to the deposit holders or to be deposited to the Investor Education and Protection Fund as on March 31, 2018.

ii. MONITORING OF FRAUDS

Your Company has not identified any case of fraud; however the cases of attempted frauds, if any have been duly placed before the Board of Directors and the audit committee for their review in compliance with the RBI circular.

iii. MANAGEMENT DISCUSSION AND ANALYSIS REPORT

A Management's Discussion and Analysis Report for the year under review, as stipulated under the corporate governance guidelines prescribed by Reserve Bank of India vide its circular no. DNBR.PD. 008/03.10.119/2016-17 dated September 01, 2016 (Updated as on May 31, 2018), is given as **ANNEXURE – I** to this report.

CHANGE IN THE NATURE OF BUSINESS

There are no changes in the nature of the company's business during the year under review. Your company continued to offer loans against property, loans against securities, loans against gold and financing of small commercial vehicles, during the year under review. However consequent to the consummation of the BTA on 28th September 2017, the company discontinued the Loan against gold business for the remaining period of the year.

BOARD OF DIRECTORS AND KEY MANAGERIAL PERSONNEL

i. Composition

The Board of Directors comprise of professionals with wide experience and skills in the field of Banking and Finance. As on the date of the Report, the Board comprises of 6 (six) Directors comprising of (i) five Non- Executive Directors out of which two are Independent viz. Mr. B.D. Narang (Independent), Ms. Jyothi Prasad (Independent), Mr. M. Yugandhar (Non-Executive), Mr. V. Mahesh (Non-Executive) and Mr. G. Krishna Hari (Non-Executive) and (ii) one Executive Director viz. Mr. Yogesh Gaat, CEO and Managing Director.

ii. Changes in the Board of Directors and KMP

During the year under review, there has been no change in the Board of Directors of the company. Mr. Amrish Hasmukhlal Shah was appointed at the Chief Financial Officer and KMP of the company w.e.f. March 07, 2018 in place of Mr. Mayank Shyam Thatte who resigned as the Chief Financial Officer of the company w.e.f. 27th December, 2017.

Mr. M. Yugandhar, Director, retires by rotation, and, being eligible, has offered himself for reappointment at the ensuing general meeting of the company. Your Directors recommend his reappointment as a Director. The non-executive Directors of the company have no pecuniary relationship or transactions with the company, except to the extent of the sitting fees paid to them.

DIRECTORS' REPORT

MEETINGS OF BOARD AND ITS COMMITTEES

The Board of Directors of the company met 5 times during the financial year under review. The intervening gap between the meetings was within the period prescribed under the Companies Act, 2013.

S.No.	Name of the Director & Designation	Board Meetings		
		No. of Meetings which were entitled to attend	No. of Meetings attended	% of attendance
1.	Mr. Yugandhar Meka, Non-Executive Director	5	4	80%
2.	Mr. Bhagwan Dass Narang, Independent Director	5	4	80%
3.	Ms. Jyothi Prasad, Independent Director	5	4	80%
4.	Mr. V. Mahesh, Non-Executive Director	5	4	80%
5.	Mr. G. Krishna Hari, Non-Executive Director	5	4	80%
6.	Mr. Yogesh Gaat, CEO and Managing Director	5	5	100%

S.No.	Name of the Director & Designation	Audit Committee Meetings			Nomination & Remuneration Committee Meetings		
		No. of Meetings which were entitled to attend	No. of Meetings attended	% of attendance	No. of Meetings which were entitled to attend	No. of Meetings attended	% of attendance
1.	Mr. Bhagwan Dass Narang , Independent Director	4	4	100%	2	2	100%
2.	Ms. Jyothi Prasad, Independent Director	4	4	100%	2	2	100%
3.	Mr. Yugandhar Meka, Non-Executive Director	4	4	100%	2	2	100%

S.No.	Name of the Director & Designation	Corporate Social Responsibility Committee Meetings		
		No. of Meetings which were entitled to attend	No. of Meetings attended	% of attendance
1.	Mr. Yugandhar Meka, Non-Executive Director	1	1	100%
2.	Mr. Bhagwan Dass Narang, Independent Director	1	1	100%
3.	Mr. V. Mahesh, Non-Executive Director	1	1	100%

DIRECTORS' REPORT

INDEPENDENT DIRECTORS DECLARATION

The Company has received the necessary declaration from each ID in accordance with Section 149(7) of the Companies Act, 2013, that he/she meets the criteria of independence as laid out in sub-section (6) of Section 149 of the Companies Act, 2013.

AUDIT COMMITTEE

The Company has in place an Audit Committee in accordance with the provisions of Section 177 of the Companies Act, 2013. The Committee has adopted a Charter for its functioning. The primary objective of the Committee is to monitor and provide effective supervision of the Management's financial reporting process, to ensure accurate and timely disclosures, with the highest levels of transparency, integrity and quality of financial reporting.

The composition of the committee as on March 31, 2018, is as under:

Name of Members	Category
Mr. B. D. Narang	Independent Director
Ms. Jyothi Prasad	Independent Director
Mr. M. Yugandhar	Non-Executive Director

All the recommendations made by the audit committee have been duly accepted by the Board. During the financial year, the committee has met four times viz., May 23, 2017, September 25, 2017, December 22, 2017 and March 06, 2018.

The Company has also established a vigil mechanism for the Directors and employees to report to the management concerns about unethical behavior, actual or suspected fraud or violation of the company's code of conduct and ethics policy. The audit committee of the Board oversees the functioning of the policy.

POLICY ON DIRECTORS' APPOINTMENT AND REMUNERATION

The Company has a put in place a policy on the directors' appointment and remuneration in accordance with the matters provided under section 178(3) of the Companies Act, 2013.

The broad terms of reference of the nomination and remuneration committee are as given below:

- Periodically oversee an evaluation of the Board, and recommend desirable changes in Board size, composition, Committees structure and processes, and other aspects of the Board's functioning;
- Recommend new Board members in light of resignation of current members or a planned expansion of the Board;
- Review stockholder proposals relating to Board's composition and recommend an appropriate course of action;
- Review key corporate governance processes not specifically assigned to other committees, and recommend changes needed to ensure that the company is at best practice;
- formulate criteria for determining qualifications, positive attributes and independence of director and recommend to the Board a policy, relating to the remuneration for the directors, key managerial personnel and other employees;
- Review and recommend the compensation and variable pay for Executive Directors to the Board;
- Review the Company's ESOP Schemes and recommend changes as necessary; oversee administration of the ESOP Schemes including Grant Options to eligible employees, in consultation with management; and
- Perform other activities as requested by the Board of Directors or to address issues related to any significant subject within its term of reference.

DIRECTOR'S RESPONSIBILITY STATEMENT

In pursuance of section 134 (5) of the Companies Act, 2013, the Directors hereby confirm that:

- (a) in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- (b) the directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit and loss of the company for that period;
- (c) the directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (d) the directors have prepared the annual accounts on a going concern basis;
- (e) the Directors have laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and are operating effectively; and
- (f) the directors have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

DIRECTORS' REPORT

EXTRACT OF ANNUAL RETURN

As provided under section 92(3) of the Companies Act, 2013 and rule 12(1) of the Companies (Management and Administration) Rules, 2014, an extract of annual return in **MGT 9** as a part of this Annual Report (**ANNEXURE II**).

STATUTORY AUDITORS

M/s S S M S & Co., Chartered Accountants, having registration no: 014358S, were appointed as joint Statutory Auditors, of the Company, at the 16th annual general meeting held on December 22, 2017, for a period of 5 years, to audit the books of accounts of the company from FY 2017 – 18 till FY 2021 – 22 and that, they shall hold office till the conclusion of the annual general meeting of the company to be held for FY 2021 - 22, subject to the ratification by the members of the company at every annual general meeting of the company in accordance with the applicable provisions of the Companies Act, 2013 read with Companies (Audit and Auditors) Rules, issued from time to time.

B S R & Associates LLP, Chartered Accountants, having registration no: 116231WW-100024, were appointed as joint Statutory Auditors, of the Company, at the 13th annual general meeting held on 13th May, 2014, for a period of 5 years, to audit the books of accounts of the company from FY 2014 – 15 till FY 2018 - 19, subject to the ratification by the members of the company at every annual general meeting of the company in accordance with the applicable provisions of the Companies Act, 2013 read with Companies (Audit and Auditors) Rules, issued from time to time.

Consequent to the changes made vide the Companies (Amendment) Act, 2017, and the rules issued thereunder, there is no requirement for placing the ratification of the appointment of M/s S S M S & Co. and B S R & Associates LLP, as the Statutory Auditors of the Company, for the balance tenure at the Annual General Meeting (AGM) and accordingly, an enabling resolution in this regard forms part the notice of AGM.

STATUTORY AUDITORS' REPORT AND SECRETARIAL AUDITORS' REPORT

- i. **Statutory Auditors' Report:** The statutory auditors' report for the financial year 2017-18, does not contain any qualifications, reservations or adverse remarks.
During the year under review, the statutory auditors of the Company have not reported any frauds under section 143(12) of the Companies Act, 2013.
- ii. **Secretarial Auditor's Report:** The Secretarial auditors' report for the financial year 2017-18, does not contain any qualifications, reservations or adverse remarks. The report of secretarial auditor is given as Annexure III of this report.

SECRETARIAL STANDARDS

The Company has devised proper systems to ensure compliance with the provisions of all applicable Secretarial Standards issued by the Institute of Company Secretaries of India and that such systems are adequate and operating effectively.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The business operations of your company are not energy intensive. However, sufficient measures have been taken to minimize the energy consumption. There are no foreign exchange earnings for the company during the year. However, there has been foreign exchange outgo, the details whereof are as under:

(All Amounts in Rs.)

Particulars	For the year ended 31 March 2018	For the year ended 31 March 2017
Business Promotion	-	-
Professional fees	-	976,782
Employee training cost	-	-
Total	-	976,782

SIGNIFICANT & MATERIAL ORDERS PASSED BY THE REGULATORS

There are no significant and material orders passed by the regulators or Courts or Tribunals against the company which can be construed as impacting the going concern status and the company's operations in future.

DETAILS OF ADEQUACY OF INTERNAL FINANCIAL CONTROLS

a) Your Directors report that, your Company has maintained adequate internal controls commensurate with its size and its nature of the operation. There are suitable monitoring procedures in place to provide reasonable assurance for accuracy and timely reporting of the financial information and compliance with the statutory requirements. There are proper policies, guidelines and delegation of powers issued for the compliances across the Company.

b) For the purpose of ensuring accuracy in the preparation of the financials, your company has implemented various checks and balances and in order to ensure robust internal control systems, regular internal audits are conducted by the internal auditor of the company viz central internal audit division of Karvy Group. Your company is continuously putting its efforts to align the processes and controls with the best practices in the industry.

PARTICULARS OF LOANS, GUARANTEES OR INVESTMENTS

The particulars of the loans given, guarantees given, Investments made and securities provided are provided in the financial statements.

DIRECTORS' REPORT

RISK MANAGEMENT POLICY

Your company has in place a risk management policy for the various services it offers and has duly identified elements of risk that may threaten the existence of the company. The audit committee of the company oversees the areas of financial risks and controls and also reviews the major risks identified by the businesses and functions and ensure that, the same are systematically addressed on a continuing basis.

FAIR PRACTICES CODE

Your Company has adopted the fair practices code as per the RBI directions and this is available on the Company's website. Fair practice code provides information to the customers and explains how the Company is expected to deal with customers on a day to day basis.

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE AND POLICY

The Corporate Social Responsibility Committee comprises of Mr. B.D. Narang, Mr. M. Yugandhar, Mr. V. Mahesh as the members. The CSR committee has approved the CSR policy of the company, which is aimed at demonstrating care for the community through its focus on healthcare, education of underprivileged children, eradicating hunger poverty, malnutrition, development of art and culture and promotion of sports. In line with the policy approved by the CSR committee and adopted by the Board, your company would support and undertake activities and projects within the broad framework of Schedule VII of the Companies Act, 2013. The disclosures as per Rule 9 of Companies (Corporate Social Responsibility Policy) Rules, 2014 are annexed hereto as "Annexure – IV".

RELATED PARTY TRANSACTIONS

During the year, the Company had not entered into any contracts, arrangements, and transactions with related parties which could be considered as material in accordance with the policy of the Company on materiality of related party transactions and hence, there are no related party transactions to report as per the Section 188(1) of the Companies Act, 2013.

The company has further ensured to obtain approval from the Board of Directors, wherever required, for RPTs pursuant to the provisions of section 188 (1) of the Companies Act, 2013.

All the related party transactions were placed before the Audit committee for approval pursuant to the provisions of section 177 of the Companies Act, 2013.

PAYMENT OF REMUNERATION TO DIRECTORS

The remuneration details of Mr. Yogesh Gaat, CEO and Managing Director, as required to be mentioned pursuant to the provisions of part II of Schedule V of the Companies Act, 2013 and the rules framed thereunder are mentioned below:

S. No.	Name of the Director	Salary p.a. (Rs.)	Perquisites	Stock Options
1.	Mr. Yogesh Gaat	12,605,255/-	I. House rent allowance. II. Medical reimbursement III. Ex Gratia IV. Leave encashment. V. Long Term Incentive Plan (LTIP) VI. Leave travel allowance. VII. Contribution to employees provident fund, superannuation fund or annuity fund to the extent these either singly or put together are not taxable under the Income Tax, Act, 1961. VIII. Gratuity shall be calculated as per the rules of the company. IX. Any other allowance, benefits and perquisites as the Board/ Remuneration Committee may from time to time decide.	Presently, there are no stock options.

DIRECTORS' REPORT

MANAGERIAL REMUNERATION

S.No.	Requirements	Disclosure
I	The ratio of the remuneration of each director to the median remuneration of the employees for the financial year.	Mr. Yogesh Gaat, CEO and Managing Director: 35x
II	The percentage increase in remuneration of each director, CFO, CEO, CS in the financial year.	i. Mr. Yogesh Gaat, CEO and Managing Director: Nil ii. Mr. Amrish Has Mukhlal Shah, Chief Financial Officer (w.e.f. 07.03.2018): Not applicable iii. Mr. Mayank Shyam Thatte, Chief Financial Officer: 31% iv. Ms. Meenal Talesara, Company Secretary : 14%
III	The percentage increase in the median remuneration of employees in the financial year.	2.21%
IV	The number of permanent employees on the rolls of the Company.	There were 22 permanent employees as on March 31, 2018.
V	Average percentile increase already made in the salaries of employees other than the managerial personnel in the last financial year and its comparison with the percentile increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the managerial remuneration;	The average annual increase was around 14.5% (w.e.f 01/10/2017 and it is applicable for 11 employees only as the remaining employees were transferred, pursuant to the BTA executed by the company) after accounting for promotions and other event based compensation revisions. Increase in the managerial remuneration for the year was NIL.
VI	Affirmation that the remuneration is as per the remuneration policy of the Company.	The Company affirms remuneration is as per the remuneration policy of the Company.

* Mr. Amrish Has Mukhlal Shah was appointed as Chief Financial Officer of the company w.e.f. 07th March, 2018.

**Mr. Mayank Shyam Thatte resigned from the office of Chief Financial Officer of the company w.e.f. 27th December, 2017.

BOARD EVALUATION

Pursuant to the provisions of the Companies Act, 2013, the Board of directors has carried out an annual evaluation of its own performance, Board committees and individual directors for the FY 2017-18 by seeking their inputs on various aspects of Board/Committee Governance, effectiveness and its functioning.

The Nomination and Remuneration Committee ("NRC") has also reviewed the performance of the individual directors and submitted its report to the Board based upon the inputs received from the Directors. The NRC and the Board of Directors expressed their satisfaction with the evaluation process.

The NRC constitutes of Mr. B.D. Narang, Mr. M. Yugandhar, Ms. Jyothi Prasad as the members. During the financial year, the committee has met two times viz., May 23, 2017 and March 06, 2018.

DETAILS OF EMPLOYEES REMUNERATION

The details of employees drawing remuneration in excess of limits specified under Rule 5(2) & 5(3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 during the year are given as **ANNEXURE – V** to this report.

POLICY ON SEXUAL HARASSMENT

The Company has in place a Policy on Prevention of Sexual Harassment in line with the requirements of The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013. Internal Complaints Committee has been set up to redress complaints received regarding sexual harassment. All employees are covered under the policy. No complaint has been received by the Company under this Policy during the year 2017-18.

ACKNOWLEDGEMENT

Your Directors would like to express their sincere appreciation of the co-operation and assistance received from shareholders, bankers, RBI, regulatory and statutory bodies and other business constituents during the year under review. Your Directors also wish to place on record their deep sense of appreciation for the commitment displayed by all executives, officers and staff, resulting in the successful performance of the Company during the year.

DIRECTORS' REPORT

ANNEXURE INDEX

Sl. No	Particulars
I	Management Discussion and Analysis Report
II	Annual Return Extracts in MGT 9
III	Secretarial Audit Report
IV	Annual Report on CSR Activities
V	Details of Employees Remuneration

Date : 13-06-2018
Place : Hyderabad

For and on behalf of the Board of Directors

Sd/-

B.D. Narang
Chairman

DIN: 00826573

Address: Karvy Millennium,
Financial District, Gachibowli,
Nanakramguda, Hyderabad,
Telangana - 500032.

Sd/-

Yogesh Gaat
CEO and Managing Director

DIN: 07189252

Address: Karvy Millennium,
Financial District, Gachibowli,
Nanakramguda, Hyderabad,
Telangana - 500032.

MANAGEMENT DISCUSSION AND ANALYSIS**FORWARD LOOKING STATEMENTS:**

Statements in this Management Discussion and Analysis of Financial Condition and Results of Operations of the Company describing the Company's objectives, expectations or predictions may be forward looking within the meaning of applicable securities laws and regulations. Forward looking statements are based on certain assumptions and expectations of future events. The Company cannot guarantee that these assumptions and expectations are accurate or will be realized. The Company assumes no responsibility to publicly amend, modify or revise forward – looking statements, on the basis of any subsequent developments, information or events. Actual results may differ materially from those expressed in the statement. Important factors that could influence the Company's operations include determination of tariff and such other charges and levies by the regulatory authority, changes in government regulations, tax laws, economic developments within the country and other factors affecting the operations of the business of the company.

The Financial Statements are prepared under historical cost convention, on accrual basis of accounting and in accordance with the provisions of the Companies Act, 2013 (the "Act") and comply with the Accounting Standards notified under section 133 of the Act. The management of Karvy Financial Services Limited ("KFSL") has used estimates and judgments relating to the financial statements on a prudent and reasonable basis, in order to reflect the true and fair view of the state of the affairs of the company and profit for the year.

The following discussion on our financial conditions and results of operations should be read together with our audited financial statement and the notes to these statements which are part of the Annual report.

Unless otherwise stated or the context otherwise require, all reference herein to "we", "us", "our", "your", "the Company", "KFSL" or "Karvy Finance" are to "Karvy Financial Services Limited".

MACRO ECONOMIC OVERVIEW**Global Economy**

Ten years after the Global Financial Crisis, the recovery is underway and output levels have surpassed pre-crisis levels in most advanced economies. Economic activity in 2017 ended on a high note, growth in the second half of the year was above 4 percent, the strongest since the second half of 2010, supported by a recovery in investment. Developed economies continue to benefit from accommodative monetary policy. A likely reason for the surge in emerging economies is large portfolio inflows from developed economies in search of higher earnings, thereby aiding in the sharp rise in corporate and household credit in the latter. The balance sheets of the central banks of four major economies—the United States, Euro Area, the United Kingdom, and Japan—alone have quadrupled from pre-crisis levels to reach almost \$16 trillion, approaching 20 percent of world GDP. There is every reason to be positive about global economic growth which in turn would impact India positively in terms of export growth and capital inflows.

Indian Economy

The macroeconomic parameters have generally shown improvement with lower volatility. India's GDP grew at an average of 7.3% per year in the past four years, which was lower than the trend of 7.6% in the preceding decade. The growth slowdown was partly a result of policy choices aimed at improving macroeconomic parameters such as inflation and fiscal deficit. The slowdown became more pronounced in fiscal 2018 due to demonetization and Goods and Services Tax (GST) related glitches in an environment. Retail inflation declined through the four years aided by food inflation and proactive steps from government. However once again inflationary pressures are expected due to surge in crude oil prices and lack of control over the fiscal deficit. Already we have seen a fall of 30 bps in the GDP growth rate.

Despite the pick-up in foreign direct investment, there was no notable increase in private investment. Another worrying aspect last year was the surge in non-performing assets of the banking sector and non-banking sector which impacted both credit growth as well as adversely impacting overall economic sentiment for business.

The hardening of international crude oil prices is likely to negatively impact the Indian economy. We are likely to see a hardening of interest rates due to the increase in interest rates in the USA and our own fiscal deficit situation.

Despite the slowdown in growth, India still stands tall as the fastest growing country in the world order. India has also improved its global competitiveness position and ease of doing business rank, due to reforms introduced by the Government

All indications at present point towards a normal monsoon this year also which would favourably benefit the rural economy and give an impetus to overall increase in credit offtake.

As we progress in the next year, the Government's thrust on attracting a higher FDI participation in capital formation, encouraging investments from the private sector especially towards more job creation, smooth implementation of GST and its wider adoption by businesses, boosting of the rural economy by means of increased financial inclusion and affordable housing, an overall revival of global demand and stabilisation of commodity prices and its own focus on increasing capital expenditure will stimulate the growth prospects and firmly positioning the country towards achieving sustainable growth rate in excess of 8% for many years to come.

INDUSTRY & NBFC SECTOR DEVELOPMENTS

Over the past decade and half, NBFCs have emerged as vital contributors to the inclusive growth of the Indian financial system by positioning themselves as a lender of first choice for those segments of the society which were hitherto under and un-served by the formal banking system of the country. NBFCs share in the total credit today stands at a healthy 15% of the total banking system credit, also partly supplemented by the growth in the size of certain housing

DIRECTORS' REPORT

finance companies. The growth of NBFCs has been primarily aided by their ability to remain focussed on niche segments, customise their offerings, their higher emphasis on customer service and quicker turnaround times as also their agility towards adapting to the fast changing environment. Capital constraints on a majority of public sector banks on account of the asset quality review undertaken by the Reserve Bank of India has also augmented the growth in the size of balance sheet of many NBFCs.

The various schemes by the government that are aimed towards making India a more inclusive and a financially resilient economy will further reinforce the important role played by NBFCs of providing the much needed capital to the Micro, Small and Medium enterprise sector (MSME) so as to augment their growth and create more jobs in the formal as well as the informal sector. Initiatives like GST, Make in India, Start-up India, Skill India, Housing for All, MUDRA and the Jandhan-Aadhar-Mobile (JAM) trinity are all aimed towards reviving the vitality of the Indian economy and provide multifold opportunities to the NBFC sector in making available meaningful credit to the deserving sections of the society.

Going ahead the NBFC industry appears well poised to benefit from the financial inclusion agenda spearheaded by the present government, by embracing the changing regulatory framework and evolving itself into a significant partner to the MSME sector by adopting technology and keeping customer service as its mainstay.

The favourable monsoon forecast will benefit the NBFCs due to its impact on rural economic growth and uptick in credit growth.

Financial Performance and Business Overview

The following table presents the financial results of the Company's operations for the year ended March 31, 2018:

(Rs. in crore)

Particulars	FY 2017-2018	FY 2016-17
Gross income	409.23	280.26
Provisions and contingencies	(16.52)	32.62
Other expenses	405.57	288.49
Profit / (loss) before tax	20.18	(40.85)
Provision for tax	8.42	(11.17)
Net Profit / (loss) after tax	11.76	(29.67)

There is a profit before tax of Rs. 20.18 crores during the FY 2017-18 as compared to loss before tax of Rs. 40.85 crores for FY 2016-17, mainly owing to disposal of a part of retail lending business as a going concern on slump sale basis.

The Company has executed a 'Business Transfer Agreement (BTA)' with M/s Small Business FinCredit India Private Limited on August 01, 2017, to dispose a part of its retail lending business as a going concern on slump sales basis, free and clear of all encumbrances for a purchase consideration towards the transfer of identified loan assets/receivables (less any provisions) together with related fixed assets, current assets and current liabilities as on the date of sale. Total assets of Rs. 823.46 had been disposed thru this transaction and Rs. 261.93 had been credited to statement of profit and loss as a result of this transaction.

As on March 31, 2018, the Company has marked 323 cases as "technical written off" amounting to Rs. 233.37 crores based on the qualitative and quantitative assessment by the management.

Status of NPA cases as on March 31, 2018

(Rs. in crore)

S.No.	Particulars	No of customers	NPA POS	Loan Book	Gross NPA to Loan Book (%)	Net NPA to Loan Book (%)
1	Loan against property (LAP)	571	60.99	189.23	32.23%	19.81%
2	Securities finance (LAS)	154	-	11.21	-	-
3	Loan against gold (LAG)	0	-	-	-	-
4	Small commercial vehicles (SCV)	613	6.41	13.68	46.86%	28.99%
5	Employee personal loans (EPL)	14	0.03	0.08	30.45%	30.45%
6	Inter Corporate Deposits (ICDs)	3	-	90.00	-	-
	Total	1355	67.43	304.21	22.16%	15.05%

Shareholders' Funds

As of March 31, 2018, shareholders' funds of the Company amounted to Rs. 40,670.50 lakh as compared to Rs. 39,494 lakh as on March 31, 2017.

DIRECTORS' REPORT

OUTLOOK AND OPPORTUNITIES

Against the backdrop of positive support and focus on micro and small business enterprises by both the Central governments and various State Governments, the Company has evolved its strategy to focus on lending to the micro and small businesses and create for itself a unique positioning in this growing space. Post the consummation of the BTA, the company is now ably poised to deploy the available capital in the most prudent manner to advance loans and value based advisory services to the identified customer segment so as to help them prosper, for in the prosperity of its customers lies the prosperity of the company. The company will grow its loan book and geographical footprint in a calibrated manner by offering customized loan solutions with a strong emphasis on cash flow based serviceability assessment method for its customers. The company has initiated recruitments of required senior and mid level managerial and other employees to grow and efficiently manage its current and future business operations. The company is actively engaged with certain companies and service providers to adopt and implement an efficient and enabling technology architecture to facilitate the development of its future business. The company is also actively pursuing fund raising opportunity both on the equity and debt front to support its future growth.

Despite certain challenges that will impact all NBFCs such as hardening of interest rates and focus by not only NBFCs but also micro lending institutions and banks, on the Micro and small Enterprises space, the Company is confident of being able to carve out a niche for itself.

CHALLENGES

Inflationary pressures because of the fiscal deficit situation hardening of global interest rates and surge in crude oil prices are likely challenges that will impact economic growth

The financial services space in India is highly competitive. There could be a rise in the competition on account of expansion/launch of operations by various established as well as new entrants in NBFC sector and the Small Finance Banks, who operate in the same customer segment. The business models of new age fintech companies and peer to peer lending companies will further intensify the competitive landscape.

Some of the factors which may adversely impact the Company's growth are macro economic factors such as the overhang of General Elections to be held in 2019 and general economic slowdown. Any unfavourable policies that adversely impact the financial services sector or NBFCs would impact the Company too. Execution risks and attrition of people would also be other micro- level challenges.

INTERNAL CONTROL SYSTEMS

The Company has in place adequate systems of internal control which are commensurate with its size and the nature of operations.

The Company maintains a system of internal controls designed to provide a high degree of assurance regarding the effectiveness and efficiency of operations, the adequacy of safeguards for assets, the reliability of financial controls and compliance with applicable laws and regulations.

The Company has in place adequate systems to ensure that assets are safeguarded against loss due to unauthorised use or disposition and that transactions are authorised, recorded and reported.

The Company has an Internal Audit Department, which reports to the Audit Committee of the Board of Directors of the Company. The department conducts comprehensive audits of functional areas and operations of the Company to examine the adequacy of and compliance with policies, plans and statutory requirements.

RISKS & CONCERNS

The company is exposed to specific risks that are particular to its business and the environment within which it operates, including market risk, competition risk, credit risk, liquidity and interest rate risk, regulatory risk and macro-economic risk.

Access to capital and funds, both short term and long term, managing asset-liability mismatches and managing growth without compromising asset quality are some of the challenges faced by all the players, big and small, in the NBFC sector. Your Company is no exception to this. However, we constantly invest in people, processes, technology and systems to manage and mitigate these challenges. Active treasury management, strong credit scoring processes, early warning checks to minimise portfolio delinquency are an on-going effort.

The Company may encounter operational and control difficulties when commencing business in new markets. The rapid development and establishment of financial services businesses in new markets may raise unanticipated operational or control risks. Such risks could have a materially adverse effect on the Company's financial position and the results of its operations. The operations of the Company have been extensively automated which minimize the operational risk arising out of human errors and omissions. A robust system of internal controls is practiced by KFSL to ensure that all its assets are safe guarded and protected from unauthorised access.

- **Market Risk:** The Company has some quoted investments (though not material in size relative to its total assets) which are exposed to fluctuation in stock prices. Similarly the Company has also raised funds in the past through issue of Market Linked Debentures, whose returns are linked to the relevant underlying market instruments or indices. KFSL continuously monitors its market exposure to mitigate market risk.
- **Competition Risk:** The financial services space in India is highly competitive. However the Company believes that there is still an immense opportunity in the small and medium enterprises financing as they would look to various sources including NBFCs to support their growth. The Company is confident that despite competition from other NBFCs and even from banks, it can hold its own through a focused and targeted approach and customising its products for its borrowers.

DIRECTORS' REPORT

- **Credit Risk:** Credit risk is the risk arising out of default or failure on the part of borrower in meeting their financial obligations towards repayment of loans. Thus, credit risk is a loss as a result of non-recovery of funds lend both on principal and interest counts. There is robust governance framework with the risk oversight being provide by Risk Management Committee. Since most of the loans are secured against assets which are valued by independent agencies and loan to value ratio is restricted, chances of non-recoverability in case of default are minimized.
- **Liquidity and Interest Rate Risk:** The Company is exposed to liquidity risk principally, as a result of lending and investment for periods which may differ from those of its funding sources. The Company may be impacted by volatility in interest rates in India which could cause its margins to decline and profitability to shrink. Interest rates are highly sensitive to many factors beyond Company's control including the monetary policies of RBI, deregulation of the financial sector in India, domestic and international economic and political conditions and inflations. As a result, interest rates in India have experienced a relatively high degree of volatility.
- **Regulatory Risk:** As an entity in the financial services sector, the Company is subject to regulations by Indian governmental authorities, including the Reserve Bank of India. Their laws and regulations impose numerous requirements on the Company, including asset classification and prescribed levels of capital adequacy, solvency requirements and liquid assets. There may be future changes in the regulatory system or in the enforcement of the laws and regulations that could adversely affect the Company's performance.
- **Macro-economic Risk:** Any slowdown in economic growth in India could cause the business of the Company to suffer. Any slowdown in the Indian economy and in particular the financing business could adversely affect the Company's business.

COMPETITION:

The financial services space in India is highly competitive. However the Company believes that there is still an immense opportunity in the small and medium enterprises financing. The Company is confident that despite competition from other NBFCs and even from banks who are likely to step up their product offerings to this target segment, your Company will build the requisite resources in terms of products, processes and manpower to attain significant growth in the lending business to its identified customer segment.

OPERATIONAL RISK MANAGEMENT:

Towards minimizing operational risks, the Company has created 'maker-checker' processes for critical controls. Further, it has laid down detailed process manuals for various operational and the manuals undergo a periodic review and updation if needed. The Company believes its efforts to continuously strengthen its risk framework and portfolio quality has helped it build a stable business franchise.

HUMAN CAPITAL

Your company recognizes that Human capital is one of the most critical assets of any business enterprise. Guided by this very philosophy the company ensures recruitment of the most suitable manpower, trains them to handle their respective roles, empowers them to discharge their duties well and provide an enabling environment for their professional growth. The company has a well-defined on-boarding process and well-structured post joining induction process. The company lays a lot of emphasis on imparting adequate training to every employee so as to enable him to harness his functional skills required to perform his duties better. As on March 31, 2018, the company had 22 employees.

For and on behalf of the Board of Directors

Sd/-

B.D. Narang
Chairman

DIN: 00826573

Address: Karvy Millennium,
Financial District, Gachibowli,
Nanakramguda, Hyderabad,
Telangana - 500032.

Sd/-

Yogesh Gaat
CEO and Managing Director

DIN: 07189252

Address: Karvy Millennium,
Financial District, Gachibowli,
Nanakramguda, Hyderabad,
Telangana - 500032.

Date : 13-06-2018

Place : Hyderabad

Form No. MGT-9

EXTRACT OF ANNUAL RETURN

As on the financial year ended on 31.03.2018

[Pursuant to section 92(3) of the Companies Act, 2013 and rule 12(1) of the Companies (Management and Administration) Rules, 2014]

I. REGISTRATION AND OTHER DETAILS:

- i) CIN: **U67190MH2001PLC227379**
- ii) Registration Date: **18.10.2001**
- iii) Name of the Company: **KARVY FINANCIAL SERVICES LIMITED**
- iv) Category / Sub-Category of the Company: **Public Limited Company**
- v) Address of the registered office and contact details: **705 and 706, 7th floor, Hallmark Business Plaza, Sant Dnyaneshwar Marg, Off Bandra Kurla Complex, Bandra (East), Mumbai 400051**
- vi) Whether listed company Yes / No: **No, as equity shares of the company are not listed on any stock exchange**
- vii) Name, Address and Contact details of Registrar and Transfer Agent, if any: -

II. PRINCIPAL BUSINESS ACTIVITIES OF THE COMPANY

All the business activities contributing 10% or more of the total turnover of the company shall be stated:-

Sl. No.	Name and Description of main products / services	NIC Code of the Product / service	% to total turnover of the company
1	Non- Banking Financial Company (loan company)	64990	100%

III. PARTICULARS OF HOLDING, SUBSIDIARY AND ASSOCIATE COMPANIES:-

Sl. No.	Name and address of the company	CIN/GLN	Holding / Subsidiary / Associate	% of shares held	Applicable Section
1	Karvy Stock Broking Limited 46, Avenue 4, Street No. 1, Banjara Hills, Road No. 10, Hyderabad -500 034	U67120TG1995PLC019877	Holding Company	100%	2 (46)

*Karvy Stock Broking Limited (KSBL) holds 39.62% of the total share capital of the company. Karvy Holdings Limited (wholly owned subsidiary of KSBL) holds 23.00%, Karvy Realty (India) Limited (wholly owned subsidiary of KSBL) holds 25.88% and Karvy Forex and Currencies Private Limited (wholly owned subsidiary of KSBL) holds 11.50% of the shareholding in Karvy Financial Services Limited (KFSL). Therefore, KFSL is a wholly owned subsidiary of KSBL as per section 2(87)(ii) of the Companies Act, 2013

IV. SHARE HOLDING PATTERN (Equity Share Capital Breakup as percentage of Total Equity)
i) Category-wise Share Holding

Category of Shareholders	No. of Shares held at the beginning of the year				No. of Shares held at the end of the year				% change during the year
	Demat	Physical	Total	% of Total Shares	Demat	Physical	Total	% of Total Shares	
A. Promoters									
(A1) Indian									
a) Individual/ HUF	0	0	0	0.00	0	0	0	0.00	0.00
b) Central Govt	-	-	-	-	-	-	-	-	-
c) State Govt(s)	-	-	-	-	-	-	-	-	-
d) Bodies Corp.	78,249,994	6	78,250,000	100	78,249,994	6	78,250,000	100	-
e) Banks / FI	-	-	-	-	-	-	-	-	-
f) Any Other....	-	-	-	-	-	-	-	-	-
Sub-total (A)(1)	78,249,994	6	78,250,000	100	78,249,994	6	78,250,000	100	-
(1):- (A2) Foreign	-	-	-	-	-	-	-	-	-
a) NRIs - Individuals	-	-	-	-	-	-	-	-	-
b) Other – Individuals	-	-	-	-	-	-	-	-	-
c) Bodies Corp.	-	-	-	-	-	-	-	-	-
d) Banks / FI	-	-	-	-	-	-	-	-	-
e) Any Other....	-	-	-	-	-	-	-	-	-
Sub-total(A) (2):-	-	-	-	-	-	-	-	-	-
Total shareholding of Promoter (A) = (A)(1)+(A)(2)	78,249,994	6	78,250,000	100	78,249,994	6	78,250,000	100	-
B. Public Shareholding Institutions									
a) Mutual Funds	-	-	-	-	-	-	-	-	-
b) Banks / FI	-	-	-	-	-	-	-	-	-
c) Central Govt	-	-	-	-	-	-	-	-	-
d) State Govt(s)	-	-	-	-	-	-	-	-	-
e) Venture Capital Funds	-	-	-	-	-	-	-	-	-
f) Insurance Companies	-	-	-	-	-	-	-	-	-
g) FIs	-	-	-	-	-	-	-	-	-
h) Foreign Venture Capital Funds	-	-	-	-	-	-	-	-	-
i) Others	-	-	-	-	-	-	-	-	-
Sub-total (B)(1):-	-	-	-	-	-	-	-	-	-

IV. SHARE HOLDING PATTERN (Equity Share Capital Breakup as percentage of Total Equity)
i) Category-wise Share Holding (Continued)

Category of Shareholders	No. of Shares held at the beginning of th year				No. of Shares held at the end of the year				% change during the year
	Demat	Physical	Total	% of Total Shares	Demat	Physical	Total	% of Total Shares	
2. Non-Institutions				-					
a) Bodies Corp.	-	-	-	-	-	-	-	-	-
i) Indian	-	-	-	-	-	-	-	-	-
ii) Overseas	-	-	-	-	-	-	-	-	-
b) Individuals	-	-	-	-	-	-	-	-	-
i) Individual shareholders holding nominal share capital upto Rs. 1 lakh	-	-	-	-	-	-	-	-	-
ii) Individual shareholders holding nominal share capital in excess of Rs 1 Lakh	-	-	-	-	-	-	-	-	-
c) Others(specify)	-	-	-	-	-	-	-	-	-
Sub-total (B)(2):-	-	-	-	-	-	-	-	-	-
Total Public Shareholding (B)=(B)(1)+(B)(2)	-	-	-	-	-	-	-	-	-
C. Shares held by Custodian for GDRs & ADRs	-	-	-	-	-	-	-	-	-
Grand Total(A+B+C)	78,249,994	6	78,250,000	100	78,249,994	6	78,250,000	100	-

(ii) Shareholding of Promoters

SI No.	Shareholder's Name	Shareholding at the beginning of the year			Share holding at the end of the year			% change in share holding during the year
		No. of Shares	% of total Shares of the company	% of Shares Pledged / encumbered to total shares	No. of Shares	% of total Shares of the company	% of Shares Pledged encumbered to total shares	
1	Karvy Stock Broking Limited (KSBL)	30,999,994	39.62	-	30,999,994	39.62	-	0.00
2	C. Parthasarathy representing KSBL	1	0.00	-	1	0.00	-	0.00
3	M. Yugandhar representing KSBL	1	0.00	-	1	0.00	-	0.00
4	M.S. Ramakrishna representing KSBL	1	0.00	-	1	0.00	-	0.00
5	M. Uma Maheswara Reddy representing KSBL	1	0.00	-	1	0.00	-	0.00
6	J. Ramaswamy representing KSBL	1	0.00	-	1	0.00	-	0.00
7	V. Mahesh representing KSBL	1	0.00	-	1	0.00	-	0.00
8	Karvy Holdings Limited	18,000,000	23	-	18,000,000	23	-	0.00
9	Karvy Realty (India) Limited	20,250,000	25.88	-	20,250,000	25.88	-	0.00
10	Karvy Forex and Currencies Private Limited	9,000,000	11.50	-	9,000,000	11.50	-	0.00
	Total	78,250,000	100	-	78,250,000	100	-	0.00

(iii) Change in Promoters' Shareholding (please specify, if there is no change):
Change in Promoters (Karvy Stock Broking Limited) shareholding during the Financial Year. No change

Sl. No.		Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
	At the beginning of the year	30,999,994	39.62%	30,999,994	39.62%
	Date wise Increase / Decrease in Promoters Share holding during the year specifying the reasons for increase/ decrease (e.g. allotment / transfer / bonus/ sweat equity etc): NIL				
	At the End of the year			30,999,994	39.62%

Change in Promoters (Karvy Realty (India) Limited) shareholding during the Financial Year. No change

Sl. No.		Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
	At the beginning of the year	20,250,000	25.88%	20,250,000	25.88%
	Date wise Increase / Decrease in Promoters Share holding during the year specifying the reasons for increase/ decrease (e.g. allotment / transfer / bonus/ sweat equity etc): NIL				
	At the End of the year			20,250,000	25.88%

Change in Promoters (Karvy Forex and Currencies Private Limited) shareholding during the Financial Year. No change

Sl. No.		Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
	At the beginning of the year	9,000,000	11.50%	9,000,000	11.50%
	Date wise Increase / Decrease in Promoters Share holding during the year specifying the reasons for increase/ decrease (e.g. allotment / transfer / bonus/ sweat equity etc): NIL				
	At the End of the year			9,000,000	11.50%

Change in Promoters (Karvy Holdings Limited) shareholding during the Financial Year. No change

Sl. No.		Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
	At the beginning of the year	18,000,000	23.00%	18,000,000	23.00%
	Date wise Increase / Decrease in Promoters Share holding during the year specifying the reasons for increase/ decrease (e.g. allotment / transfer / bonus/ sweat equity etc): NIL				
	At the End of the year			18,000,000	23.00%

(iv) Shareholding Pattern of top ten Shareholders (other than Directors, Promoters and Holders of GDRs and ADRs): NIL

Sl. No.	For each of the Top 10 Shareholders	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
1	At the beginning of the year	0	0%	0%	0%
	Date wise Increase / Decrease in Shareholding during the year specifying the reasons for increase / decrease (e.g. allotment / transfer / bonus / sweat equity etc):	0	0%	0	0%
	At the End of the year (or on the date of separation, if separated during the year)	0	0%	0	0%

(v) Shareholding of Directors and Key Managerial Personnel:

Mr. Mr. Yugandhar, Director representing KSBL

Sl. No.	For each of the Directors and KMP	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
	At the beginning of the year	1	0.00%	1	0.00%
	Date wise Increase / Decrease in Share holding during the year specifying the reasons for increase/ decrease (e.g. allotment / transfer / bonus/ sweat equity etc):	-	-	-	-
	At the End of the year			1	0.00%

Mr. Mr. V. Mahesh, Director representing KSBL

Sl. No.	For each of the Directors and KMP	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
	At the beginning of the year	1	0.00%	1	0.00%
	Date wise Increase / Decrease in Share holding during the year specifying the reasons for increase/ decrease (e.g. allotment / transfer / bonus/ sweat equity etc):	-	-	-	-
	At the End of the year			1	0.00%

V. INDEBTEDNESS

Indebtedness of the Company including interest outstanding/accrued but not due for payment:

	Secured Loans excluding deposits	Unsecured Loans	Deposits	Total Indebtedness
Indebtedness at the beginning of the financial year				
i) Principal Amount	13,756,665,213	822,043,935	-	14,578,709,148
ii) Interest due but not paid	-	-	-	-
iii) Interest accrued but not due	51,278,491	8,403,032	-	59,681,523
Total (i+ii+iii)	13,807,943,704	830,446,967	-	14,638,390,671
Change in Indebtedness during the financial year				
• Addition	-	-	-	-
• Reduction	12,078,851,255	391,701,346		12,470,552,601
Net Change	12,078,851,255	391,701,346		12,470,552,601
Indebtedness at the end of the financial year				
i) Principal Amount	1,712,411,607	438,745,621	-	2,151,157,228
ii) Interest due but not paid	-	-	-	-
iii) Interest accrued but not due	16,680,842	-	-	16,680,842
Total (i+ii+iii)	1,729,092,449	438,745,621	-	2,167,838,070

VI. REMUNERATION OF DIRECTORS AND KEY MANAGERIAL PERSONNEL -
A. Remuneration to Managing Director, Whole-time Directors and/or Manager:

Sl. No.	Particulars of Remuneration	Name of MD/WTD/ Manager	
		Mr. Yogesh Gaat CEO and Managing Director	
1.	Gross salary (a) Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961 (b) Value of perquisites u/s 17(2) Income-tax Act, 1961 (c) Profits in lieu of salary under section 17(3) Income- tax Act, 1961	9,473,195	9,473,195
2.	Stock Option	-	-
3.	Sweat Equity	-	-
4.	Commission - as % of profit - others, specify...	-	-
5.	Others, please specify	-	-
	-House Rent Allowance	2,310,048/-	2,310,048/-
	- Conveyance reimbursement	360,000/-	360,000/-
	-Employer's contribution to PF	462,012/-	462,012/-
	Total (A)	12,605,255/-	12,605,255/-

B. Remuneration to other directors:

Sl. No.	Particulars of Remuneration	Name of Directors					Total Amount (in Rs.)
		Mr.B.D. Narang	Mr.Yugandhar Meka	Mr.V. Mahesh	Ms.Jyoti Prasad	Mr.G.Krishna Hari	
	Independent Directors						
	Fee for attending board committee meetings	975,000	-	-	900,000	-	1,875,000
	Commission	-	-	-	-	-	-
	Others, please specify	-	-	-	-	-	-
	Total (1)	975,000	-	-	900,000	-	1,875,000
	Other Non-Executive Directors						
	Fee for attending board committee meetings	-	900,000	450,000	-	300,000	1,650,000
	Commission	-	-	-	-	-	-
	Others, please specify	-	-	-	-	-	-
	Total (2)	-	900,000	450,000	-	300,000	1,650,000
	Total (B)=(1+2)	975,000	900,000	450,000	900,000	300,000	3,525,000
	Total Managerial Remuneration						
	Overall Ceiling as per the Act						

C. Remuneration to Key Managerial Personnel Other Than /Manager/WTD –

Sl. No.	Particulars of Remuneration	Key Managerial Personnel			Total (in Rs.)
		Mr. Amrish Hasmukhlal Shah Chief Financial Officer (w.e.f.07.03.2018)	Ms. Meenal Talesara Company Secretary	Mr. Mayank Shyam Thatte Chief Financial Officer*	
1.	Gross salary				
	(a) Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961	398,514	845,023	3,142,545	4,386,082
	(b) Value of perquisites u/s 17(2) Income-tax Act, 1961	-	-	-	
	(c) Profits in lieu of salary under section 17(3) Income-tax Act, 1961	-	-	-	
2.	Stock Option	-	-	-	
3.	Sweat Equity	-	-	-	
4.	Commission as % of profit others	-	-	-	
5.	Others, please specify	-	-	-	
	- House Rent Allowance	119,960	202,656	707,000	1,029,616
	- Conveyance reimbursement	16,129	240,000	270,000	526,129
	- Employer's contribution to PF	23,992	40,536	141,400	205,928
	Total	558,595	1,328,215	4,260,945	6,147,755

* For the period of 1st April, 2016 till 27th December, 2017.

VII. PENALTIES / PUNISHMENT/ COMPOUNDING OF OFFENCES:

Type	Section of the Companies Act	Brief Description	Details of Penalty/ Punishment/ Coumpounding Fees Imposed	Authority (RD/NCLT/ Court)	Appeal made, if any (give details)
A. COMPANY					
Penalty	-	-	-	-	-
Punishment	-	-	-	-	-
Compounding	Section 96(1) of the Companies Act, 2013	The details are as follows: (i) Not convening and holding the Annual General Meeting (AGM) of the Company for the financial years ended on 31 st March 2017 within 15 months from the date of previous Annual General Meeting of the Company and; (ii) for not holding the Annual General Meeting of the Company within 6 months from the date of closure of financial year 2016-17.	Rs. 50,000/-*	NCLT, Mumbai Bench	NIL
B. DIRECTORS (Managing Director)					
Penalty	-	-	-	-	-
Punishment	-	-	-	-	-
Compounding	Section 96(1) of the Companies Act, 2013	The details are as follows: (i) Not convening and holding the Annual General Meeting (AGM) of the Company for the financial years ended on 31 st March 2017 within 15 months from the date of previous Annual General Meeting of the Company and; (ii) for not holding the Annual General Meeting of the Company within 6 months from the date of closure of financial year 2016-17.	Rs. 25,000/-*	NCLT, Mumbai Bench	NIL
C. OTHER OFFICERS IN DEFAULT (Company Secretary)					
Penalty	-	-	-	-	-
Punishment	-	-	-	-	-
Compounding	Section 96(1) of the Companies Act, 2013	The details are as follows: (i) Not convening and holding the Annual General Meeting (AGM) of the Company for the financial years ended on 31 st March 2017 within 15 months from the date of previous Annual General Meeting of the Company and; (ii) for not holding the Annual General Meeting of the Company within 6 months from the date of closure of financial year 2016-17.	Rs. 25,000/-*	NCLT, Mumbai Bench	NIL

* The hearing in the National Company Law Tribunal (NCLT), Mumbai bench was held on May 11, 2018. The Bench approved the petition and passed an order levying a penalty of Rs. 50,000/- on the company and Rs. 25,000/- each on the KMPs (Managing Director and Company Secretary) towards compounding of the non-compliances. The copy of the order is awaited from the NCLT. Upon receipt of the order, the compounding fee will be paid by the company and the KMPs.

For and on behalf of the Board of Directors

Sd/-

B.D. Narang
Chairman

DIN: 00826573

Address: Karvy Millennium,
Financial District, Gachibowli,
Nanakramguda, Hyderabad,
Telangana - 500032.

Sd/-

Yogesh Gaat
CEO and Managing Director

DIN: 07189252

Address: Karvy Millennium,
Financial District, Gachibowli,
Nanakramguda, Hyderabad,
Telangana - 500032.

Date : 13-06-2018
Place : Hyderabad

'Annexure III'

SECRETARIAL AUDIT REPORT

FOR THE FINANCIAL YEAR ENDED MARCH 31, 2018

[Pursuant to section 204(1) of the Companies Act, 2013 and Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014]

To,
The Members,
Karvy Financial Services Limited
Mumbai

We have conducted the secretarial audit of the compliance of applicable statutory provisions and the adherence to good corporate practices by **Karvy Financial Services Limited** (U67190MH2001PLC227379) and having its registered office at 705 and 706, 7th floor, Hallmark Business Plaza, Sant Dnyaneshwar Marg, Off Bandra Kurla Complex, Mumbai - 400051 (hereinafter called 'the Company'). Secretarial Audit was conducted in a manner that provided us a reasonable basis for evaluating the corporate conducts/ statutory compliances and expressing our opinion thereon.

Based on our verification of the Company's books, papers, minute books, forms and returns filed and other records maintained by the Company and also the information provided by the Company, its officers, agents and authorized representatives during the conduct of secretarial audit, We hereby report that in our opinion, the Company has, during the audit period covering the financial year ended on March 31, 2018 complied with the statutory provisions listed hereunder and also that the Company has proper Board-processes and compliance-mechanism in place to the extent, in the manner and subject to the reporting made hereinafter:

We have examined the books, papers, minute books, forms and returns filed and other records maintained by the Company for the financial year ended on March 31, 2018 according to the provisions of:

- (i) The Companies Act, 2013 (the Act) and the rules made thereunder;
- (ii) The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made thereunder;
- (iii) The Depositories Act, 1996 and the Regulations and Bye-laws framed thereunder;
- (iv) Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings (**Not applicable to the Company during the audit period**);
- (v) The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act'):
 - (a) The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
 - (b) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015;
 - (c) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 (**Not applicable to the Company during the audit period**);
 - (d) Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 (**Not applicable to the Company during the audit period**);
 - (e) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;
 - (f) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client;
 - (g) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009 (**Not applicable to the Company during the audit period**);
 - (h) The Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998 (**Not applicable to the Company during the audit period**); and
 - (i) The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 applicable in respect of Non-convertible debentures of the Company listed at BSE Limited, Mumbai;
- (vi) The Reserve Bank of India Act, 1934 and Credit Information Companies (Regulation) Act, 2005 and the directions, regulations issued by Reserve Bank of India thereunder and as applicable to Non-Banking Financial Companies, being laws that are specifically applicable to the Company based on their sector/ industry.

We have also examined compliance with the applicable clauses of the Secretarial Standards issued by The Institute of Company Secretaries of India;

During the period under review the Company has complied with the provisions of the Act, Rules, Regulations, Standards, Guidelines, Directions etc. mentioned above and in respect of laws specifically applicable to the Company based on their sector/industry, in so far as registration, membership, submission of various returns/information or other particulars to be filed with Reserve Bank of India.

We further report that

The Board of Directors of the Company is duly constituted with proper balance of Executive Directors, Non-Executive Directors and Independent Directors. The changes in the composition of the Board of Directors that took place during the period under review were carried out in compliance with the provisions of the Act.

Adequate notice is given to all directors to schedule the Board Meetings, agenda and detailed notes on agenda were sent at least seven days in advance, and a system exists for seeking and obtaining further information and clarifications on the agenda items before the meeting and for meaningful participation at the meeting.

Majority decision is carried through while the dissenting members' views, if any, are captured and recorded as part of the minutes.

The company has moved an application before the Hon'ble National Company Law Tribunal, Mumbai under section 441 of the Act on 15th February, 2018 for compounding of delay in conducting of Annual General Meeting for the financial year ended 31st March, 2017 and the same has been allowed by the Hon'ble Tribunal; however the orders are awaited;

The balance sheet as at/financials for the year ended 31st March 2017 were finalised/approved by the Board of Directors on 22nd December, 2017 beyond the stipulated time limit under the directions issued by Reserve Bank of India and applicable to Non-Banking Financial Companies; further the submission of yearly statutory auditor's certificate and some of the returns relating to quarter ended 30th June 2017 under the said directions were delayed by few days; and

The submission of annual and half yearly financial results for the year ended 31.03.2017 and half year ended 30.09.2017 to BSE was beyond the stipulated time-limit and accordingly the publishing of same was also delayed.

We further report that there are adequate systems and processes in the Company commensurate with the size and operations of the Company to monitor and ensure compliance with applicable laws, rules, regulations, standards, guidelines and directions.

We further report that during the audit period the Company:

1. obtained approval of the members of the Company under Section 180(1)(a) of the Act by way of special resolution in the Extra- Ordinary General Meeting held on 16th September, 2017 for execution of business transfer agreement to sell its entire portfolio of assets in relation to the Retail lending Business to Small Business Fincredit India Private Limited (formerly known as Mape Finserve Private Limited); and
2. obtained approval of members of the Company under Section 42 of the Act by way of special resolution in the Extra- Ordinary General Meeting held on 16th September, 2017 for issuance of Non-Convertible Debentures (NCD's) up to Rs.100 crores on private placement basis.

This report is to be read with our letter of even date which is annexed as 'Annexure-A' and forms an integral part of this report.

For **Manish Ghia & Associates**
Company Secretaries

Sd/-

Manish L. Ghia
Partner

Place : Mumbai
Date: June 12, 2018

M. No. FCS 6252 C.P. No. 3531

To,
The Members,
Karvy Financial Services Limited
Mumbai

Our report of even date is to read along with this letter.

1. Maintenance of secretarial record is the responsibility of the management of the Company. Our responsibility is to express an opinion on these secretarial records based on our audit.
2. We have followed the audit practices and processes as were appropriate to obtain reasonable assurance about the correctness of the contents of the Secretarial records. The verification was done on test basis to ensure that correct facts are reflected in secretarial records. We believe that the processes and practices, we followed provided a reasonable basis for our opinion.
3. We have not verified the correctness and appropriateness of financial records and Book of Accounts of the Company.
4. Where ever required, we have obtained the management representation about the compliance of laws, rules and regulations and happening of events etc.
5. The compliance of the provisions of corporate and other applicable laws, rules, regulation, standards is the responsibility of management. Our examination was limited to the verification of procedures on the test basis.
6. The Secretarial Audit Report is neither an assurance as to the future viability of the Company nor of the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **Manish Ghia & Associates**
Company Secretaries
Sd/-
Manish L. Ghia
Partner
M. No. FCS 6252 C.P. No. 3531

Place : Mumbai
Date: June 12, 2018

**Annexure- IV
ANNUAL REPORT ON CSR ACTIVITIES**

1. **A brief outline of the company’s CSR policy, including overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR policy and projects or programs.**

It is the Company’s philosophy, firm belief and intent to effectively implement CSR and make a positive difference to society. It recognizes that it cannot do it all; so that if there are choices to be made, bias will be towards doing fewer projects with better outcomes and good impact and will focus initiatives on communities in which the Company lives, operates and particularly forming community whose development is the basic mission of the Company.

2. **The Composition of the CSR Committee:**

- Mr. B.D. Narang, Independent Director
- Mr. M. Yugandhar, Non-executive Director
- Mr. V. Mahesh, Non-executive Director

3. **Average net profit of the company for last three financial years:** Rs. 120,149,369/-

4. **Prescribed CSR Expenditure (two per cent of the amount as in item 3 above):** Rs. 2,402,987/-

5. **Details of CSR spent during the financial year:**

(a) **Total amount to be spent for the financial year:** Rs. 2,402,987/-

(b) **Amount unspent, if any:** Rs. 2,402,987/-

(c) **Manner in which the amount spent during the financial year is detailed below.**

S No	CSR project or activity identified	Sector in which the Project is covered	Projects or programs (1) Local area or other (2) Specify the State and district where projects or programs was undertaken	Amount outlay (budget) project or programs wise (Rs. in lakh)	Amount spent on the projects or programs Sub-heads: (1) Direct expenditure on projects or programs. (2) Overheads	Cumulative expenditure upto to the reporting period (Rs. in lakh)	Amount spent: Direct or through implementing agency
1	-	-	-	-	-	-	-

6. **In case the company has failed to spend the two per cent of the average net profit of the last three financial years or any part thereof, the company shall provide the reasons for not spending the amount in its Board report.**

During the year under review, while the company has finalized the focus areas for CSR activities for the financial year 2017-18, the company was unable to contribute any amount as required towards CSR activities during FY 2017-18, due to the fact that, a significant portion of the retail lending business was transferred by the company vide the Business Transfer Agreement (BTA), and the company further did not undertake any business for a substantial period, resulting into a substantial drop in the overall revenue of the company. The management with the intent to conserve the recourses so as to support the business activity did not initiate the contribution towards the CSR. The Company will however, endeavor in future to spend on CSR activities in accordance with the prescribed limits.

7. **Responsibility statement of the CSR Committee**

The Responsibility Statement of the Corporate Social Responsibility Committee of the Board of Directors of the Company is reproduced below: ‘The implementation and monitoring of Corporate Social Responsibility (CSR) Policy, is in compliance with CSR objectives and policy of the Company.’

For and on behalf of the Board of Directors

Sd/-

B.D. Narang

Chairman of CSR Committee

DIN: 00826573

Address: Karvy Millennium,
Financial District, Gachibowli,
Nanakramguda, Hyderabad,
Telangana - 500032.

Sd/-

Yogesh Gaat

CEO and Managing Director

DIN: 07189252

Address: Karvy Millennium,
Financial District, Gachibowli,
Nanakramguda, Hyderabad,
Telangana - 500032.

Date : 13-06-2018

Place : Hyderabad

KARVY FINANCIAL SERVICES LIMITED
Annexure to the Report of Board of Directors for the year ended 31st March, 2018
Statement of Employees pursuant to Rule 5(2) & 5(3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014.

S.No.	Name	Age	Designation	Remuneration Received (Cost to Company for the FY 2017-18)	Nature of employment (contractual or otherwise)	Qualifications	Experience (No. of years)	Date of commencement of employment	Last employment held	% of equality shares held in the company	Whether relative of any Director or Manager of the company and if so, name of such director or manager
1	Mr. Yogesh Gaat	44	CEO and Managing Director	1,26,05,255	Permanent, Resolution for appointment was approved by the Board and the members in their meeting	B.E, Diploma in Business Management	22	26/12/2016	STCI Finance Limited	NIL	No
2	Mr.Siva Ramakrishna Rao Damaraju	43	Vice President	1,06,11,830	Permanent employee	MBA	20	12/09/2012	Spandana Spoorthy Financial Services	NIL	No
3	Mr.Mayank Shyam Thatte*	38	Chief Financial Officer	42,60,945	Permanent employee	CA	16	22/11/2016	Tata Motors Finance Group	NIL	No
4	Mr.Naveen Kumar Somula	48	Assistant Vice President	38,73,290	Permanent employee	B.Com,PGDBM	27	10/06/2013	Chrome Capital Market Pvt.Ltd.	NIL	No
5	Mr.Ajay Dhar	46	Vice President	29,12,944	Permanent employee	B.Com	18	08/01/2017	Tata Capital Financial Services Limited	NIL	No
6	Mr.Arunchandra Jupalli**	43	Vice President	24,83,518	Permanent employee	MBA	17	22/03/2012	Netambit Value First Services	NIL	No
7	Mr.Naresh Goyal	48	Assistant Vice President	21,76,817	Permanent employee	M.Com	22	09/01/2005	Karvy Comtrade Limited	NIL	No
8	Mr.Amit Ranjan**	40	Vice President	17,88,893	Permanent employee	BA	19	14/09/2010	ICI Securities Limited	NIL	No
9	Mr.Manu Mahajan**	41	Vice President	17,48,057	Permanent employee	B.E, PGDBM Marketing & Finance	15	01/08/2011	CitiFinancial Consumer Finance India Ltd.	NIL	No
10	Mr.Sudhir Pareek**	42	Vice President	16,23,924	Permanent employee	B.Com,PGDBA	16	02/07/2011	CitiFinancial Finance India Ltd.	NIL	No

* Resigned w.e.f. 27.12.2017

**Employed for part of the year and were transferred to Small Business FinCredit India Pvt. Ltd. pursuant to the BTA executed by the company

For KARVY FINANCIAL SERVICES LIMITED

Sd/-
B. D. Narang
Chairman
DIN: 00826573

Address: Karvy Millennium, Financial District,
 Gachibowli, Hyderabad - 500 032.
 Telangana

Sd/-
Yogesh Gaat
CEO and Managing Director
DIN: 07189252

Address: Karvy Millennium, Financial District,
 Gachibowli, Hyderabad - 500 032.
 Telangana

Date : 13.06.2018
Place : Hyderabad

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KARVY FINANCIAL SERVICES LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Karvy Financial Services Limited ("the Company"), which comprise the Balance Sheet as at 31 March 2018, the Statement of Profit and Loss, the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information (collectively referred to as the 'financial statements').

Management's Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the Audit Report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31 March 2018, its profit and its cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2016 ("the Order") issued by the Central Government of India in terms of sub-section (11) of Section 143 of the Act, and on the basis of such checks of the books and records of the Company as we consider appropriate and according to the information and explanation given to us, we give in the "Annexure A" a statement on the matters specified in paragraphs 3 and 4 of the said Order to the extent applicable.
2. As required by Section 143 (3) of the Act, we report that:
 - (a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;
 - (c) The Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement dealt with by this Report are in agreement with the books of account;
 - (d) In our opinion, the aforesaid financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014;
 - (e) On the basis of the written representations received from the directors and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2018 from being appointed as a director in terms of Section 164 (2) of the Act;

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
KARVY FINANCIAL SERVICES LIMITED**

- (f) With respect to the adequacy of the internal financial controls with reference to financial statements of the Company and the operating effectiveness of such controls, refer to our separate report in "Annexure B"; and
- (g) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
- i. The Company has disclosed the impact of pending litigations as at 31 March 2018 on its financial position in its financial statements – Refer Note 2.25.
 - ii. The Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.
 - iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.
 - iv. The disclosure regarding holdings as well as dealings in specified bank notes during the period from 8 November 2016 to 30 December 2016 do not pertain to the financial year ended 31 March 2018. However, amounts as appearing in the audited financial statements for the period ended 31 March 2017 have been disclosed.

for **S S M S & Co**

Chartered Accountants

ICAI Firm Registration Number: 014358S

Sd/-

Madhusudhana Reddy K.S

Partner

Membership Number: 231770

Place : Hyderabad

Date: 13 June 2018

for **B S R & Associates LLP**

Chartered Accountants

ICAI Firm Registration Number: 116231WW-100024

Sd/-

Arpan Jain

Partner

Membership Number: 125710

Place : Hyderabad

Date: 13 June 2018

ANNEXURE A TO THE INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

The Annexure A referred to in our Independent Auditor's Report of even date to the Members of Karvy Financial Services Limited ("the Company") on the financial statements for the year ended 31 March 2018, we report that:

- i. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets during the year.
- (b) The Company has a regular programme of physical verification of its fixed assets by which all the fixed assets are verified every year except for the assets at branches which are verified in a phased manner over a period of two years. In our opinion, the periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification. During the year, certain identified assets including assets at branches of the Company has been transferred pursuant to transfer of its retail lending business. Refer note 2.50 to the financial statements.
- (c) According to the information and explanations given to us, the Company does not own any immovable assets classified as Fixed Assets as at 31 March 2018. The title deeds of immovable properties held as "Assets held for sale" disclosed in Note 2.17 to the financial statements, are held in the name of the Company.
- ii. The Company was engaged in the business of providing asset financing. Accordingly, it does not hold any physical inventories. Hence, the provisions of Clause 3(ii) of the said Order is not applicable to the Company.
- iii. The Company has granted unsecured loans, to four companies covered in the Register maintained under Section 189 of the Act.
 - (a) In respect of the aforesaid loans, the terms and conditions under which loans were granted are not prejudicial to the interest of the Company.
 - (b) In respect of the aforesaid loans, the schedule of repayment of principal and payment of interest has been stipulated and the parties are repaying the principal amount, as stipulated, and are also regular in payment of interest as applicable.
 - (c) In respect of the aforesaid loans, there is no amount which overdue for more than 90 days.
- iv. According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company has not undertaken any transaction in respect of loans, guarantees and securities covered under Section 185 of the Act. The Company has complied with Section 186(1) of the Act in relation to investments made by the Company. The remaining provision related to Section 186 of the Act are not applicable to the Company as it is a Non-Banking Finance Company.
- v. The Company has not accepted any deposits from the public.
- vi. The Central Government of India has not prescribed the maintenance of cost records under sub-section (1) of Section 148 of the Act for any of the services rendered by the Company.
- vii. (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Employees' state insurance, Income-tax, Service tax, Goods and services tax, Cess and other material statutory dues have generally been regularly deposited by the Company with the appropriate authorities. As informed to us, the Company did not have any dues on account of Sales tax, duty of Customs, duty of Excise and Value added tax.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' state insurance, Income-tax, Service tax, Goods and services tax, Cess and other material statutory dues were in arrears as at 31 March 2018 for a period of more than six months from the date they became payable.
- (b) According to the information and explanations given to us, there are no dues of Income-tax, Goods and services tax, duty of Customs, duty of Excise and Value added tax, which have not been deposited with appropriate authorities on account of any dispute.
- viii. According to the records of the Company examined by us and the information and explanation given to us, the Company has not defaulted in repayment of loans or borrowings to any financial institution or bank or dues to debenture holders as at the balance sheet date. The Company did not have any dues to the Government.
- ix. The Company has not raised any monies by way of term loan, initial public offer or further public offer (including debt instruments) during the year. Accordingly, the provisions of Clause 3(ix) of the Order are not applicable to the Company.
- x. During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of material fraud by the Company or on the Company by its officers or employees, noticed or reported during the year, nor have we been informed of any such case by the Management.
- xi. According to the information and explanations given to us and based on our examination of the records of the Company, the Company has paid/provided for the managerial remuneration in accordance with the requisite approvals mandated by the provisions of Section 197 read with Schedule V to the Act.

ANNEXURE A TO THE INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS (Contd.)

- xii. The Company is not a Nidhi Company and the Nidhi Rules, 2014 are not applicable to it. Accordingly, the provisions of Clause 3(xii) of the Order are not applicable to the Company.
- xiii. According to the information and explanations given to us and based on our examination of the records of the Company, the transactions with related parties are in compliance with the provisions of Sections 177 and 188 of the Act where applicable and the details of such related party transactions have been disclosed in the financial statements as required under Accounting Standard (AS) 18, Related Party Disclosures specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.
- xiv. According to the information and explanations given to us and based on our examination of the records of the Company, the Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year. Therefore, paragraph 3(xiv) of the Order is not applicable to the Company.
- xv. According to the information and explanations given to us and based on our examination of the records of the Company, the Company has not entered into any non-cash transactions with its directors or persons connected with him. Accordingly, the provisions of Clause 3(xv) of the Order are not applicable to the Company.
- xvi. The Company is required to be registered under Section 45 IA of the Reserve Bank of India Act, 1934 and it has obtained certificate of registration dated 25 October 2012.

for S S M S & Co

Chartered Accountants

ICAI Firm Registration Number: 014358S

Sd/-

Madhusudhana Reddy K.S

Partner

Membership Number: 231770

Place : Hyderabad

Date: 13 June 2018

for B S R & Associates LLP

Chartered Accountants

ICAI Firm Registration Number: 116231WW-100024

Sd/-

Arpan Jain

Partner

Membership Number: 125710

Place : Hyderabad

Date: 13 June 2018

ANNEXURE B TO THE INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS (Contd.)

The Annexure B referred to in our Independent Auditor's Report of even date to the Members of Karvy Financial Services Limited ("the Company") on the financial statements for the year ended 31 March 2018.

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of the Section 143 of the Companies Act, 2013 ("the Act")

We have audited the internal financial controls with reference to financial statements of Karvy Financial Services Limited ("the Company") as of 31 March 2018 in conjunction with our audit of the financial statements of the Company for the year ended on that date.

Management's Responsibility for Internal Financial Controls

The Company's management is responsible for establishing and maintaining internal financial controls based on the internal control with reference to financial statements criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India (ICAI). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

Auditor's Responsibility

Our responsibility is to express an opinion on the Company's internal financial controls with reference to financial statements based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") and the Standards on Auditing, issued by ICAI and deemed to be prescribed under Section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls, both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls with reference to financial statements was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system with reference to financial statements and their operating effectiveness. Our audit of internal financial controls with reference to financial statements included obtaining an understanding of internal financial controls with reference to financial statements, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company's internal financial controls system with reference to financial statements.

Meaning of Internal Financial Controls with reference to Financial Statements

A company's internal financial control with reference to financial statements is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the generally accepted accounting principles. A company's internal financial control with reference to financial statements includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls with reference to Financial Statements

Because of the inherent limitations of internal financial controls with reference to financial statements, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls with reference to financial statements to future periods are subject to the risk that the internal financial control with reference to financial statements may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, the Company has, in all material respects, an adequate internal financial controls system with reference to financial statements and such internal financial controls with reference to financial statements were operating effectively as at 31 March 2018, based on the internal control with reference to financial statements criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

for **S S M S & Co**

Chartered Accountants

ICAI Firm Registration Number: 014358S

Sd/-

Madhusudhana Reddy K.S

Partner

Membership Number: 231770

Place : Hyderabad

Date: 13 June 2018

for **B S R & Associates LLP**

Chartered Accountants

ICAI Firm Registration Number: 116231W/W-100024

Sd/-

Arpan Jain

Partner

Membership Number: 125710

Place : Hyderabad

Date: 13 June 2018

KARVY FINANCIAL SERVICES LIMITED
BALANCE SHEET AS AT MARCH 31, 2018

(All amounts in Indian rupees, except share data and where otherwise stated)

Particulars	Notes	As at March 31, 2018	As at March 31, 2017
EQUITY AND LIABILITIES			
Shareholders' funds			
Share capital	2.1	78,25,00,000	78,25,00,000
Reserves and surplus	2.2	3,28,45,49,678	3,16,69,64,795
		4,06,70,49,678	3,94,94,64,795
Non-current liabilities			
Long-term borrowings	2.3	1,45,19,39,682	8,86,09,12,561
Other long-term liabilities	2.4	-	44,87,348
Long-term provisions	2.5	26,07,64,710	46,62,40,847
		1,71,27,04,392	9,33,16,40,756
Current liabilities			
Short-term borrowings	2.6	22,85,50,879	92,39,16,958
Trade payables	2.7	-	-
Total outstanding due to micro and small enterprises		-	-
Total outstanding due to creditors other than micro and small enterprises		65,59,633	2,80,78,400
Other current liabilities	2.8	55,90,49,009	4,90,89,65,765
Short-term provisions	2.9	4,58,30,470	1,87,40,460
		83,99,89,991	5,87,97,01,583
TOTAL		6,61,97,44,061	19,16,08,07,134
ASSETS			
Non-current assets			
Fixed assets			
Property, plant and equipment	2.10	1,09,94,360	6,05,00,040
Intangible assets	2.11	3,43,133	2,64,79,800
Intangible assets under development	2.12	-	25,96,500
Non-current investments	2.13	39,24,67,604	39,10,00,000
Deferred tax asset (net)	2.30	10,38,07,531	16,81,28,871
Long-term loans and advances	2.14	1,85,51,74,754	12,01,16,45,886
		2,36,27,87,382	12,66,03,51,097
Current assets			
Cash and bank balance	2.15	2,10,27,96,716	64,44,19,760
Short-term loans and advances	2.16	1,79,95,82,736	5,16,14,99,101
Other current assets	2.17	35,45,77,227	69,45,37,176
		4,25,69,56,679	6,50,04,56,037
TOTAL		6,61,97,44,061	19,16,08,07,134
Significant accounting policies	1		
Notes to financial statements	2		
The notes referred above form an integral part of the financial statements			

 As per our report of even date attached
for **S S M S & Co.**

 Chartered Accountants
(ICAI Firm registration no. 014358S)
Sd/-

Madhusudhana Reddy K.S
Partner
Membership No. : 231770

 Place: Hyderabad
Date: June 13, 2018

 for **B S R & Associates LLP**

 Chartered Accountants
(ICAI Firm registration no. 116231W/W-100024)
Sd/-

Arpan Jain
Partner
Membership No. 125710

 Place: Hyderabad
Date: June 13, 2018

for and on behalf of the Board of Directors of

Karvy Financial Services Limited
CIN:U67190MH2001PLC227379

Sd/-

Yogesh Gaat
CEO & Managing Director
DIN : 07189252
Sd/-

V Mahesh
Director
DIN:00800219
Sd/-

Amrish H. Shah
Chief Financial Officer
PAN : AKJPS2462F

 Place: Hyderabad
Date: June 13, 2018

Sd/-

B.D. Narang
Director
DIN :00826573
Sd/-

G. Krishna Hari
Director
DIN :00148721
Sd/-

Meenal Talesara
Company Secretary
M.No.A22658

KARVY FINANCIAL SERVICES LIMITED
STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED MARCH 31, 2018

(All amounts in Indian rupees, except share data and where otherwise stated)

Particulars	Note	For the year ended March 31, 2018	For the year ended March 31, 2017
Revenue			
Revenue from operations	2.18	1,47,13,56,988	2,80,16,52,805
Other incomes	2.19	15,14,056	9,69,560
Gain on disposal of business	2.51	2,61,93,99,148	-
Total revenue		4,09,22,70,192	2,80,26,22,365
Expenses			
Operating expenses	2.20	2,24,23,39,346	44,92,29,292
Employee benefits expense	2.21	22,65,46,762	35,13,65,146
Finance costs	2.22	1,11,95,71,113	2,10,62,62,249
Depreciation and amortisation	2.23	2,44,79,020	2,91,88,391
Other expenses	2.24	27,75,34,158	27,50,49,652
Total expense		3,89,04,70,399	3,21,10,94,730
Profit / (loss) before tax (Refer note 2.51)		20,17,99,793	(40,84,72,365)
Income tax expense			
Current tax		1,98,93,569	-
Deferred tax		6,43,21,341	(11,17,44,748)
Profit / (loss) for the year		11,75,84,883	(29,67,27,617)
(Loss) / Profit for the year from discontinuing operations before tax	2.51	(15,22,69,826)	2,66,57,107
Income tax expense of discontinuing operations			
Current tax		(6,95,38,943)	-
Deferred tax		3,67,82,249	(1,85,03,618)
(Loss)/ Profit for the year from discontinuing operations after tax		(11,95,13,132)	4,51,60,725
Earnings per equity share [nominal value of share: ₹ 10 (Previous year: ₹ 10)]	2.32		
Basic		1.50	(3.79)
Diluted		1.50	(3.79)
Significant accounting policies	1		
Notes to the financial statements	2		
The notes referred above form an integral part of the financial statements			

As per our report of even date attached

 for **S S M S & Co.**

Chartered Accountants

(ICAI Firm registration no. 014358S)

Sd/-

Madhusudhana Reddy K.S

Partner

Membership No. : 231770

 for **B S R & Associates LLP**

Chartered Accountants

(ICAI Firm registration no. 116231W/W-100024)

Sd/-

Arpan Jain

Partner

Membership No. 125710

for and on behalf of the Board of Directors of

Karvy Financial Services Limited

CIN:U67190MH2001PLC227379

Sd/-

Yogesh Gaat

CEO & Managing Director

DIN : 07189252

Sd/-

V Mahesh

Director

DIN:00800219

Sd/-

Amrish H. Shah

Chief Financial Officer

PAN : AKJPS2462F

Sd/-

B.D. Narang

Director

DIN :00826573

Sd/-

G. Krishna Hari

Director

DIN :00148721

Sd/-

Meenal Talesara

Company Secretary

M.No.A22658

 Place: Hyderabad
Date: June 13, 2018

 Place: Hyderabad
Date: June 13, 2018

 Place: Hyderabad
Date: June 13, 2018

KARVY FINANCIAL SERVICES LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2018

(All amounts in Indian rupees, except share data and where otherwise stated)

Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
Cash flows from operating activities		
Profit / (loss) before tax	20,17,99,793	(40,84,72,365)
Adjustments:		
Depreciation and amortisation	2,44,79,020	2,91,88,391
Contingent provisions against standard assets	(70,68,119)	(1,71,43,460)
Profit on sale of futures and options	(14,60,815)	-
Gain on disposal of business (Refer note 2.51)	(2,61,93,99,148)	-
Provision against non performing assets	(15,81,60,074)	34,33,06,503
Provision for other portfolio	2,24,49,132	-
Loans written off	2,34,88,51,795	2,62,41,254
Interest on bank deposits	(1,49,784)	(1,54,504)
Loss on derivative transactions	-	1,88,410
Profit on sale of securities	-	(1,70,334)
Operating cash flows before working capital changes	(18,86,58,200)	(2,70,16,105)
Decrease in loans and advances	3,08,94,52,352	5,74,32,71,642
Decrease in other current assets	31,47,71,806	40,86,30,832
Increase in current liabilities	(1,88,46,877)	(46,19,26,397)
Cash generated from operations	3,19,67,19,081	5,66,29,59,972
Income taxes paid	(9,65,77,066)	(1,91,36,980)
Net cash flow from operating activities (A)	3,10,01,42,015	5,64,38,22,992
Cash flows from investing activities		
Purchase of fixed assets (tangible and intangible fixed assets, Intangible assets under development)	(99,72,936)	(1,86,80,073)
Proceeds from sale of fixed assets	-	48,02,553
Sale of investments	-	2,76,886
Purchase of investments	(14,67,604)	(39,10,00,000)
Proceeds from disposal of business (Refer Note 2.50)	10,79,56,33,199	-
Investments in bank deposits (having original maturity of more than three months)	7,56,360	9,60,594
Interest on bank deposits	1,33,387	1,54,504
Profit on sale of futures and options	14,60,815	-
Net cash from / (used in) investing activities (B)	10,78,65,43,221	(40,34,85,536)
Cash flows from financing activities		
Proceeds from long-term borrowings	-	2,53,98,00,000
(Repayment)/ proceeds from short-term borrowings, net	(69,53,66,079)	3,29,27,00,473
Repayment of long-term borrowings	(11,73,21,85,841)	(11,16,29,65,623)
Net cash used in financing activities (C)	(12,42,75,51,920)	(5,33,04,65,150)
Net (decrease) / increase in cash and cash equivalents (A + B + C)	1,45,91,33,316	(9,01,27,694)
Cash and cash equivalents at beginning of the year (Refer note 2.15)	64,33,74,515	73,35,02,209
Cash and cash equivalents at end of the year (Refer note 2.15)	2,10,25,07,831	64,33,74,515
Cash and cash equivalents		
Cash on hand	9,624	1,65,33,599
Balance with banks	2,10,24,98,207	62,68,40,916
	2,10,25,07,831	64,33,74,515

 As per our report of even date attached
for **S S M S & Co.**

 Chartered Accountants
(ICAI Firm registration no. 014358S)

 Sd/-
Madhusudhana Reddy K.S
Partner
Membership No. : 231770

 for **B S R & Associates LLP**

 Chartered Accountants
(ICAI Firm registration no. 116231W/W-100024)

 Sd/-
Arpan Jain
Partner
Membership No. 125710

for and on behalf of the Board of Directors of

Karvy Financial Services Limited
CIN:U67190MH2001PLC227379

Sd/- M. Yugandhar Director DIN :00012265	Sd/- Yogesh Gaat CEO & Managing Director DIN : 07189252
Sd/- Jyothi Prasad Director DIN :06947488	Sd/- V Mahesh Director DIN:00800219
Sd/- Amrish H. Shah Chief Financial Officer PAN : AKJPS2462F	

Sd/- B.D. Narang Director DIN :00826573
Sd/- G. Krishna Hari Director DIN :00148721
Sd/- Meenal Talesara Company Secretary M.No.A22658

 Place: Hyderabad
Date: June 13, 2018

 Place: Hyderabad
Date: June 13, 2018

 Place: Hyderabad
Date: June 13, 2018

KARVY FINANCIAL SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018

(All amounts in Indian rupees, except share data where otherwise stated)

Company overview

Karvy Financial Services Limited (the "Company" or "KFSL") was incorporated on October 18, 2001. The Company was registered as Non-Banking Financial Company without accepting or holding public deposits, as defined under Section 45-IA of the Reserve Bank of India Act, 1934. The Company is primarily engaged in the business of lending against property, gold and securities.

1. Significant accounting policies

a) Basis of preparation of financial statements

These financial statements have been prepared and presented under the historical cost convention on the accrual basis of accounting unless otherwise stated. They are in conformity with the accounting principles generally accepted in India ("GAAP"), and comply with the Accounting Standards ("AS") notified by the Companies (Accounting Standard) Rules, 2006 as amended by the Companies (Accounting Standards) Amendment Rules, 2016 specified under Section 133 of the Companies Act, 2013 ('the Act') read with Rule 7 of the Companies (Accounts) Rules, 2014, the relevant guidelines of Reserve Bank of India ('RBI') to the extent applicable to a Non-Deposit taking Non-Banking Financial Company Systemically Important (NBFC-ND-SI), the guidelines issued by the Securities and Exchange Board of India (SEBI) to the extent applicable. The financial statements are presented in Indian rupees rounded off to the nearest rupee. The accounting policies set out below have been applied consistently to the periods presented in these financial statements.

The Company complies in all material respects, with the prudential norms relating to income recognition, asset classification and provisioning for bad and doubtful debts and other matters, specified in the directions issued by RBI in terms of Master Direction-Non-Banking Financial Company-Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 issued by the Reserve Bank of India vide their Notification No. RBI/DNBR/2016-17/45 Master Direction DNBR.PD.008/03.10.119/2016-17 dated September 1, 2016 ('Master Directions 2016') as amended from time to time and as applicable to the Company.

b) Use of estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses and the disclosure of contingent liabilities on the date of the financial statements. Actual results could differ from those estimates. Difference between the actual results and estimates are recognized in the period in which the results are known / materialized. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognized prospectively in current and future periods.

c) Current – non-current classification

All assets and liabilities are classified into current and non-current.

Assets

An asset is classified as current when it satisfies any of the following criteria:

- i. it is expected to be realised in, or is intended for sale or consumption in, the company's normal operating cycle;
- ii. it is held primarily for the purpose of being traded;
- iii. it is expected to be realized within twelve months after the reporting date; or
- iv. it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

Current assets include the current portion of non-current financial assets. All other assets are classified as non-current.

Liabilities

A liability is classified as current when it satisfies any of the following criteria:

- i. it is expected to be settled in the company's normal operating cycle;
- ii. it is held primarily for the purpose of being traded;
- iii. it is due to be settled within twelve months after the reporting date; or
- iv. the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current liabilities include the current portion of non-current financial liabilities. All other liabilities are classified as non-current.

KARVY FINANCIAL SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data where otherwise stated)

Operating cycle

Operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents. Based on the nature of operations and their realization in cash and cash equivalents, the Company has ascertained its operating cycle as twelve months.

d) Cash and cash equivalents

Cash and cash equivalents comprise cash and deposit with banks / financial institutions. The Company considers all highly liquid investments with a original maturity of three months or less and that are readily convertible to known amounts of cash and cash equivalents.

e) Cash flow statement

Cash flows are reported using the indirect method, whereby net profit / (loss) before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, investing and financing activities of the company are segregated.

f) Fixed assets and depreciation

Property, plant and equipment

Property, plant and equipment are carried at cost of acquisition less accumulated depreciation. The Company has used the cost model as measurement base for determining the gross carrying amount. The cost of tangible fixed assets comprises the purchase price, taxes, duties, freight (net of rebates and discounts) and any other directly attributable costs of bringing the assets to their working condition for their intended use.

Intangible assets

Intangible assets are recorded at the consideration paid for acquisition. Intangible assets under development are capitalized only if the Company is able to establish control over such assets and expects future economic benefit will flow to the company. Intangible assets are amortized in the Statement of profit and loss over their estimated useful lives from the date they are available for use based on the expected pattern of economic benefits of the asset.

Product process handling software primarily comprises of software used in the business of lending against property, gold and securities and are amortised over their estimated useful life of 5 years.

Impairment of assets

The Company assesses at each balance sheet date whether there is any indication that any assets forming part of its cash generating units may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs to is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the Statement of profit and loss. If at the balance sheet date, there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the reassessed recoverable amount subject to a maximum of depreciated historical cost.

g) Depreciation / Amortization

Depreciation on property, plant and equipment is provided in accordance with the provisions of Schedule II of the Companies Act, 2013. Tangible assets are depreciated on straight line basis method over the useful life of assets, as prescribed in Part C of Schedule II of the Companies Act, 2013 as in the opinion of the Management, the same reflects the estimated useful life.

The estimated useful lives for the different types of assets are:

1. Computer- 3 years
2. Furniture and Fixtures- 10 years
3. Motor car- 8 years
4. Office equipment- 5 years

Intangible assets are amortized on straight line basis over the useful life of the assets up to a maximum of 5 years commencing from the month in which it was first purchase / installed.

With respect to assets costing less than ₹ 5,000 based on the internal assignment and materiality, the management has estimated that the same shall be depreciated in the year of purchase. Depreciation is calculated on pro-rata basis from the date on which the assets are ready for use or till the date the assets are sold or disposed of.

KARVY FINANCIAL SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data where otherwise stated)

h) Loan origination / acquisition cost

All direct cost incurred for the loan origination is recognised upfront in the Statement of profit and loss.

i) Repossessed assets

Assets repossessed against the settlement of loans are carried in the financial statement at outstanding loan amount. The profit or loss on sale of such repossessed assets are recognized in the Statement of profit and loss under the head "loans written off".

j) Revenue recognition

Interest income

Interest income on loan portfolio is recognised in the Statement of profit and loss on accrual basis taking into account the amount outstanding and the rate applicable except in the case of non-performing assets ("NPAs") where it is recognised, upon realization, as per RBI guidelines.

Loan processing fee income

Fee income including loan processing fee and other fee are accounted for upfront as and when it become due as per the terms of contract entered into with the customer.

Interest on deposit

Interest on deposits and debt securities are accrued on the time proportion basis, taking into account the amount outstanding and interest rate applicable.

Income from securitization / assignment

In case of Securitization / Assignment of loans, the assets are derecognized when all the rights, title, future receivables and interest thereof along with all the risk and reward of ownership are transferred to the purchaser of assigned / securitized loans.

The sale of non-performing assets is accounted for as per the guidelines prescribed by RBI. On sale, the assets are derecognised from the books. If the sale proceeds are lower than the net book value ('NBV') (i.e., book value less provisions held), the shortfall is charged to the Statement of profit and loss in the year of sale. In case of sale other than in cash, if the sale proceeds are higher than the NBV, the excess provision is written back in the year the amounts are received, as required by the RBI.

Income from security receipts

Income on security receipts ('SRs') are recognised only after the full redemption of the entire principal amount.

Other income

Other income is recognized when there is no significant uncertainty as to its determination and realization.

Foreclosure and other operating charges

Foreclosure and other operating charges i.e. cheque bounce charges, Loan Re-schedulement charges are accounted as and when received.

k) Assets classification and provisioning policy for Loan Portfolio

The Company follows Master Directions 2016 as amended and prescribed by Reserve Bank of India from time to time for its assets classification and provisioning policy. Non-performing assets are written off / provided for, as per management estimates, subject to the minimum provision required as per said directions.

During the year, pursuant to the RBI Master Directions 2016, the Company has revised its classification norms of Non-performing Assets (NPA) from 120 days to 90 days and has increased provision on standard assets from 0.35% to 0.40%.

l) Foreign currency transactions

Foreign currency transactions are accounted for at the rates prevailing on the date of the transaction. Exchange differences, if any arising out of transactions settled during the year are recognised in the Statement of profit and loss.

m) Investments

Investments that are readily realizable and intended to be held for not more than a year from the date of acquisition are classified as current investments. All other investments are classified as long-term investments. Current investments are valued, scrip wise lower of cost or fair value. The comparison of cost and fair value is done separately in respect of each category of investments i.e., Equity shares, preference shares, debt securities etc.

Long-term investments are carried at cost less other than temporary diminution in value, determined separately for each individual investment.

KARVY FINANCIAL SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data where otherwise stated)

Profit or loss on sale of investments is determined on the basis of weighted average carrying amount of investments disposed off.

Investment in security receipts (SRs) is recognized at lower of: (i) net book value (NBV) (i.e., book value less provisions held) of the financial asset; and (ii) estimated redemption value of SRs at the end of each reporting period, as prescribed by the RBI. Accordingly, in cases where the SRs issued by the Securitisation company / Asset Reconstruction Company (SC/ARC) are limited to the actual realisation of the underlying financial assets. The net asset value, obtained from the SC/ARC, is reckoned for valuation of such investments.

n) Employee benefits

Defined contribution plans

The Company makes specified monthly contribution towards employee provident fund to Government administered provident fund scheme, which is a defined contribution scheme. The Company's contribution is recognized as an expense in the Statement of profit and loss during the period in which the employee renders the related service.

Defined benefits plan-Gratuity

The Company provides for gratuity, a defined benefit retirement plan covering eligible employees. The liability recognised in the Balance Sheet in respect of defined benefit plans is the present value of the defined benefit obligation as at the Balance Sheet date. The calculation of the Company's obligation under the plan is performed annually by qualified independent actuary using the projected unit credit.

Actuarial gains or losses arising during the year are immediately recognised in the Statement of profit and loss.

Compensated absences

Compensated absences, is a long-term employee benefit, and accrued based on an actuarial valuation done as per projected unit credit method as at the Balance Sheet date, carried out by an independent actuary. Actuarial gains and losses arising during the year are immediately recognised in the Statement of profit and loss.

The employees of the Company are entitled for compensated absence. The employees can carry forward a portion of the unutilized accrued leave balance and utilize it in future periods. The Company records an obligation for compensated absences in the period in which the employee renders the service that increases entitlement. The Company measures the expected cost of compensated absence as the amount that the Company expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

o) Borrowing costs

Borrowing costs, which are directly attributable to the acquisition / construction of fixed assets, till the time such assets are ready for intended use, are capitalized as part of the cost of the assets. Borrowing cost includes interest and other cost including, amortization of ancillary borrowing costs. Interest on borrowings is expensed in the period to which they relate. Ancillary costs incurred in connection with the terms of borrowing are amortised over the tenure of the borrowing on straight line basis.

p) Benchmark linked debentures

The Company has issued certain secured redeemable non-convertible debentures, the return of which is linked to performance of specified indices / commodities over the period of the debenture. Such debentures have a component of an embedded derivative which is fair valued at year end. The resultant net unrealised loss or gain on the fair valuation of these embedded derivatives is recognised in the Statement of profit and loss. The debt component of such debentures is measured at amortised cost using yield to maturity basis.

q) Operating leases

Lease payments for assets taken on operating lease are charged in the Statement of profit and loss on a straight-line basis over the lease.

r) Earnings per share

Basic earnings per share ("EPS") is computed by dividing the net profit / (loss) attributable to the equity shareholders for the period by the weighted average number of equity shares outstanding during the reporting period. For the purpose of calculating diluted earnings per share, net profit after tax for the reporting period and the weighted average number of shares outstanding during the reporting period are adjusted for the effects of all dilutive potential equity shares. Dilutive potential equity shares are deemed to have been converted as of the beginning of the year, unless they have been issued at a later date.

s) Income tax

Income tax expense comprises current tax and deferred tax.

Current tax

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

KARVY FINANCIAL SERVICES LIMITED**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)**

(All amounts in Indian rupees, except share data where otherwise stated)

Deferred tax

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets.

Deferred tax assets are reviewed at each balance sheet date and is written-down or written up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred tax assets and deferred taxes relate to same taxable entity and same taxation authority.

t) Provisions and contingent liabilities

A provision is recognized if, as a result of a past event, the Company has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognized at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The provisions are measured on an undiscounted.

A contingent liability exists when there is a possible but not probable obligation, or a present obligation that may, but probably will not, require an outflow of resources, or a present obligation whose amount cannot be estimated reliably. Contingent liability do not warrant provisions, but are disclosed unless the possibility of outflow of resources is remote.

A contract is considered as onerous when the expected economic benefits to be derived by the Company from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision for an onerous contract is measured at the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the company recognises any impairment loss on the assets associated with that contract.

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note "2.1"
Share Capital

Particulars	As at March 31, 2018		As at March 31, 2017	
	Number of Shares	Amount	Number of Shares	Amount
Authorised				
Equity shares of ₹ 10 each	10,50,00,000	1,05,00,00,000	10,50,00,000	1,05,00,00,000
11% p.a. Compulsorily convertible cumulative preference shares ('CCCPS') of ₹ 10 each	10,00,00,000	1,00,00,00,000	10,00,00,000	1,00,00,00,000
	20,50,00,000	2,05,00,00,000	20,50,00,000	2,05,00,00,000
Issued, subscribed and fully paid-up				
Equity shares of ₹ 10 each	7,82,50,000	78,25,00,000	7,82,50,000	78,25,00,000
Total	7,82,50,000	78,25,00,000	7,82,50,000	78,25,00,000

(a) Reconciliation of shares outstanding at the beginning and at the end of the reporting year

Particulars	As at March 31, 2018		As at March 31, 2017	
	Number of Shares	Amount	Number of Shares	Amount
Equity shares				
At the commencement of the year	7,82,50,000	78,25,00,000	7,82,50,000	78,25,00,000
Issued during the year	-	-	-	-
Shares bought back during the year	-	-	-	-
At the end of the year	7,82,50,000	78,25,00,000	7,82,50,000	78,25,00,000

(b) The rights, preferences and restrictions attached to equity shares

The Company has single class equity shares having a par value of ₹ 10 per equity share. Accordingly, all equity shares rank equally with regard to dividends and share in the Company's residual assets. The equity shares are entitled to receive dividend as declared from time to time subject to payment of dividend to preference shareholders. In the event of liquidation of the Company, the holders of equity shares will be entitled to receive the residual assets of the Company, remaining after distribution of all preferential amounts in proportion to the number of equity shares held. Upon show of hands, every member present in person and holding any equity share capital therein, shall have one vote, in respect of such capital, on every resolution placed before the Company.

(c) Equity shares of ₹ 10 each fully paid up held by holding and their subsidiaries

Particulars	As at March 31, 2018		As at March 31, 2017	
	Number of Shares	Amount	Number of Shares	Amount
Karvy Stock Broking Limited - Holding Company	3,10,00,000	31,00,00,000	3,10,00,000	31,00,00,000
Karvy Holdings Limited (Subsidiary of Karvy Stock Broking Limited)	1,80,00,000	18,00,00,000	1,80,00,000	18,00,00,000
Karvy Realty (India) Limited (Subsidiary of Karvy Stock Broking Limited)	2,02,50,000	20,25,00,000	2,02,50,000	20,25,00,000
Karvy Forex and Currencies Private Limited (Subsidiary of Karvy Stock Broking Limited)	90,00,000	9,00,00,000	90,00,000	9,00,00,000
Total	7,82,50,000	78,25,00,000	7,82,50,000	78,25,00,000

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Particulars of shareholder holding more than 5% of equity shares of ₹ 10 each fully paid up is set below

Particulars	As at March 31, 2018		As at March 31, 2017	
	Number of Shares	Amount	Number of Shares	Amount
Karvy Stock Broking Limited	3,10,00,000	39.62%	3,10,00,000	39.62%
Karvy Holdings Limited	1,80,00,000	23.00%	1,80,00,000	23.00%
Karvy Realty (India) Limited	2,02,50,000	25.88%	2,02,50,000	25.88%
Karvy Forex and Currencies Private Limited	90,00,000	11.50%	90,00,000	11.50%
Total	7,82,50,000	100.00%	7,82,50,000	100.00%

(d) During the five financial years ended 31 March, 2018 no shares have been bought back and no shares have been issued for consideration other than cash.

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note "2.2"
Reserves and surplus

Particulars	As at March 31, 2018	As at March 31, 2017
Securities premium account		
At the commencement of the year	2,81,37,50,000	2,81,37,50,000
	<u>2,81,37,50,000</u>	<u>2,81,37,50,000</u>
Statutory reserve (created under Section 45-IC of the RBI Act, 1934)		
At the commencement of the year	31,85,89,191	31,85,89,191
Add: amount transferred @ 20%	2,35,16,977	-
	<u>34,21,06,168</u>	<u>31,85,89,191</u>
General reserve		
At the commencement of the year	10,22,22,103	10,22,22,103
	<u>10,22,22,103</u>	<u>10,22,22,103</u>
Surplus / (Deficit) in the statement of profit and loss		
At the commencement of the year	(6,75,96,499)	22,91,31,118
Add: profit for the year	11,75,84,883	(29,67,27,617)
Less: appropriations		
Transfer to statutory reserve @ 20%	2,35,16,977	-
	<u>2,64,71,407</u>	<u>(6,75,96,499)</u>
Total	<u>3,28,45,49,678</u>	<u>3,16,69,64,795</u>

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note “2.3”
Long-term borrowings

Particulars	As at March 31, 2018	As at March 31, 2017
Debentures		
Secured		
Redeemable non-convertible debentures (Refer note: 2.38)	-	2,90,00,000
	-	2,90,00,000
Unsecured		
Redeemable non-convertible debentures (Refer note: 2.38)	30,00,00,000	30,00,00,000
	30,00,00,000	30,00,00,000
Term loans		
Secured		
From banks (Refer note: 2.34)	1,15,19,39,682	8,20,69,12,561
From others (Refer note: 2.34)	-	32,50,00,000
	1,15,19,39,682	8,53,19,12,561
Total	1,45,19,39,682	8,86,09,12,561

Note “2.4”
Other long-term liabilities

Particulars	As at March 31, 2018	As at March 31, 2017
Interest accrued but not due on borrowings	-	44,87,348
Total	-	44,87,348

Note “2.5”
Long-term provisions

Particulars	As at March 31, 2018	As at March 31, 2017
Provision for employee benefits		
Gratuity (Refer note: 2.40)	14,87,926	77,62,786
Compensated absences	3,60,232	45,89,288
	18,48,158	1,23,52,074
Other provisions		
Contingent provisions against standard assets (Refer note: 2.28)	43,31,043	3,38,63,619
Provision for non performing assets (Refer note: 2.28)	25,45,85,509	42,00,25,154
	25,89,16,552	45,38,88,773
	26,07,64,710	46,62,40,847

During the previous year, pursuant to a review of loan accounts, based on qualitative factors, the management had identified certain loan accounts that have been demonstrating signs of stress as NPA, although their overdues are within the quantitative thresholds for NPA identification as per the RBI guidelines. The Company had made appropriate provisions in respect of such assets. The provisions for NPA also included an amount of ₹ 4,12,80,091 pertaining to earlier period in respect of NPA accounts that were sold in earlier periods under bilateral arrangements. Also, refer note 2.28.

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note "2.6"
Short-term borrowings

Particulars	As at March 31, 2018	As at March 31, 2017
Loans repayable on demand		
Secured		
Cash credit from banks (Refer note: 2.35)	8,98,05,258	40,56,66,958
	8,98,05,258	40,56,66,958
Unsecured		
From others		
Commercial papers (Refer note: 2.37)	-	25,00,00,000
Working capital demand loan (Refer note: 2.36)	13,87,45,621	26,82,50,000
	13,87,45,621	51,82,50,000
Total	22,85,50,879	92,39,16,958

Note "2.7"
Trade Payables

Particulars	As at March 31, 2018	As at March 31, 2017
Trade payable		
Due to micro and small enterprises (Refer note: 2.39)	-	-
To others	65,59,633	2,80,78,400
Total	65,59,633	2,80,78,400

Note "2.8"
Other current liabilities

Particulars	As at March 31, 2018	As at March 31, 2017
Current maturity of long-term debts from banks -secured (Refer note: 2.34)	44,16,66,667	4,69,00,85,694
Current maturity of long-term debts from others - secured (Refer note: 2.34)	-	10,00,00,000
Current maturity of redeemable non-convertible debentures - secured (Refer note: 2.38)	2,90,00,000	-
Book overdraft	-	37,93,935
Refundable to customers	1,66,66,111	-
Interest accrued but not due on borrowings	1,66,80,842	5,51,94,175
	50,40,13,620	4,84,90,73,804
Other payables		
Salaries and other liabilities	1,18,31,206	44,13,516
Leave travel allowance payable	2,73,914	10,10,677
Accrued expenses	3,28,46,715	4,29,78,822
Statutory liabilities	51,56,965	91,39,064
Others	49,26,589	23,49,882
	5,50,35,389	5,98,91,961
Total	55,90,49,009	4,90,89,65,765

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note "2.9"
Short-term provisions

Particulars	As at March 31, 2018	As at March 31, 2017
Provision for employee benefits		
Gratuity (Refer note: 2.40)	65,377	2,68,002
Compensated absences	5,95,209	32,89,265
	6,60,586	35,57,267
Other provisions		
Contingent provisions against standard assets (Refer note: 2.28)	54,71,288	1,51,83,193
Obligation toward potential NPA losses for portfolio transferred under the BTA (Refer note: 2.50)	3,35,42,596	-
Provision for others (Refer note : 2.25)	61,56,000	-
	4,51,69,884	1,51,83,193
Total	4,58,30,470	1,87,40,460

KARVY FINANCIAL SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note "2.10"

Property, plant and equipment

As at March 31, 2018

Description	Gross Block					Depreciation					Net book value	
	As at April 01, 2017	Additions	Transfer pursuant to BTA*	Deletions	As at March 31, 2018	As at April 01, 2017	For the year	Transfer pursuant to BTA*	Deletions	As at March 31, 2018	As at March 31, 2018	As at March 31, 2018
Computer and related assets	3,43,24,789	11,33,742	3,30,77,442	-	23,81,089	2,76,09,830	26,38,631	2,88,53,249	-	13,95,212	9,65,877	
Furniture and fixtures	5,82,62,939	55,66,074	5,82,62,948	-	55,66,065	1,91,81,716	29,48,622	2,20,23,591	-	1,06,747	54,59,318	
Motor car	54,14,865	-	20,46,909	-	33,67,956	11,68,192	5,47,174	4,83,981	-	12,31,385	21,36,571	
Office equipment	2,97,69,899	33,80,120	3,04,44,125	-	27,05,894	1,93,12,714	40,39,711	2,30,59,125	-	2,93,300	24,12,594	
Total	12,77,72,492	1,00,79,936	12,38,31,424	-	1,40,21,004	6,72,72,452	1,01,74,138	7,44,19,946	-	30,26,644	1,09,94,360	

As at March 31, 2017

Description	Gross Block					Depreciation					Net book value	
	As at April 01, 2016	Additions	Deletions	As at March 31, 2017	As at April 01, 2016	For the year	Deletions	As at March 31, 2017	As at March 31, 2017	As at March 31, 2017	As at March 31, 2017	As at March 31, 2017
Computer and related assets	3,11,31,451	31,93,338	-	3,43,24,789	2,24,96,225	51,13,605	-	2,76,09,830	67,14,959	2,76,09,830	67,14,959	
Furniture and fixtures	5,39,02,036	45,47,171	1,86,268	5,82,62,939	1,33,38,487	59,29,087	85,858	1,91,81,716	3,90,81,223	1,91,81,716	3,90,81,223	
Motor car	1,08,55,422	54,700	54,95,257	54,14,865	11,84,412	8,72,255	8,88,475	11,68,192	42,46,673	11,68,192	42,46,673	
Office equipment	2,77,38,198	21,91,941	1,60,240	2,97,69,899	1,36,32,895	57,44,698	64,879	1,93,12,714	1,04,57,185	1,93,12,714	1,04,57,185	
Total	12,36,27,107	99,87,150	58,41,765	12,77,72,492	5,06,52,019	1,76,59,645	10,39,212	6,72,72,452	6,05,00,040	6,72,72,452	6,05,00,040	

KARVY FINANCIAL SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note "2.11"

Intangible assets

Description	Gross Block					Amortisation				Net book value	
	As at April 01, 2017	Additions	Transfer pursuant to BTA*	Deletions	As at March 31, 2018	For the year	Transfer pursuant to BTA*	Deletions	As at March 31, 2018	As at March 31, 2018	
Product process handling software	12,44,12,167	-	10,14,91,997	-	2,29,20,170	1,43,04,882	8,96,60,213	-	2,25,77,037	3,43,133	
Total	12,44,12,167	-	10,14,91,997	-	2,29,20,170	1,43,04,882	8,96,60,213	-	2,25,77,037	3,43,133	
Previous year	11,22,42,192	1,21,69,975	-	-	12,44,12,167	1,15,28,746	-	-	9,79,32,368	2,64,79,800	

Note "2.12"

Intangible assets under development

Description	As at April 01, 2017	Additions	Transfer pursuant to BTA*	Capitilised during the year	As at March 31, 2018
Software development	25,96,500	-	25,96,500	-	-
Total	25,96,500	-	25,96,500	-	-
Previous year	60,73,552	-	-	34,77,052	25,96,500

* Refer note 2.50 on BTA for details of the assets transferred.

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note “2.13”
Non-current investments

Particulars	As at March 31, 2018	As at March 31, 2017
Investment in equity instruments (valued at cost unless stated other wise)		
40 Equity shares of Bandhan Bank Limited of ₹ 10 each fully paid up (previous year : Nil)	15,000	-
490 Equity shares of Bharat Dynamics Limited of ₹ 10 each fully paid up (previous year : Nil)	2,09,720	-
875 Equity shares of Bharat Road Network Limited of ₹ 10 each fully paid up (previous year : Nil)	1,79,375	-
60 Equity shares of Capacite Infraprojects Limited of ₹ 10 each fully paid up (previous year : Nil)	15,000	-
8 Equity shares of Dixon Technologies (India) Limited of ₹ 10 each fully paid up (previous year : Nil)	14,128	-
336 Equity shares of Eris Lifesciences Limited of ₹ 1 each fully paid up (previous year : Nil)	2,02,608	-
32 Equity shares of Godrej Agrovet Limited of ₹ 10 each fully paid up (previous year : Nil)	14,720	-
60 Equity shares of HDFC Standard Life Insurance Company Limited of ₹ 10 each fully paid up (previous year : Nil)	17,400	-
41 Equity shares of ICICI Lombard General Insurance Company Limited of ₹ 10 each fully paid up (previous year : Nil)	27,101	-
700 Equity shares of ICICI Securities Limited of ₹ 5 each fully paid up (previous year : Nil)	3,64,000	-
34 Equity shares of Mahindra Logistics Limited of ₹ 10 each fully paid up (previous year : Nil)	14,586	-
32 Equity shares of MAS Financial Services Limited of ₹ 10 each fully paid up (previous year : Nil)	14,688	-
210 Equity shares of Matrimony.com Limited of ₹ 5 each fully paid up (previous year : Nil)	2,06,850	-
15 Equity shares of Prataap Snacks Limited of ₹ 5 each fully paid up (previous year : Nil)	14,070	-
59 Equity shares of Reliance Nippon Life Asset Management Limited of ₹ 10 each fully paid up (previous year : Nil)	14,868	-
158 Equity shares of Security & Intelligence Services Limited of ₹ 10 each fully paid up (previous year : Nil)	1,28,770	-
32 Equity shares of Shankara Building Products Limited of ₹ 10 each fully paid up (previous year : Nil)	14,720	-
	14,67,604	-
Investments in security receipts (Refer note: 2.49)	39,10,00,000	39,10,00,000
Total	39,24,67,604	39,10,00,000
Quoted non-current investments (equity instruments)		
Aggregate book value	14,67,604	-
Aggregate market value	15,95,439	-
Investment in security receipts		
Particulars		
1) Value of investments		
(i) Gross value of investments		
(a) In India	39,10,00,000	39,10,00,000
(b) Outside India	-	-
(ii) Provisions for depreciation		
(a) In India	-	-
(b) Outside India	-	-
(iii) Net Value of investments		
(a) In India	39,10,00,000	39,10,00,000
(b) Outside India	-	-
2) Movement of provisions held towards depreciation on investments		
(i) Opening balance	-	-
(ii) Add : Provisions made during the year	-	-
(iii) Less : Write-off / write-back of excess provisions during the year	-	-
(iv) Closing balance	-	-

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note “2.14”
Long-term loans and advances

Particulars	As at March 31, 2018	As at March 31, 2017
Loan portfolio		
Secured, considered good#	99,94,26,711	9,67,44,30,444
Secured, considered doubtful*	67,39,67,290	2,16,57,61,536
Unsecured, considered good#	5,84,625	8,89,319
Unsecured, considered doubtful*	2,55,947	35,91,738
	1,67,42,34,573	11,84,46,73,037
Other long-term loans and advances		
Capital advances	1,73,805	2,80,805
Security deposits	-	4,58,46,787
Advance income tax (net of provision for tax)	11,80,60,463	4,13,76,967
GST input credit	5,46,57,482	3,41,67,537
Prepaid expenses	80,48,431	4,53,00,753
	18,09,40,181	16,69,72,849
Total	1,85,51,74,754	12,01,16,45,886

* Doubtful asset represents non-performing assets as per RBI guidelines (Refer note: 2.28)

Refer note: 2.28

Refer note 2.50 for the loans transferred on account of BTA.

Note “2.15”
Cash and bank balances

Particulars	As at March 31, 2018	As at March 31, 2017
Cash and cash equivalents		
Cash on hand	9,624	1,65,33,599
Balance with banks		
Current accounts #	2,10,24,98,207	62,68,40,916
Other bank balances		
Bank deposits with less than 12 months maturity*	2,88,885	10,45,245
Total	2,10,27,96,716	64,44,19,760

Includes cheques in hand to the extent of ₹ 7,00,00,000 (Previous year ₹ Nil).

*Includes of ₹ Nil (Previous Year: ₹ 5,25,000) lien marked with various Government authorities.

Details of bank balances

Current account balances with bank	2,10,24,98,207	62,68,40,916
Bank deposits due to mature within 12 months of the reporting date included under 'Other bank balances'	2,88,885	10,45,245
Bank deposits due to mature after 12 months of the reporting date	-	-
Total	2,10,27,87,092	62,78,86,161

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note “2.16”
Short-term loans and advances

Particulars	As at March 31, 2018	As at March 31, 2017
Loans and advances to related parties		
Unsecured, considered good		
Inter corporate deposits (Refer note: 2.33)	90,00,00,000	-
Other advances (Refer note: 2.33)	80,48,700	29,50,077
	90,80,48,700	29,50,077
Loans and advances to others		
Loan portfolio		
Secured, considered good (Refer note: 2.28)	46,78,42,833	4,33,75,60,391
Unsecured, considered good (Refer note: 2.28)	-	4,94,577
	46,78,42,833	4,33,80,54,968
Other advances		
Inter corporate deposits	-	76,35,00,000
Receivable from Small Business FinCredit India Private Limited, held in escrow account, (Refer note: 2.50)	40,54,84,677	-
Prepaid expenses	27,34,671	3,77,62,441
Staff advances	89,666	16,66,110
Security deposits	1,45,47,663	-
Other advances	8,34,526	1,75,65,505
	42,36,91,203	82,04,94,056
Total	1,79,95,82,736	5,16,14,99,101

Note “2.17”
Other current assets

Particulars	As at March 31, 2018	As at March 31, 2017
Assets held for Sale*	29,55,42,925	29,55,42,925
Unamortised interest cost on commercial papers		
Unsecured considered good	-	38,57,811
Interest accrued		
on loan portfolio	5,90,17,905	39,44,83,852
on debt securities	-	6,52,588
on bank deposits	16,397	-
	5,90,34,302	39,51,36,440
Total	35,45,77,227	69,45,37,176

* The Company has taken legal ownership of property in lieu of repayment from customers and intends to liquidate the same for realisation of dues.

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note “2.18”
Revenue from operations

Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
Interest income on		
Loan portfolio	1,10,95,17,513	2,65,29,52,023
Inter corporate deposit	30,80,57,870	5,64,11,171
	1,41,75,75,383	2,70,93,63,194
Fee and other operating income	5,36,31,821	9,19,64,773
Other operating income		
Fixed deposits with banks	1,49,784	1,54,504
Profit on sale of long-term investments	-	1,70,334
Total	1,47,13,56,988	2,80,16,52,805

Note “2.19”
Other income

Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
Interest on income tax refund	53,241	9,69,560
Profit on sale of futures and options (Refer note: 2.41)	14,60,815	-
Total	15,14,056	9,69,560

Note “2.20”
Operating expenses

Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
Direct selling agent commission	3,01,303	1,52,80,229
Outsource cost	1,80,80,612	4,32,31,726
Postage and communication	50,42,867	1,17,71,434
Business promotion expenses / lead generation, net	98,53,955	1,96,01,881
Contingent provisions against standard assets (Refer note: 2.28)	(70,68,119)	(1,71,43,460)
Provision against non-performing assets, net	(15,81,60,074)	34,33,06,503
Provision for other portfolio (Refer note: 2.50)	2,24,49,132	-
Loans written off (Refer note 2.28)	2,34,88,51,795	2,62,41,254
Printing and stationery	29,87,875	69,39,725
Total	2,24,23,39,346	44,92,29,292

Note “2.21”
Employee benefits expense

Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
Salaries, wages and bonus	21,21,67,833	32,43,48,092
Contribution to provident fund and other fund (Refer note: 2.40)	1,15,81,557	2,19,15,286
Staff welfare expenses	27,97,372	51,01,768
Total	22,65,46,762	35,13,65,146

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note “2.22”
Finance costs

Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
Interest expenses	88,05,64,416	2,03,23,40,450
Interest expense on non-convertible debentures	5,16,12,252	65,60,125
Other borrowing cost	18,73,94,445	6,73,61,674
Total	1,11,95,71,113	2,10,62,62,249

Note “2.23”
Depreciation and amortisation

Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
Depreciation on property, plant and equipment (Refer note: 2.10)	1,01,74,138	1,76,59,645
Amortisation on intangible assets (Refer note: 2.11)	1,43,04,882	1,15,28,746
Total	2,44,79,020	2,91,88,391

Note “2.24”
Other expenses

Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
Rent (Refer note: 2.29)	3,70,93,182	6,11,21,106
Legal and professional charges (Refer note 2.26)	12,88,14,405	8,47,49,996
Loss on benchmark linked debentures (Refer note: 2.41)	-	1,88,410
Office maintenance	2,29,63,347	3,95,46,058
Rates and taxes	3,44,91,630	2,75,04,594
Repairs and maintenance - others	1,01,82,989	1,78,66,362
Security deposits written off	80,45,300	-
Travelling and conveyance	1,00,09,066	2,30,11,162
Electricity charges	61,78,521	1,05,83,809
Insurance	20,62,936	69,37,256
Corporate social responsibility (Refer note: 2.44)	1,52,20,330	25,00,000
Miscellaneous expenses	24,72,452	10,40,899
Total	27,75,34,158	27,50,49,652

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note “2.25”
Commitments and contingent liabilities (to the extent not provided for)

Sl.No.	Particulars	As at March 31, 2018	As at March 31, 2017
1.	Potential penal charges for delay in holding Annual General Meeting pending disposal of the application for compounding of offences made by the Company	16,65,000	-
2.	Potential liability that may arise on account of certain non-compliance with Sections 11 and 11B of the Securities and Exchange Board of India Act, 1992 read with Regulation 32 of SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 2011 (Regulations) pending disposal of an appeal filed by the Company before the Securities Appellate Tribunal against the said order dated 27 October 2016 from SEBI	-	1,29,22,084
3.	Other commitments #	78,48,000	-

Note:

The amount included above represents the best possible estimates arrived at on the basis of available information.

The Company has a process whereby periodically all long-term contracts are assessed for material foreseeable losses. At the year end, the Company has reviewed and ensured that adequate provisions (if any) required under any law / accounting standard / RBI regulation for material foreseeable losses on such long-term contracts has been made in the books of account.

Upon rejection of the appeal filed by the Company before Securities Appellate Tribunal, and in strict compliance of the order received from SEBI, the Company have made provision for the expected penal interest cost and expected loss on the investment involved to the extent of ₹ 61,56,000 and has disclosed the expected cost involved in acquisition of the investments as other commitments of ₹ 78,48,000.

Note “2.26”
Auditors remuneration (excluding taxes):

Sl.No.	Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
1.	Audit fee	22,50,000	37,00,000
2.	Other services (limited review and certification)	2,00,000	8,34,200
3.	Out of pocket expenses	7,84,220	2,34,323
	Total	32,34,220	47,68,523

Note “2.27”
Segmental reporting:
1. Business segment:

The company is engaged in secured lending business. Accordingly there is no reportable segment to be disclosed as required by Accounting Standard 17 ‘Segment Reporting’.

Refer note 2.50 for undertaking transferred during the current year.

2. Geographical segment:

During the year, the Company has engaged in its business within India. The conditions prevailing in India being uniform, no separate geographical disclosure is considered necessary.

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note “2.28”
Interest income on portfolio, Standard asset provision and non-performing asset provision:
1) Provision as at

Asset classification	As at March 31, 2018		As at March 31, 2017	
	Loan portfolio	Provision	Loan portfolio	Provision
Standard asset *	2,36,78,54,169	98,02,331	14,01,33,74,731	4,90,46,812
Sub-standard asset	67,42,23,237	25,45,85,509	2,16,93,53,274	42,00,25,154
Total	3,04,20,77,406	26,43,87,840	16,18,27,28,005	46,90,71,966

* Standard assets provisions include provisions on intercorporate deposits.

Particulars	As at March 31, 2018	As at March 31, 2017
Standard asset provision		
Short-term provision	54,71,288	1,51,83,193
Long-term provision	43,31,043	3,38,63,619
Total	98,02,331	4,90,46,812
Sub-standard asset Provision		
Long-term provision	25,45,85,509	42,00,25,154
Total	25,45,85,509	42,00,25,154

2) Movement in provision during the year ended March 31, 2018 is given below:

Particulars	Standard asset provision	Sub-standard asset provision	Total
Balance as at April 01, 2017	4,90,46,812	42,00,25,154	46,90,71,966
Additions / (Deletion) during the year *	(3,92,44,481)	(16,54,39,645)	(20,46,84,126)
Balance as at March 31, 2018	98,02,331	25,45,85,509	26,43,87,840
* It includes balance transferred on account of BTA transaction during the year	3,21,76,363	72,79,571	3,94,55,934

Movement in provision during the year ended March 31, 2017 is given below:

Particulars	Standard asset provision	Sub-standard asset provision	Total
Balance as at April 01, 2016	6,61,90,272	7,67,18,651	14,29,08,923
Additions during the year	(1,71,43,460)	34,33,06,503	32,61,63,043
Balance as at March 31, 2017	4,90,46,812	42,00,25,154	46,90,71,966

3. During the previous year, certain deficiencies were identified by the Company in the internal control environment, which, inter alia included the lack of sufficient audit trail and backup of electronic data which may be necessary for the demonstration of timing and sequencing of transactions in certain categories of loans and approvals thereof and timely determination of adequate provision for NPAs in such category of loans. In response to the above, management had carried out a review of loan accounts outstanding as at March 31, 2017. On the basis of such review, management believes that whilst the above deficiencies in control are not expected to have a material impact on these financial statements, that, there is lack of sufficient audit trail, back up of electronic data etc. in demonstration of the impact thereof. During the current year management has taken necessary steps to address the aforesaid deficiencies in the internal control environment of the Company.

4. During the year ended March 31, 2018, the Company has written off certain identified loan portfolio amounting to ₹ 2,348,851,795. These loan portfolio has been identified based on the qualitative assessment made by the management considering delinquency, status of legal cases, quality of security available with the Management.

5. Based on the qualitative assessment carried out by the management, the provision on the portfolio has been made at increased rate compared to norms prescribed by the RBI, considering delinquency and its early signs of stressed assets.

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note “2.29”
Operating Leases

Lease payments relating to non cancellable operating leases amounting to ₹ NIL (previous year ₹ 3,42,91,389) and cancellable operating lease amounting to ₹ 3,70,93,182/- (previous year ₹ 2,68,29,717) has been charged to the Statement of profit and loss.

The total future minimum lease payments under non-cancellable leases are as follows:

Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
Due within one year	-	3,16,57,038
Due between one to five years	-	2,01,13,928
Total	-	5,17,70,966

Note “2.30”
Deferred taxation

The deferred tax asset, net as at the year-end comprises of:

Particulars	As at March 31, 2018	As at March 31, 2017
Deferred tax asset		
Employee benefits	8,68,226	55,05,905
Provision for outstanding loan portfolio	9,14,99,344	16,23,36,426
Excess of depreciation provided in accounts over depreciation allowable under the Income Tax Act	-	2,86,540
Other timing differences	1,16,08,423	-
Total	10,39,75,993	16,81,28,871
Deferred tax liability		
Excess of depreciation provided in accounts over depreciation allowable under the Income Tax Act	1,68,462	-
Total	1,68,462	-
Deferred tax assets, net	10,38,07,531	16,81,28,871

Note “2.31”
Expenditure and income in foreign currency (on accrual basis):
1. Expenditure in foreign currency

Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
Professional fees	-	9,76,782
Total	-	9,76,782

2. Income in foreign currency

The Company does not have earnings in foreign currency in current financial year and previous financial year.

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note “2.32”
Earnings per share (EPS)

Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
Earnings		
Profit / (loss) after tax	11,75,84,883	(29,67,27,617)
Shares		
Number of shares at the beginning and end of the year	7,82,50,000	7,82,50,000
Earnings per share – basic	1.50	(3.79)
Earnings per share – diluted	1.50	(3.79)

Note “2.33”
Related party disclosures
1. List of related party

Name of the party	Nature of relationship
Parties where control exists	
Karvy Stock Broking Limited	Holding Company
Key management personnel	
Mr. Yogesh Gaat	CEO and Managing Director (w.e.f. December 26, 2016)
Mr. M. Yugandhar	Director
Mr. V. Mahesh	Director
Mr. B. D. Narang	Independent Director
Ms. Jyothi Prasad	Independent Director
Mr. G. Krishna Hari	Director
Mr. Amrish Hasmukhlal Shah	Chief Financial Officer (w.e.f. March 07, 2018)
Mr. Mayank Thatte	Chief Financial Officer (till December 27, 2017)
Ms. Meenal Talesara	Company Secretary
Fellow subsidiaries – other related parties where transactions exists	
Karvy Comtrade Limited	Fellow subsidiary
Karvy Capital Limited	Fellow subsidiary
Karvy Holdings Limited	Fellow subsidiary and shareholder
Karvy Data Management Services Limited	Fellow subsidiary and any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager
Karvy Consultants Limited director	A body corporate accustomed to act in accordance with the advice, directions or instructions of a director
Karvy Analytics Limited	Common director
Karvy Computershare Private Limited	Director is director in a private company
Karvy Digikonnnect Limited	Fellow subsidiary

(Related parties identified includes related parties as per section 2(76) of the Companies Act, 2013.)

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

2. Related party transactions:

Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
Inter Corporate Deposit (ICD) given to (net)		
Karvy Digikonnnect Limited	20,00,00,000	-
Karvy Stock Broking Limited	3,76,70,00,000	3,44,67,00,000
Karvy Data Management Services Limited	3,19,47,00,000	30,00,00,000
Karvy Holdings Limited	34,30,00,000	-
ICD repaid by		
Karvy Stock Broking Limited	3,26,70,00,000	3,69,67,00,000
Karvy Data Management Services Limited	2,99,47,00,000	30,00,00,000
Karvy Consultants Limited	-	10,00,00,000
Karvy Holdings Limited	34,30,00,000	-
Reimbursement of expenses/others (net)*		
Karvy Computershare Private Limited	20,78,493	20,72,221
Karvy Stock Broking Limited	87,99,030	(3,12,66,269)
Karvy Capital Limited	-	(10,491)
Karvy Comtrade Limited	1,035	-
Karvy Data Management Services Limited	57,92,611	6,01,873
Professional fees		
Karvy Stock Broking Limited	21,64,000	-
Karvy Analytics Limited	13,08,333	-
Interest income on ICD		
Karvy Consultants Limited	-	89,87,673
Karvy Stock Broking Limited	9,83,80,344	4,48,89,934
Karvy Digikonnnect Limited	1,31,67,194	-
Karvy Holdings Limited	4,70,468	-
Karvy Data Management Services Limited	8,17,15,043	25,33,564
Interest expense on ICD		
Karvy Stock Broking Limited	-	17,80,727

3. Related party balances:

Particulars	As on March 31, 2018	As on March 31, 2017
Other advances		
Karvy Comtrade Limited	-	3,109
Karvy Stock Broking Limited (Trading)	37,42,809	-
Karvy Stock Broking Limited	31,64,170	9,68,951
Karvy Data Management Services Limited	11,38,646	19,78,017
Trade payable/(receivable)		
Karvy Analytics Limited	1,35,000	-
Karvy Computershare Private Limited	13,44,870	1,80,523
Karvy Comtrade Limited	35	-
Karvy Capital Limited	-	10,491
Security deposits		
Karvy Consultants Limited	5,00,000	5,00,000
Inter Corporate deposit receivable		
Karvy Digikonnnect Limited	20,00,00,000	-
Karvy Stock Broking Limited	50,00,00,000	-
Karvy Data Management Services Limited	20,00,00,000	-

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

4. Related party transaction and balances with Key Managerial Personnel

Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
Managerial remunerations		
Managing Director & CEO	1,26,05,255	1,20,67,848
Chief Financial Officer	48,19,540	23,50,135
Company Secretary	13,28,215	10,45,000
Director sitting fees		
Mr. M. Yugandhar	9,00,000	9,40,000
Mr. V. Mahesh	4,50,000	3,90,000
Mr. Bhagwan Das Narang	9,75,000	9,75,000
Ms. Jyothi Prasad	9,00,000	9,65,000
Mr. G. Krishna Hari	3,00,000	3,75,000

The managerial personnel are covered by the Company's gratuity policy and are eligible for compensated absences along with other employees of the Company. The proportionate amount of gratuity and compensated absences cost pertaining to managerial remuneration have not been included in the aforementioned disclosures as these are not determined on individual basis.

Karvy Stock Broking Limited, the holding company has given corporate guarantee for the term loans, cash credit facilities and working capital demand loans availed by the Company from the banks. (Refer note 2.3, 2.6, 2.34, 2.35 and 2.36).

*Reimbursement of expenses includes cost shared towards infrastructure cost with the holding Company.

Details of movement of inter corporate deposits given during 2017-18

Particulars	Karvy Stock Broking Limited	KarvyDigikconnect Limited	Karvy Data Management Services Limited	Karvy Holding Limited
As at beginning of the year	-	-	-	-
Given during the year	3,76,70,00,000	20,00,00,000	3,19,47,00,000	34,30,00,000
Received during the year	3,26,70,00,000	-	2,99,47,00,000	34,30,00,000
As at end of the year	50,00,00,000	20,00,00,000	20,00,00,000	-

Details of movement of inter corporate deposits given during 2016-17

Particulars	Karvy Stock Broking Limited	Karvy Consultants Limited	Karvy Data Management Services Limited
As at beginning of the year	25,00,00,000	10,00,00,000	-
Given during the year	3,44,67,00,000	-	30,00,00,000
Received during the year	3,69,67,00,000	10,00,00,000	30,00,00,000
As at end of the year	-	-	-

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note “2.34”
Terms of the long-term secured borrowings from banks and others:
(a) Terms of the long-term secured borrowings from banks as at March 31, 2018

Nature of Facility	Amount Outstanding		Interest rates range	Terms of repayment (No. of instalments)
	Current	Non-current		
Term-loan (Secured by first pari passu charge by way of Hypothecation of loan receivables of the company on pari-pasu basis with the other Lenders).	12,50,00,000*	21,86,54,993*	Base Rate + 1.7% to 2% Above Base Rate	16 Quarterly
	6,66,66,667*	18,33,33,337*		24 Quarterly
	25,00,00,000*	74,99,51,352*	MCLR + 1.90% i.e.	16 Quarterly
Total	44,16,66,667	1,15,19,39,682		

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

(b) Terms of the long-term secured borrowings from banks as at March 31, 2017

Nature of Facility	Amount Outstanding		Interest rates range	Terms of repayment
	Current	Non-current		
Term Loan(Secured by first pari passu charge by way of Hypothecation of loan receivables of the company on pari- pasu basis with the other Lenders).	50,00,00,000#	1,50,00,00,000#	* Base Rate + 1.50% to 2.85%p.a. # MCLR + 1.90% to 2.90%p.a.	8 Half Yearly**
	37,50,00,000*	18,71,44,542*		16 Quarterly**
	8,33,00,000#	41,67,00,000#		6 Half-yearly**
	3,12,50,000#	46,85,88,636#		16 Quarterly**
	12,50,00,000*	37,47,77,814*		16 Quarterly**
	12,50,00,000*	34,34,94,468*		16 Quarterly
	33,75,00,000#	41,17,52,311#		6 Quarterly**
	25,00,00,000*	43,69,17,256*		16 Quarterly**
	6,66,66,667*	28,33,31,225*		24 Quarterly
	-	1,00,00,00,000#		16 Quarterly
	6,15,38,462*	7,69,23,077*		13 Quarterly**
Term-loan (Secured by first pari passu charge on the standard assets portfolio receivables pertaining to loan against commodities, loan against property and loan against gold.)	20,00,00,000*	35,00,00,000*		20 Quarterly**
	25,00,00,000*	36,80,27,109*		8 Half-yearly**
	25,00,00,000*	12,50,00,000*		4 Half-yearly**
	25,00,00,000#	12,16,16,096#		4 Half-yearly**
	16,68,00,000#	16,58,40,901#		6 Half-yearly**
	12,50,00,000#	12,50,00,000#		16 Quarterly**
	8,33,33,333*	16,64,96,362*		6 Half-yearly**
	16,66,66,666#	8,31,24,039#		6 Half-yearly**
	24,94,19,396*	-		4 Half-yearly**
	12,45,02,942*	-		4 Half-yearly**
8,33,33,334*	-		12 Quarterly**	
Term-loan (Secured by first Pari Passu charge on performing loan receivables pertaining to loan against property, loan against gold of the company).	8,58,00,000*	171,342,857*		7 Half-yearly**
	12,50,00,000*	31,22,84,559*		8 Half Yearly**
Term-loan First pari pasu charge by way of hypothecation on the standard assets of the borrower (excluding receivable pertaining to capital market exposure).	8,33,33,335*	14,58,33,820*		12 Quarterly**
	7,27,27,273#	7,27,27,273#		11 Quarterly**
Term-loan(Secured by Hypothecation charge on eligible loan receivables other than the loan against commodity and loan against shares etc. on pari passu basis {net of advances, financials, charges and NPA}).	8,57,14,286#	-		7 Quarterly**
	33,32,00,000#	49,99,90,216#		6 Half-yearly**
Total	4,69,00,85,694	8,20,69,12,561		

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

(c) Terms of the long-term secured borrowings from others:

Particulars	As at March 31, 2018		As at March 31, 2017	
	Current	Non-Current	Current	Non-Current
1. Term Loan** (Secured by first pari passu charge on standard assets portfolio of receivable excluding receivable pertaining to capital market exposure)	-	-	10,00,00,000	32,50,00,000
Total	-	-	10,00,00,000	32,50,00,000

** Preclosed by utilising the proceeds received on sale of business during the year. Refer Note 2.50

Terms of repayment:

20 quarterly installments carries an interest of prime lending rate -0.60% i.e. 11.15% p.a.

Note "2.35"
Terms of the secured cash credits and working capital demand loan from banks (included in short-term borrowings)
As at March 31, 2018

Nature of Facility	Amount Outstanding	Interest rates range	Terms of repayment
1. Cash Credit (Secured by first pari passu charge on the standard assets portfolio of receivables excluding receivables pertaining to capital market exposure.)	8,98,05,258*	Base Rate + 2.15% p.a.	Repayable on demand

As at March 31, 2017

Nature of Facility	Amount Outstanding	Interest rates	Terms of repayment
1. Cash Credit (Secured by first pari passu charge on the standard assets portfolio of receivables excluding receivables pertaining to capital market exposure.)	1,76,21,192*	*Base rate + 2.25% p.a. to 2.50% p.a.	Repayable on demand
	14,89,49,573*		
	1,63,75,931#		
	5,96,98,494#		
2. Cash Credit (Secured by hypothecation of the specific current assets including loan receivables and other current assets and excluding the current assets not eligible to be financed under RBI guidelines)	16,30,21,768*	#MCLR +1.95% p.a. to 2.40% p.a.	
Total	40,56,66,958		

* Above mentioned borrowings from banks are secured by corporate guarantee issued by the holding company except as stated below.

Corporate guarantee not provided.

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note “2.36”
Terms of the unsecured borrowings from other parties:
As at March 31, 2018

Nature of Facility	Amount Outstanding		Interest rates range	Terms of repayment
	Short-term	Long-term		
1. Line of credit against loan portfolio against shares	13,87,45,621	-	11.50% to 12.50% p.a	Repayable on demand
Total	13,87,45,621	-		

As at March 31, 2017

Nature of Facility	Amount Outstanding		Interest rates range	Terms of repayment (No. of instalments)
	Short-term	Long-term		
1. Line of credit against loan portfolio against shares	2,60,00,000	-	11.50% to 12.50% p.a	Repayable on demand
	1,53,50,000	-		
	22,69,00,000	-		
Total	26,82,50,000	-		

Note “2.37”
Commercial paper

- The Company has not issued any commercial paper during the financial year 2017-2018.
- The Company issued commercial papers at a face value of ₹ 5,00,000 per unit. Balance outstanding as at March 31, 2017 is as given below:

Issue Date	Maturity Date	Tenor (in days)	Amount	Unamortized Interest Cost	Outstanding balance
February 27, 2017	May 26, 2017	88	25,00,00,000	38,57,811	24,61,42,189
Total			25,00,00,000	38,57,811	24,61,42,189

The above commercial papers carry interest rates at 10.50% per annum.

Note “2.38”
Terms of secured redeemable and unsecured redeemable non-convertible debentures:
A. Break up of secured debentures as at March 31, 2018

Sl.No.	Series of issue	Date of allotment	Date of redemption	As at March 31, 2018	As at March 31, 2017
1	B43 - Type I	January 06, 2015	June 29, 2018	1,20,00,000	1,20,00,000
2	B45 - Type II	February 10, 2015	June 05, 2018	1,70,00,000	1,70,00,000
Total				2,90,00,000	2,90,00,000

Notes:

- It includes current maturities of secured redeemable non-convertible debentures amounting to ₹ 2,90,00,000 (previous year ₹ Nil) grouped under other current liabilities (Refer note 2.8)
 - The Coupon (interest) on debentures are based on the movement of gold price and S&P CNX Nifty Index as the underlying reference asset price.
 - Security clause in respect to Secured Debentures: The debentures along with coupon (interest) are secured by way of floating charge on the loan against share portfolio of the Company, ranking pari passu amongst the debenture holders along with other lenders with a minimum asset cover of 1.10 time.
- B. Unsecured redeemable non-convertible debentures:** In the financial year 2014-15, the Company had issued 15.60% 300 unsecured redeemable non-convertible debenture of ₹ 10,00,000 each amounting to ₹ 30,00,00,000 redeemable by May 11, 2020.

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note “2.39”

The Management has identified enterprises which have provided goods and services to the Company and which qualify under the definition of micro and small enterprises, as defined under Micro, Small and Medium Enterprises Development Act, 2006. Accordingly, the disclosure in respect of the amounts payable to such enterprises as at 31 March, 2018 has been made in the financial statements based on information received and available with the Company. Further in the view of the management, the impact of interest, if any, that may be payable in accordance with the provisions of the Act is not expected to be material. The Company has not received any claim for interest from any supplier under the said Act.

Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
The amount remaining unpaid to micro and small suppliers at the end of the year	-	-
- Principal		
- Interest		
The amount of interest paid by the buyer as per the MSMED Act, 2006	-	-
The amount of the payment made to micro and small suppliers beyond the appointed day during each accounting year	-	-
The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under MSMED Act, 2006; and	-	-
The amount of interest accrued and remaining unpaid at the end of each accounting year	-	-
The amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprises for the purposes of disallowances as a deductible expenditure under the MSMED Act, 2006.	-	-

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note “2.40”
1. Gratuity:

Every employee is entitled to a benefit equivalent to fifteen days salary last drawn for each completed year of service in line with the payment of Gratuity Act, 1972. The same is payable at the time of separation from the Company or retirement, whichever is earlier.

Gratuity liability	As at	
	March 31, 2018	March 31, 2017
Opening defined benefit obligation	87,25,798	74,89,615
Current service cost	4,84,429	24,67,194
Interest cost	6,54,435	5,99,169
Actuarial (losses) / gain	7,99,155	91,476
Obligations transferred as part of BTA*	(91,10,514)	-
Benefits paid	-	(19,21,656)
Closing defined benefit obligation	15,53,303	87,25,798

Movement in fair value of planned assets	As at	
	March 31, 2018	March 31, 2017
Fair value of plan asset at the beginning of year	6,95,010	6,36,456
Difference in opening balance	-	58,554
Contributions paid into the plan	-	-
Expected return on plan assets	-	-
Benefits paid	-	-
Fair value of planned assets transferred as part of BTA*	(6,95,010)	-
Actuarial (loss) / gain and others	-	-
Fair value of plan assets at the end of the year	-	6,95,010

Expenses recognised in the statement of profit and loss	For the year ended	
	March 31, 2018	March 31, 2017
Current service cost	4,84,429	24,67,194
Interest cost	6,54,435	5,99,169
Difference in opening balance	-	(58,554)
Expected return on plan assets	-	-
Benefits paid	4,82,956	-
Net actuarial gain / (loss) recognized	7,99,155	91,476
Amount included in employee benefit expenses	24,20,975	30,99,285

Amount recognised in balance sheet	For the year ended	
	March 31, 2018	March 31, 2017
Present value of obligation as at the end of the year	15,53,303	87,25,798
Fair value of plan assets as at the end of the year	-	(6,95,010)
Total	15,53,303	80,30,788

Assumptions	For the year ended	
	March 31, 2018	March 31, 2017
Discount rate	7.90%	7.50%
Salary escalation rate	4.00%	4.00%
Expected average remaining working lives of employees (years)	23	25

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Notes:

- Discount rate:** The discount rate is based on the prevailing market yields of Indian Government Securities as at the balance sheet date for the estimated term of the obligations.
- Salary escalation rate:** The estimates of future salary increases considered takes into account the inflation, seniority, promotion and other relevant factors.
- Defined contribution plans:**

Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
Amount recognized in statement of profit and loss towards:		
Provident fund	77,95,802	1,77,28,264
Employee state insurance	12,47,785	8,52,568
Labour welfare fund	1,16,995	2,35,169
Total	91,60,582	1,88,16,001

- The company expects to pay 'nil' as contribution towards its defined plan in next year.

*Refer Note 2.50

Note "2.41"

Mark to market gains on equity index / commodity futures charged to the statement of profit and loss ₹ 14,60,815 (Previous year loss: ₹ 1,88,410).

Note "2.42"

Disclosures as required by Annex XII of the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 issued by the Reserve Bank of India ("RBI") vide their Notification No. RBI/DNBR/2016-17/45 Master Direction DNBR. PD. 008/03.10.119/2016-17 dated September 1, 2016 (the "Notification")

(a) Capital to Risk Asset ratio (CRAR):

Sl.No.	Particulars	As at March 31, 2018	As at March 31, 2017
1.	CRAR%	94.52%	20.75%
2.	CRAR -Tier I Capital %	91.08%	19.53%
3.	CRAR-Tier II Capital %	3.44%	1.22%
4.	Amount of Subordinated debt raised as per Tier II Capital (₹ in lakhs)	1,200.00	1,800.00
5.	Amount raised by issue of perpetual debt instrument	-	-

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

(b) Exposure to real estate sector, both direct and indirect

Sl.No.	Particulars	As at March 31, 2018	As at March 31, 2017
Categories			
(I) Direct exposure			
1.	Residential mortgages (Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented)	138.66	1,009.33
2.	Commercial real estate (Lending secured by mortgages on commercial real estate (office buildings, retail space, multipurpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.) Exposure would also include non-fund based (NFB) limits).	50.57	247.29
3.	Investments in Mortgage Backed Securities (MBS) and other securitised exposures. (Refer note 2.13)		
	a) Residential	-	-
	b) Commercial real estate*	39.10	39.10
	Total	228.33	1,295.72
(II) Indirect exposure			
1.	Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	-	-

*Includes investments in Security Receipts

For the details of disclosures of investment refer note 2.13.

KARVY FINANCIAL SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

(c) Maturity pattern of certain items of assets and liabilities:

As on March 31, 2018

		(₹ in crores)									
S.No.	Particulars	1 day to 30/ 31 days 1 month	Over 1 month Upto 2 months	Over 2 months Upto 3 months	Over 3 months Upto 6 months	Over 6 months Upto 1 Year	Over 1 Year Upto 3 Years	Over 3 Years Upto 5 Years	Over 5 Years	Total	
1	Borrowings from banks	3.13	-	7.92	11.04	22.08	85.19	30.00	-	159.36	
2	Market borrowings	22.86	-	2.90	-	-	30.00	-	-	55.76	
3	Advances	10.00	2.33	2.29	14.41	107.75	26.30	43.14	97.99	304.21	
4	Investments	-	-	-	-	-	-	39.10	-	39.10	
5	Deposit	-	-	-	0.03	-	-	-	-	0.03	
	Total	35.99	2.33	13.11	25.48	129.83	141.49	112.24	97.99	558.46	

As on March 31, 2017

		(₹ in crores)									
S.No.	Particulars	1 day to 30/ 31 days 1 month	Over 1 month Upto 2 months	Over 2 months Upto 3 months	Over 3 months Upto 6 months	Over 6 months Upto 1 Year	Over 1 Year Upto 3 Years	Over 3 Years Upto 5 Years	Over 5 Years	Total	
1	Borrowings from banks	49.78	14.38	70.16	105.21	270.43	647.44	171.60	1.65	1,330.65	
2	Market borrowings	-	27.50	-	4.04	7.60	22.90	65.19	-	127.23	
3	Advances	58.95	25.76	28.12	112.17	285.16	365.45	206.33	612.68	1,694.62	
4	Investments	-	-	-	-	-	-	39.10	-	39.10	
	Total	108.73	67.64	98.28	221.42	563.19	1,035.79	482.22	614.33	3,191.60	

(d) During the year the Company was assigned credit rating by ICRA Limited for below mentioned facilities:

S.No.	Rating of products:	As at March 31, 2018	As at March 31, 2017
1	Commercial paper	#	[ICRA] A1+(SO)*
2	Unsecured debentures	[ICRA]A+ (SO) (Stable);	[ICRA]A; Put on watch with developing implications
3	Secured Redeemable Non-Convertible debentures (Market Linked Debentures)	PP-MLD [ICRA] A+ (SO) (Stable);	[ICRA] PP-MLD-A; Put on watch with developing implications
4	Long-term Bank loans	[ICRA]A+ (SO) (Stable)*	[ICRA] A+(SO)*

* Rating is backed by the Corporate Guarantee given by parent company viz. Karvy Stock Broking Limited (KSBL).

All the Commercial Paper are redeemed during the year. So, the rating of the Commercial Paper as on March 31, 2018 is not reported.

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

(e) Detail of gold auction conducted during the year are as under:

Financial Year	Number of loan account auctioned	Outstanding amount	Value fetched	Sister concern participation in auction
March 31, 2018	1819	7.82	9.73	None
March 31, 2017	3411	15.94	17.51	None

f) (I) Concentration of advances

S.No.	Particulars	As at March 31, 2018	As at March 31, 2017
1.	Total advances to twenty largest borrowers (₹ in crores)	85.98	258.75
2	Percentage of advances to twenty largest borrowers to total advances	28.26%	15.27%

f) (II) Concentration of exposures

S.No.	Particulars	As at March 31, 2018	As at March 31, 2017
1.	Total exposure to twenty largest borrowers / customers (₹ in crores)	85.98	258.75
2	Percentage of exposures to twenty largest borrowers / customers to total exposure on borrowers / customers	28.26%	15.27%

f) (III) Concentration of NPAs

(₹ in crores)

S.No.	Particulars	As at March 31, 2018	As at March 31, 2017
1	Total exposure to top four NPA accounts	15.62	70.00

g) Exposure to Capital Market

S.No.	Particulars	As at March 31, 2018	As at March 31, 2017
1	Direct investment in equity shares	0.15	-
2	Unsecured advances to stockbroker	-	0.10
3	Advances against shares / other securities to individuals for investment in shares	9.43	21.34
4	Advances for any other purposes, where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security	1.78	44.88

h) Details of Single Borrower Limit (SGL) / Group Borrower Limit (GBL) exceeded by the NBFC:

The Company has not exceeded the prudential exposure limits during the financial year ended March 31, 2018 and March 31, 2017.

i) Registration obtained from other financial sector regulators.

S.No.	Regulator	Registration No.	Date of Registration
1	Ministry of Corporate Affairs (MCA)	U67190MH2001PLC227379	October 18, 2001
2	Pension Fund Regulatory and Development Authority (PFRDA)	04111	April 07, 2011

(j) Details of penalties imposed by RBI and other regulators:

No penalties have been imposed by RBI and other regulators on the Company during the financial year ended March 31, 2018 and March 31, 2017.

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

(k) Disclosures relating to fraud in terms of the notification issued by RBI:

During the year ended March 31, 2018 and March 31, 2017, the Company has not detected any fraud.

l) Unsecured Advances

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
Unsecured Advances-Employees Loan	0.08	0.50

The Company has not given any unsecured advances against intangible securities such as charge over the rights, licenses, authority, etc. during the financial year ended March 31, 2018 and March 31, 2017.

(m) Details of non-performing financial assets purchased / sold:
(m) (I) Details of non-performing financial assets purchased:

The Company has not purchased any non-performing financial assets during the financial year ended March 31, 2018 and March 31, 2017.

(m) (II) Details of Non-performing financial assets sold (Refer note 2.49):

S.No.	Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
1	Number of accounts sold (number)	-	2
2	Aggregate outstanding (₹ in crores)	-	36.00
3	Aggregate consideration received (₹ in crores)	-	46.00

n) Disclosures under circular RBI / 2011-12/467/ DNBS. CC.PD.No.265/03.10.01/2011-12 dated 21 March 2012

(₹ in crores)

S.No.	Particulars	As at March 31, 2018	As at March 31, 2017
1	Total Gold loan portfolio	-	235.64
2	Total Assets	304.21	1,915.85
3	Gold loan portfolio as a % of total assets	0.00%	12.30%

(o) Remuneration of non-executive directors - Directors Sitting Fees

(₹ in crores)

S.No.	Particulars	As at March 31, 2018	As at March 31, 2017
1	Mr. M Yugandhar	0.09	0.09
2	Mr. V. Mahesh	0.05	0.04
3	Mr. Bhagwan Das Narang	0.10	0.10
4	Ms. Jyothi Prasad	0.09	0.10
5	Mr. G. Krishna Hari	0.03	0.04

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note “2.43”

Disclosures related to sale/assignment of receivables and securitizations transactions in accordance with the RBI circular no. DBOD.NO.BP.BC.60/21.04.048/2005-06 dated February 01, 2006.

Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
Total number of loans assigned (numbers)	-	229
Book value of loan assigned (₹ in crores)	-	81.10
Sale consideration (₹ in crores)	-	78.65
Additional consideration realised in respect of accounts transferred in earlier years (₹ in crores)	-	-
Aggregate gain / loss over net book value (₹ in crores)	-	-

Note “2.44”

As per Section 135 of the Companies Act 2013, the Company has formed Corporate Social Responsibility ('CSR') committee.

Gross amount required to be spent by the Company during the year was ₹ 24,02,987 (Previous Year: ₹ 88,04,567). Out of the total amount, an amount of ₹ NIL (Previous Year: ₹ 25,00,000) has been spent for CSR activities during the year.

S. No.	Particulars	For the year ended March 31, 2018			For the year ended March 31, 2017		
		In cash	Yet to be paid in cash	Total	In cash	Yet to be paid in cash	Total
1.	Construction/Acquisition of any asset	-	-	-	-	-	-
2.	On purposes other than construction/acquisition of any asset – Donation made to Prime Minister National Relief Fund				25,00,000	-	25,00,000
	Total				25,00,000	-	25,00,000

During the current year, the Company has made provision to the extent of ₹ 1,52,20,330 and the same is expected to be spent during the year 2018-19.

Note “2.45”
Provision and contingency

S.No.	Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
1.	Provision towards NPA*	(15,81,60,074)	34,33,06,503
2.	Provision made towards Income tax	1,98,93,569	-
3.	Provision for Standard Assets*	(70,68,119)	(1,71,43,460)
4.	Provision for performance guarantee of loan transferred (refer Note 2.50)	2,24,49,132	-
5.	Provision for Employee Benefit Expenses	61,77,937	70,50,830

For closing balances of provision -refer note 2.5 and 2.9

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note “2.46”
Disclosure with respect to customer complaints

S.No.	Particulars	Number of complaint as on March 31, 2018	Number of complaint as on March 31, 2017
1.	No. of complaints pending at the beginning of the year	41	23
2.	No. of complaints received during the year	31	69
3.	No. of complaints redressed during the year	55	51
4.	No. of complaints transferred to SBFC subsequent to the BTA	8	-
5.	No. of complaints pending at the end of the year	9	41

Note “2.47”
Sector wise Non-Performing Assets (NPA)

S.No.	Particulars	Percentage of NPAs to total advances as at March 31, 2018	Percentage of NPAs to total advances as at March 31, 2017
1.	Agriculture and allied activities	0.00%	0.00%
2.	MSME	0.00%	0.00%
3.	Corporate borrowers	2.13%	4.83%
4.	Services	14.50%	6.63%
5.	Unsecured personal loans	0.01%	0.00%
6.	Auto loans	0.00%	0.00%
7.	Other loans	5.52%	1.95%
	Total	22.16%	13.41%

Note “2.48”
Movement in Non-Performing Asset (NPA)

(₹ in crores)

S.No.	Particulars	As at March 31, 2018	As at March 31, 2017
1.	Net NPA to net advances percentage	15.05%	11.10%
2.	Movement of NPAs (Gross)		
(a)	Opening balance	216.93	70.23
(b)	Additions during the year	65.14	216.59
(c)	Reduction during the year*	214.65	69.89
(d)	Closing balance	67.42	216.93
3.	Movement of net NPAs		
(a)	Opening balance	174.93	62.56
(b)	Additions during the year	47.91	174.94
(c)	Reduction during the year*	180.88	62.57
(d)	Closing balance	41.96	174.93
4.	Movement of provisions for NPAs (excluding provisions on standard assets)		
(a)	Opening balance	42.00	7.67
(b)	Provisions made during the year	17.23	41.65
(c)	Write off / write back of excess provisions	33.77	7.32
(d)	Closing balance	25.46	42.00

* includes reduction due to written off of loanportfolio.

KARVY FINANCIAL SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note "2.49"

Financial assets transferred during the year to Securitization company (SC)/ Reconstruction company (RC):

Karvy Financial Services Limited has been notified as Financial Institution under the The Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003, through the Gazette issued by Ministry Of Finance, (Department of Financial Services), notification dated 5th August, 2016 (S.O. 2641(E)). During the year, Company has not transferred any assets to Asset Reconstruction Companies (ARCs) in terms of the guidelines issued by RBI.

The following table sets forth, for the periods indicated, the details of the assets transferred.

S.No.	Particulars	Year ended March 31, 2018	Year ended March 31, 2017
1.	Number of accounts	-	2
2.	Aggregate value (net of provisions) of accounts sold to SC / RC	-	32,40,00,000
3.	Aggregate consideration	-	46,00,00,000
4.	Additional consideration realised in respect of accounts transferred in earlier years	-	-
5.	Aggregate gain / (loss) over net book value	-	13,60,00,000

The following table sets forth, for the periods indicated, the details of the net book value of investments in security receipts:

Particulars	March 31, 2018	March 31, 2017
Net book value of investments in security receipts which are backed by NPAs sold by the Company as underlying:	39,10,00,000	39,10,00,000

For the purpose of the valuation of the underlying security receipts issued by the underlying trusts managed by ARCs, the security receipts are valued at their respective net asset values as advised by the ARCs.

Note "2.50"

The Company has executed a 'Business Transfer Agreement (BTA)' with M/s Small Business FinCredit India Private Limited on August 01, 2017, to dispose a part of it's retail lending business as a going concern on slump sales basis, free and clear of all encumbrances for a purchase consideration towards the transfer of identified loan assets/receivables (less any provisions) together with related fixed assets, current assets and current liabilities as on the date of sale. The members' approval in this regard was obtained in the extra-ordinary general meeting of the Company held on September 16, 2017. The transaction has been consummated on September 28, 2017.

Detail of business transfer are as follows:

Sr. No.	Particulars	Amount
1.	Portfolio sold (net of provisions)	8,16,02,36,873
2.	Fixed assets (net block)	6,96,78,279
3.	Other assets	2,51,88,143
4.	Total assets	8,25,51,03,295
5.	Liability for employee benefits	4,74,20,630
6.	Other liabilities	2,20,49,466
7.	Total liabilities	6,94,70,096
8.	Net assets transferred	8,18,56,33,199
9.	Purchase consideration	10,79,56,33,199
10.	Gain on sale of business on slump sale basis (as at September 28, 2017) (A)	2,61,00,00,000
	Subsequent contractual adjustment	
11.	Fixed assets	58,38,517
12.	Other receivable	1,46,54,095
13.	Obligation toward potential NPA losses for portfolio transferred*	(1,10,93,464)
	Sub-total (B)	93,99,148
14.	Net credit to statement of profit and loss (A + B)	2,61,93,99,148

* As per business transfer agreement, the Company has provided towards potential NPA cases out of the sold portfolio, based on an "estimated valuation report" with respect to gross NPA for future period and realisable value of portfolio.

KARVY FINANCIAL SERVICES LIMITED
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note “2.51”
Discontinuing Operations

Pursuant to the approval by the members to dispose the retail lending division of the Company as a going concern on slump sales basis, free and clear of all encumbrances together with related fixed assets, current assets and current liabilities as on the date of sale, the retail business has been considered as a discontinuing operation as defined by Accounting Standard 24 - Discontinuing Operations. These business were sold in the current year, refer Note 2.50 above. The related disclosures are as below:

The following statement shows the breakup of aggregate amounts in respect of revenue and expenses as reported in the statement of profit and loss between continuing and discontinuing operations.

Particulars	For the year ended 31 March 2018			For the year ended 31 March 2017		
	Continuing operations	Discontinuing operations	Total	Continuing operations	Discontinuing operations	Total
Revenue from operations	61,56,66,823	85,72,04,221	1,47,28,71,044	40,63,40,736	2,39,62,81,629	2,80,26,22,365
Operating expenses	2,23,35,81,355	87,57,991	2,24,23,39,346	29,08,41,251	15,83,88,041	44,92,29,292
Employee benefits expense	3,91,90,006	18,73,56,756	22,65,46,762	2,21,71,141	32,91,94,005	35,13,65,146
Finance costs	42,01,12,542	69,94,58,571	1,11,95,71,113	46,74,19,136	1,63,88,43,113	2,10,62,62,249
Depreciation and amortization	66,55,470	1,78,23,550	2,44,79,020	-	2,91,88,391	2,91,88,391
Other expenses	18,14,56,978	9,60,77,179	27,75,34,157	6,10,38,680	21,40,10,972	27,50,49,652
(Loss) / profit before tax	(2,26,53,29,528)	(15,22,69,826)	(2,41,75,99,354)	(43,51,29,472)	2,66,57,107	(40,84,72,365)
Income tax credit	(48,73,23,779)	(3,27,56,694)	(52,00,80,473)	(9,32,41,130)	(1,85,03,618)	(11,17,44,748)
(Loss) / profit for the year	(1,77,80,05,749)	(11,95,13,132)	(1,89,75,18,881)	(34,18,88,342)	4,51,60,725	(29,67,27,617)
Gain on disposal of discontinued operation (refer Note 2.50)	-	-	2,61,93,99,148	-	-	-
Income tax expense on gain	-	-	60,42,95,383	-	-	-
Net profit for the year	-	-	11,75,84,884	-	-	(29,67,27,617)
Proceeds on disposal of discontinued operation (refer Note 2.50)	-	-	10,79,56,33,199	-	-	-

Details of net assets are as below

Particulars	As at 31 March 2018	As at 31 March 2017
Total assets	-	13,32,90,59,800
Total liabilities	-	16,18,34,409
Net assets	-	13,16,72,25,391

The net cash flows attributable to the discontinued operations are as follows

Particulars	For the year ended 31 March 2018	For the year ended 31 March 2017
Net cash flows from operating activities	4,80,77,80,272	4,48,24,98,648
Net cash flows from investing activities	-	(1,38,77,520)
Net cash flows from financing activities	-	-
Net cash generated for the year from discontinued operations	4,80,77,80,272	4,46,86,21,128

KARVY FINANCIAL SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED ON MARCH 31, 2018 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

Note "2.52"

Disclosure required in terms of the Notifications issued by Ministry of Corporate Affairs on March 30, 2017 for Specified Bank Notes (SBN) held and transacted during the period November 08, 2016 to December 30, 2016 are detailed below:

Particulars	SBNs	Other Denomination notes	Total
Closing cash in hand as on November 08, 2016	4,91,22,000	42,35,751	5,33,57,751
(+) Permitted receipts	26,20,95,787		26,20,95,787
(-) Permitted payments	-	20,02,68,833	20,02,68,833
(-) Amount deposited in Banks	4,91,22,000	2,32,01,164	7,23,23,164
Closing cash in hand as on December 30, 2016	-	4,28,61,541	4,28,61,541

There are no transactions in SBN during the year ended March 31, 2018. The disclosure on holding and dealing in SBN pertain to financial year ended March 31, 2017.

Note "2.53"

As per the provisions of section 197 of Companies Act, 2013 total managerial remuneration to be paid to its Chief Executive Officer (CEO) and Managing Director, for the year shall not exceed eleven percent of the net profits without prior approval of the Central Government. The Company has paid remuneration to the Chief Executive Officer (CEO) and Managing Director amounting to ₹ 2,88,37,392 for the year ended 31 March 16 which exceeds the prescribed limits by ₹ 1,42,12,458. Consequent to an application filed by the Company, the Central Government (Ministry of Corporate Affairs), in exercise of its powers: conferred on it under section 197 of the Companies Act, 2013, vide its order dated 04 July 2017, gave its approval for the waiver of recovery of excess remuneration of ₹ 1,07,47,392 paid. The Company has accounted for the balance amount of ₹ 34,65,066 as receivable, as prescribed by the Companies Act, 2013. The Management intends to adjust the aforesaid receivable against the full and final amount payable.

Note "2.54"

The Company does not have any un-hedged foreign currency exposure as on March 31, 2018 and March 31, 2017.

Note "2.55"

Previous year's figures

Previous year's figures have been regrouped /reclassified, where necessary to confirm to current year's classification.

As per our report of even date attached
for **S S M S & Co.**

Chartered Accountants
(ICAI Firm registration no. 014358S)
Sd/-

Madhusudhana Reddy K.S
Partner
Membership No. : 231770

for **B S R & Associates LLP**

Chartered Accountants
(ICAI Firm registration no. 116231W/W-100024)

Sd/-
Arpan Jain
Partner
Membership No. 125710

for and on behalf of the Board of Directors of

Karvy Financial Services Limited
CIN:U67190MH2001PLC227379

Sd/- M. Yugandhar Director DIN :00012265 Sd/- Jyothi Prasad Director DIN :06947488 Sd/- Amrish H. Shah Chief Financial Officer PAN : AKJPS2462F	Sd/- Yogesh Gaat CEO & Managing Director DIN : 07189252 Sd/- V Mahesh Director DIN:00800219	Sd/- B.D. Narang Director DIN :00826573 Sd/- G. Krishna Hari Director DIN :00148721 Sd/- Meenal Talesara Company Secretary M.No.A22658
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Place: Hyderabad
Date: June 13, 2018

Place: Hyderabad
Date: June 13, 2018

Place: Hyderabad
Date: June 13, 2018