Arka Fincap Limited
(Formerly known as Kirloskar Capital Limited)

Special purpose financial statements together with Independent Auditor's Report for the year ended 31 March 2021

Arka Fincap Limited

(Formerly known as Kirloskar Capital Limited)

Special purpose financial statements together with Independent Auditor's Report

for the year ended 31 March 2021

Contents

ARKA FINCAP LIMITED

B S R & Co. LLP

Chartered Accountants

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Independent Auditor's Report

To the Board of Directors of Arka Fincap Limited

(formerly Kirloskar Capital Limited)

Report on the Audit of the Special Purpose Financial Statements

Opinion

We have audited the accompanying special purpose financial statements of Arka Fincap Limited (formerly known as Kirloskar Capital Limited) (the "Company"), which comprise the special purpose balance sheet as at 31 March 2021, the special purpose statement of profit and loss (including other comprehensive income), the special purpose statement of changes in equity, the special purpose cash flow statement for the year then ended, and selected notes to the special purpose financial statements, including a summary of significant accounting policies and selected other explanatory information (the 'special purpose financial statements'). These special purpose financial statements have been prepared by management in accordance with the basis of preparation as set out in Note 2.01 to the special purpose financial statements for the purpose of consolidation of the Kirloskar Oil Engines Limited (the 'Holding company').

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid special purpose financial statements give a true and fair view, of the state of affairs of the Company as at 31 March 2021, and its profit and other comprehensive income, changes in equity and its cash flows for the year ended on that date in accordance with the basis of preparation as set out in Note 2.01 to the special purpose financial statements.

Emphasis of matter

We draw attention to Note 2.01 to the special purpose financial statements which fully describes the basis of preparation of the aforesaid special purpose financial statements. These special purpose financial statements are prepared solely for the use of the Board of Directors of the Company for onward submission to the Company's Holding company for the preparation of the Holding Company's consolidated financial statements.

As more fully described in Note 6.01(a) to the special purpose financial statements, the extent to which the COVID-19 pandemic will have impact on the Company's financial performance is dependent on future developments, which are highly uncertain.

Our opinion is not modified in respect of the above matters.

Basis of opinion

We conducted our audit of the special purpose financial statements in accordance with the Standards on Auditing (SAs), as specified under section 143(10) of the Companies Act, 2013 ("the Act"). Our responsibilities under those Standards are further described in the *'Auditor's Responsibilities for the Audit of the Special Purpose Financial Statements'* section of our report. We are independent of the Company in accordance with the 'Code of Ethics' issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the special purpose financial statements under the provisions of the Act and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the special purpose financial statements.

Independent Auditor's Report *(Continued)*

Arka Fincap Limited

Management's Responsibility for the Special Purpose Financial Statements

The Company's management and the Board of Directors are responsible for the matters stated in section 134(5) of the Act with respect to the preparation of these special purpose financial statements in accordance with the accounting principles generally accepted in India, including Companies (Indian Accounting Standards) Rules, 2015 (as amended) specified under Section 133 of the Act and in accordance with the basis of preparation as set out in Note 2.01 to the special purpose financial statements.

This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of 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 the 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 special purpose financial statements and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Special Purpose Financial Statements

Our responsibility is to express an opinion on these special purpose financial statements based on our audit. 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 special purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special purpose financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the special purpose financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the special purpose financial statements.

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

Other matter

The Company has prepared a separate set of financial statements, which are the statutory financial statements of the Company, for the year ended 31 March 2021 in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards (Ind AS) specified under section 133 of the Act on which we issued a separate auditor's report to the members of the Company dated 28 April 2021.

Independent Auditor's Report *(Continued)*

Arka Fincap Limited

Restriction on Distribution and Use

The accompanying special purpose financial statements have been prepared for the purpose of preparation of consolidated financial statements of Kirloskar Oil Engines Limited. These financial statements may, therefore, not be suitable for another purpose. Accordingly, our report should not be used by any other person or for any other purpose. We neither accept nor assume any duty or liability for any other purpose or to any other party to whom our report is shown or into whose hands it may come without our prior consent in writing.

For **B S R & Co. LLP**
Chartered Accountants
Firm's Registration No. 101248W/W-100022

Vaibhav

Vaibhav Shah
Partner
Membership No. 117377
UDIN: 21117377AAAABG4734

Mumbai
28 April 2021

Arka Fincap Limited *(Formerly known as Kirloskar Capital Limited)*
Special purpose Balance Sheet as at 31 March 2021

₹ in Crs.

Particulars	Note No.	As at 31 March 2021	As at 31 March 2020
ASSETS			
I. Non-current assets		**678.23**	**271.47**
(a) Property, plant and equipment	3.01	7.53	9.64
(b) Other Intangible assets	3.02	3.70	0.08
(c) Intangible assets under development	3.03	0.02	2.19
(d) Financial assets			
(i) Investments	3.04	47.36	73.83
(ii) Loans	3.05	614.65	181.36
(iii) Other financial assets	3.06	2.03	1.78
(e) Deferred tax assets (net)	3.07	2.75	1.27
(f) Other non-current assets	3.08	0.19	1.32
II.Current assets		**687.91**	**346.00**
(a) Financial assets			
(i) Investments	3.09	167.44	39.26
(ii) Cash and cash equivalents	3.10	226.08	123.27
(iii) Loans	3.11	291.94	180.97
(vi) Other financial assets	3.12	0.17	0.06
(b) Current tax assets (net)	3.13	0.85	0.17
(c) Other current assets	3.14	1.43	2.27
Total Assets		**1,366.14**	**617.47**
EQUITY AND LIABILITIES			
Equity		**673.35**	**529.29**
(a) Equity share capital	3.15	639.97	526.50
(b) Other equity			
(i) Retained earnings	3.16	10.44	(3.15)
(ii) Employee Stock option reserve	3.16	6.99	4.72
(iii) Statutory reserve u/s 45-IC of the RBI Act, 1934	3.16	4.60	1.22
(iv) Securities premium reserve	3.16	11.35	-
Liabilities			
I. Non-current liabilities		**416.70**	**57.17**
(a) Financial liabilities			
(i) Borrowings	3.17	412.85	52.50
(ii) Other financial liabilities	3.18	2.93	4.40
(b) Long-term provisions	3.19	0.92	0.27
II.Current liabilities		**276.09**	**31.01**
(a) Financial liabilities			
(i) Borrowings	3.20	113.50	-
(ii) Trade and other payables	3.21	0.66	0.22
(iii) Other financial liabilities	3.22	155.18	29.91
(b) Other current liabilities	3.23	6.63	0.82
(c) Short-term provisions	3.24	0.12	0.06
Total Equity and Liabilities		**1,366.14**	**617.47**
Significant accounting policies	2		

The accompanying notes are an integral part of the financial statements.

As per our attached report of even date

For B S R & Co. LLP
Chartered Accountants
Firm's Registration No.: 101248W/W-100022

Vaibhav

Vaibhav Shah
Partner
Membership No: 117377

Mumbai : 28 April 2021

For and on behalf of the board of directors
Arka Fincap Limited
(Formerly known as Kirloskar Capital Limited)

Vimal Bhandari

Vimal Bhandari
Executive Vice Chairman and CEO

Mahesh Chhabria
Non Executive Director

Ritesh Jhanwar

Ritesh Jhanwar
Financial Controller

Amit Bondre
Deputy Company Secretary

Mumbai : 28 April 2021

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)
Statement of changes in Equity (SOCIE) for the year ended 31 March 2021

A. Equity Share Capital (Note 3.15) ₹ in Crs.

Equity Shares of ₹ 10 each issued, subscribed and fully paid	No. of Shares	Amount
At 1 April 2019	2,70,00,000	27.00
Issue/Reduction, if any during the year	49,95,00,000	499.50
At 31 March 2020	**52,65,00,000**	**526.50**
Issue/Reduction, if any during the year	11,34,69,828	113.47
At 31 March 2021	**63,99,69,828**	**639.97**

B. Other Equity (Note 3.16) ₹ in Crs.

Particulars	Reserves and Surplus				Total
	Reserve u/s 45IC of RBI Act, 1934	Employee Stock option reserve	Retained Earnings	Securities Premium	
As at 1 April 2019	-	-	(7.50)	-	(7.50)
Profit for the year	-	-	6.09	-	6.09
Other comprehensive income for the year	-	-	(0.02)	-	(0.02)
Total Comprehensive income for the year	-	-	**6.07**	-	**6.07**
Transfer from Retained earnings	1.22	-	(1.22)	-	-0.00
Stamp duty paid on equity issue	-	-	(0.50)	-	(0.50)
Share based payment expense	-	4.72	-	-	4.72
At 31 March 2020	**1.22**	**4.72**	**(3.15)**	-	**2.79**
As at 1 April 2020	**1.22**	**4.72**	**(3.15)**	-	**2.79**
Profit for the year	-	-	16.88	-	16.88
Other comprehensive income for the year	-	-	0.09	-	0.09
Total Comprehensive income for the year	-	-	**16.97**	-	**16.97**
Transfer from Retained earnings	3.38	-	(3.38)	-	-
Share based payment expense	-	2.27	-	-	2.27
Shares issued during the year	-	-	-	11.35	11.35
As at 31 March 2021	**4.60**	**6.99**	**10.44**	**11.35**	**33.38**

The accompanying notes are an integral part of the financial statements.

As per our attached report of even date

For B S R & Co. LLP
Chartered Accountants
Firm's Registration No.: 101248W/W-100022

Vaibhav Shah
Partner
Membership No: 117377

Mumbai : 28 April 2021

For and on behalf of the board of directors
Arka Fincap Limited
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Executive Vice Chairman and CEO

Mahesh Chhabria
Non Executive Director

Ritesh Jhanwar
Financial Controller

Amit Bondre
Deputy Company Secretary

Mumbai : 28 April 2021

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)
Special purpose Statement of profit and loss for the year ended 31 March 2021

₹ in Crs.

Particulars	Note No.	2020-21	2019-20
Income			
Revenue from operations	4.01	101.88	48.44
Other income	4.02	1.04	-
Total Income		**102.92**	**48.44**
Expenses			
Employee benefits expense	4.03	30.51	25.93
Finance costs	4.04	37.68	2.67
Depreciation and amortisation expense	4.05	3.15	2.46
Other Expenses	4.06	8.31	7.21
Total expenses		**79.65**	**38.27**
Profit before exceptional items and tax		**23.27**	**10.17**
Exceptional items		-	-
Profit before tax		**23.27**	**10.17**
Tax expense		**6.39**	**4.07**
Current tax	4.07	7.90	2.93
Deferred tax benefit	4.07	(1.51)	1.14
Profit for the year		**16.88**	**6.10**
Other comprehensive income			
A. Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		**0.09**	**(0.02)**
Re-measurement gains / (losses) on defined benefit plans		0.12	(0.03)
Income tax effect on above		(0.03)	0.01
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods (A)		0.09	(0.02)
Total other comprehensive income for the year, net of tax [A]		**0.09**	**(0.02)**
Total comprehensive income for the year, net of tax		**16.97**	**6.08**
Earnings per equity share [nominal value per share Rs.10/-]			
Basic		0.30	0.12
Diluted		0.30	0.12
Significant accounting policies	2		

The accompanying notes are an integral part of the financial statements.

As per our attached report of even date
For B S R & Co. LLP
Chartered Accountants
Firm's Registration No.: 101248W/W-100022

Vaibhav

Vaibhav Shah
Partner
Membership No: 117377

Mumbai : 28 April 2021

For and on behalf of the board of directors
Arka Fincap Limited
(Formerly known as Kirloskar Capital Limited)

Vimal Bhandari

Vimal Bhandari
Executive Vice Chairman and CEO

Mahesh

Mahesh Chhabria
Non Executive Director

Ritesh Jhanwar

Ritesh Jhanwar
Financial Controller

Amit Bondre
Deputy Company Secretary

Mumbai : 28 April 2021

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)

Special purpose Cash Flow Statement

		₹ in Crs. For the year ended 31 March 2021	₹ in Crs. For the year ended 31 March 2020
A	**Cash flow from operating activities**		
	Profit before tax	**23.28**	**10.17**
	Adjustments to reconcile profit before tax to net cash flows:		
	Add:		
	Depreciation and amortisation	3.15	2.46
	Provision for gratuity	0.18	0.12
	Provision for lease encashment	0.20	0.10
	Provision for expected credit loss	2.21	1.43
	Provision for bonus	8.00	6.10
	Provision for share based payments	2.27	4.72
	Loss on fair value of employee loan	0.00	0.01
	Prepaid expenses amortised	3.23	0.67
	Finance cost	37.69	2.66
		56.93	**18.26**
	Less:		
	Interest received on fixed deposits	5.21	6.97
	Profit on sale of investments	2.28	7.84
	Fair value gain on investments	(0.08)	0.08
	Interest received on debt instrument	19.74	5.40
	Interest income on security deposit	0.20	0.18
	Rent paid for office premise	1.85	1.71
	Amortised discount income on commercial paper	4.96	7.42
		34.16	**29.59**
	Operating cash flow before working capital changes	**46.04**	**(1.16)**
	Add / (Less): Adjustments for working capital changes		
	(Increase) / Decrease in receivables from financing business	(546.03)	(363.14)
	(Increase) / Decrease in loan to employee	0.22	(0.12)
	(Increase) / Decrease in security deposits	(0.05)	(0.08)
	(Increase) / Decrease in Prepaid expenses	(6.72)	(3.22)
	(Increase) / Decrease in other current financial assets	0.00	0.00
	(Increase) / Decrease in other current assets	0.47	(0.45)
	Increase / (Decrease) in provisions	-	-
	Employee benefits paid	(6.16)	-
	Increase / (Decrease) in trade payables	0.45	0.05
	Increase / (Decrease) in other financial liability	6.41	0.01
	Increase / (Decrease) in other current liability	5.81	0.23
	Net Cash used in operations	**(499.56)**	**(367.88)**
	Direct taxes paid	(8.58)	(3.07)
	Net cash used in operating activities - A	**(508.13)**	**(370.96)**
B	**Cash flow from investing activities**		
	Add:		
	Interest received on fixed deposits	5.10	6.97
	Receipt on sale of Investments	909.98	3,430.13
	Receipt of processing fees on commercial papers	-	0.17
	Interest received on debt instrument	17.70	5.24
		932.78	**3,442.50**
	Less:		
	Increase in Fixed Deposits with bank (net)	-	-
	Payments on purchase of investment	1,002.70	3,528.05
	Payments for Purchase of Property, Plant and Equipment	0.61	0.15
	Payments for Purchase of Other Intangible assets	1.86	0.08
	Payments for Purchase of Intangible assets under development	0.02	2.19
		1,005.19	**3,530.47**
	Net cash used in investing activities - B	**(72.40)**	**(87.97)**

ARKA FINCAP LIMITED

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)

Special purpose Cash Flow Statement

		₹ in Crs. For the year ended 31 March 2021	₹ in Crs. For the year ended 31 March 2020
C	**Cash flow from financing activities**		
	Proceeds from issue of equity share capital (including securities premium)	124.82	499.50
	Stamp duty paid on issue of equity shares	-	(0.50)
	Proceeds from Bank and NBFCs Borrowings (net)	372.58	75.00
	Proceeds from issuance of Non-Convertiable Debentures	199.50	-
	Proceeds from issuance of Commercial Papers	23.59	-
	Finance cost paid	(37.14)	(2.04)
	Net cash generated from financing activities - C	**683.35**	**571.96**
	Net increase in cash and cash equivalents (A+B+C)	**102.81**	**113.04**
	Opening Cash and Cash equivalents	**123.27**	**10.23**
	Closing Cash and Cash equivalents *(Refer note 3.10)*	**226.08**	**123.27**

As per our report of even date attached.

For **B S R & Co. LLP**
Chartered Accountants
Firm's Registration No.: 101248W/W-100022

For and on behalf of the Board of Directors of
Arka Fincap Limited
(Formerly known as Kirloskar Capital Limited)

Vaibhav Shah
Partner
Membership No: 117377

Vimal Bhandari
Executive Vice Chairman and CEO
DIN: 00001318

Mahesh Chhabria
Non Executive Director
DIN: 00166049

Ritesh Jhanwar
Financial Controller

Amit Bondre
Deputy Company Secretary

Mumbai : 28 April 2021

Mumbai : 28 April 2021

(Currency : Indian Rupees in Crores)

1. Corporate Information

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited) (the 'Company') was incorporated on 20 April 2018. The Company is registered with the Reserve Bank of India (RBI) as a non-banking financial Company vide certificate no. N-13.02282 dated 25 July 2019 (previously issued in the name of Kirloskar Capital Limited vide certificate no. N-13.02282 dated 29 October 2018) in pursuance of Section 45-IA of the 'RBI' Act, 1934. The Company is wholly owned subsidiary of Kirloskar Oil Engines Limited ('KOEL'). The Company is primarily engaged in lending activities.

2 Significant accounting policies

2.01 Basis of preparation of financial statements

The special purpose financial statements are prepared solely for the use of the board of directors of the Company and for onward submission to the Company's holding Company (Kirloskar Oil Engines Limited) for preparation of the holding Company's consolidated financial statements. These special purposes financial statement prepared as fit for consolidation by Kirloskar Oil Engines Limited.

The special purpose financial statement has been prepared in all material aspect with Companies (Accounting Standards) Rules, 2015 (as amended) specified under sec. 133 of the Companies Act, 2013 to the extent applicable for the financial prepared fit for the consolidation.

2.02 Basis of measurement

The financial statements have been prepared on an accrual basis under the historical cost convention as modified by the application of fair value measurements required or allowed by the relevant standards under Ind AS in the case of certain financial assets and liabilities, net defined benefit (asset)/ liability and share based payments.

2.03 Functional Currency

Amounts in the financial statements are presented in Indian Rupees in Crores rounded off to nearest Rupee in Crores with two decimal places as fit for consolidation for Company's holding Company (Kirloskar Oil Engines Limited).

2.04 Current Vs Non-Current Classification

The Company presents assets and liabilities in the Balance Sheet based on current/ Non-current classification.

An asset is current when it is:

a. It is expected to be realized in, or is intended for sale or consumption in, the company's normal operating cycle.

b. Held primary for the purpose of trading.

c. Expected to be realized within twelve months after the reporting period, or

d. Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when it is:

a. Expected to be settled in the company's normal operating cycle.

b. Held primarily for the purpose of trading.

c. Due to be settled within twelve months after the reporting period, or

d. There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are treated as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

ARKA FINCAP LIMITED

(Currency : Indian Rupees in Crores)

2 *Significant accounting policies (Continued)*

2.05 Financial Instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Company becomes a party to the contractual provisions of the instrument. The Company determines the classification of its financial assets and financial liabilities at initial recognition based on its nature and characteristics.

2.05.A Financial assets

i) Initial recognition and measurement

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial assets.

The financial assets include investments in mutual funds, trade and other receivables, loans and advances and cash and bank balances.

ii) Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in three categories:

- At amortised cost,
- At fair value through other comprehensive income (FVOCI), and
- At fair value through profit or loss (FVTPL).

Debt instruments at amortised cost

A 'debt instrument' is measured at the amortised cost if both the following conditions are met:

• The asset is held within a business model whose objective is to hold the asset for collecting contractual cash flows, and

• Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial Assets at Amortised Cost

A financial asset is measured at amortised cost if:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest income in the statement of profit and loss. The losses arising from impairment are recognised in the statement of profit and loss.

ARKA FINCAP LIMITED

2 *Significant accounting policies (Continued)*

Fair value through other comprehensive income (FVOCI)

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, such financial assets, until they are derecognised or reclassified, are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income except for interest income, impairment gains or losses and foreign exchange gains and losses which are recognised in the statement of profit and loss.

Fair value through Profit and Loss (FVTPL)

A financial asset is measured at fair value through profit or loss unless it is measured at Amortised cost or at fair value through other comprehensive income.

In addition, the Company may elect to classify a financial asset, which otherwise meets Amortised cost or fair value through other comprehensive income criteria, as at fair value through profit or loss. However, such election is allowed only if doing so reduces or eliminates a measurement or recognition inconsistency (referred to as 'accounting mismatch').

After initial measurement, such financial assets are subsequently measured at fair value with unrealised gains or losses recognised in the statement of profit and loss.

iii) Reclassifications

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

The following are various reclassifications and how they are accounted for.

Reclassification from Amortised cost to FVTPL : Fair value is measured at reclassification date. Difference between previous amortized cost and fair value is recognised in the statement of Profit and loss.

Reclassification from FVTPL to Amortised cost : Fair value at reclassification date becomes its new gross carrying amount. EIR is calculated based on the new gross carrying amount.

ARKA FINCAP LIMITED

2 ***Significant accounting policies (Continued)***

Reclassification from Amortised cost to FVOCI : Fair value is measured at reclassification date. Difference between previous amortised cost and fair value is recognised in OCI. No change in EIR due to reclassification.

Reclassification from FVOCI to Amortised cost : Fair value at reclassification date becomes its new amortised cost carrying amount. However, cumulative gain or loss in OCI is adjusted against fair value. Consequently, the asset is measured as if it had always been measured at amortised cost.

Reclassification from FVTPL to FVOCI : Fair value at reclassification date becomes its new carrying amount. No other adjustment is required.

Reclassification from FVOCI to FVTPL : Assets continue to be measured at fair value. Cumulative gain or loss previously recognized in OCI is reclassified to statement of profit and loss at the reclassification date.

iv) Impairment of financial assets

Expected Credit Loss (ECL) principles
The provision for credit risks, which is recognized in accordance with the expected credit loss method specified by Ind AS 109 and in accordance with uniform standards applied, encompasses all financial assets measured at amortised cost. The calculation of the provision for credit risks generally takes into account the exposure at default, the probability of default and the loss given default.

Financial assets are subject to credit risks, which are taken into account by recognising the amount of the expected loss; such allowances are recognised for both financial assets with objective evidence of impairment and non-impaired financial assets.

The general approach is used for financial assets measured at amortised cost on initial recognition. Financial assets are broken down into three stages in the general approach.

Stage 1: All exposures where there has not been a significant increase in credit risk since initial recognition or that has low credit risk at the reporting date and that are not credit impaired upon origination are classified under this stage. The Company classifies all advances upto 30 days overdue under this category.

Stage 2: All exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired are classified under this stage. Exposures are classified as Stage 2 when the amount is due for more than 30 days but do not exceed 90 days.

Stage 3: All exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. Exposures where the amount remains due for 90 days or more are considered as to be stage 3 assets.

The Company undertakes the classification of exposures within the aforesaid stages at each borrower account level.

Impairment arises in a number of situations, such as delayed payment over a certain period, the initiation of enforcement measures, the threat of insolvency or over indebtedness, application for or the initiation of insolvency proceedings, or the failure of restructuring measures.

Reviews are regularly carried out to ensure that the allowances are appropriate. Uncollectible loans or receivables that are already subject to a workout process and for which all collateral has been recovered and all further options for recovering the loan or receivable have been exhausted are written off directly. Any valuation allowances previously recognised are utilised. Income subsequently collected in connection with loans or receivables already written off is recognised in profit or loss.

Loans and receivables are reported in the balance sheet at the net off ECL provision. The provision for credit risks relating to off-balance sheet irrevocable credit commitments is recognised as ECL provision and shown under provisions on liability side.

ARKA FINCAP LIMITED

2 *Significant accounting policies (Continued)*

2.05.A *Financial assets (Continued)*

iv) Impairment (Continued)

Expected Credit Loss (ECL) principles

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

Exposure-At-Default (EAD): The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

Probability of Default (PD): The Probability of Default is an estimate of the likelihood of default of the exposure over a given time horizon.

Loss Given Default (LGD): The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral.

The ECL allowance is applied on the financial instruments depending upon the classification of the financial instruments as per the credit risk involved. ECL allowance is computed on the below mentioned basis:

12-month ECL: 12-month ECL is the portion of Lifetime ECL that represents the ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. 12-month ECL is applied on stage 1 assets.

Lifetime ECL: Lifetime ECL for credit losses expected to arise over the life of the asset in cases of credit impaired loans and in case of financial instruments where there has been significant increase in credit risk since origination. Lifetime ECL is the expected credit loss resulting from all possible default events over the expected life of a financial instrument. Lifetime ECL is applied on stage 2 and stage 3 assets.

The Company compute the ECL allowance on individual basis based on type of asset/exposure and nature of collateral.

2.05.B Financial liabilities

i) Initial recognition and measurement

All financial liabilities are recognised initially at fair value minus, in the case of financial liabilities not recorded at fair value through profit or loss, transaction costs that are attributable to the issue of the financial liabilities. The financial liabilities include trade and other payables and loans and borrowings etc.

ii) Subsequent measurement

For the purpose of subsequent measurement, financial liabilities are classified and measured as follows.

ii.a) Financial liabilities at amortised cost

After initial recognition, financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the Statement of Profit and Loss.

ARKA FINCAP LIMITED

2 ***Significant accounting policies (Continued)***

ii.b) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in the statement of profit and loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in Ind AS 109 are satisfied.

2.05.C De-recognition

a) Derecognition of financial assets

A financial asset is derecognized when:

- the contractual rights to the cash flows from the financial asset expire,

Or

- The Company has transferred its contractual rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

b). Derecognition of financial liabilities

A financial liability (or a part of a financial liability) is derecognised from its balance sheet when, and only when, it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expired.

2.05.D Offsetting of financial instruments

Financial assets and financial liabilities including derivative instruments are offset and the net amount is reported in the Balance sheet, if there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

2.05.E Fair value measurement

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit and loss.

The Company's accounting policies and disclosures require the measurement of fair values for financial instruments. The management regularly reviews significant unobservable inputs and valuation adjustments.

ARKA FINCAP LIMITED

2 ***Significant accounting policies (Continued)***

2.05.E Fair value measurement *(Continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

• In the principal market for the asset or liability.

Or

• In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.05.F Modification of financial assets and financial liabilities

Financial Assets

If the terms of a financial assets are modified, the Company evaluates whether the cash flow of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

ARKA FINCAP LIMITED

(Currency : Indian Rupees in Crores)

2 *Significant accounting policies (Continued)*

2.05.F *Modification of financial assets and financial liabilities (Continued)*

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cashflows that are discounted at the financial asset's original effective interest rate and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the Statement of profit and loss. Any costs or fees incurred adjust the carrying amount of modified financial asset and are amortised over the remaining term of the modified financial asset. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses, in other cases, it is presented as interest income.

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the Statement of profit and loss.

2.06 Share capital

An equity instrument is a contract that evidences residual interest in the assets of the Company after deducting all of its liabilities. Incremental costs directly attributable to the issuance of new equity shares are recognized as a deduction from equity, net of any tax effects.

2.07 Cash and Cash equivalents

Cash comprises cash on hand and demand deposits with banks. Cash equivalents are short term, highly liquid investments that are readily convertible into known amounts of cash which are subject to an insignificant risk of changes in value.

2.08 Property, Plant and Equipment

a. Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. The cost of an item of Property, plant and equipment comprises its purchase price, and other non-refundable taxes or levies and any directly attributable cost of bringing the asset to its working condition for its intended use. Subsequent expenditure is capitalised only when it increases the future economic benefits from the specific asset to which it relates.

b. Residual values of all fixed assets are considered as nil.

Depreciation

c. The Company follows Straight Line Method ('SLM') of depreciation which is computed based on useful lives of assets as provided in Part "C" of Schedule II of the Companies Act 2013. Depreciation is charged on the basis of useful life of assets on straight line method which are follows:

Particulars	Estimated useful life by the Company
Office Equipment	5 years
Office Equipment (Mobile)	2 years
Furniture & Fixtures	10 years
Motor vehicles	5 years
Computer Equipment	
-Desktop/laptop	3 years

Depreciation on addition is provided from put to use date of assets.

Useful lives and methods of depreciation of all fixed assets are reviewed at each financial year end and adjusted prospectively, if appropriate.

ARKA FINCAP LIMITED

2 *Significant accounting policies (Continued)*

2.09 Intangible assets

Intangible assets are recognised when it is probable that the future economic benefits that are attributable to the assets will flow to the Company and the cost of the asset can be measured reliably.

The amortisation period and amortisation method for an intangible asset are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets are amortised by using straight line method over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset maybe impaired.

Asset Cateory	No. of years
Computer Software	5 Years
LOS Software	5 Years
LMS Software	8 Years
Supply Chain Software	4 Years

Intangible assets under development

Directly attributable costs that are capitalized as a part of software include an appropriate portion of relevant overheads. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is available for use.

Research expenditure and development expenditure that do not meet the above criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit and loss when the asset is derecognized.

2.10 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the Company's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation as at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

ARKA FINCAP LIMITED

2 ***Significant accounting policies (Continued)***

2.11 Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

2.12 Earnings per share

The Company reports basic and diluted earnings per share in accordance with Ind AS 33 on Earnings per share. Basic EPS is calculated by dividing the net profit or loss for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year.

For the purpose of calculating diluted earnings per share, the net profit or loss for the year attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. In computing the dilutive earnings per share, only potential equity shares that are dilutive and that either reduces the earnings per share or increases loss per share are included.

2.13 Employee Benefits

i) Short-term employee benefits

The distinction between short term and long-term employee benefits is based on expected timing of settlement rather than the employee's entitlement benefits. All employee benefits payable within twelve months of rendering the service are classified as short-term benefits. Such benefits include salaries, wages, bonus, short term compensated absences, awards, exgratia, performance pay etc. and are recognised in the period in which the employee renders the related service.

ii) Post-Employment Benefits

The employee's gratuity scheme is Company's defined benefit plan. The present value of the obligation under such defined benefit plans is determined based on the actuarial valuation using the Projected Unit Credit Method as at the date of the Balance sheet.

Defined benefit employee costs comprising current service cost, past service cost, interest cost implicit in defined benefit employee cost and actuarial gains or losses.

Re-measurements, comprising of actuarial gains and losses, are recognised immediately in the Balance Sheet with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to the profit or loss in subsequent periods.

Current service cost, past service cost, interest cost implicit in defined benefit employee cost are recognised in the Statement of Profit and Loss as employee benefits expense.

iii. Other long-term employment benefits:

The Company measures Accumulated leaves based on the actuarial valuation using the projected unit credit method at the year-end.

a) Defined Contribution Plan

The Company's contribution paid/payable during the year towards Provident and other funds is charged to statement of profit and loss in the year in which employee renders the related service.

b) Defined Benefit Plan

The company has an obligation towards gratuity, a non funded defined benefit plan covering eligible employees. Vesting for gratuity occurs upon completion of five years of service.

Details of the unfunded defined benefit plans for its employees are given in note 5.09 which is as certified by the actuary using projected unit credit method.

iv) Compensated Absences

The employees of the Company are entitled to compensated absences which are both accumulating and non-accumulating in nature. The expected cost of accumulating compensated absences is determined by actuarial valuation using projected unit credit method for the unused entitlement that has accumulated as at the balance sheet date.

ARKA FINCAP LIMITED

2 *Significant accounting policies (Continued)*

2.14 Taxes

Income tax expense comprises current tax and deferred tax and is recognized in the statement of profit and loss except to the extent it relates to items directly recognized in equity or in OCI.

Current income tax

Current income tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the taxation authorities; on the basis of the taxable profits computed for the current accounting period in accordance with Income Tax Act, 1961. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised in other comprehensive income or directly in equity is recognised in other comprehensive income or in equity, respectively, and not in the statement of Profit and Loss. The Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred income tax is recognized using the balance sheet approach. Deferred income tax assets and liabilities are recognized for deductible and taxable temporary differences arising between the tax base of assets and liabilities and their carrying amount in financial statements, except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profits or loss at the time of the transaction.

Deferred tax relating to items recognised outside the statement of profit and loss is recognised outside the profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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 the deferred taxes relate to the same taxable entity and the same taxation authority.

2.15 Leases

The Company as a lessee

The Company assesses whether a contract contains a lease, at inception of a contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether: (1) the contract involves the use of an identified asset (2) the Company has substantially all of the economic benefits from use of the asset through the period of the lease and (3) the Company has the right to direct the use of the asset.

At the date of commencement of the lease, the Company recognizes a right-of-use asset ("ROU") and a corresponding lease liability for all lease arrangements in which it is a lessee, except for leases with a term of twelve months or less (short-term leases) and low value leases. For these short-term and low value leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease.

Certain lease arrangements include the options to extend or terminate the lease before the end of the lease term. ROU assets and lease liabilities includes these options when it is reasonably certain that they will be exercised.

The right-of-use assets are initially recognized at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or prior to the commencement date of the lease plus any initial direct costs less any lease incentives. They are subsequently measured at cost less accumulated depreciation and impairment losses.

ARKA FINCAP LIMITED

2 ***Significant accounting policies (Continued)***

Right-of-use assets are depreciated from the commencement date on a straight-line basis over the shorter of the lease term and useful life of the underlying asset.

The lease liability is initially measured at amortized cost at the present value of the future lease payments. The lease payments are discounted using the incremental borrowing rates of the Company. Lease liabilities are remeasured with a corresponding adjustment to the related right of use asset if the Company changes its assessment if whether it will exercise an extension or a termination option. Lease liabilities are remeasured at fair value at the balance sheet date with the corresponding impact considered in the statement of profit and loss as interest charge/ income.

Lease liability and ROU asset have been separately presented in the Balance Sheet.

2.16 Employee Share Based Plan

Share-based compensation benefits are provided to the employees through the Employee Stock Option Scheme 2019 ("Plan"). The fair value of options determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period with a corresponding credit to share options outstanding reserve, based on the Company's estimate of the shares that will eventually vest and adjusted for the effect of service conditions.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The stock options granted to employees are measured at the fair value of the options at the grant date. The fair value of the options is treated as discount and accounted as employee compensation cost over the vesting period on a straight-line basis. The amount recognised as expense in each year is arrived at based on the number of grants expected to vest. If a grant lapses after the vesting period, the cumulative discount recognised as expense in respect of such grant is transferred to the general reserve within equity.

2.17 Segment Reporting

The Company is primarily engaged in the business of financing and accordingly there are no separate reportable segments as per Ind AS 108 dealing with Operating segment.

2.18 Revenue Recognition

Recognition of Interest income

• Interest income and expense presented in statement of profit and loss includes interest on financial assets and liabilities measured at amortised cost calculated on an effective interest basis. Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. The amortization of income and expenses for financial assets under EIR approach is done on a systematic basis that exactly discounts estimated future cash flows of the financial asset through the expected life of the financial asset.

• The interest income is calculated by applying the EIR to the gross carrying amount of non-credit imparied financial assets. (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance). For credit-imparied financial assets the interest income is calculated applying the EIR to the amortised cost of the credit-impaired financial asset (i.e. the gross carrying amount less the allowances for ECLs).

ARKA FINCAP LIMITED

2 *Significant accounting policies (Continued)*

Fee income

• Fees earned by the company which are not directly attributable to disbursal of loans are recognised in the statement of profit and loss as and when earned.

• The company has applied Ind AS 115 Revenue recognition accounting standard for preparation of these financial statement. Ind AS 115 Revenue from contracts with customers outlines a single comprehensive model of accounting for revenue arising from contracts with customers.

The Company recognises revenue from contracts with customers based on a five step model as set out in Ind AS 115:

Step 1: Identify contract(s) with a customer
Step 2: Identify performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Syndication, advisory & other fees

Syndication, advisory & other fees are recognised as income when the performance obligation as per the contract with customer is fulfilled and when the right to receive the payment against the services has been established.

Recognition of Profit/loss on sale of investments

Profit/loss on sale of investments is recognised on trade date basis. Profit/loss on sale of mutual fund units is determined based on the first in first out (FIFO) method.

Net gain/(loss) on Fair value changes:

Any differences between the fair values of financial assets classified as fair value through the profit or loss, held by the Company on the balance sheet date is recognised as a Fair value gain or loss as a gain or expense respectively.

2.19 Cash Flow Statement

Cash flows are reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferral or accruals of past or future cash receipts or payments. The cash flows from regular operating, investing and financing activities of the Company are segregated.

2.20 Critical Accounting Estimates and Judgements

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in the futureperiods

ARKA FINCAP LIMITED

2 ***Significant accounting policies (Continued)***

2.20 Critical Accounting Estimates and Judgements *(Continued)*

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the standalone financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

A. Measurement of impairment of loans and advances

Judgement is required by management in the estimation of the amount and timing of future cash flows when determining an impairment loss for loans and advances. In estimating these cash flows, the company makes judgements about the borrower's financial situation and the net realisable value of collateral, if any. These estimates are based on assumptions about a number of factors including forward looking information, and actual results may differ, resulting in future changes to the impairment allowance.

B. Measurement of defined benefit obligations

The cost of the defined benefit plans and other post-employment benefits and the present value of the obligation are determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future post-retirement medical benefit increase. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of government bonds in currencies consistent with the currencies of the post-employment benefit obligation and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases are based on expected future inflation rates for the country.

Further details about defined benefit obligations are provided in Note 5.09

C. Useful lives of property, plant and equipment and intangible assets

The Company reviews the estimated useful lives of property, plant and equipment and intangible assets at the end of each reporting period or even earlier in case, circumstances change such that the amount recorded value of an asset may not be recoverable.

D. Recognition of deferred tax assets for carried forward tax losses

Deferred tax assets are recognised for all deductible temporary differences including the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

ARKA FINCAP LIMITED

2 *Significant accounting policies (Continued)*

2.20 *Critical Accounting Estimates and Judgements (Continued)*

E. Fair value of financial instrument

The fair value of financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note - 5.02.

F. Business model assessment

Classification and measurement of financial asset depends upon the results of the solely payment of principal and interest (SPPI) and the business model test. The Company determines the business model at a level that reflects how groups of financial asset are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the asset is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Company monitors financial assets measured at amortised or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held.

2.21 Standards Issued but not yet Effective

There are neither new standards nor amendments to existing standards which are effective for the annual period beginning from 01 April 2021.

ARKA FINCAP LIMITED

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)

Notes to the Financial Statements

Note 3.01 : Property, Plant and equipment

₹ in Crs.

Fixed Assets	Right of use Building	Leasehold Improvements	Furniture & Fixture	Vehicles	Office Equipment	Computers	Total
Gross Block							
As At 31 March 2019	-	3.45	0.03	0.70	0.08	0.11	4.37
Additions	7.80	-	-	-	0.04	0.11	7.95
Deductions / Amortization	-	-	-	-	-	-	-
As At 31 March 2020	7.80	3.45	0.03	0.70	0.12	0.22	12.32
Additions	-	-	-	0.36	0.05	0.20	0.61
Deductions / Amortization	-	-	-	-	-	-	-
As At 31 March 2021	7.80	3.45	0.03	1.06	0.17	0.42	12.93
Depreciation							
Upto 1 April 2019	-	0.18	-	0.05	-	0.01	0.24
For the year	1.56	0.72	-	0.09	0.02	0.05	2.44
Deductions / Amortization	-	-	-	-	-	-	-
As At 31 March 2020	1.56	0.90	-	0.14	0.02	0.06	2.68
For the year	1.69	0.71	-	0.18	0.03	0.11	2.72
Deductions / Amortization	-	-	-	-	-	-	-
As At 31 March 2021	3.25	1.61	-	0.32	0.05	0.17	5.40
Net Block							
As At 31 March 2019	-	3.27	0.03	0.65	0.08	0.10	4.13
As At 31 March 2020	6.24	2.55	0.03	0.56	0.10	0.16	9.64
As At 31 March 2021	4.55	1.84	0.03	0.74	0.12	0.25	7.53

Notes :

1. Gross block is at Cost.
2. For Depreciation and amortisation refer accounting policy (Note 2.08)

ARKA FINCAP LIMITED

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)

Notes to the Financial Statements

Note 3.02 : Other Intangible assets

₹ in Crs.

Fixed Assets	Softwares	Total
Gross Block		
As At 31 March 2019	**0.02**	**0.02**
Additions	0.08	0.08
Deductions / Amortization	-	-
As At 31 March 2020	**0.10**	**0.10**
Additions	4.05	4.05
Deductions / Amortization	-	-
As At 31 March 2021	**4.15**	**4.15**
Depreciation		
Upto 1 April 2019	-	-
For The Year	0.02	0.02
Deductions / Amortization	-	-
As At 31 March 2020	**0.02**	**0.02**
For The Period	0.43	0.43
Deductions / Amortization	-	-
As At 31 March 2021	**0.45**	**0.45**
Net Block		
As At 31 March 2019	**0.02**	**0.02**
As At 31 March 2020	**0.08**	**0.08**
As At 31 March 2021	**3.70**	**3.70**

Notes :

1. Intangible Assets are amortised on Straight Line method.
2. For Depreciation and amortisation refer accounting policy (Note 2.9)

Note 3.03 : Intangible assets under development

₹ in Crs.

Particulars	As at 31 Mar 2021	As at 31 March 2020
(i) Loan Origination System (LOS)	-	1.39
(ii) Loan Management System (LMS)	-	0.80
(iii) Supply chain system	0.02	-
Total	**0.02**	**2.19**

ARKA FINCAP LIMITED

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)

Notes to the Financial Statements

Note 3.04 : Non-current investments ₹ in Crs.

Particulars	Par Value / Face Value Per Unit	As at 31 March 2021		As at 31 March 2020	
		Nos.	₹ in Crs.	Nos.	₹ in Crs.
(i) **At Amortised Cost**					
Quoted Investment					
Investments in debentures or bonds (quoted)					
12.50% Sterlite Power Transmission Ltd NCD 29.03.22	-	-	-	10,00,000	49.63
9.45% ECL Finance Limited NCD (Series II) 06/08/2021	-	-	-	2,50,000	24.33
Vivriti Capital Private Limited RR NCD 03MR23	10,00,000	250	25.19	-	-
Less: Provision for expected credit loss			(0.04)		(0.13)
			25.15		**73.83**
Unquoted Investment					
Investments in Pass through certificates (PTC)					
Dhruva-VIII AK 12 2020 (Five Star PTC)			22.21	-	-
Less: Provision for expected credit loss			(0.00)		-
			22.20		-
Total			**47.36**		**73.83**

1. Face value per unit in Rupees unless otherwise stated.
2. Investments in debentures, Pass through certificates (PTCs) are measured at amortised cost.
3. Refer Note 2.05.A (iv) for policy on provision for expected credit loss.
4. Refer Note 5.02.A for fair value disclosure of financial assets, financial liabilities and fair value hierarchy.
5. Refer note no. 5.03 on risk management objectives and policies for financial instruments.

ARKA FINCAP LIMITED

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Notes to the Financial Statements

Note 3.05 : Loans (Non current)

₹ in Crs.

Particulars	As at 31 March 2021	As at 31 March 2020
Receivable from financing business	**614.49**	**181.13**
Secured, considered good	616.30	182.26
Less: Provision for expected credit loss	(1.81)	(1.13)
Other loans and advances		
Loans to employees (unsecured, considered good)	**0.16**	**0.23**
Total	**614.65**	**181.36**

1. Loans are measured at amortised cost.
2. Refer Note 2.05.A (iv) for policy on provision for expected credit loss.
3. Refer Note 5.02.A for fair value disclosure of financial assets, financial liabilities and fair value hierarchy.

4. Refer note no. 5.03 on risk management objectives and policies for financial instruments.

ARKA FINCAP LIMITED

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Notes to the Financial Statements

Note 3.06 : Other financial assets (non current)

₹ in Crs.

	As at 31 March 2021	As at 31 March 2020
Security deposits (Unsecured, considered good)	2.03	1.78
Total	**2.03**	**1.78**

1. Other financial assets are measured at amortised cost.
2. Refer Note 5.02.A for fair value disclosure of financial assets, financial liabilities and fair value hierarchy.
3. Refer note no. 5.03 on risk management objectives and policies for financial instruments.

ARKA FINCAP LIMITED

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)
Notes to the Financial Statements

Note 3.07 : Deferred tax assets (net)

₹ in Crs.

Particulars	As at 31 March 2021	As at 31 March 2020
Deferred Tax Assets	**3.94**	**2.71**
Disallowances u/s 43 B of Income Tax Act	0.15	0.08
Provision for expected credit loss	0.12	-
Preliminary Expenses u/s 35D of Income tax Act, 1961	0.14	0.20
Fair value of Employee Loan	-	0.01
Fair value of Security deposit	0.16	0.21
Fair value of Lease Liability	1.11	1.44
Fair value of Loan given	2.23	0.77
Fair value of Investment in CPs	0.03	-
Less : Deferred Tax Liability	**1.19**	**1.44**
Depreciation	1.23	1.49
Fair value of Prepaid Rent	(0.00)	-
Fair value of investment in debentures	(0.04)	(0.07)
Fair value of investment in mutual funds	-	0.02
Total	**2.75**	**1.27**

1. Reconciliation of deferred tax assets / (liabilities), net

₹ in Crs.

Particulars	As at 31 March 2021	As at 31 March 2020
Opening balance as of 1 April	**1.27**	**2.40**
Tax income/(expense) during the year recognised in profit or loss	**1.51**	**(1.14)**
Tax income/(expense) during the year recognised in OCI	**(0.03)**	**0.01**
Closing balance as at 31 March	**2.75**	**1.27**

2. The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

3. The applicable tax rate for the computation of deferred tax for the year ended 31 March 2021 is 25.168% (Previous year : 25.168%).

ARKA FINCAP LIMITED

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)
Notes to the Financial Statements

Note 3.08 : Other non-current assets

₹ in Crs.

Particulars	As at 31 March 2021	As at 31 March 2020
Prepaid expenses	0.19	1.32
Total	**0.19**	**1.32**

ARKA FINCAP LIMITED

Note 3.09 : Current investments ₹ in Crs.

Particulars	Face Value Per Unit	As at 31 March 2021		As at 31 March 2020	
	In ₹	Nos.	₹ in Crs.	Nos.	₹ in Crs.
Quoted Investment					
Investments in debentures or bonds (quoted)					
8.65% Avanse Financial Services Ltd. NCD 02.11.2020	-	-	(0.00)	200	20.22
9.45% ECL Finance Limited NCD (Series II) 06/08/2021	1,000	2,50,000	25.89	-	-
Less: Provision for expected credit loss			(0.04)		(0.04)
			25.85		**20.18**
Unquoted Investment					
Investment in commercial papers (unquoted)					
8.50% Adani Enterprises Limited	5,00,000	1000	49.12		-
8.30% Adani Enterprises Limited	5,00,000	300	14.74		-
7.70% Northern Arc Capital Ltd	5,00,000	500	24.69		-
7.90% JSW Cement Limited	5,00,000	1000	49.39		-
Less: Provision for expected credit loss			(0.28)		-
			137.65		-
Investments in Pass Through Certificates (PTCs)					
Vivriti Bane 12 2019			3.95		-
Less: Provision for expected credit loss			-		-
			3.95		-
Investments in mutual funds (unquoted)					
ICICI Prudential Liquid Fund-Direct Plan-Growth			-	2,73,383	8.03
Franklin India Liquid Fund - Super inst. Plan - Direct			-	26,935	8.04
BNP Paribas Liquid Fund Direct Growth			-	9,851	3.01
			-		**19.08**
Total			**167.44**		**39.26**

Notes :

1. Aggregate amount of Quoted Investments	25.85	20.18
2. Aggregate amount of Unquoted Investments	141.59	19.08

3. Face value per unit in Rupees unless otherwise stated.
4. Refer Note 2.05.A (iv) for policy on provision for expected credit loss.
5. Refer Note 5.02.A for fair value disclosure of financial assets, financial liabilities and fair value hierarchy.
6. Refer note no. 5.03 on risk management objectives and policies for financial instruments.

ARKA FINCAP LIMITED

Note 3.10 : Cash and cash equivalents

₹ in Crs.

Particulars	As at 31 March 2021	As at 31 March 2020
Balance with Bank		
Current account	51.08	73.27
Fixed deposits with original maturity of less than 3 months	175.00	50.00
Total	**226.08**	**123.27**

ARKA FINCAP LIMITED

Note 3.11 : Loans (Current)

₹ in Crs.

	As at 31 March 2021	As at 31 March 2020
Receivable from financing business	**291.87**	**180.75**
Secured, considered good	277.58	180.88
Less: Provision for expected credit loss	(0.88)	(0.13)
Unsecured, considered good	15.29	-
Less: Provision for expected credit loss	(0.12)	-
Other loans and advances		
Loans to employees (unsecured, considered good)	**0.07**	**0.23**
Total	**291.94**	**180.97**

1. Loans are measured at amortised cost.
2. Refer Note 2.05.A (iv) for policy on provision for expected credit loss.
3. Refer Note 5.02.A for fair value disclosure of financial assets, financial liabilities and fair value hierarchy.
4. Refer note no. 5.03 on risk management objectives and policies for financial instruments.

ARKA FINCAP LIMITED

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)
Notes to the Financial Statements

Note 3.12 : Other financial assets (Current)

₹ in Crs.

	As at 31 March 2021	As at 31 March 2020
Accrued interest on fixed deposits	0.17	0.06
Total	**0.17**	**0.06**

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)
Notes to the Financial Statements

Note 3.13 : Current tax assets (net)

₹ in Crs.

Particulars	As at 31 March 2021	As at 31 March 2020
Tax Paid in Advance (net of provision for taxes Rs 7.92 Crores ; Previous year Rs 2.94 Crores)	0.85	0.17
Total	**0.85**	**0.17**

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)
Notes to the Financial Statements

Note 3.14 : Other current assets

₹ in Crs.

Particulars	As at 31 March 2021	As at 31 March 2020
Advance to suppliers	0.02	0.01
GST receivable (net)	0.33	0.82
Prepaid expenses	1.08	1.44
Total	**1.43**	**2.27**

ARKA FINCAP LIMITED

Note 3.15 : Share capital

Authorised share capital
Equity shares of ₹ 10 each

Particulars	No. of shares	₹ in Crs.
At 1 April 2019	**1,00,00,00,000**	**1,000.00**
Increase/(decrease) during the year	-	-
At 31 March 2020	**1,00,00,00,000**	**1,000.00**
Increase/(decrease) during the period	-	-
At 31 March 2021	**1,00,00,00,000**	**1,000.00**

Terms/Rights attached to the equity shares
The Company has only one class of equity shares having a par value of ₹ 10/- each. Each equity shareholder is entitled to one vote per share and has a right to receive dividend as recommended by Board of Directors subject to the necessary approval from the shareholders.

In the event of liquidation of the Company, the holders of equity shares will be entitled to receive remaining assets of the Company, after distribution of all preferential amounts. The distribution will be in proportion to the number of equity shares held by the shareholders.

Issued and subscribed share capital
Equity shares of ₹ 10 each

Particulars	No. of shares	₹ in Crs.
As at 1 April 2019	**2,70,00,000**	**27.00**
Changes during the year	**49,95,00,000**	**499.50**
As at 31 March 2020	**52,65,00,000**	**526.50**
Changes during the year	**11,34,69,828**	**113.47**
As at 31 March 2021	**63,99,69,828**	**639.97**

Subscribed and fully paid up
Equity shares of ₹ 10 each

Particulars	No. of shares	₹ in Crs.
As at 1 April 2019	**2,70,00,000**	**27.00**
Changes during the year	**49,95,00,000**	**499.50**
As at 31 March 2020	**52,65,00,000**	**526.50**
Changes during the year	**11,34,69,828**	**113.47**
As at 31 March 2021	**63,99,69,828**	**639.97**

3.15.1 Number of Shares held by each shareholder holding more than 5% Shares in the Company

Name of the Shareholder	As at 31 March 2021		As at 31 March 2020	
	No. of shares	% of shareholding	No. of shares	% of shareholding
Kirloskar Oil Engines Limited	63,99,69,828	100.00	52,65,00,000	100.00

ARKA FINCAP LIMITED

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)
Notes to the Financial Statements

Note 3.16 : Other Equity

₹ in Crs.

Particulars	As at 31 March 2021	As at 31 March 2020
Statutory reserve u/s 45-IC of The Reserve Bank of India Act, 1934[1]	**4.60**	**1.22**
Opening Balance	1.22	-
Add : Additions during the year[1]	3.38	1.22
Securities premium reserve[2]	**11.35**	-
Opening Balance	-	-
Add : Additions during the year	11.35	-
Employee Stock option reserve[3]	**6.99**	**4.72**
Opening Balance	4.72	-
Add : Additions during the year[1]	2.27	4.72
RETAINED EARNINGS	**10.44**	**(3.15)**
Opening Balance	(3.15)	(7.50)
Add : Profit / (Loss) for the year	16.88	6.09
Add : Other Comprehensive income	0.09	(0.02)
	16.97	**6.07**
Less : Appropriations		
Stamp duty paid on equity issue	-	0.50
Transfer to Special Reserve under Section 45-IC of The Reserve Bank of India Act, 1934[1]	3.38	1.22
	3.38	**1.72**
Total	**33.38**	**2.79**

Other reserves

Particulars	As at 31 March 2021	As at 31 March 2020
Statutory reserve u/s 45-IC of The Reserve Bank of India Act, 1934[1]	4.60	1.22
Securities premium reserve[2]	11.35	-
Employee Stock option reserve[3]	6.99	4.72
Retained Earnings	10.44	(3.15)
Total other reserves	**33.38**	**2.79**

1. Pursuant to the provision of section 45(IC) of Reserve Bank of India Act, 1934, the Company has transferred ₹ 3.38 Crore (Previous Year : ₹ 1.22 Crore) towards statutory reserve fund.

2. During the year ended 31 March 2021, the Company has issued 11,34,69,828 right equity shares of ₹ 10 per shares at a premium of ₹ 1 per share amounting to ₹ 124.82 Crores to its holding comapny 'Kirloskar Oil Engines Limited'.

3. Refer note no. 5.10 for disclosure on Employee Stock option Plan (ESOP).

ARKA FINCAP LIMITED

Note 3.17 : Borrowings (Non current)

₹ in Crs.

Particulars	As at 31 March 2021	As at 31 March 2020
Term loan from Banks [Secured by first pari passu charge by way of hypothecation on present and future receivables, book debts, cash & cash equivalents and liquid investments]	192.47	52.50
Non-Convertible Debenture	198.45	-
Term Loan from Non-Banking Finance Companies (NBFCs)	21.93	-
Total	**412.85**	**52.50**

1. Borrowings are measured at amortised cost.
2. Refer Note 5.02.A for fair value disclosure of financial assets, financial liabilities and fair value hierarchy.
3. Refer note no. 5.03 on risk management objectives and policies for financial instruments.

ARKA FINCAP LIMITED

Note 3.18 : Other financial liabilities (Non current)

₹ in Crs.

Particulars	As at 31 March 2021	As at 31 March 2020
Lease Liability	2.93	4.40
Total	**2.93**	**4.40**

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Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)
Notes to the Financial Statements

Note 3.19 : Long-term provisions

₹ in Crs.

Particulars	As at 31 March 2021	As at 31 March 2020
Provision for employee benefits	**0.46**	**0.27**
Provision for gratuity	0.24	0.18
Provision for leave encashment	0.22	0.09
Other provisions	**0.46**	-
Expected credit loss on undrawn loan commitments	0.46	-
Total	**0.92**	**0.27**

1. Refer Note 3.24 Short-term provisions for additional disclosures.

ARKA FINCAP LIMITED

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)
Notes to the Financial Statements

Note 3.20 : Borrowings

₹ in Crs.

Particulars	As at 31 March 2021	As at 31 March 2020
Secured:		
Interest bearing borrowings From Banks and other Financial Institutions	**89.91**	-
Working Capital Demand Loan from bank	49.96	-
Term Loan - from other financial institution	39.95	-
Unsecured:		
Commercial paper	25.00	-
Less: Unamortised discount on commercial paper	(1.41)	-
	23.59	-
Total	**113.50**	-
Aggregate secured borrowings	**89.91**	-
Aggregate unsecured borrowings	**23.59**	-

ARKA FINCAP LIMITED

Note 3.21 : Trade and other payables

₹ in Crs.

Particulars	As at 31 March 2021	As at 31 March 2020
Due to micro, small and medium enterprises	-	-
Due to other than micro, small and medium enterprises	0.66	0.22
Total	**0.66**	**0.22**

1. Trade and other payables are measured at amortised cost.
2. Refer Note 5.02.A for fair value disclosure of financial assets, financial liabilities and fair value hierarchy.
3. Refer note no. 5.03 on risk management objectives and policies for financial instruments.

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)
Notes to the Financial Statements

Note 3.22 : Other financial liabilities (Current)

₹ in Crs.

Particulars	As at 31 March 2021	As at 31 March 2020
Current maturities of long term debt:		
Term loan from Banks	128.34	22.50
Term loan from NBFCs	11.00	-
Lease obligation	1.47	1.30
Interest accrued but not due on borrowings	5.49	-
Employee benefits payable	7.95	6.11
Provision for capital expenditure	0.93	-
Total	**155.18**	**29.91**

1. Trade and other payables are measured at amortised cost.

2. Refer Note 5.02.A for fair value disclosure of financial assets, financial liabilities and fair value hierarchy.

3. Refer note no. 5.03 on risk management objectives and policies for financial instruments.

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Notes to the Financial Statements

Note 3.23 : Other Current liabilities

₹ in Crs.

Particulars	As at 31 March 2021	As at 31 March 2020
Statutory dues (TDS, GST etc)	0.88	0.82
Amount received in advance from Cutomers	5.75	-
Total	**6.63**	**0.82**

Note 3.24 : Short-term provisions

₹ in Crs.

Particulars	As at 31 March 2021	As at 31 March 2020
Provision for employee benefits	**0.12**	**0.06**
Provision for gratuity	-	-
Provision for leave encashment	0.12	0.06
Total	**0.12**	**0.06**

Refer Note 3.19 Long-term provisions.

Note :

1. Employee benefits obligations

a. Gratuity

The Company provides gratuity for employees as per the Gratuity Act, 1972 and Company's Internal Gratuity Scheme. Employees who are in continuous service for a period of five years are eligible for gratuity. The amount of gratuity is payable on retirement or termination whichever is earlier. The level of benefits provided depends on the member's length of service and salary at retirement age. The gratuity plan is un-funded.

b. Compensated absences

The leave obligation cover the Company's liability for earned leaves.
Also refer Note 5.09 for detailed disclosure.

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Notes to the Financial Statements

Note 4.01 : Revenue from operations

₹ in Crs.

Particulars	2020-21	2019-20
Fee and commission income	**1.80**	-
Syndication, advisory & other fees	1.80	-
Interest income	**97.89**	**40.52**
On loans		
Employee loan	0.05	0.06
Financing business	67.73	20.49
On debt instruments	19.74	5.40
On bank deposits	5.21	6.97
On commercial paper	4.96	7.42
On Security Deposit	0.20	0.18
Income from treasury	**2.19**	**7.92**
Net profit on sale of current investments	2.27	7.84
Fair value gain on current investments	(0.08)	0.08
Total	**101.88**	**48.44**

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Notes to the Financial Statements

Note 4.02 : Other income

₹ in Crs.

Particulars	2020-21	2019-20
Miscellaneous income		
Penal Interest from clients	1.04	-
Total	**1.04**	**-**

Note 4.03 : Employee benefits expense

₹ in Crs.

Particulars	2020-21	2019-20
Salaries, other allowances and bonus	27.30	20.68
Provident and other funds expenses (Refer Note 5.09)	0.53	0.25
Leave encashment expense (Refer Note 5.09)	0.20	0.10
Gratuity expense (Refer Note 5.09)	0.18	0.12
Share based payment expense (Refer Note 5.10)	2.27	4.72
Staff welfare expenses	0.03	0.06
Total	**30.51**	**25.93**

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Notes to the Financial Statements

Note 4.04 : Finance costs

₹ in Crs.

Particulars	2020-21	2019-20
Interest Exps on lease liability	0.55	0.62
Interest on debentures issued	13.03	-
Interest on term loan from banks & NBFCs	19.26	1.53
Interest on overdraft facility from banks	0.11	0.26
Interest on loan from holding company	0.35	-
Discount on commercial paper issued	2.29	-
Bank charges & other related costs	2.08	0.25
Interest on shortfall in payment of advance income tax	0.01	0.01
Total	**37.68**	**2.67**

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Notes to the Financial Statements

Note 4.05 : Depreciation and amortization expense

₹ in Crs.

Particulars	2020-21	2019-20
Depreciation and amortization expense	**3.15**	**2.46**
Depreciation on Tangible assets	2.72	2.44
Amortization on Intangible assets	0.43	0.02
Total	**3.15**	**2.46**

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Notes to the Financial Statements

Note 4.06 : Other expenses

₹ in Crs.

Particulars	2020-21	2019-20
Administration expenses	**8.31**	**7.21**
Rates and taxes	-	0.01
Insurance	0.26	0.12
Other repairs and maintenance	0.21	0.19
Travelling and conveyance	0.26	0.26
Communication expenses	0.06	0.07
Printing and stationery	0.02	0.04
Provision for expected credit loss	2.21	1.43
Professional charges	1.70	3.10
Membership and subscription	0.10	0.14
Auditor's remuneration (refer note below)	0.16	0.17
Technology expenses	1.49	0.09
Custodian charges	0.01	-
Directors' sitting fees	0.16	0.11
Electricity charges	0.06	0.08
Office expenses	0.16	0.15
Postage and courier	0.01	-
GST expenses	1.09	0.99
Stamp duty	0.07	0.03
Housekeeping and security charges	0.23	0.22
Corporate social responsibilities expenses (refer note below)	0.05	-
Loss on fair value of employee loan	-	0.01
Total	**8.31**	**7.21**

Payment to auditor includes:		
a) as statutory auditors	0.16	0.15
b) for certification related matters	0.00	0.01
c) for other services	-	0.01
	0.16	**0.17**

Details for expenditure on Corporate Social Responsibility:		
a) Gross amount required to be spent during the year	0.05	-
b) Amount spent during the year:		
- Expenses paid in cash	0.05	-
- Expenses yet to be paid for	-	-
Total	**0.05**	**-**
c) Nature of expenditure:		
- Capital expenditure (asset acquisition/creation)	-	-
- Revenue expenditure	0.05	-
Total	**0.05**	**-**

ARKA FINCAP LIMITED

Note 4.07 : Income tax

The note below details the major components of income tax expenses for the year ended 31 March 2021 and 31 March 2020. The note further describes the significant estimates made in relation to company's income tax position, and also explains how the income tax expense is impacted by non-assessable and non-deductible items.

₹ in Crs.

Particulars	2020-21	2019-20
Current tax	**7.90**	**2.93**
Current income tax	7.90	2.93
Deferred tax	**(1.51)**	**1.14**
Relating to origination and reversal or temporary difference	(1.51)	1.14
Income tax expense reported in the statement of profit and loss	**6.39**	**4.07**

Other Comprehensive Income (OCI) ₹ in Crs.

Particulars	2020-21	2019-20
Deferred tax related to items recognised in OCI during the year		
Net loss/(gain) on actuarial gains and losses	0.03	(0.01)
Deferred tax charged to OCI	**0.03**	**(0.01)**

Reconciliation of tax expense and the accounting profit multiplied by applicable tax rate as notified under Income Tax Act, 1961 enacted in India for the years ended 31 March 2021 and 31 March 2020.

Current tax ₹ in Crs.

Particulars	2020-21	2019-20
Accounting profit before income tax expense	23.28	10.17
Tax @ 25.1680% (31 March 2020 : 25.168%)	**5.86**	**2.56**
Difference in tax rate due to:		
- Effect of non-deductible expenses	0.58	1.19
- Others	(0.05)	0.32
Total Tax Expenses Recognised	**6.39**	**4.07**
Effective tax rate	**27.44%**	**40.02%**

ARKA FINCAP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

(Currency : Indian Rupees in Crores)

NOTE 5.01 : Earnings per share (EPS)

Basic EPS calculated by dividing the net profit for the year attributable to equity holders by the weighted average number of equity shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit attributable to equity holders (after adjusting profit impact of dilutive potential equity shares, if any) by the aggregate of weighted average number of equity shares outstanding during the year and the weighted average number of equity shares that would be issued on conversion of all the dilutive potential equity shares into equity shares.

Particulars		For the year ended 31 March 2021	For the year ended 31 March 2020
I.	**Profit attributable to equity holders (A)**		
	Profit attributable to equity holders for basic and diluted EPS	16.88	6.09
II.	**Weighted average number of equity shares for calculating Basic EPS (B)**	56,12,87,051	51,28,52,459
III.	**Weighted average number of equity shares for calculating Diluted EPS (C)**	56,73,56,894	51,86,53,336
IV.	**Basic earnings per share (₹)**	0.30	0.12
V.	**Diluted earnings per share (₹)**	0.30	0.12

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NOTE 5.02 : Financial instruments – Fair values

A. Accounting classification and fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions , regardless of whether that price is directly observable or estimated using a valuation technique.

The following table shows the carrying amounts and fair values of financial assets including their levels in the fair value hierarchy:

Particulars	As at 31 March 2021							
	Carrying amount				Fair value			
	Fair value through profit and loss	Fair value through other comprehensive income	Amortised Cost	Total	Level 1 - Quoted price in active markets	Level 2 - Significant observable inputs	Level 3 - Significant unobservable inputs	Total
Investments covered under Ind AS 109								
(a) Investments in Debentures	-	-	51.09	51.09	51.09	-	-	51.09
(b) Investments in Commercial papers	-	-	137.93	137.93	-	-	137.93	137.93
(c) Investments in Pass through certificates (PTCs)	-	-	26.15	26.15	-	-	26.15	26.15
Total	-	-	**215.17**	**215.17**	**51.09**	-	**164.08**	**215.17**

Particulars	As at 31 March 2020							
	Carrying amount				Fair value			
	Fair value through profit and loss	Fair value through other comprehensive income	Amortised Cost	Total	Level 1 - Quoted price in active markets	Level 2 - Significant observable inputs	Level 3 - Significant unobservable inputs	Total
Investments covered under Ind AS 109								
(a) Investments in Mutual funds	19.08	-	-	19.08	-	19.08	-	19.08
(b) Investments in Debentures	-	-	94.17	94.17	94.17	-	-	94.17
Total								

Particulars	As at 1 April 2019							
	Carrying amount				Fair value			
	Fair value through profit and loss	Fair value through other comprehensive income	Amortised Cost	Total	Level 1 - Quoted price in active markets	Level 2 - Significant observable inputs	Level 3 - Significant unobservable inputs	Total
Investments covered under Ind AS 109								
(a) Investments in Mutual funds	-	-	-	-	-	-	-	-
(b) Investments in Debentures	-	-	-	-	-	-	-	-
Total								

The management has assessed that the carrying amounts of cash and cash equivalents, loans carried at amortised cost, other financial assets, trade payables, borrowings, working capital demand loans and other current liabilities are a reasonable approximation to their fair value.

ARKA FINCAP LIMITED

NOTE 5.02 : Financial instruments – Fair values

B. Fair value hierarchy

Ind AS 107, 'Financial Instrument - Disclosure' requires classification of the valuation method of financial instruments measured at fair value in the Balance Sheet, using a three level fair-value-hierarchy (which reflects the significance of inputs used in the measurements). The hierarchy gives the highest priority to un-adjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair-value-hierarchy under Ind AS 107 are described below:

Level 1: Level 1 hierarchy includes financial instruments measured using quoted prices.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and place limited reliance on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level. This is the case for unlisted equity securities included in level 3.

NOTE 5.03 : Financial instruments risk management

The Company has exposure to the following risks from financial instruments:

(A) Regulatory Risk;
(B) Credit Risk;
(C) Liquidity Risk;
(D) Operational Risk;
(E) Reputation Risk; and
(F) Strategic Risk

(A) Regulatory Risk;

The company being an NBFC shall have exposure to risk related to non-compliance to regulatory guidelines, laws as applicable. Such non-compliance may result in levy of heavy penalties and fines by the regulator, as well as, reputational loss to the company. The risk can arise due to non-compliance to applicable guidelines and/or lack of monitoring and follow-up on the implementation of applicable laws.

Mitigation:

• The compliance and legal / secretarial department shall submit a compliance certificate post ensuring adherence to applicable laws on quarterly basis to the Risk Committee.
• The Board shall take note of the compliance certificate and Compliance officer shall report to Board in case of any material non-compliance.
• The Board shall do a regular review of risk and identify gaps if any and take corrective actions.

(B) Credit Risk;

The company is subject to credit risk in terms of non-recovery of interest as well as principal amount of the money lent by the company to its customers. Such risk can arise due to inadequate documentation or evaluation of the borrower, default by the existing borrowers, external factors such as political volatility in the region of exposure concentration, amongst many other factors leading to loss of revenue for the company.

Mitigation:

• The company has formed a Credit procedures and policy to address the risk.
• Continuous monitoring mechanism is developed by adopting various checks and controls in the process.
• The Company has set up a Credit Committee for approval of the lending in both Retail Operations and Wholesale lending, the decision by the Credit Committee shall be binding on the Business Department. The Credit Committee is empowered to deploy, monitor, manage the funds of the Company in terms of its charter as approved by the Board if the Company.

(C) Liquidity Risk;

The risk arises due to asset liability mismatch. The inadequacy of the company in increasing its asset base, managing any unplanned changes in funding sources and meeting the financial commitments when required may result in non-liquidity.

Mitigation:

• The company has Asset Liability Management Policy in line with the RBI guidelines.
• The Asset Liability Management Committee (ALCO) is responsible for managing the risk arising out of exposures to interest rate changes and mismatches between assets and liabilities.

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(Currency : Indian Rupees in Crores)

NOTE 5.03 : Financial instruments risk management *(Continued)*

(D) Operational Risk;

Operational risk is the risk arising out of failure of internal process, people and systems put in place by the company. Such risk may also arise out of the external factors as well as internal control system failure defeating the core objective of the company operations.

Mitigation:

• The Company cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include maker-checker controls, effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

(E) Reputation Risk;

The company being an NBFC is subject to reputational loss arising due to various other risks such as Regulatory non-compliance, Operational breakdown or Borrower Dissatisfaction.

Mitigation:

• Company has formed HR Policy in order to address any concerns of the employees internally.
• Company has created Fair Practice Code which sets out the Grievance Redressal Mechanism in order to address customer concerns.
• The fair practice code also ensures that the company does not rely upon any coercive activities in order to recover the money from borrowers.

(F) Strategic Risk;

The risk arising out of non-responsiveness of business in adapting to internal as well as external environment. Such risk arises when the business strategies are not flexible to factor in the macro factors.

Mitigation:

• The Board and Risk Committee are made ultimate responsible authorities in order to ensure that the risk in the organization are mitigated as well as monitored.
• The Risk/ALCO committee are given responsibility of recommending the changes in the risk appetite of the company.

NOTE 5.04 : Capital Disclosure

The Company maintains adequate capital to cover risks inherent in the business and is meeting the capital adequacy requirements of our regulator, Reserve Bank of India (RBI). The adequacy of the Company's capital is monitored using, among other measures, the regulations issued by RBI.

Company has complied in full with all its externally imposed capital requirements over the reported period.

The primary objectives of the Company's capital management is to ensure that the Company complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

The Company maintains its capital structure in line with economic conditions and the risk characteristics of its activities. The Board of directors reviews the capital position on a regular basis.

Particulars	As at 31 March 2021	As at 31 March 2020	As at 1 April 2019
CRAR – Tier I capital (%)	57.54%	108.26%	NA
CRAR – Tier II capital (%)	0.31%	0.29%	NA
CRAR (%)	57.85%	108.55%	NA

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NOTE 5.05 : Related Party Disclosures

Related Party Disclosures, as required by Indian Accounting Standard 24 (Ind AS 24) are given below:

A. Related Parties Relationship

(i) Name of the Related party and nature of relationship where control exists:

Sr. No.	Related Party Category	Company Name
1	Holding Company	Kirloskar Oil Engines Limited (w.e.f. 20 April 2018)
2	Subsidiary Company of Holding Company	KOEL Americas Corp.USA
		La-Gajjar Machineries Private Limited
		Optiqua Pipes and Electricals Private Limited (w.e.f. 19 February 2021) step down subsidiary
3	Entity controlled by Key Managerial Personnel of Holding Company	Expert Quality Cloud Information Technology Private Limited (upto 28th April 2020)
		Kirloskar Energen Private Limited
		Kirloskar Solar Technologies Private Limited
		Kloudq Technologies Limited (Formerly known as Kloudworks Consulting Services Ltd.) (upto 28th April 2020)
		Lakeland Universal Limited BVI
		Navsai Investments Private Limited
4	Entity controlled by Close Member of Key Managerial Personnel of Holding Company	Achyut & Neeta Holdings & Finance Pvt. Ltd. (upto 28 April 2020)
		Expert Quality Cloud Information Technology Private Limited (upto 28th April 2020)
		Alpak Investment Private Limited
		Snow Leopard Technology Ventures LLP
		Kirloskar Energen Private Limited
		Kirloskar Solar Technologies Private Limited
		Beluga Whale Capital Management Pte. Ltd.

(ii) Key Management Personnel and their relatives:

Sr. No.	Name of KMPs	Name of Relatives of KMPs	Relationship
1	Vimal Bhandari (Executive Vice Chairman & CEO)	Vibha V. Bhandari	Wife
		Vatsal V Bhandari	Son
		Vandini V Bhandari	Daughter
		Shree Krishna M Gupta	Daughter's Husband
		Pushpa Bhandari	Mother
		Ashok Bhandari	Brother
		Asha Singhvi	Sister
		Vibha Doshi	Sister
		Jayashree Mehta	Sister

(iii) Key Management Personnel of Holding Company and their relatives:

Sr. No.	Name of KMPs	Name of Relatives of KMPs	Relationship
1	Atul C. Kirloskar (Executive Chairman)	Arti A. Kirloskar	Wife
		Gauri A. Kirloskar (Kolenaty)	Daughter
		Aditi A. Kirloskar (Sahni)	Daughter
		Rahul C. Kirloskar	Brother
		Suman C. Kirloskar	Mother
2	Nihal G. Kulkarni (Managing Director) (upto 28th April 2020)	Shruti N. Kulkarni	Wife
		Ambar G. Kulkarni	Brother
		Jyotsna G. Kulkarni	Mother
3	Sanjeev Nimkar (Managing Director) w.e.f. 29th April 2020	Ashiwini Nimkar	Wife
		Ishita Nimkar	Daughter
		Sakshi Nimkar	Daughter
4	Rajendra R. Deshpande (Managing Director and CEO) (Up to 28 April 2020)	Veena R. Deshpande	Wife
		Kaustubh R. Deshpande	Son
		Sourabh R. Deshpande	Son

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NOTE 5.05 : Related Partv Disclosures ***(Continued)***

B. Transactions with Related Parties

Sr. No.	Nature of the transaction / relationship / major parties	2020-21		2019-20	
		Amount	Amount from major parties	Amount	Amount from major parties
1	**Capital Contribution received from**				
	Holding Company	124.82		499.50	
	Kirloskar Oil Engines Limited		124.82		499.50
	Total	**124.82**	**124.82**	**499.50**	**499.50**
2	**Short term loan from**				
	Holding Company	40.00		0.00	
	Kirloskar Oil Engines Limited		40.00		0.00
	Total	**40.00**	**40.00**	**0.00**	**0.00**
3	**Short term loan repayment to**				
	Holding Company	40.00		0.00	
	Kirloskar Oil Engines Limited		40.00		0.00
	Total	**40.00**	**40.00**	**0.00**	**0.00**
4	**Interest expenses on short term loan**				
	Holding Company	0.35		0.00	
	Kirloskar Oil Engines Limited		0.35		0.00
	Total	**0.35**	**0.35**	**0.00**	**0.00**
5	**Non convertible debentures issued to**				
	Key Management Personnel	1.50		0.00	
	Vimal Bhandari		1.50		0.00
	Total	**1.50**	**1.50**	**0.00**	**0.00**
6	**Managerial Remunerations:**				
	Key Management Personnel	5.01		3.02	
	Vimal Bhandari		5.01		3.02
	Total	**5.01**	**5.01**	**3.02**	**3.02**
Balances with related parties					
1	**Non convertible debentures issued**	1.50		0.00	
	Vimal Bhandari		1.50		0.00
	Total	**1.50**	**1.50**	**0.00**	**0.00**
2	**Employee benefits payable**	-		0.01	
	Vimal Bhandari		-		0.01
	Total	**0.00**	**0.00**	**0.01**	**0.01**

The above compensation of the Company's' key managerial personnel do not include provision for leave encashment and gratuity, as actuarial valuation of such provision for the Key Management Personnel is included in the total provision for Leave encashment & gratuity.

Terms and conditions of transactions with related parties

Transaction entered into with related party are made on terms equivalent to those that prevail in arm's length transactions. There have been no guarantees provided or received for any related party receivables or payables.

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NOTE 5.06 : Contingent liabilities and Commitments

Particulars	As at 31 March 2021	As at 31 March 2020	As at 1 April 2019
Contingent liabilities	Nil	Nil	Nil
Capital commitments:			
Estimated amount of contracts remaining to be executedon capital account	-	1.82	-
Loans sanctioned not yet disbursed	69.98	-	-

NOTE 5.07 : Leases

Where the Company is a lessee

The Ministry of Corporate Affairs (MCA) notified Ind AS 116, the new leases accounting standard on 30 March 2019. Ind AS 116 come into force on 1 April 2019.

Ind AS 116 have replaced the previous guidance in Ind AS 17, 'Leases'. Ind AS 116 defines a lease as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Ind AS 116 requires lessees to recognize assets and liabilities arising from all leases (except for short-term leases and leases of low-value assets) in the Balance sheet. The Company have capitalised all assets currently held under operating leases. Operating lease expenses have been replaced by a depreciation expense on Right of Use assets recognised and an interest expense as the incremental borrowing rate in the lease liabilities unwinds.

Initial measurement of lease liability:

As on 1 April 2019, Company have measured the lease liability at the present value of the lease payments that are not paid at that date. these lease payments have been discounted by incremental borrowing rate of the Company.

Initial measurement of Right-of-use assets:

As on 1 April 2019, Company have measured the Right-of-use assets equal to the initial measurement of lease liability.

Subsequent measurement of lease liability:

After initial measurement, Company measures lease liability by increasing the carrying amount to reflect interest on lease liability and reducing the carrying amount to reflect the lease payments made.

Subsequent measurement of Right-of-use assets:

After initial measurement, Company measures Right-of-use assets at cost less any accumulated depreciation and any adjustment for remeasurement of lease liability, if any.

Disclosures as required by Ind AS 116 'Leases' are given below:

(A) Lease liability movement

Particulars	As at 31 March 2021	As at 31 March 2020	As at 1 April 2019
Lease liability at begnning of the year	5.70	6.80	NA
Add: Interest on lease liability	0.55	0.61	NA
Less: Lease rental payments	(1.85)	(1.71)	NA
Lease liability at the end of the year	4.40	5.70	NA

(B) Future lease cashflow for all leased assets

Particulars	As at 31 March 2021	As at 31 March 2020	As at 1 April 2019
Minimum Lease Payments:			
Not later than one year	1.85	1.85	1.69
Later than one year but not later than five years	2.68	4.53	6.07
Later than five years	-	-	-

(C) Maturity analysis of lease liability

Particulars	As at 31 March 2021	As at 31 March 2020	As at 1 April 2019
Lease liability:			
Less than 12 months	1.47	1.30	NA
More than 12 months	2.93	4.40	NA

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NOTE 5.08 : Dues to Micro, Small and Medium enterprises as per MSMED Act, 2006

There are no amounts that need to be disclosed in accordance with the Micro Small and Medium Enterprise Development Act, 2006 (the 'MSMED') pertaining to micro or small enterprises, as no supplier has intimated the Company about its status as micro or small enterprises or its registration with the appropriate authority under MSMED.

Particulars	As at 31 March 2021	As at 31 March 2020	As at 1 April 2019
a. Principal and interest amount remaining unpaid	-	-	-
b. Interest due thereon remaining unpaid	-	-	-
c. Interest paid by the Company in terms of Section 16 of the Micro, Small and Medium Enterprises Development Act, 2006, along with the amount of the payment made to the supplier beyond the appointed day	-	-	-
d. Interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the period) but without adding interest specified under the Micro, Small and Medium Enterprises Act,2006)	-	-	-
e. Interest accrued and remaining unpaid	-	-	-
f. 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	-	-	-

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NOTE 5.09 : Disclosure pursuant to Employee benefits

Defined contribution plan (Provident fund):

The Company makes specified monthly contributions towards employee provident fund to government administered provident fund scheme which is a defined contribution plan. 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.

The provident fund payment recognised as expenses and included in Employee benefit expenses during the current year Rs 0.53 Crores (March 2020: ₹ 0.25 Crores).

Defined benefit plans: The Company has following Defined benefit plans:

A Gratuity

B Compensated Absences

Based on Ind AS 19 'Employee Benefits' notified under Section 133 of the Companies Act 2013, read together with paragraph 7 of the Companies (Accounts) Rules, 2014 and the Companies (Accounting Standards) Amendment Rules, 2016, the following disclosures have been made as required by the standard:

Particulars			As at 31 March 2021	As at 31 March 2020	As at 1 April 2019
A	(i)	**Gratuity:**			
		Amount recognised in the balance sheet			
		Present value of the obligation as at the end of the year	0.24	0.18	0.03
		Fair value of plan assets as at the end of the year	-	-	-
		Net (asset) / liability to be recognised in the balance sheet	**0.24**	**0.18**	**0.03**
	(ii)	**Compensated Absences:**			
		Amount recognised in the balance sheet			
		Present value of the obligation as at the end of the year	0.34	0.14	0.04
		Fair value of plan assets as at the end of the year	-	-	-
		Net (asset) / liability to be recognised in the balance sheet	**0.34**	**0.14**	**0.04**
B	(i)	**Gratuity:**			
		Change in projected benefit obligation			
		Projected benefit of obligation at the beginning of the year	0.18	0.03	-
		Current service cost	0.16	0.12	0.03
		Past service cost	-	-	-
		Interest cost	0.01	0.00	-
		Benefits paid	-	-	-
		Actuarial (gain) / loss on obligation	(0.12)	0.03	(0.00)
		Projected benefit obligation at the end of the year	**0.24**	**0.18**	**0.03**
	(ii)	**Compensated Absences:**			
		Change in projected benefit obligation			
		Projected benefit of obligation at the beginning of the year	0.14	0.04	-
		Current service cost	0.13	0.10	0.04
		Past service cost	-	-	-
		Interest cost	0.01	-	-
		Benefits paid	(0.00)	-	-
		Remeasurements on obligation - (Gain) / Loss	0.06	-	-
		Projected benefit obligation at the end of the year	**0.34**	**0.14**	**0.04**
C	(i)	**Gratuity:**			
		Amount recognised in the statement of profit and loss			
		Current service cost	0.16	0.12	0.03
		Past service cost and loss/(gain) on curtailments and settlement	-	-	-
		Net interest cost	0.01	0.00	-
		Expenses recognised in the statement of profit and loss	**0.18**	**0.12**	**0.03**
	(ii)	**Compensated Absences:**			
		Amount recognised in the statement of profit and loss			
		Current service cost	0.13	0.10	0.04
		Remeasurements on obligation - (Gain) / Loss	0.06	-	-
		Net interest cost	0.01	-	-
		Expenses recognised in the statement of profit and loss	**0.20**	**0.10**	**0.04**
D	(i)	**Gratuity:**			
		Amount recognised in other comprehensive income			
		Actuarial (gains) / loss			
		- change in financial assumption	(0.05)	0.01	-
		- change in demographic assumption	-	0.00	-
		- experience variation	(0.06)	0.02	(0.00)
		Amount recognised in other comprehensive income	**(0.12)**	**0.03**	**(0.00)**

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NOTE 5.09 : Disclosure pursuant to Employee benefits *(Continued)*

Particulars	As at 31 March 2021	As at 31 March 2020	As at 1 April 2019
E Assumptions used			
Discount rate	6.30%	6.40%	7.70%
Rate of increase in compensation levels	4.00%	8.00%	8.00%
Expected average remaining working lives of employees (in years)	5.91	5.59	11.88
Retirement Age	60 years 63 years	60 years	65 years
Withdrawal Rate	15.00%	15.00%	5.00%

F Sensitivity analysis - Gratuity

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

Particulars	As at 31 March 2021		As at 31 March 2020	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	0.23	0.26	0.17	0.19
Salary growth rate (1% movement)	0.25	0.23	0.19	0.18
Withdrawal rate (1% movement)	0.24	0.24	0.18	0.18

G Sensitivity analysis - Compensated Absences

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

Particulars	As at 31 March 2021		As at 31 March 2020	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	0.33	0.35	0.14	0.15
Salary growth rate (1% movement)	0.35	0.33	0.15	0.14
Withdrawal rate (1% movement)	0.37	0.31	0.15	0.14

H Other information:

1. The plan is unfunded as on the valuation date.
2. Weighted average duration of the plan (based on discounted cash flows using mortality, withdrawal rate and interest rate) is 9.01 years for Gratuity and 4.56 years for Compensated Absences.
3. The expected payment expected to be paid in next year Rs 0.001 Crores for Gratuity and Rs. 0.001 Crores for Compensated Absences.

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NOTE 5.10 : Employee stock option plans

The Company provides share-based employee benefits to the employees of the Company. The relevant details of the schemes and the grant are as below.

Description of share-based payment arrangements:

As at 31 March 2021, the Company has the following share-based payment arrangements:

Share option plans (equity settled):

According to the Schemes, the employee selected by the Nomination and remuneration committee from time to time will be entitled to options, subject to satisfaction of the prescribed vesting conditions. The Option may be exercised within a specified period.

The Plan was approved by Board of Directors on April 24, 2019 and by the shareholders in EGM dated May 2, 2019 for issue of 5,00,00,000 options representing 5,00,00,000 Equity shares of Rs. 10 each. Pursuant to the said approvals and authority delegated by the Board and Shareholders of the Company, the Nomination and Remuneration Committee had made grants, the details of the same are produced in the below table.

I. Details of the ESOP:

Particulars	ESOP Grant 1	ESOP Grant 2	ESOP Grant 3
ESOP Plan/ Scheme	ESOP - 2019	ESOP - 2019	ESOP - 2019
Date of Grants	06 May 2019	01 November 2019	02 November 2020
Vesting Requirements	Vesting Criteria is specified for each Option Holder by the Nomination and		
Maximum term of Options granted (years)	Vesting period of option vary from employee to employee or class of employees. the maximum vesting period of option is five years from the date of grant of option. Options shall be capable of being exercised within a period of 6 years from the Date of Vesting.		
Method of Settlement	Equity		
Method used for accounting of options	Fair Value Method		

II. Option Movement during the year ended Mar 2021:

Particulars	ESOP Grant 1	ESOP Grant 2	ESOP Grant 3
No. of Options Outstanding at the beginning of the year	2,06,50,000	13,00,000	-
Options Granted during the year	-	-	10,75,000
Options Forfeited / Lapsed during the year	-	-	-
Options Exercised during the year	-	-	-
Number of options Outstanding at the end of the year	2,06,50,000	13,00,000	10,75,000
Number of Options exercisable at the end of the year	1,35,35,000	1,30,000	-
The weighted average share price of shares exercised during the year ended 31 March 2021	NA	NA	NA

Option Movement during the year ended Mar 2020:

Particulars	ESOP Grant 1	ESOP Grant 2
No. of Options Outstanding at the beginning of the year	-	-
Options Granted during the year	2,06,50,000	13,00,000
Options Forfeited / Lapsed during the year	-	-
Options Exercised during the year	-	-
Number of options Outstanding at the end of the year	2,06,50,000	13,00,000
Number of Options exercisable at the end of the year	-	-
The weighted average share price of shares exercised during the year ended 31 March 2020	NA	NA

III. Weighted Average remaining contractual life:

Particulars	ESOP Grant 1	ESOP Grant 2	ESOP Grant 3
Range of Exercise Price (₹ per share)	10	10	11
No. of Options Outstanding as on 31 March 2021	2,06,50,000	13,00,000	10,75,000
Contractual Life: Granted but not vested (in years)	0.86	1.51	2.28

IV. Method and Assumptions used to estimate the fair value of options granted:

The fair value has been calculated using the Black Scholes Option Pricing model. The Assumptions used in the model are a.s follows:

Particulars	ESOP Grant 1	ESOP Grant 2	ESOP Grant 3
Risk Free Interest Rate	7.40%	6.60%	5.80%
Weighted average expected life (in years)	6	7	7
Expected Volatility	1.00%	1.00%	1.00%
Weighted average exercise price (₹ per share)	10.00	10.00	11.00

V. Effect of share-based payment transactions on the entity's Profit or Loss for the year:

Particulars	31 March 2021	31 March 2020
Employee share based expense (₹)	2.27	4.72
Total ESOP reserve outstanding at the end of the year (₹)	6.99	4.72

ARKA FINCAP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021
(Currency : Indian Rupees in Crores)

NOTE 6.01 : Coronavirus (COVID-19) impact on financial reporting:
The novel coronavirus (COVID-19) pandemic continues to spread rapidly across the globe including India. On March 11, 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization. COVID-19 has taken its toll on not just human life, but business and financial markets too, the extent of which is currently indeterminable. In many countries, including India, there has been severe disruption to regular business operations due to lockdowns, disruptions in transportation, supply chain, travel bans, quarantines, social distancing and other emergency measures. The Indian government announced a strict lockdown across the country to contain the spread of virus.

(a) Impact of COVID-19 on Company business:
The Company has made an assessment of its liquidity position and assessment of solvency at year end and found both at comfortable level. Company capital adequacy is 57.85% which is much higher than minimum required by the RBI. In addition, the Company believes that it has taken into account all the possible impact of known events arising from COVID-19 pandemic in the preparation of the financial statements. The Company has further assessed the recoverability and carrying value of its assets comprising Loans and advances, Property, Plant and Equipment and Intangible assets as at balance sheet date, and has concluded that there are no material adjustments required in the financial Statements, other than those already considered. However, the impact assessment of COVID-19 is a continuing process given the uncertainties associated with its nature and duration. The Company will continue to monitor any material changes to future economic conditions.

(b) Regulatory Measures:
In accordance with RBI guidelines relating to COVID-19 Regulatory Package dated 27 March 2020 and subsequent guidelines on EMI moratorium dated 17 April 2020 and 23 May 2020, the Company has granted moratorium to its customers as per its Board approved policy. The moratorium period ended on 31 August 2020 and the customers who availed benefits of moratorium have been making repayments as per the revised schedule and as of 31 March 2021, all payments have been received in full and on timely basis.

Further, in accordance with RBI notification dated April 7, 2021, the Company is required to refund/adjust 'interest on interest' to borrowers. As required by the RBI notification, the methodology for calculation of such interest on interest has recently been circulated by the Indian Banks' Association. The Company is in the process of suitably implementing this methodology. At 31 March 2021, the Company has created a liability towards estimated interest relief and reduced the same from the interest income.

NOTE 6.02 : Unhedged Foreign Currency Exposure
The Company does not have any unhedged foreign currency exposure for the year ended March 31, 2021 (Previous year : Rs Nil)

As per our report of even date attached
For **B S R & Co. LLP**
Chartered Accountants
ICAI Firm Registration No.: 101248W/W-100022

Vaibhav Shah
Partner
Membership No. 117377

Place: Mumbai
Date: 28 April 2021

For and on behalf of the Board of Directors of
Arka Fincap Limited
(Formerly known as Kirloskar Capital Limited)

Vimal Bhandari
Executive Vice Chairman and CEO

Mahesh Chhabria
Non Executive Director

Ritesh Jhanwar
Financial Controller

Amit Bondre
Deputy Company Secretary

Place: Mumbai
Date: 28 April 2021