Arka Fincap Limited
(Formerly known as Kirloskar Capital Limited)

Special purpose financial statements together with Independent Auditors' Report for the year ended 31 March 2020

Arka Fincap Limited

(Formerly known as Kirloskar Capital Limited)

Special purpose financial statements together with Independent Auditors' Report

for the year ended 31 March 2020

Contents

B S R & Co. LLP

Chartered Accountants

5th Floor, Lodha Excelus,
Apollo Mills Compound
N. M. Joshi Marg, Mahalaxmi
Mumbai - 400 011
India

Telephone +91 (22) 4345 5300
Fax +91 (22) 4345 5399

Independent Auditor's Report

To Board of Directors of
Arka Fincap Limited
(formerly known as 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 2020, 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 30.2 to the special purpose financial statements for the purpose of group consolidation for its 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 2020, 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 30.2 to the special purpose financial statements.

Emphasis of matters

We draw attention to Note 30.2 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 ('Kirloskar Oil Engines Limited') for the preparation of the holding company's consolidated financial statements.

As more fully described in Note 5.15 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.

Independent Auditor's Report ***(Continued)***

Arka Fincap Limited
(formerly known as Kirloskar Capital Limited)

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.

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 30.2 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.

Independent Auditor's Report *(Continued)*

Arka Fincap Limited
(formerly known as Kirloskar Capital Limited)

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

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. The financial information 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.

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 2020 in accordance with the accounting principles generally accepted in India, including the accounting standards specified under Section 133 of the Act, read with Companies (Accounting Standards) Rules, 2006 (as amended) on which we issued a separate auditor's report to the members of the Company dated 28 May 2020.

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

Vaibhav

Vaibhav Shah
Partner
Membership No:117377
UDIN: 20117377AAAABL2219

Mumbai
28 May 2020

Arka Fincap Limited *(Formerly known as Kirloskar Capital Limited)*
Special purpose Balance Sheet as at 31 March 2020

₹ in Crs.

Particulars	Note No.	As at 31 March 2020	As at 31 March 2019
ASSETS			
I. Non-current assets		**271.47**	**9.15**
(a) Property, plant and equipment	1	9.64	4.13
(b) Other Intangible assets	2	0.08	0.02
(c) Intangible assets under development	3	2.19	-
(d) Financial assets			
(i) Investments	4	73.83	-
(ii) Loans	5	181.36	0.29
(iii) Other financial assets	6	1.78	1.56
(e) Deferred tax assets (net)	7	1.27	2.39
(f) Other non-current assets	8	1.32	0.76
II.Current assets		**346.00**	**11.18**
(a) Financial assets			
(i) Investments	9	39.26	-
(ii) Cash and cash equivalents	10	123.27	10.23
(iii) Loans	11	180.97	0.06
(iv) Other financial assets	12	0.06	0.07
(b) Current tax assets (net)	13	0.17	0.03
(c) Other current assets	14	2.27	0.79
Total Assets		**617.47**	**20.33**
EQUITY AND LIABILITIES			
Equity		**529.29**	**19.49**
(a) Equity share capital	15	526.50	27.00
(b) Other equity			
(i) Retained earnings	16	(3.15)	(7.51)
(ii) Employee Stock option reserve	16	4.72	-
(iii) Statutory reserve u/s 45-IC of the RBI Act, 1934	16	1.22	-
Liabilities			
I. Non-current liabilities		**57.17**	**0.07**
(a) Financial liabilities			
(i) Borrowings	17	52.50	-
(ii) Other financial liabilities	18	4.40	-
(b) Long-term provisions	19	0.27	0.07
II.Current liabilities		**31.01**	**0.77**
(a) Financial liabilities			
(i) Trade and other payables	20	0.22	0.17
(ii) Other financial liabilities	21	29.91	-
(b) Other current liabilities	22	0.82	0.60
(c) Short-term provisions	23	0.06	-
Total Equity and Liabilities		**617.47**	**20.33**
Significant accounting policies	30		

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
UDIN: 20117377AAAABL2219

Mumbai : 28 May 2020

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
DIN: 00001318

Ritesh Jhanwar

Ritesh Jhanwar
Financial Controller

Mahesh Chhabria
Non Executive Director
DIN: 00166049

Amit Bondre
Deputy Company Secretary

Mumbai : 28 May 2020

ARKA FINCAP LIMITED

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)
Statement of changes in Equity for the year ended 31 March 2020

A. Equity Share Capital (Note 15)

₹ in Crs.

Equity Shares of ₹ 10 each issued, subscribed and fully paid	No. of Shares	Amount
Opening balance as at 1 April 2018	-	-
Issue/Reduction, if any during the year	2,70,00,000	27.00
At 31 March 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**

B. Other Equity (Note 16)

₹ in Crs.

Particulars	Reserves and Surplus				Total
	Reserve u/s 45IC of RBI Act, 1934	Employee Stock option reserve	Retained Earnings	Impairment Reserve	
Opening balance as at 1 April 2018	-	-	-	-	-
Profit for the year	-	-	(7.51)	-	(7.51)
Other comprehensive income for the year	-	-	-	-	-
Total Comprehensive income for the year	-	-	**(7.51)**	-	**(7.51)**
Any other movement	-	-	-	-	-
At 31 March 2019	-	-	**(7.51)**	-	**(7.51)**
As at 1 April 2019	-	-	**(7.51)**	-	**(7.51)**
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)	-	-
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**	**(3.16)**	-	**2.79**

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
UDIN: 20117377AAAABL2219

Mumbai : 28 May 2020

For and on behalf of the board of directors

Arka Fincap Limited
(Formerly known as Kirloskar Capital Limited)

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 May 2020

ARKA FINCAP LIMITED

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)
Special purpose Statement of profit and loss for the year ended 31 March 2020

₹ in Crs.

Particulars	Note No.	2019-20	2018-19
Income			
Revenue from operations	24	48.44	0.38
Total Income		**48.44**	**0.38**
Expenses			
Employee benefits expense	25	25.93	2.59
Finance costs	26	2.67	-
Depreciation and amortisation expense	27	2.46	0.24
Other Expenses	28	7.21	7.45
Total expenses		**38.27**	**10.28**
Profit before exceptional items and tax		**10.17**	**(9.90)**
Exceptional items		-	-
Profit before tax		**10.17**	**(9.90)**
Tax expense		**4.07**	**(2.40)**
Current tax	29	2.93	-
Deferred tax benefit	29	1.14	(2.40)
Profit / (Loss) for the period		**6.10**	**(7.50)**
Other comprehensive income			
A. Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		**(0.02)**	-
Re-measurement gains / (losses) on defined benefit plans		(0.03)	-
Income tax effect on above		0.01	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods (A)		(0.02)	-
Total other comprehensive income for the year, net of tax [A]		**(0.02)**	-
Total comprehensive income for the year, net of tax		**6.08**	**(7.50)**
Earnings per equity share [nominal value per share Rs.10/-]			
Basic		0.12	(7.16)
Diluted		0.12	(7.16)
Significant accounting policies	30		

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

Vaibhav Shah
Partner
Membership No: 117377
UDIN: 20117377AAAABL2219

Mumbai : 28 May 2020

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
DIN: 00001318

Mahesh Chhabria
Non Executive Director
DIN: 00166049

Ritesh Jhanwar

Ritesh Jhanwar
Financial Controller

Amit Bondre
Deputy Company Secretary

Mumbai : 28 May 2020

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 2020	₹ in Crs. For the period ended 31 March 2019
A	**Cash flow from operating activities**		
	Profit /(Loss) before tax	**10.14**	**(9.90)**
	Adjustments to reconcile profit before tax to net cash flows:		
	Add:		
	Depreciation and amortisation	2.46	0.24
	Provision for gratuity	0.15	-
	Provision for lease encashment	0.10	-
	Provision for expected credit loss	1.43	-
	Provision for bonus	6.10	-
	Provision for share based payments	4.72	-
	Loss on fair value of employee loan	0.01	-
	Prepaid expenses amortised	0.67	-
	Finance cost	2.66	0.00
		18.30	**0.24**
	Less:		
	Interest received on fixed deposits	6.97	0.33
	Profit on sale of investments	7.84	-
	Fair value gain on investments	0.08	-
	Interest received on debt instrument	5.40	-
	Interest income on security deposit	0.18	-
	Rent paid for office premise	1.71	-
	Amortised discount income on commercial paper	7.42	-
		29.60	**0.33**
	Operating cash flow before working capital changes	**(1.16)**	**(9.99)**
	Add / (Less): Adjustments for working capital changes		
	(Increase) / Decrease in receivables from financing business	(363.14)	-
	(Increase) / Decrease in loan to employee	(0.12)	(0.35)
	(Increase) / Decrease in security deposits	(0.08)	(1.56)
	(Increase) / Decrease in Prepaid expenses	(3.22)	(1.18)
	(Increase) / Decrease in other current assets	(0.45)	(0.44)
	Increase / (Decrease) in provisions	-	0.07
	Increase / (Decrease) in trade payables	0.05	0.17
	Increase / (Decrease) in other financial liability	0.01	-
	Increase / (Decrease) in other current liability	-	0.59
	Net Cash used in operations	**(368.11)**	**(12.69)**
	Direct taxes paid	(3.07)	(0.03)
	Net cash used in operating activities - A	**(371.18)**	**(12.72)**
B	**Cash flow from investing activities**		
	Add:		
	Interest received on fixed deposits	6.97	0.33
	Receipt on sale of Investments	3,430.14	-
	Receipt of processing fees on commercial papers	0.17	-
	Interest received on debt instrument	5.24	-
		3,442.52	**0.33**
	Less:		
	Payments on purchase of investment	3,528.05	-
	Payments for Purchase of Property, Plant and Equipment	0.15	4.36
	Payments for Purchase of Other Intangible assets	0.08	0.02
	Payments for Purchase of Intangible assets under development	2.19	-
		3,530.47	**4.38**
	Net cash used in investing activities - B	**(87.95)**	**(4.05)**

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 2020	₹ in Crs. For the period ended 31 March 2019
C	**Cash flow from financing activities**		
	Proceeds from issue of equity share capital	499.50	27.00
	Stamp duty paid on issue of equity shares	(0.49)	-
	Proceeds from Borrowings	75.00	-
	Finance cost paid	(2.04)	(0.00)
	Net cash generated from financing activities - C	**571.97**	**27.00**
	Net increase in cash and cash equivalents (A+B+C)	**112.84**	**10.23**
	Opening Cash and Cash equivalents	**10.23**	**-**
	Closing Cash and Cash equivalents ***(Refer note 10)***	**123.27**	**10.23**

As per our report of even date attached.

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

Vaibhav Shah
Partner
Membership No: 117377
UDIN: 20117377AAAABL2219

Mumbai : 28 May 2020

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
DIN: 00001318

Mahesh Chhabria
Non Executive Director
DIN: 00166049

Ritesh Jhanwar
Financial Controller

Amit Bondre
Deputy Company Secretary

Mumbai : 28 May 2020

ARKA FINCAP LIMITED

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)

Notes to the Financial Statements

Note 1 : Property, Plant and equipment

₹ in Crs.

Fixed Assets	Right of use Building	Leasehold Improvements	Furniture & Fixture	Vehicles	Office Equipment	Computers	Total
Gross Block							
Opening balance as at 31 March 2018	-	-	-	-	-	-	-
Additions	-	3.45	0.03	0.70	0.08	0.11	4.37
Deductions / Amortization	-	-	-	-	-	-	-
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**
Depreciation							
Opening balance as at 1 April 2018	-	-	-	-	-	-	-
For the period	-	0.18	-	0.05	-	0.01	0.24
Deductions / Amortization	-	-	-	-	-	-	-
As At 31 March 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**
Net Block							
Opening balance as at 31 March 2018	-	-	-	-	-	-	-
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**

Notes :

1. Gross block is at Cost.

2. For Depreciation and amortisation refer accounting policy (Note 30.4.3.)

ARKA FINCAP LIMITED

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)

Notes to the Financial Statements

Note 2 : Other Intangible assets

₹ in Crs.

Fixed Assets	Computer Software	Total
Gross Block		
Opening balance as at 31 March 2018	-	-
Additions	0.02	0.02
Deductions / Amortization	-	-
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**
Depreciation		
Opening balance as at 1 April 2018	-	-
For The Period	-	-
Deductions / Amortization	-	-
As At 31 March 2019	-	-
For The Year	0.02	0.02
Deductions / Amortization	-	-
As At 31 March 2020	**0.02**	**0.02**
Net Block		
Opening balance as at 31 March 2018	-	-
As At 31 March 2019	**0.02**	**0.02**
As At 31 March 2020	**0.08**	**0.08**

Notes :

1. Intangible Assets are amortised on Straight Line method.
2. For Depreciation and amortisation refer accounting policy (Note 30.4.4.)

Note 3 : Intangible assets under development

₹ in Crs.

Particulars	As at 31 March 2020	As at 31 March 2019
(i) Loan Origination System (LOS)	1.39	-
(ii) Loan Management System (LMS)	0.80	-
Total	**2.19**	-

ARKA FINCAP LIMITED

Kirloskar Oil Engines Limited

Notes to the Financial Statements

Note 4 : Non-current investments ₹ in Crs.

Particulars	Par Value / Face Value Per Unit	As at 31 March 2020		As at March 31, 2019	
		Nos.	₹ in Crs.	Nos.	₹ in Crs.
(i) **At Amortised Cost**					
Quoted Investment					
Investments in debentures or bonds (quoted)					
12.50% Sterlite Power Transmission Limited	10,00,000	500	49.63	-	-
9.45% ECL Finance Limited	1,000	2,50,000	24.33	-	-
Less: Provision for expected credit loss			(0.13)		-
			73.83		-
Total			**73.83**		-

1. Face value per unit in Rupees unless otherwise stated.
2. Investments in debentures or bonds are measured at amortised cost.
3. Refer Note 30.4.7 for policy on provision for expected credit loss.
4. Refer Note 30.5.8 for fair value disclosure of financial assets and financial liabilities and note 30.5.9 for fair value hierarchy.
5. Refer note no. 30.5.10 on risk management objectives and policies for financial instruments.

ARKA FINCAP LIMITED

Note 5 : Loans (Non current)

₹ in Crs.

Particulars	As at 31 March 2020	As at 31 March 2019
Receivable from financing business	**181.13**	-
Secured, considered good	182.26	-
Less: Provision for expected credit loss	(1.13)	-
Other loans and advances		
Loans to employees (unsecured, considered good)	**0.23**	**0.29**
Total	**181.36**	**0.29**

1. Loans are measured at amortised cost.
2. Refer Note 30.4.7 for policy on provision for expected credit loss.
3. Refer Note 30.5.8 for fair value disclosure of financial assets and financial liabilities and note 30.5.9 for fair value hierarchy.

4. Refer note no. 30.5.10 on risk management objectives and policies for financial instruments.

ARKA FINCAP LIMITED

Note 6 : Other financial assets (non current)

₹ in Crs.

	As at 31 March 2020	As at 31 March 2019
Security deposits (Unsecured, considered good)	1.78	1.56
Total	**1.78**	**1.56**

1. Other financial assets are measured at amortised cost.
2. Refer Note 30.5.8 for fair value disclosure of financial assets and financial liabilities and note 30.5.9 for fair value hierarchy.
3. Refer note no. 30.5.10 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 7 : Deferred tax assets (net)

₹ in Crs.

Particulars	As at 31 March 2020	As at 31 March 2019
Deferred Tax Assets	**2.71**	**2.70**
Disallowances u/s 43 B of Income Tax Act	0.08	0.02
Preliminary Expenses u/s 35D of Income tax Act, 1961	0.20	0.31
Business losses carried forward	-	2.07
Fair value of Employee Loan	0.01	0.01
Fair value of Security deposit	0.21	0.29
Fair value of Lease Liability	1.44	-
Fair value of Loan given	0.77	-
Less : Deferred Tax Liability	**1.44**	**0.31**
Depreciation	1.49	0.02
Fair value of Prepaid Rent	-	0.28
Fair value of investment in debentures	(0.07)	-
Fair value of investment in mutual funds	0.02	-
Total	1.27	2.39

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

₹ in Crs.

Particulars	As at 31 March 2020	As at 31 March 2019
Opening balance as of 1 April	**2.40**	-
Tax income/(expense) during the year recognised in profit or loss	**(1.14)**	**2.40**
Tax income/(expense) during the year recognised in OCI	**0.01**	-
Closing balance as at 31 March	**1.27**	**2.40**

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 2020 is 25.168% (Previous year : 29.120%).

ARKA FINCAP LIMITED

Note 8 : Other non-current assets

₹ in Crs.

Particulars	As at 31 March 2020	As at 31 March 2019
Prepaid expenses	1.32	0.76
Total	**1.32**	**0.76**

ARKA FINCAP LIMITED

Arka Fincap Limited (Formerly known as Kirloskar Capital Limited)

Notes to the Financial Statements

Note 9 : Current investments ₹ in Crs.

Particulars	Face Value Per Unit	As at 31 March 2020		As at 31 March 2019	
	In ₹	Nos.	₹ in Crs.	Nos.	₹ in Crs.
Quoted Investment					
Investments in debentures or bonds (quoted)					
8.65% Avanse Financial Services Limited	10,00,000	200	20.22	-	-
Less: Provision for expected credit loss			(0.04)		-
			20.18		-
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			**39.26**		-

Notes :

1. Aggregate amount of Quoted Investments	20.18	-
2. Aggregate amount of Unquoted Investments	19.08	-

3. Face value per unit in Rupees unless otherwise stated.
4. Refer Note 30.4.7 for policy on provision for expected credit loss.
5. Refer Note 30.5.8 for fair value disclosure of financial assets and financial liabilities and note 30.5.9 for fair value hierarchy.
6. Refer note no. 30.5.10 on risk management objectives and policies for finnacial instruments.

ARKA FINCAP LIMITED

Note 10 : Cash and cash equivalents

₹ in Crs.

Particulars	As at 31 March 2020	As at 31 March 2019
Balance with Bank		
Current account	73.27	1.23
Fixed deposits with original maturity of less than 3 months	50.00	9.00
Total	**123.27**	**10.23**

ARKA FINCAP LIMITED

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

Note 11 : Loans (Current)

₹ in Crs.

	As at 31 March 2020	As at 31 March 2019
Receivable from financing business	**180.75**	-
Secured, considered good	180.88	-
Less: Provision for expected credit loss	(0.13)	-
Other loans and advances		
Loans to employees (unsecured, considered good)	**0.22**	**0.06**
Total	**180.97**	**0.06**

1. Loans are measured at amortised cost.

2. Refer Note 30.4.7 for policy on provision for expected credit loss.

3. Refer Note 30.5.8 for fair value disclosure of financial assets and financial liabilities and note 30.5.9 for fair value hierarchy.

4. Refer note no. 30.5.10 on risk management objectives and policies for finnacial instruments.

Note 12 : Other financial assets (Current)

₹ in Crs.

	As at 31 March 2020	As at 31 March 2019
Accrued interest on loans given	-	-
Accrued interest on fixed deposits	0.06	0.07
Total	**0.06**	**0.07**

Note 13 : Current tax assets (net)

₹ in Crs.

Particulars	As at 31 March 2020	As at 31 March 2019
Tax Paid in Advance (Net of Provision)	0.17	0.03
Total	**0.17**	**0.03**

ARKA FINCAP LIMITED

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

Note 14 : Other current assets

₹ in Crs.

Particulars	As at 31 March 2020	As at 31 March 2019
Advance to suppliers	0.01	0.01
GST receivable (net)	0.82	0.36
Prepaid expenses	1.44	0.42
Advances recoverable in cash or in kind or for value to be received	-	-
Total	**2.27**	**0.79**

ARKA FINCAP LIMITED

Note 15 : Share capital

Authorised share capital
Equity shares of ₹ 10 each

Particulars	No. of shares	₹ in Crs.
At 1 April 2018	-	-
Increase/(decrease) during the year	1,00,00,00,000	1,000.00
At 31 March 2019	**1,00,00,00,000**	**1,000.00**
Increase/(decrease) during the period	-	-
At 31 March 2020	**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 2018	-	-
Changes during the year	**2,70,00,000**	**27.00**
As at 31 March 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**

Subscribed and fully paid up
Equity shares of ₹ 10 each

Particulars	No. of shares	₹ in Crs.
As at 1 April 2018	-	-
Changes during the year	**2,70,00,000**	**27.00**
As at 31 March 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**

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

Name of the Shareholder	As at 31 March 2020		As at 31 March 2019	
	No. of shares	% of shareholding	No. of shares	% of shareholding
Kirloskar Oil Engines Limited	52,65,00,000	100.00	2,70,00,000	100.00

ARKA FINCAP LIMITED

Note 16 : Other Equity

₹ in Crs.

Particulars	As at 31 March 2020	As at 31 March 2019
Statutory reserve u/s 45-IC of The Reserve Bank of India Act, 1934 [1]	**1.22**	**-**
Opening Balance	-	-
Add : Additions during the year[1]	1.22	-
Employee Stock option reserve[2]	**4.72**	**-**
RETAINED EARNINGS	**(3.15)**	**(7.51)**
Opening Balance	(7.51)	-
Add : Profit / (Loss) for the year	6.10	(7.51)
Add : Other Comprehensive income	(0.02)	-
	6.08	**(7.51)**
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]	1.22	-
	1.72	**-**
Total	2.79	(7.51)

Other reserves

Particulars	As at 31 March 2020	As at 31 March 2019
Statutory reserve u/s 45-IC of The Reserve Bank of India Act, 1934[1]	1.22	-
Employee Stock option reserve[2]	4.72	-
Retained Earnings	(3.15)	(7.51)
Total other reserves	**2.79**	**(7.51)**

1. Pursuant to the provision of section 45(IC) of Reserve Bank of India Act, 1934, the Company has transferred ₹ 1.12 Crore (Previous Year : ₹ nil) towards statutory reserve fund.

2. Refer note no. 30.5.13 for disclosure on Employee Stock option Plan (ESOP).

ARKA FINCAP LIMITED

Note 17 : Borrowings (Non current)

₹ in Crs.

Particulars	As at 31 March 2020	As at 31 March 2019
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]	52.50	-
Total	**52.50**	-

1. Borrowings are measured at amortised cost.
2. Refer Note 30.5.8 for fair value disclosure of financial assets and financial liabilities and note 30.5.9 for fair value hierarchy.

3. Refer note no. 30.5.10 on risk management objectives and policies for finnacial instruments.

ARKA FINCAP LIMITED

Note 18 : Other financial liabilities (Non current)

₹ in Crs.

Particulars	As at 31 March 2020	As at 31 March 2019
Lease Liability	4.40	-
Total	**4.40**	**-**

ARKA FINCAP LIMITED

Note 19 : Long-term provisions

₹ in Crs.

Particulars	As at 31 March 2020	As at 31 March 2019
Provision for employee benefits	**0.27**	**0.07**
Provision for gratuity	0.18	0.03
Provision for leave encashment	0.09	0.04
Total	**0.27**	**0.07**

1. Refer Note 23 Short-term provisions for additional disclosures.

ARKA FINCAP LIMITED

Note 20 : Trade and other payables

₹ in Crs.

Particulars	As at 31 March 2020	As at 31 March 2019
Due to micro, small and medium enterprises	-	-
Due to other than micro, small and medium enterprises	0.22	0.17
Total	**0.22**	**0.17**

1. Trade and other payables are measured at amortised cost.
2. Refer Note 30.5.8 for fair value disclosure of financial assets and financial liabilities and note 30.5.9 for fair value hierarchy.

3. Refer note no. 30.5.10 on risk management objectives and policies for finnacial instruments.

ARKA FINCAP LIMITED

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

Note 21 : Other financial liabilities (Current)

₹ in Crs.

Particulars	As at 31 March 2020	As at 31 March 2019
Current maturities of long term debt:		
Term loan from Banks	22.50	-
Lease obligation	1.30	-
Employee benefits payable	6.11	-
	-	-
Total	**29.91**	-

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

2. Refer Note 30.5.8 for fair value disclosure of financial assets and financial liabilities and note 30.5.9 for fair value hierarchy.

3. Refer note no. 30.5.10 on risk management objectives and policies for finnacial instruments.

4. Employee benefits payable includes bonus provision of Rs 6.10 crores.

ARKA FINCAP LIMITED

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

Note 22 : Other Current liabilities

₹ in Crs.

Particulars	As at 31 March 2020	As at 31 March 2019
Statutory dues (TDS, GST etc)	0.82	0.60
Total	**0.82**	**0.60**

ARKA FINCAP LIMITED

Note 23 : Short-term provisions

₹ in Crs.

Particulars	As at 31 March 2020	As at 31 March 2019
Provision for employee benefits	**0.06**	-
Provision for gratuity	-	-
Provision for leave encashment	0.06	-
Total	**0.06**	-

Refer Note 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

b. Compensated absences

The leave obligation cover the Company's liability for earned leaves.
Also refer Note 30.5.5 for detailed disclosure.

ARKA FINCAP LIMITED

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

Note 24 : Revenue from operations

₹ in Crs.

Particulars	2019-20	2018-19
Interest income	**40.52**	**0.38**
On loans		
Employee loan	0.06	0.01
Others	20.49	-
On debt instruments	5.40	-
On bank deposits	6.97	0.33
On commercial paper	7.42	-
On Security Deposit	0.18	0.04
On others	-	-
Income from treasury	**7.92**	-
Net profit on sale of current investments	7.84	-
Fair value gain on current investments	0.08	-
Total	**48.44**	**0.38**

Fair value gain on current investments pertains to fair value gain on measurement of investments in mutual funds as at balance sheet date which are held as current investments. Mutual funds fair value measured through profit or loss.

ARKA FINCAP LIMITED

Note 25 : Employee benefits expense

₹ in Crs.

Particulars	2019-20	2018-19
Salaries, wages, bonus, commission, etc.	20.68	2.50
Provident and other funds expenses (Refer Note 30.5.5)	0.25	-
Leave encashment expense (Refer Note 30.5.5)	0.10	0.04
Gratuity (Refer Note 30.5.5)	0.12	0.03
Share based payments to employees (Refer Note 30.5.13)	4.72	-
Welfare and training expenses	0.06	0.02
Total	**25.93**	**2.59**

ARKA FINCAP LIMITED

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

Note 26 : Finance costs

₹ in Crs.

Particulars	2019-20	2018-19
Interest Exps on lease liability	0.62	-
Interest on term loan from banks	1.53	-
Interest on overdraft facility from banks	0.26	-
Processing fees and Bank charges	0.25	-
Interest on shortfall in payment of advance income tax	0.01	-
Total	**2.67**	-

ARKA FINCAP LIMITED

Note 27 : Depreciation and amortization expense

₹ in Crs.

Particulars	2019-20	2018-19
Depreciation and amortization expense	**2.46**	**0.24**
Depreciation on Tangible assets	2.44	0.24
Amortization on Intangible assets	0.02	-
Total	**2.46**	**0.24**

ARKA FINCAP LIMITED

Note 28 : Other expenses

₹ in Crs.

Particulars	2019-20	2018-19
Administration expenses	**7.21**	**7.45**
Rent [Refer Note 30.4.10 and Note 30.5.2(b)]	-	0.48
Rates and taxes	0.01	-
Insurance	0.12	0.01
Other repairs and maintenance	0.19	0.04
Travelling and conveyance	0.26	0.07
Communication expenses	0.07	0.02
Printing and stationery	0.04	0.01
Provision for expected credit loss	1.43	-
Professional charges	3.10	3.17
Membership and subscription	0.14	-
Auditor's remuneration (Refer Note 30.5.3)	0.17	0.04
Computer expenses	0.09	0.01
Directors' sitting fees	0.11	-
Electricity charges	0.08	0.01
Office expenses	0.15	0.03
Postage and courier	-	-
ROC Expenses	-	2.50
GST expenses	0.99	0.37
Stamp duty	0.03	0.55
Housekeeping and security charges	0.22	0.09
Loss on fair value of employee loan	0.01	0.05
Total	**7.21**	**7.45**

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

Note 29 : Income tax

The note below details the major components of income tax expenses for the year ended 31 March 2020 and 31 March 2019. 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	2019-20	2018-19
Current tax	**2.93**	-
Current income tax	2.93	-
Deferred tax	**1.14**	**(2.40)**
Relating to origination and reversal or temporary difference	1.14	(2.40)
Income tax expense reported in the statement of profit and loss	**4.07**	**(2.40)**

Other Comprehensive Income (OCI) ₹ in Crs.

Particulars	2019-20	2018-19
Deferred tax related to items recognised in OCI during the year		
Net loss/(gain) on actuarial gains and losses	(0.01)	-
Deferred tax charged to OCI	**(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 2020 and 31 March 2019.

Current tax ₹ in Crs.

Particulars	2019-20	2018-19
Accounting profit/(Loss) before income tax expense (IGAAP)	16.48	(9.84)
Tax @ 25.1680% (31 March 2019 : 29.120%)	**4.15**	-
Tax effect of adjustments in calculating taxable income:	**(0.07)**	-
Stamp duty u/s 37	0.13	-
Interset on late payment of advance tax (u/s 234 B & C)	-	-
Ind AS Fair value adjustments	(0.52)	
Effect of change in tax rate C.Y 25.168% (P.Y 29.120%)	0.32	-
Total Tax Expenses Recognised	**4.08**	-

ARKA FINCAP LIMITED

30. NOTES TO AND FORMING PART OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 MARCH 2020

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. 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.

3. Significant accounting judgements, estimates and assumptions

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 future periods.

3.1 Estimates and assumptions

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.

Defined benefit plans

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.

ARKA FINCAP LIMITED

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 29.5.5

Deferred Tax

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.

4. Significant accounting Policies

4.1 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.

4.2 Fair value measurement

On initial recognition, all the financial instruments are measured at fair value. For subsequent measurement, the Company measures certain categories of financial instruments as explained in note 29.5.9 at fair value at each balance sheet date.

ARKA FINCAP LIMITED

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 standalone 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.

4.3 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.

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:

ARKA FINCAP LIMITED

Particular	Estimated useful life by the Company	Useful life as prescribed by Schedule II of the Companies Act, 2013
Office Equipment	5 Years	5 Years
Office Equipment – Mobiles	2 Years	5 Years
Furniture and fixtures	10 Years	10 Years
Motor vehicles	8 Years	8 Years
Servers and networks	6 Years	6 Years
Computers	3 Years	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.

4.4 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.

Sr. No.	Asset category	Life in years
1	Computer Software	5 years

4.5 Borrowing costs

Borrowing cost includes includes interest and are charged to the Statement of Profit & Loss in the year/period in which they are incurred. Ancillary and other borrowing costs are amortised over the tenure of the underlying loan on straight line basis.

4.6 Impairment of Assets

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired based on internal/external factors. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset is less than it carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the Statement of Profit and Loss. If at the balance sheet date there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of the depreciable historical cost.

4.7 Financial instruments – initial recognition and subsequent measurements

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

ARKA FINCAP LIMITED

(a) Financial assets

(i) Initial recognition and measurement of financial assets

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.

(ii) Subsequent measurement of financial assets

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

• Financial assets at amortised cost

• Financial assets at fair value through other comprehensive income (FVOCI)

• Financial assets at fair value through profit or loss (FVTPL)

• 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.

• Financial assets at fair value through other comprehensive income

- 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.

• Financial assets at fair value through profit or loss

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) Derecognition of financial assets

A financial asset is derecognized when:

ARKA FINCAP LIMITED *

- 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.

(iv) Reclassification of financial assets

The Company determines classification of financial assets and liabilities on initial recognition. After initial recognition, no reclassification is made for financial assets which are equity instruments and financial liabilities. For financial assets which are debt instruments, a reclassification is made only if there is a change in the business model for managing those assets. Changes to the business model are expected to be infrequent. The Company's senior management determines change in the business model as a result of external or internal changes which are significant to the Company's operations. Such changes are evident to external parties. A change in the business model occurs when the Company either begins or ceases to perform an activity that is significant to its operations. If the Company reclassifies financial assets, it applies the reclassification prospectively from the reclassification date which is the first day of the immediately next reporting period following the change in business model. The Company does not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

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

Original Classification	Revised classification	Accounting treatment
Amortised cost	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.
FVTPL	Amortised Cost	Fair value at reclassification date becomes its new gross carrying amount. EIR is calculated based on the new gross carrying amount.
Amortised cost	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.
FVOCI	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.
FVTPL	FVOCI	Fair value at reclassification date becomes its new carrying amount. No other adjustment is required.
FVTOCI	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.

ARKA FINCAP LIMITED

(v) Impairment of financial assets

(a) Expected Credit Loss (ECL) principles

The Company records allowance for expected credit losses for all loans, debt financial assets not held at FVTPL, together with undrawn loan commitments, in this section all referred to as financial instruments.

For the computation of ECL on the financial instruments, the Company categories its financial instruments as mentioned below:

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.

(b) Calculation of ECL

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 the amount the Company is entitled to receive as on reporting date including repayments due for principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities.

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.

ARKA FINCAP LIMITED

b. Financial Liabilities

(i) Initial recognition and measurement of financial liabilities

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.

(ii) Subsequent measurement of financial liabilities

For purposes of subsequent measurement, financial liabilities are classified and measured as follows:

• Loans and Borrowings at amortised Cost

This is the category most relevant to the Company. After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of profit and loss when the liabilities are derecognised as well as through the EIR amortisation process.

• 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.

(iii) 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.

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.

4.8 Derivatives

Company does not have any derivative transaction during the year.

4.9 Foreign Currency Transactions

Company does not have any foreign currency transaction during the year.

ARKA FINCAP LIMITED

4.10 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 statement of financial position. 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.

The following table shows impact of Ind AS 116 on Balance sheet and Statement of Profit or loss

₹ in Crs.

Particulars	FY19-20	FY18-19
1. Initial Measurement of Right-of-use assets	7.80	-
2. Initial Measurement of Lease liabilities	5.70	-
3. Reduction in operating lease expenses (Rent expenses)	1.93	-
4. Increase in interest expense on lease liability	0.62	-
5. Increase in depreciation on Right-of-use asset	1.56	-
Net impact on P&L during the year is (increase in expenses)	0.24	-

4.11 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.

ARKA FINCAP LIMITED

4.12 Taxes

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

The deferred tax charge or credit and the corresponding deferred tax liabilities and assets are recognized using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the asset can be realised in future; however, where there is unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognised only if there is a virtual certainty of realisation of the assets. Deferred tax assets are reviewed as at each balance sheet date and written down or written-up to reflect the amount that is reasonable/virtually certain (as the case may be) to be realised.

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.

4.13 Employee Benefits

a. 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.

b. 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.

ARKA FINCAP LIMITED

c. Other long-term employment benefits:

Accumulated leave, which is expected to be utilized within the next 12 months, is treated as short-term employee benefit. The Company measures the expected cost of such absences as the additional amount that it expects to pay as a result of the unused entitlement that has accumulated at the reporting date. The Company treats accumulated leave expected to be carried forward beyond twelve months, as long-term employee benefit for measurement purposes. Such long-term compensated absences are provided for based on the actuarial valuation using the projected unit credit method at the year-end. The Company presents the leave as a current liability in the balance sheet, to the extent it does not have an unconditional right to defer its settlement for 12 months after the reporting date. Where Company has the unconditional legal and contractual right to defer the settlement for a period beyond 12 months, the same is presented as non-current liability.

4.14 Provisions and Contingencies

Necessary provisions are made for the present obligations that arise out of past events entailing future outflow of economic resources. Such provisions reflect best estimates based on available information.

However a disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

4.15 Revenue Recognition

a. Recognition of Interest income:

Interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost.

The EIR for the amortised cost asset is calculated by taking into account any discount or premium on acquisition, origination/processing fee and transaction costs that are an integral part of the EIR.

The Company calculates interest income by applying the EIR to the gross carrying amount of financial assets.

b. Recognition of Origination fees or Processing fees income:

Origination fees, which the Company has received/recovered at time of granting of a loan, is considered as a component for computation of the effective rate of interest (EIR) for the purpose of computing interest income.

c. 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.

d. 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.

ARKA FINCAP LIMITED

4.16 Share based employee payments

Equity settled share-based payments

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.

4.17 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.

4.18 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.

4.19 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.

5 Additional Notes to the Financial Statements

5.1 Contingent Liabilities

a. Contingent liabilities is Rs. Nil as at balance sheet date.

b. Company does not have any pending litigations which will have impact on its financial position.

c. Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.

5.2 Commitments

a. Estimated amounts of Contracts remaining to be executed on capital account:

(₹ in Crs.)

Particulars	31 March 2020	31 March 2019
Loan Origination System	1.14	-
Loan Management System	0.68	-
Total	**1.82**	-

ARKA FINCAP LIMITED

b. Operating lease commitments- Company as a lessee:

The Company has taken premises on operating lease.

Details of future minimum lease payments for the non-cancellable operating lease are as follows:

(₹ in Crs.)

	2019-20	2018-19
Minimum lease payments for non-cancellable lease		
- not later than one year	1.85	1.70
- later than one year and not later than five years	4.53	6.07
- later than five years	-	-
Total	**6.38**	7.77

5.3 Payment to Auditors (Net of taxes)

(₹ in Crs.)

Sr. No.	Particulars	2019-20	2018-19
A	Statutory Auditors		
	a. As Auditors	0.15	0.02
	- Audit Fees	0.07	0.02
	- Audit of Special purpose financial statement	0.08	0.01
	b. Certification fees & Assurance Services	0.01	0.01
	c. Reimbursement of expenses	0.01	0.00
	TOTAL (a + b + c)	**0.17**	**0.04**

5.4 Details of dues to micro, small and medium enterprises

Under the Micro, Small and Medium Enterprises Development Act, 2006 ('MSMED'), the following disclosure is made based on the information and records available with the Company in respect of the Micro, Small and Medium Enterprises who have registered with the competent authorities:

(₹ in Crs.)

Particulars	**2019-20**	**2018-19**
Principal amount remaining unpaid to any supplier as at the year end	**Nil**	Nil
Interest due thereon	**Nil**	Nil
Amount of interest paid by the Company in terms of section 16 of the MSMED, along with the amount of the payment made to the supplier beyond the appointed day during the accounting year	NA	NA
Amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the MSMED	**Nil**	Nil
Amount of interest accrued and remaining unpaid at the end of the accounting year	**Nil**	Nil

ARKA FINCAP LIMITED

5.5 Disclosure pursuant to Employee benefits:

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

(a) Provident fund

(b) Gratuity

(c) Compensated Absences

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.

Amount of Rs. 0.25 crore (previous year: Rs. Nil) is recognised as expenses and included in Employee benefit expenses.

31 March 2020: Changes in defined benefit obligation and plan assets of Gratuity:

(₹ in Crs.)

	Gratuity cost charged to statement of profit and loss				Remeasurement gains/(losses) in other comprehensive income			
	1 April 2019	Service cost	Net interest expense	Sub-total included in statement of profit and loss	Return on plan assets	Experience adjustments	Sub-total included in OCI	31 March 2020
Gratuity:								
Defined benefit obligation	0.03	0.12	0.00	0.12	-	0.03	0.03	0.18
Fair value of plan assets	-	-	-	-	-	-	-	-
Total Benefit liability	0.03	0.12	-	0.12	-	0.03	0.03	0.18

31 March 2020: Changes in defined benefit obligation and plan assets of Compensated Absences:

	Compensated Absences cost charged to statement of profit and loss					
	1 April 2019	Service cost	Interest cost	Remeasurement gains/(losses) in statement of profit and loss	Sub-total included in statement of profit and loss	31 March 2020
Compensated Absences:						
Defined benefit obligation	0.04	0.05	0.00	0.05	0.10	0.14
Fair value of plan assets	-	-	-	-	-	-
Total Benefit liability	0.04	0.05	0.00	0.00	0.10	0.14

31 March 2019: Changes in defined benefit obligation and plan assets of Gratuity:

(₹ in Crs.)

	Gratuity cost charged to statement of profit and loss				Remeasurement gains/(losses) in other comprehensive income			
	1 April 2018	Service cost	Net interest expense	Sub-total included in statement of profit and loss	Return on plan assets	Experience adjustments	Sub-total included in OCI	31 March 2018
Gratuity:								
Defined benefit obligation	-	0.03	-	0.03	-	0.00	-0.00	0.03
Fair value of plan assets	-	-	-	-	-	-	-	-
Total Benefit liability	-	0.03	-	0.03	-	0.00	-0.00	0.03

ARKA FINCAP LIMITED

Arka Fincap Limited
(Formerly known as Kirloskar Capital Limited)

31 March 2019: Changes in defined benefit obligation and plan assets of Compensated Absences:

	Compensated Absences cost charged to statement of profit and loss				
	1 April 2018	Service cost	Interest cost	Sub-total included in statement of profit and loss	31 March 2019
Compensated Absences:					
Defined benefit obligation	-	0.04	-	0.04	0.04
Fair value of plan assets	-	-	-	-	-
Total Benefit liability	-	0.04	-	0.04	0.04

The principal assumptions used in determining above defined benefit obligations for the Company's plans are shown below:

Particulars	Year ended 31-Mar-20	Year ended 31-Mar-19
Discount rate	6.40%	7.70%
Future salary increases	8.00%	8.00%
Expected average remaining working lives (in years)	5.59	11.88
Withdrawal rate (based on grade and age of employees)	15.00%	5.00%

Current/ Non-current breakup of amount to be recognised in Balance sheet at year end:

31 March 2020

Particulars	Gratuity	Compensated Absences
Present value of obligation at the end of period (net)	0.18	0.14
Current	0.00	0.06
Non-current	0.18	0.08

31 March 2019

Particulars	Gratuity	Compensated Absences
Present value of obligation at the end of period (net)	0.03	0.04
Current	0.00	0.00
Non-current	0.03	0.04

ARKA FINCAP LIMITED

5.6 Related parties have been identified as defined under Clause 9 of Accounting Standard (Ind AS 24) "Related Party Disclosures":

(A) Description of Related Parties

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
3	Entity controlled by Key Managerial Personnel of Holding Company	Expert Quality Cloud Information Technology Private Limited
		Kirloskar Energen Private Limited
		Kirloskar Solar Technologies Private Limited
		Kloudq Technologies Limited (Formerly known as Kloudworks Consulting Services Ltd.)
		Lakeland Universal Limited BVI
		Navsai Investments Private Limited
4	Entity controlled by Close Member of Key Managerial Personnel of Holding Company	Alpak Investment Private Limited
		Snow Leopard Technology Ventures LLP
		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
2	Mahesh Ramchand Chhabria (Non Executive Director)	Anjali M. Chhabria	Wife
		Aryan M. Chhabria	Son
		Rhea M Chhabria	Daughter
3	Nihal Gautam Kulkarni (Non Executive Director)	Shruti N. Kulkarni	Wife
		Jyostna G. Kulkarni	Mother
		Ambar G. Kulkarni	Brother

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)	Shruti N. Kulkarni	Wife
		Ambar G. Kulkarni	Brother
		Jyotsna G. Kulkarni	Mother
3	Rajendra R. Deshpande (Joint Managing Director) (Up to 28 April 2020)	Veena R. Deshpande	Wife
		Kaustubh R. Deshpande	Son
		Sourabh R. Deshpande	Son

ARKA FINCAP LIMITED

(B) Transactions with Related Parties (₹ in Crs.)

Sr. No.	Nature of the transaction / relationship / major parties	2019-20 Amount	2019-20 Amount	2018-19 Amount	2018-19 Amount
1	**Reimbursement paid to**				
	Holding Company	-		8.08	
	KOEL		-		8.08
	Total	-	-	**8.08**	**8.08**
2	**Capital Contribution received from**				
	Holding Company	499.50		27.00	
	KOEL		499.50		27.00
	Total	**499.50**	**499.50**	**27.00**	**27.00**
3	**Rendering of Services from**				
	Key Management Personnel	3.02		1.25	
	Vimal Bhandari		3.02		1.25
	Total	**3.02**	**3.02**	**1.25**	**1.25**
Balances with related parties					
	Employee benefits payable	**0.01**			
	Vimal Bhandari		0.01		
	Total	**0.01**	**0.01**		

The above figures 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. For the year ended 31 March 2020, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Commitments with related parties

The Company has not provided any commitment to the related party as at 31 March 2020 (Previous year 31 March 2019: Nil).

Transactions with key management personnel

Compensation of key management personnel of the Company (₹ in Crs.)

Particulars	2019-20	2018-19
Short-term employee benefits	3.02	1.25
Post-employment benefits	-	-
Other long-term employment benefits	-	-
Termination benefits	-	-
Total compensation paid to key management personnel	**3.02**	**1.25**

ARKA FINCAP LIMITED

5.7 Earnings Per Share (Basic and Diluted)

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 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 2020	For the period ended 31 March 2019
I.	**Profit attributable to equity holders (A)**		
	Profit attributable to equity holders for basic and diluted EPS	6.08	(7.50)
II.	**Weighted average number of equity shares for calculating Basic EPS (B)**	51,28,52,459	1,04,82,659
III.	**Weighted average number of equity shares for calculating Diluted EPS (C)**	51,86,53,336	1,04,82,659
IV.	**Basic earnings per share (₹)**	0.12	(7.16)
V.	**Diluted earnings per share (₹)**	0.12	(7.16)

5.8 Fair value disclosures for financial assets and financial liabilities

The management believes that the fair values of Other non-current financial assets (e.g. Security deposits), current financial assets (e.g. cash and cash equivalents), other current financial assets (e.g. accrued interest on fixed deposits), borrowings and current financial liabilities (e.g. Trade payables and employee benefit payables) approximate their carrying amounts.

5.9 Fair value hierarchy

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

(₹ in Crs.)

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 market	Level 2 - Significant observable Inputs	Level 3 - Significant unobservable Inputs	Total
1. Loans (including employee loans)	-	-	363.59	**363.59**	-	-	363.59	**363.59**
2. Investments in quoted bonds	-	-	94.17	**94.17**	94.17	-	-	**94.17**
3. Investments in mutual funds	19.08	-	-	**19.08**	-	19.08	-	**19.08**

(₹ in Crs.)

Particulars	As at 31 March 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 market	Level 2 - Significant observable Inputs	Level 3 - Significant unobservable Inputs	Total
1. Employee loans	-	-	0.34	**0.34**	-	-	0.34	**0.34**

5.10 Financial instruments risk management objectives and policies

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. 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.

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.

ARKA FINCAP LIMITED

- The Board of the Company is responsible for the approval of deployment of all the capital, divestments of loans/assets and shall take decisions on portfolio concentration.
- The Board of the Company shall also take note of any deviations and monitor the operational risk

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.

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.

5.11 Capital management

For the purpose of the Company's capital management, capital includes issued equity capital and all other equity reserves attributable to the equity holders of the Company. The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

ARKA FINCAP LIMITED

5.12 Expenditure on CSR Activities

CSR provision is not applicable on Company in current year, as per section 135 of Companies Act, 2013.

5.13 Employee stock option plans (ESOP)

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 2020, 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

Particular	ESOP Grant 1	ESOP Grant 2
ESOP Plan/ Scheme	ESOP - 2019	ESOP - 2019
Date of Grants	06 May 2019	01 November 2019
Vesting Requirements	Vesting Criteria is specified for each Option Holder by the Nomination and Remuneration Committee at the time of grant of Options.	
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 2020

Particular	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

ARKA FINCAP LIMITED

III. Weighted average remaining contractual life of outstanding options (in years)

Particular	ESOP Grant 1	ESOP Grant 2
Number of options Outstanding at the end of the year	2,06,50,000	13,00,000
Contractual Life: Granted but not vested (in years)	0.85	2.32
Contractual Life: Vested but not exercised (in years)	NA	NA

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 as follows:

Particular	ESOP Grant 1	ESOP Grant 2
Risk Free Interest Rate	7.40%	6.60%
Weighted average expected life (in years)	6.00	7.00
Expected Volatility	1.00%	1.00%
Weighted average exercise price (₹ per share)	10.00	10.00

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

Particular	31 March 2020	31 March 2019
Employee share based expense (₹)	4.72	-
Total ESOP reserve outstanding at the end of the period (₹)	4.72	-

5.14 Disclosures pursuant to RBI Notification No. RBI/2019-20/170 DOR(NBFC). CC.PD.No.109/22.10106/2019-20 dated 13 March 2020

As per the said RBI notification, a comparison (as shown in below **Appendix**) between provisions required under IRACP and impairment allowances made under Ind AS 109 should be disclosed by NBFC in the notes to their financial statements to provide a benchmark to their Boards, RBI supervisors and other stakeholders, on the adequacy of provisioning for credit losses.

As per the said notification, where impairment allowance under Ind AS 109 is lower than the provisioning required under IRACP (including standard asset provisioning), NBFC shall appropriate the difference from their net profit or loss after tax to a separate 'Impairment Reserve'. The balance in the 'Impairment Reserve' shall not be reckoned for regulatory capital. Further, no withdrawals shall be permitted from this reserve without prior permission from the Department of Supervision, RBI.

ARKA FINCAP LIMITED

5.14 Disclosures pursuant to RBI Notification No. RBI/2019-20/170 DOR(NBFC). CC.PD.No.109/22.10106/2019-20 dated 13 March 2020 *(Continued)*

Appendix (₹ in Crs.)

Asset Classification as per RBI Norms	Asset classification as per Ind AS 109	Gross Carrying Amount as per Ind AS	Loss Allowances (Provisions) as required under Ind AS 109	Net Carrying Amount	Provisions required as per IRACP norms	Difference between Ind AS 109 provisions and IRACP norms
(1)	(2)	(3)	(4)	(5)=(3)-(4)	(6)	(7) = (4)-(6)
Performing Assets						
Standard	Stage 1	457.31	1.43	455.88	1.43	-
	Stage 2	-	-	-	-	-
Subtotal		**457.31**	**1.43**	**455.88**	**1.43**	-
Non-Performing Assets (NPA)						
Substandard	Stage 3	-	-	-	-	-
Doubtful - up to 1 year	Stage 3	-	-	-	-	-
1 to 3 years	Stage 3	-	-	-	-	-
More than 3 years	Stage 3	-	-	-	-	-
Subtotal for doubtful		-	-	-	-	-
Loss	Stage 3	-	-	-	-	-
Subtotal for NPA		-	-	-	-	-
Other items such as guarantees, loan commitments, etc. which are in the scope of Ind AS 109 but not covered under current Income Recognition, Asset Classification and Provisioning (IRACP) norms	Stage 1	-	-	-	-	-
	Stage 2	-	-	-	-	-
	Stage 3	-	-	-	-	-
Subtotal		-	-	-	-	-
Total	**Stage 1**	**457.31**	**1.43**	**455.88**	**1.43**	**0.00**
	Stage 2	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
	Stage 3	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
	Total	**457.31**	**1.43**	**455.88**	**1.43**	**0.00**

ARKA FINCAP LIMITED

5.15 Coronavirus (COVID-19) impact on financial reporting:

As per the said RBI notification, a comparison (as shown in below **Appendix**) between provisions required under IRACP and impairment allowances made under Ind AS 109 should be disclosed by NBFC in the notes to their financial statements to provide a benchmark to their Boards, RBI supervisors and other stakeholders, on the adequacy of provisioning for credit losses.

COVID-19 was first reported to the World Health Organisation (WHO) in December 2019 and it has rapidly spread to many other countries. On 11 March 2020, WHO has declared it as global pandemic.

The adverse impact of this global pandemic can vary from nation to nation, industry to industry and above all entity to entity.

Impact of COVID-19 on Company as on 31 March 2020 is as follows:

1) Impact on Liquidity/ALM:

(i) **Cash and bank balances:** As at year end Company has Cash and bank balance including short term fixed deposits with banks Rs. 123.27 Crore.

(ii) **Undrawn credit lines:** As at year end Company has undrawn credit lines of Rs 25 Crore in form of cash credit facility and working capital demand loan from a bank.

(iii) **Repayment due from Clients:** As per repayment schedule repayment due from financing clients within 1 year from end of financial year is Rs 176.01 Crore.

(iv) **Inflow on account of maturity due of investments:** inflow on account of maturity due of investments in next 1 year from end of financial year is Rs 59.48 Crore.

(v) **Repayment of borrowing taken:** Outflow on account of repayment due on borrowing in next 1 year from end of financial year is Rs. 22.50 Crore.

(vi) Net Liquidity surplus on account of positive ALM in next 1 years is Rs 336.26 Crore.

2) Asset quality of loan portfolio:

(i) **Delinquencies of loan portfolio:** As at year ended 31 March 2020 the Company has Loan outstanding of Rs 356.58 Crore with nil delinquencies. The Company has nil overdue.

(ii) In line with recent RBI guideline on moratorium, the Company has framed a 'Grant of Moratorium Policy' to provide to its clients the benefits of repayment moratorium on term loans and working capital facilities. five clients have taken the benefit of this three months moratorium period, however all clients including the clients who have taken the moratorium benefits, whose interest or instalments were due on or before year end i.e. 31 March 2020 have repaid its interest or instalment on time.

3) Operations and controls:

(i) The Company has made a reasonably smooth transition to working remotely, 'work-from-home'. Processing its essential payments, like taxes, repayment dues on borrowings, salaries etc through digital channels, online net-banking.

ARKA FINCAP LIMITED

5.15 Coronavirus (COVID-19) impact on financial reporting *(Continued)*:

(ii) Loan management system and general ledger accounting system were accessible through digital channel or remote access.

(iii) Storage pattern moved from individual laptop/system to cloud/ G-suite which help the user/employees to access their respective files through use of official login credentials from their home during this lock-down period.

31. Previous year numbers have been re-grouped wherever considered necessary to make them comparable with those of the current year.

Signatures to Note 1 to 31, forming part of the Special purpose Financial Statements.

As per our attached report of even date

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

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

Vimal Bhandari
Executive Vice Chairman and CEO
DIN: 00001318

Mahesh Chhabria
Non-Executive Director
DIN: 00166049

Vaibhav Shah
Partner
Membership No: 117377
UDIN: 20117377AAAABL2219

Ritesh Jhanwar
Financial Controller

Amit Bondre
Deputy Company Secretary

Mumbai: 28 May 2020

Mumbai: 28 May 2020