Financial Statements and Auditor's Report

Disha Microfin Limited

31 March 2017

Auditor's Report

[Pursuant to the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016]

Walker Chandiok & Co LLP
(Formerly Walker, Chandiok & Co)
5th Floor, No. 65/2, Block "A",
Bagmane Tridib, Bagmane Tech Park
C V Raman Nagar, Bengaluru 560093
India

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To
The Board of Directors
Disha Microfin Limited (*formerly* Disha Microfin Private Limited)
301-306, 3rd Floor, Abhijeet -V,
Opposite Mayor's Bunglow,
Law Garden Road, Mithakhali
Ahmedabad – 380006
Gujarat, India

1. We have audited the Balance Sheet of Disha Microfin Limited (*formerly* Disha Microfin Private Limited), (the 'Company') as at 31 March 2017, the Statement of Profit and Loss, the Cash Flow Statement for the year then ended and a Summary of Significant Accounting Policies and Explanatory Information (collectively referred to as "financial statements") and have issued an unqualified opinion vide our report dated 30 May 2017.

2. As required by the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016, issued by the Reserve Bank of India ("the RBI") vide Master Direction DNBS.PPD.03/66.15.001/2016-17 dated 29 September 2016 and based on our audit, we report on the matters specified in paragraphs 3 and 4 of the said directions:

   a. The Company is engaged in the business of Non-Banking Financial Institution (not accepting public deposits) and pursuant to the provisions of Section 45(IA) of the Reserve Bank of India Act, 1934 (as amended), it has obtained a certificate of registration (not valid for accepting public deposit) vide certificate No. B.01.00566 dated 26 December 2016 (in lieu of certificate No. 01.00319 dated 5 April 2010), reclassified as NBFC MFI with effect from 6 December 2013.

   b. In our opinion, and in terms of the Company's assets and income pattern for the year ended and as at 31 March 2017, the Company is entitled to continue to hold the certificate of registration issued by the RBI.

   c. In our opinion, the Company has complied with the net owned funds requirement as laid down in Non-Banking Financial Company –Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016, issued by RBI vide Master Direction DNBR. PD. 008/03.10.119/2016-17, updated as on 09 March 2017.

   d. In our opinion, the Company is a Non-Banking Financial Company - Micro Finance Institutions ('NBFC-MFIs) based on the criteria set forth by the RBI in the notification for Non-Banking Financial Company – Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016, issued by RBI vide Master Direction DNBR. PD. 008/03.10.119/2016-17, updated as on 09 March 2017.

WALKER CHANDIOK & CO LLP
BENGALURU
CHARTERED ACCOUNTANTS

Auditors' Report of even date to the Board of Directors of Disha Microfin Limited (formerly Disha Microfin Private Limited), pursuant to the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016 (cont'd)

e. The Board of Directors of the Company in their meeting held on 23 March 2016 has passed a resolution for non-acceptance of any public deposits for the financial year 1 April 2016 to 31 March 2017.

f. The Company has not accepted any public deposits during the year ended 31 March 2017.

g. In our opinion, the Company has complied with the NBFC – MFI norms issued by the RBI in relation to recognition of income, accounting standards, asset classification and provisioning for bad and doubtful debts as applicable to it in terms of the Master Direction – Non-Banking Financial Company - Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016, issued by RBI vide Master Direction DNBR. PD. 008/03.10.119/2016-17, updated as on 09 March 2017.

h. In our opinion, the capital adequacy ratio as disclosed in the return submitted to the Bank in form NBS-7, has been correctly arrived at and such ratio is in compliance with the minimum CRAR ratio prescribed by the Bank.

i. In our opinion, the Company has furnished to the Bank the annual statement of capital fund, risk assets/exposures and risk asset ratio (NBS-7) within the stipulated period.

This report is issued in respect of Master Direction DNBS. PPD.03/66.15.001/2016-17 dated 29 September 2016 issued by the RBI for submission to RBI and it is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

Walker Chandiok & Co. LLP

For **Walker Chandiok & Co LLP**
Chartered Accountants
Firm Registration No: 001076N/N500013

Sanjay Banthia

per **Sanjay Banthia**
Partner
Membership No: 061068

Bengaluru
30 May 2017

WALKER CHANDIOK & CO LLP * BENGALURU * CHARTERED ACCOUNTANTS

Walker Chandiok & Co LLP

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(Formerly Walker, Chandiok & Co)
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Independent Auditor's Report

To the Members of Disha Microfin Limited *(formerly* Disha Microfin Private Limited*)*

Report on the Financial Statements

1. We have audited the accompanying financial statements of Disha Microfin Limited (*formerly* Disha Microfin Private Limited) ('the Company'), which comprise the Balance Sheet as at 31 March 2017, the Statement of Profit and Loss and the Cash Flow Statement for the year then ended and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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CHARTERED ACCOUNTANTS

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

5. 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 these financial statements are free from material misstatement.

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

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

Opinion

8. In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31 March 2017, and its profit and its cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

9. As required by the Companies (Auditor's Report) Order, 2016 ('the Order') issued by the Central Government of India in terms of Section 143(11) of the Act, we give in Annexure I a statement on the matters specified in paragraphs 3 and 4 of the Order.

10. Further to our comments in Annexure I, as required by Section 143(3) of the Act, we report that:
    a. we have sought and except for the matter described in para 10(g)(iv) below, obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

    b. in our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;

    c. the financial statements dealt with by this report are in agreement with the books of account;

    d. in our opinion, the aforesaid financial statements comply with the Accounting Standards prescribed under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 (as amended);

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e. on the basis of the written representations received from the directors and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2017 from being appointed as a director in terms of Section 164(2) of the Act;

f. we have also audited the internal financial controls over financial reporting of the Company as on 31 March 2017 in conjunction with our audit of the financial statements of the Company for the year ended on that date and our report dated 30 May 2017 as per Annexure II expressed an unqualified opinion;

g. with respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014 (as amended), in our opinion and to the best of our information and according to the explanations given to us:

   i. as detailed in Note 24 to the financial statements, the Company has disclosed the impact of pending litigations on its financial position;

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

   iii. there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company; and

   iv. the Company has provided disclosures in Note 13 to the financial statements regarding holdings as well as dealings in specified bank notes during the period from 8 November 2016 to 30 December 2016. Based on the audit procedures performed, in our opinion, the total cash in hand as on 8 November 2016, 30 December 2016, total receipts and deposits in bank are in accordance with the books of account maintained by the Company. However, in the absence of sufficient appropriate audit evidence, including confirmation from certain Banks in respect of the amount deposited totaling to ₹ 438,185,087, we are unable to comment upon the appropriateness of classification between specified bank notes and other denomination notes in respect of 'cash balance' as at 08 November 2016, 'permitted receipts', 'permitted payments' and 'amount deposited in Banks' as disclosed under such note.

Walker Chandiok & Co. LLP
For **Walker Chandiok & Co LLP**
Chartered Accountants
Firm's Registration No.: 001076N/N500013

Sanjay Banthia.
per **Sanjay Banthia**
Partner
Membership No.: 061068

Place: Bengaluru
Date: 30 May 2017

WALKER CHANDIOK & CO LLP
BENGALURU
CHARTERED ACCOUNTANTS

Annexure I to the Independent Auditor's Report of even date to the members of Disha Microfin Limited *(formerly* Disha Microfin Private Limited*)* on the financial statements for the year ended 31 March 2017

Annexure I

Independent Auditor's Report on Companies (Auditor's Report) Order, 2016 ("the Order") under Sub-section 11 of Section 143 of the Companies Act, 2013 ("the Act")

Based on the audit procedures performed for the purpose of reporting a true and fair view on the financial statements of the Company and taking into consideration the information and explanations given to us and the books of account and other records examined by us in the normal course of audit, and to the best of our knowledge and belief, we report that:

(i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

(b) All fixed assets have not been physically verified by the management during the year. However, there is a regular program of verification once in 2 years, which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.

(c) The Company does not hold any immovable property (in the nature of 'fixed assets'). Accordingly, the provisions of clause 3(i)(c) of the Order are not applicable.

(ii) The Company does not have any inventory. Accordingly, the provisions of clause 3(ii) of the Order are not applicable.

(iii) The Company has not granted any loan, secured or unsecured to companies, firms, Limited Liability Partnerships (LLPs) or other parties covered in the register maintained under Section 189 of the Act. Accordingly, the provisions of clauses 3(iii)(a), 3(iii)(b) and 3(iii)(c) of the Order are not applicable.

(iv) In our opinion, the Company has not entered into any transaction covered under Sections 185 and 186 of the Act. Accordingly, the provisions of clause 3(iv) of the Order are not applicable.

(v) In our opinion, the Company has not accepted any deposits within the meaning of Sections 73 to 76 of the Act and the Companies (Acceptance of Deposits) Rules, 2014 (as amended). Accordingly, the provisions of clause 3(v) of the Order are not applicable.

(vi) The Central Government has not specified maintenance of cost records under sub-section (1) of Section 148 of the Act, in respect of Company's services. Accordingly, the provisions of clause 3(vi) of the Order are not applicable.

(vii) (a) The Company is regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income-tax, service tax, cess and other material statutory dues, as applicable, to the appropriate authorities. Further, no undisputed amounts payable in respect thereof were outstanding at the year-end for a period of more than six months from the date they become payable.

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Annexure I to the Independent Auditor's Report of even date to the members of Disha Microfin Limited *(formerly* Disha Microfin Private Limited*)* on the financial statements for the year ended 31 March 2017

(b) The dues outstanding in respect of service tax on account of dispute are as follows:

Name of the statute	Nature of dues	Amount (₹)	Amount paid under Protest (₹)	Period to which the amount relates	Forum where dispute is pending
Finance Act, 1994	Service tax on loan protection fees	6,860,376	Nil	1 April 2009 to 31 March 2012	The Customs, Excise and Service Tax Appellate Tribunal

(viii) The Company has not defaulted in repayment of loans or borrowings to any financial institution or a bank or any dues to debenture-holders during the year The Company did not have any loans, borrowings or dues payable to the government.

(ix) The Company did not raise moneys by way of initial public offer or further public offer (including debt instruments). In our opinion, the term loans were applied for the purposes for which they were obtained, though idle funds which were not required for immediate utilization have been invested in liquid investments, payable on demand.

(x) We have been informed that certain employees of the Company have misappropriated cash balance amounting to ₹ 3,354,937 during the year of audit. As explained to us, the Company terminated the service of such employees and a provision of ₹ 2,627,016 (net of recovery) has been made in the financial statements for the estimated loss. No fraud by the Company has been noticed or reported during the period covered by our audit.

(xi) Managerial remuneration has been paid and provided by the Company in accordance with the requisite approvals mandated by the provisions of Section 197 of the Act read with Schedule V to the Act.

(xii) In our opinion, the Company is not a Nidhi Company. Accordingly, provisions of clause 3(xii) of the Order are not applicable.

(xiii) In our opinion all transactions with the related parties are in compliance with Sections 177 and 188 of Act, where applicable, and the requisite details have been disclosed in the financial statements etc., as required by the applicable accounting standards.

(xiv) During the year, the Company has made preferential allotment of equity shares. In respect of the same, in our opinion, the Company has complied with the requirement of Section 42 of the Act and the Rules framed thereunder. Further, in our opinion, the amounts so raised have been used for the purposes for which the funds were raised, though idle funds which were not required for immediate utilization have been invested in liquid investments, payable on demand. During the year, the Company did not make preferential allotment or private placement of fully/partly convertible debentures.

(xv) In our opinion, the Company has not entered into any non-cash transactions with the directors or persons connected with them covered under Section 192 of the Act.

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Annexure I to the Independent Auditor's Report of even date to the members of Disha Microfin Limited *(formerly* Disha Microfin Private Limited*)* on the financial statements for the year ended 31 March 2017

(xvi) The Company is required to be registered under Section 45-IA of the Reserve Bank of India Act, 1934 and such registration has been obtained by the Company.

Walker Chandiok & Co. LLP

For **Walker Chandiok & Co LLP**
Chartered Accountants
Firm's Registration No.: 001076N/N500013

Sanjay Banthia

per **Sanjay Banthia**
Partner
Membership No.: 061068

Place: Bengaluru
Date: 30 May 2017

WALKER CHANDIOK & CO LLP * BENGALURU * CHARTERED ACCOUNTANTS

Annexure II to the Independent Auditor's Report of even date to the members of Disha Microfin Limited *(formerly* Disha Microfin Private Limited*)*, on the financial statements for the year ended 31 March 2017

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

1. In conjunction with our audit of the financial statements of Disha Microfin Limited (*formerly* Disha Microfin Private Limited), ("the Company") as at and for the year ended 31 March 2017, we have audited the internal financial controls over financial reporting (IFCoFR) of the Company as at that date.

Management's Responsibility for Internal Financial Controls

2. The Company's Board of Directors is responsible for establishing and maintaining internal financial controls based on control criteria in accordance with the Internal Control Framework defined in Appendix 1 to Standards of Auditing (AS) 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment" ('the framework'). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of the company's business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Act.

Auditor's Responsibility

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

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

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company's IFCoFR.

WALKER CHANDIOK & CO LLP * BENGALURU * CHARTERED ACCOUNTANTS

Annexure II to the Independent Auditor's Report of even date to the members of Disha Microfin Limited *(formerly* Disha Microfin Private Limited*)*, on the financial statements for the year ended 31 March 2017

Meaning of Internal Financial Controls over Financial Reporting

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

Inherent Limitations of Internal Financial Controls over Financial Reporting

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

Opinion

8. In our opinion, the Company has, in all material respects, adequate internal financial controls over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 2017, based on the framework.

Walker Chandiok & Co. LLP

For **Walker Chandiok & Co LLP**
Chartered Accountants
Firm's Registration No.: 001076N/N500013

Sanjay Banthia

per **Sanjay Banthia**
Partner
Membership No.: 061068

Place: Bengaluru
Date: 30 May 2017

WALKER CHANDIOK & CO LLP
BENGALURU
CHARTERED ACCOUNTANTS

Disha Microfin Limited
(formerly Disha Microfin Private Limited)
Balance Sheet as at 31 March 2017
(All amounts in ₹ lakhs except otherwise stated)

	Notes	As at 31 March 2017	As at 31 March 2016
Equity and liabilities			
Shareholders' funds			
Share capital	3	3,746	978
Reserves and surplus	4	39,764	3,387
		43,510	**4,365**
Non-current liabilities			
Long-term borrowings	5	25,877	9,953
Other long-term liabilities	8	1,058	665
Long-term provisions	7	871	99
		27,806	**10,717**
Current liabilities			
Short-term borrowings	6	-	1
Trade payables	8	233	137
Other current liabilities	8	47,312	15,273
Short-term provisions	7	1,248	281
		48,793	**15,692**
		120,109	**30,774**
Assets			
Non-current assets			
Fixed assets			
Tangible assets	9	762	353
Intangible assets	10	112	19
Capital work in progress		6	-
Goodwill (refer note 23b)		471	-
Deferred tax asset (net)	14	771	128
Long-term loans and advances	11	32,126	9,941
Other assets	12	3,050	1,055
		37,298	**11,496**
Current assets			
Cash and bank balances	13	28,487	5,379
Short-term loans and advances	11	48,350	13,066
Other assets	12	5,974	833
		82,811	**19,278**
		120,109	**30,774**

Summary of significant accounting policies and other explanatory information — 2

The accompanying notes form an integral part of these financial statements.

As per our report of even date.

Walker Chandiok & Co LLP

For **Walker Chandiok & Co LLP**
Chartered Accountants

Sanjay Banthia

per Sanjay Banthia
Partner

Bengaluru
30 May 2017

For and on behalf of the Board of Directors of
Disha Microfin Limited *(formerly Disha Microfin Private Limited)*

Pramod Kabra
Director
DIN: 02252403

Bengaluru
30 May 2017

Rajeev Yadav
Director
DIN: 00111379

Bengaluru
30 May 2017

Keyur Doshi
Chief Financial Officer

Bengaluru
30 May 2017

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Shefaly Kothari
Company Secretary
Membership Number: F7698

Bengaluru
30 May 2017

DISHA MICROFIN LIMITED • BANGALORE

Disha Microfin Limited
(formerly Disha Microfin Private Limited)

Statement of Profit and Loss for the year ended 31 March 2017

(All amounts in ₹ lakhs except otherwise stated)

	Notes	Year ended 31 March 2017	Year ended 31 March 2016
Income			
Revenue from operations	15	17,410	5,170
Other income	16	1,144	292
		18,554	**5,462**
Expense			
Finance cost	17	7,164	2,325
Employee benefits expense	18	5,241	1,262
Other expenses	19	3,503	1,200
Depreciation and amortisation expense	20	257	65
Provision on portfolio loans	21	1,082	191
		17,247	**5,043**
Profit before tax		**1,307**	**419**
Tax expense			
Current tax [including reversal of prior years ₹ 5 (31 March 2016: ₹ Nil)]		634	231
Deferred tax (credit)	14	(195)	(79)
		439	**152**
Profit for the year		**868**	**267**
Earnings per equity share [Nominal value per share ₹ 10 (2016: ₹ 10)]			
Basic and Diluted (₹)	22	3.91	2.73

Summary of significant accounting policies and other explanatory information 2
The accompanying notes form an integral part of these financial statements.

As per our report of even date.

Walker Chandiok & Co LLP
For **Walker Chandiok & Co LLP**
Chartered Accountants

Sanjay Banthia.

per Sanjay Banthia
Partner

Bengaluru
30 May 2017

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For and on behalf of the Board of Directors of
Disha Microfin Limited *(formerly Disha Microfin Private Limited)*

Pramod Kabra
Director
DIN: 02252403

Bengaluru
30 May 2017

Rajeev Yadav
Director
DIN: 00111379

Bengaluru
30 May 2017

Keyur Doshi
Chief Financial Officer

Bengaluru
30 May 2017

Shefaly Kothari
Company Secretary
Membership Number: F7698

Bengaluru
30 May 2017

DISHA MICROFIN LIMITED · BANGALORE

Disha Microfin Limited
(formerly Disha Microfin Private Limited)

Cash Flow Statement for the year ended 31 March 2017

(All amounts in ₹ lakhs except otherwise stated)

		For the year 31 March 2017	For the year 31 March 2016
Cash flow from operating activities			
Profit before tax		1,307	419
Adjustment for :			
Depreciation and amortisation expenses		257	65
Gain on disposal of fixed assets [₹ 1,100 (2016 : ₹ Nil)]		0	-
Loan portfolio written off		735	23
Provision on portfolio loans		346	168
Employee wealth share plan expense		64	16
Share/debenture issue expenses		87	67
Profit on sale of investment in mutual funds		(458)	(51)
Operating profit before working capital changes		**2,338**	**707**
Changes in working capital:			
Increase in trade payables		61	95
(Decrease)/ Increase in other liabilities		(2,661)	473
Increase in provisions		105	24
(Increase) in loans and advances		(27,316)	(6,514)
Decrease/ (Increase) in other assets		3,876	(72)
Decrease in margin money deposit		3,232	2,173
Cash (used in) operating activities		**(20,365)**	**(3,114)**
Income taxes paid (net of refunds)		(1,021)	(324)
Net cash flow (used in) operating activities	(A)	**(21,386)**	**(3,438)**
Cash flows from investing activities			
Purchase of fixed assets		(499)	(380)
Payment towards purchase of business, (net of cash acquired) (Note 23b)		(10,087)	-
Invesment in fixed deposits		(3,101)	-
Purchase of investments in mutual funds		(170,100)	(18,050)
Proceeds from sale of investments in mutual funds		170,558	18,101
Proceeds from sale of fixed assets		1	-
Net cash flow (used in) investing activities	(B)	**(13,228)**	**(329)**
Cash flows from financing activities			
Proceeds from issue of equity shares		38,277	-
Share/debenture issue expenses		(87)	(67)
Proceeds from loans availed from banks and financial institutions		50,950	20,302
Repayment of loans availed from banks and financial institutions		(35,834)	(10,065)
Loans given to related parties		-	(1,100)
Loans repaid by related parties		-	1,100
Loans taken from related parties		9,000	400
Loans repaid to related parties		(9,000)	(400)
(Repayment) of short-term borrowings, net		(1)	(399)
Proceeds from issue of non-convertible debentures		3,500	-
Redemption of non-convertible debentures		(2,184)	(2,225)
Net cash flow generated from financing activities	(C)	**54,621**	**7,546**
Net increase in cash and cash equivalents (A+B+C)		**20,007**	**3,779**
Cash and cash equivalents at beginning of the year		4,448	669
Cash and cash equivalents at the end of the year		**24,455**	**4,448**
Components of cash and cash equivalents			
Cash on hand		73	1
Balances with banks - current account		12,282	3,647
Balance in fixed deposit account (maturity less than 3 months)		12,100	800
Total cash and cash equivalents (refer note 13)		**24,455**	**4,448**

As per our report of even date

Walker Chandiok & Co. LLP

For **Walker Chandiok & Co LLP**
Chartered Accountants

Sanjay Banthia

per Sanjay Banthia
Partner

Bengaluru
30 May 2017

For and on behalf of the Board of Directors of
Disha Microfin Limited *(formerly Disha Microfin Private Limited)*

Pramod Kabra Director DIN: 02252403	**Rajeev Yadav** Director DIN: 00111379	**Keyur Doshi** Chief Financial Officer	**Shefaly Kothari** Company Secretary Membership Number: F7698
Bengaluru 30 May 2017	Bengaluru 30 May 2017	Bengaluru 30 May 2017	Bengaluru 30 May 2017

WALKER CHANDIOK & CO LLP BENGALURU CHARTERED ACCOUNTANTS

DISHA MICROFIN LIMITED BANGALORE

Disha Microfin Limited
(formerly Disha Microfin Private Limited)

Summary of significant accounting policies and other explanatory information

1 **Background and operational outlook**

Disha Microfin Limited (formerly Disha Microfin Private Limited) (the 'Company') is a Non-Banking Financial Company. The Company was incorporated on 5 April 1995. The Company has converted itself from a private limited company to a public limited company with effect from 13 December 2016.

The Company was registered as a non-deposit accepting Non-Banking Financial Company ('NBFC-ND') with the Reserve Bank of India ('RBI') with effect from 5 April 2010 and has got converted into Non-Banking Financial Company – Micro Finance Institution ('NBFC-MFI') with effect from 6 December 2013. The Company has received the license on 12 May 2017 from Reserve Bank of India to start operations as a Small Finance Bank.

The Company is engaged in micro finance lending activities in the form of providing financial assistance to enable income generation to poor women, who are organized as Joint Liability Groups ('JLG'), with a view of enhancement of their livelihoods in a financially viable manner in the rural areas of India and also providing financial assistance to the borrowers to use the money to augment the house hold income through Micro Enterprises Loan (MEL) and Rural Micro Enterprises Loan (RMEL). During the year the Company has commenced lending secured loans on the basis of gold as a collateral. The Company operates in the states of Gujarat, Rajasthan, Madhya Pradesh, Maharashtra, Andhra Pradesh, Karnataka and Tamil Nadu.

2 **Significant accounting policies**

a **Basis of preparation of financial statements**

The financial statements of the company have been prepared in accordance with the generally accepted accounting principles in India (Indian GAAP). The Company has prepared these financial statements to comply in all material respects with the accounting standards notified under Section 133 of the Companies Act 2013, read together with paragraph 7 of the Companies (Accounts) Rules 2014 (as amended) and the provision of the RBI as applicable to a NBFC-MFI and NBFC-ND-SI.

The financial statements have been prepared on an accrual basis and under the historical cost convention except interest on loans which have been classified as non-performing assets and are accounted for on realization basis. The accounting policies adopted in the preparation of financial statements are consistent with those of previous year.

b **Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting periods. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from those estimates. Significant estimates used by the management in the preparation of these financial statements include estimates of the economic useful lives of fixed assets, deferred tax, accrual for employee benefits and provision for standard and non-performing assets. Difference between the actual results and estimates are recognised in the period in which the results are known/materialized. Any revision to accounting estimates is recognised prospectively in the current and future periods.

c **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

i Interest income on portfolio loans is recognised in the Statement of Profit and Loss as it accrues by applying the rate of interest as per the agreement. Interest income on non-performing asset is recognised only when realised. Any such income recognised before the asset became non-performing and remaining unrealised will be reversed, as per the income recognition and asset classification norms as per Non Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs) – Directions amended from time to time.

ii Loan Processing fees from members are recognised on an upfront basis when it becomes due.

iii Gain on securitisation:

Cash profit arising at the time of securitisation/assignment of loan portfolio (Premium loan transfer transactions) is amortised over the life of the underlying loan portfolio and the unamortised amount is disclosed as 'Cash profit on Loan Transfer Transactions pending recognition' within 'Other liabilities' on the balance sheet. Cash Loss arising on premium loan transfer transactions are accounted for immediately in the statement of profit and loss.

Contractual rights to receive a portion of interest ('Unrealised profits') arising at the time of securitisation/ assignment of loan portfolio (PAR EIS loan transfer transactions) is recorded at its present value and disclosed as 'Interest strip on securitisation/ assignment of loan portfolio' within 'Other assets" on the balance sheet. In accordance with RBI guidelines, the unrealised profits in respect of securitised/ assigned loan portfolio that is not due for collection is recorded at its present value and disclosed as 'Interest strip on securitisation/ assignment of loan portfolio' within 'Other liabilities" on the balance sheet. Income from interest strip (excess interest spread) is recognised in the statement of profit and loss, net of any losses, when redeemed in cash. Income from securitisation/ assignment of loan portfolio recognised in the statement of profit and loss in excess of EIS collected from the PTC holders during the year is disclosed as "EIS accrued but not due" within 'Other assets' on the balance sheet.

iv Interest income on deposits with banks is recognised on a time proportion accrual basis taking into account the amount outstanding and the rate applicable.

v Dividend income is recognised when the right to receive payment is established on the balance sheet date.

vi Profit on sale of Investment is recognised as and when realized.

vii All other fees are accounted for as and when they become due.

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2 **Significant accounting policies (Cont'd)**

d **Tangible assets**

Fixed assets are stated at their original cost of acquisition less accumulated depreciation. Cost comprises purchase price and any attributable cost of bringing the asset to its working condition for its intended use.

Subsequent expenditure related to an item of fixed asset is added to its book value only if it increases the future benefits from the existing asset beyond its previously assessed standard of performance. All other expenses on existing fixed assets, including day-to-day repair and maintenance expenditure and cost of replacing parts, are charged to the statement of profit and loss for the period during which such expenses are incurred.

Gains or losses arising from de-recognition of fixed assets are measured as the difference between the net disposal proceeds and the carrying amount of assets and are recognised in the statement of profit and loss when the asset is de-recognised.

e **Intangible assets**

Intangible assets are amortized over their estimated useful lives on a straight-line basis, commencing from the date the asset is available to the Company for its use. Intangible assets include computer software, which is acquired, capitalized and amortized on a straight-line basis over the estimated useful life.

f **Depreciation**

Depreciation is calculated on tangible fixed assets on a straight line basis based on the useful lives estimated by the management using the rates arrived at the schedule II of the Companies Act, 2013.

The Company has used the following rates to provide depreciation on its fixed assets.

Asset	Estimated useful life per management estimate (years)	Estimated useful life per Companies Act, 2013 (years)
Tangible assets		
Office equipments	5	5
Computer equipments	3	3
Furniture and fixtures	10	10
Leasehold improvements*	7	10
Intangible assets		
Computer software	3	3

* Lease period being shorter than the estimated useful life as per the Companies Act, 2013

g **Impairment of tangible and intangible assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) net selling price and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining net selling price, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the company's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit and loss. After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

h **Borrowing costs**

Borrowing costs that are attributable to the acquisition and/or construction of qualifying assets are capitalised as part of the cost of such assets, in accordance with Accounting Standard (AS) 16, Borrowing Costs. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use. All other borrowing costs are charged to the statement of profit and loss as incurred.

i **Retirement and other employee benefits**

i **Provident fund**

Retirement benefit in the form of provident fund is a defined contribution scheme. The company has no obligation, other than the contribution payable to the provident fund. The company recognizes contribution payable to the provident fund scheme as an expenditure, when an employee renders the related service.

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