

## **ANNUAL REPORT 2021-2022**

### **Financing the future**

#### **Technology. Data. Outperformance.**

#### **Vision**

To be a trusted platform that enables the flow of finance from capital providers to users in a reliable and responsible manner.

#### **Mission**

Catering to the diverse credit requirements of under-served households and businesses by providing efficient and reliable access to debt finance.

#### **Values**

Resolute: We are unwavering in our commitments and stand by them.

Empathetic: We understand the needs of our stakeholders and are aligned with them.

Ethical: We adhere to a shared code of ethics and high standards of professional conduct.

Innovative: We push the frontiers of finance through knowledge and innovation.

Responsive: We are nimble and quick to adapt, learning and evolving as we go.

## **Message from the Chair**

### **Embracing positivity**

Following the hardships posed by the pandemic, India recorded sustainable economic growth in FY22 as against the previous two fiscal years. Though the Delta variant of COVID19, that struck India at the beginning of FY22 was more severe from a health perspective – it fortunately resulted in limited economic disruption compared to the nationwide lockdowns in FY21. Taking this into account we began the year with '*cautious optimism*' in line with our vision of *being a trusted platform that enables the flow of finance from capital providers to capital users in a reliable and responsible manner*.

As the year progressed, the economy at large faced a fresh set of challenges in the nature of geopolitical unrest, tightening of liquidity, increase in interest rates and their impact on credit spreads, rising inflation. Through these obstacles, Northern Arc demonstrated steady grit and financial strength. We continuously engaged with all our stakeholders and demonstrated our commitment by way of timely, growth-oriented support and solutions to mitigate concerns posed by the pandemic, and at large. This year was true test of resilience for us and for most businesses we support; we at Northern Arc, through our best-in-class services have yet again emerged as a partner of choice - in debt financing and as a valuable ally in-growth, for our stakeholders at large.

### **Channelising capital**

It is critical for an economy, the financial services sector, and for customers - that an uninterrupted flow of liquidity is maintained through the system. We have successfully channelized ~ INR 1 trillion of capital for our origination partners through our ecosystem since inception with ~INR 20,000 crore of debt for our partner institutions and retail borrowers during the year, despite a humble first quarter. A deep understanding of businesses and sectors at the grassroots level combined with robust credit and risk underwriting have enabled us to diversify across sectors, geographies, borrower segments and products, midst testing times.

### **Digitalisation**

We, at Northern Arc consider digitalisation of paramount importance. Over the years we have invested significantly in developing agile, state of the art technology platforms and applications to meet the ever-evolving requirements of our investor and originator partners.

Our technology system, Nimbus, pioneered the disruption of the market ecosystem and enabled us to scale up business operations, enhance functional efficiencies and leverage data analytics. It has been the backbone of our growth story as a leading debt platform.

In May 2022, we successfully entered a strategic partnership with Indian Bank to co-lend to retail borrowers using our '*n-Pos platform*' – a critical infrastructure for the industry that will solve key integration issues and catalyse co-lending partnerships.

*AltiFi.ai*, our new retail platform, allows individual investors to directly invest in debt instruments across the credit spectrum including enhanced access to higher yielding instruments curated by Northern Arc through our proprietary diligence process. AltiFi has gained traction and confidence

of its users in a short span owing to its easy-to-access user interface and its specialised product offering, catering to a diverse investor base.

### **Rural finance**

It is our endeavour to target the next billion by offering small ticket loans through a digital platform. Our acquisition of the business of SMILE microfinance marks our first formal foray in rural financing. We believe that SMILE's strong grassroots footprint and long-standing customer relationships will serve as an ideal base for us to ramp up our rural offering. This acquisition will help us achieve meaningful scale to build a high-quality business that focuses on customer centricity and best in-class processes.

### **MSME and Education finance**

Like rural financing, we aspire to hold a material market share of the MSME finance sector. To take this forward, we propose to develop a multi-functional digitised supply chain finance function and a retail MSME lending segment. We are also committed to enabling access to reliable finance for students to help them pursue their education, enhance their skills, realise their potential and increase their employability.

### **Way forward**

The Board appreciates the effort of the management and thanks each of its employees for their contribution in building a sturdy foundation for the future during strenuous times. We take great pleasure in welcoming Mr. Ashish Mehrotra as the company's Managing Director and Chief Executive Officer. We humbly thank Dr. Kshama Fernandes for her continued and dedicated services.

### **CEO's Message**

FY22 was a crucial year for India's economy and for debt markets across the globe. While the pandemic posed great difficulty to individuals and corporates at large, it acted as a catalyst for organisations to reinvent their business to address both the challenges and the opportunities created by the crisis. COVID-19 was therefore a true test of resilience and agility for every business. While most economies continued to reel from the repercussion of the pandemic, as a global comparative, the Indian economy fared a cut above most other Asian economies. We witnessed a real GDP growth of 8.7% this year as against a contraction in GDP of 6.6% in FY21. RBI's decision of maintaining the policy rates throughout FY22 ensured adequate liquidity cushion during the year to meet credit requirements across sectors.

Risk management is core to our business and over the years we have developed, fine-tuned and implemented a customized risk management system. Our risk management systems are customized for each sector that we operate in and are specific to each business segment. This enables us to effectively build a diversified portfolio and manage general risks and specific risks that are unique. We have also invested in implementing a comprehensive Enterprise Risk Management system in line with the regulatory requirements. Our risk management processes also incorporate a framework for managing ESG risk, a key priority for organisations worldwide today. Building and

retaining a team with expertise in sectors that we operate in, a strong and independent risk governance structure, well-documented risk management practices and effective implementation of such practices and models leveraging a deep data set on credit performance over more than a decade, are the cornerstones of our risk management framework. This has helped us in effectively building a high quality credit portfolio. This is further validated by the stellar financial performance of Northern Arc as summarised below, in spite of the macro-economic headwinds faced by the nation, We recorded business volumes of INR 19,871 crore in FY22 (up by 52% from INR 13,054 crore in FY21).

- Our assets under management including our investments in NAIM (our subsidiary), stood at INR 6,975 Crore (up by 36 % from 5,123 Crores in FY21).
- Our PAT increased over two-fold to INR 182 crore (77 crore in FY21) due to improved yields and reduced credit costs. This resulted in an improved return on equity of 10.4% and a return on assets of 2.7% for FY22
- Healthy liquidity marked by high cash balances and unutilised bank limits to cushion our business from unforeseen setbacks. and also enabling us to timely participate in opportunistic areas of deployment.
- Our gross borrowing grew to INR 5,983 crore in FY22, from INR 3,932 crore in FY21, while Cost of Funds reduced to 9.0% from 10.7%

**Nimbus**, our proprietary technology system, and curated debt marketplace, has been the backbone of our growth with over 400+ investors and 350+ originator partners helping improve our operational efficiencies and effectively scale our operations across various business segments. The beauty of the platform is its agility to be adopted by any partner enabling Nimbus to be a one stop solution to our partners across their entire value chain. Nimbus is equipped to facilitate the entire spectrum of operations , beginning from client on-boarding and credit decisioning to documentation and execution and data-driven risk monitoring

**Our retail partnership business** has emerged as a front runner to help us build granularity of our loan book. We ended the year with an AUM of upwards of INR 1,000 crore across 34 marquee partnerships with more than 5 million loans disbursed throughout the year. This has been complemented by our customizable technology-based solution enabling us to rightly price risk across diverse client segments of our partners. We are also developing and deploying our proprietary score cards for sectors such as Microfinance and consumer finance, enabling data driven underwriting at a customer level.

With great pleasure, and as a part of our natural evolution into a direct-to-consumer player - I am pleased to announce that we are expanding our retail offering across four identified sub-segments as follows:

- rural financing
- supply chain financing
- MSME financing and
- educational financing

Each of the above business will be led by strong and seasoned leadership team who would be instrumental in laying a strong foundation for these businesses to grow and flourish.

In addition to the above, we have successfully completed the acquisition of the MFI business of S.M.I.L.E (effective 12<sup>th</sup> April 2022) aggregating to INR 200 Crores. Over 700 employees of S.M.I.L.E have joined the Northern Arc family as a part of this endeavour. We aim to quickly build and scale up the rural finance business, by harnessing the competencies of both institutions. Northern Arc has been a leader in enabling debt capital for MFIs and is recognized as a thought leader in the space, with in-depth sector expertise and a decade of data. S.M.I.L.E.'s grassroots penetration and long standing relationships with over two hundred thousand customers, will provide a strong base to launch Pragati, our rural finance platform. We have applied for a new MFI license under our subsidiary company – Pragati Finserv.

In the mid market corporate business segment, where we work with exciting new age companies, we witnessed strong demand for our offerings. We have been able to scale up the business significantly, to an AUM of INR 578 crore. We have also witnessed good traction in syndicating the issuances of these companies with their diversified investor base.

**Our fund management business, NAIM (Northern Arc Investment Mangers Private Limited)** recorded a stellar growth of 100% with assets under management of to nearly INR 3,000 crore as of March 31<sup>st</sup>, 2022 with cumulative investor commitments of INR 4,700 crore across all its funds. In addition to this, Two new funds were launched during FY22 and NAIM received a Portfolio Management (PMS) license from SEBI, which will help us deepen and diversify our offerings to HNIs covering investors with lower capital commitments complementary to the AIF platform.

Our new-age wealth management digital platform '**Altifi.ai**,' is targeted at retail investors to participate in high-quality, high-return products which were previously available only to institutional investors. Investors can digitally access the system with ease to pick and choose securities available for sale on the platform and have access to fixed income products that meet a range of investment needs. The platform has seen volumes of INR 122 crore across 1,300 registered users during the fiscal year.

### **Going forward**

Given the nature of the business and the macro-environment, the company is extremely focused on all aspects of risk management including credit and fraud risk, liquidity risk, operational risk, interest rate and other market risks, to ensure stable and sustainable growth of the company.

The second wave of COVID-19 affected the lives and jobs of millions of Indians at the start of FY22. Through this phase, the Northern Arc team worked relentlessly to ensure the health and safety of its employees and their families. We are pleased to continue on our promised trajectory regardless of multiple Black Swan events such as the global financial crisis, demonetisation, COVID-19 pandemic and the sensitive geo-political situation across Europe that we have witnessed during the last decade. We have repeatedly demonstrated remarkable resiliency and adaptability to come out

stronger than ever before reinforcing the trust of our investors and partners in our fundamentals. We are excited to enter the next fiscal with renewed energy with the hope that that the pandemic is finally behind us.

As we look ahead to the future, we go back to a key pillar of our strategy – customer centricity. We have built a culture of identifying areas of improvement and continue to push our boundaries. We have laid the foundation of a reliable technology architecture to serve various customer segments with speed, safety and precision. We endeavour to build a future-ready enterprise, offering convenient and cost-effective solutions to customers and automate a large part of the prevailing business processes. Our organizational structure, our investments in new capabilities and our data and digital initiatives have all been strategically structured to propel our next phase of our growth.. By building scale and by systematically expanding our transformation capabilities, we are positioned favourably to continue to play a larger part of the ecosystem we have nourished over the last decade. I thank each one of you who has been a part of the Northern Arc family. I am confident that we will grow stronger together as we welcome triumphant days ahead.

### **Business Update**

Northern Arc is a platform in the financial services sector set up primarily with the mission of catering to the diverse credit requirements of under-served households and businesses by providing efficient and reliable access to debt finance. Our diversified platform taps into a large network of financial institution partners, technology platforms and other entities that act as business correspondents to originate financial exposure as well as small businesses and individuals. While we lend to such originator partners which are in the nature of financial institutions for the purpose of on-lending by them, we also engage with certain originator partners who enable us to lend directly to retail borrowers. We also have an equally large network of investors across different investor classes who use our platform to access opportunities to invest in under-served sectors in India.

Since 2009, when we entered the financial inclusion space, we have enabled financing for originator partners who have impacted over 60 million lives across India, of which more than 42 million were women.

Since the inception of our platform, we have cumulatively raised over Rs. 1150 billion in funds for our clients, executed over 900 structured finance transactions, obtained over Rs. 28 billion in investor commitments across nine high performing funds and gathered over 22 million data points on customer repayment behaviour.

### **Our Offerings**

Financing – from our balance sheet, we (i) lend to and guarantee the borrowings of originator partners for retail on-lending by them, and invest in and/or credit enhance the portfolios sold down by them; (ii) lend to under-served households and businesses through our retail business; and (iii) lend to mid-market companies operating in preferred sectors. As part of our financing offering, we have also launched a dedicated rural finance business through our subsidiary, Pragati. We will also

be extending our retail financing initiatives with the launch of Supply Chain Finance, end-use driven consumer finance, and secured MSME loans.

Syndication and structuring – we work with our Investor Partners to structure and syndicate financing through a variety of debt, credit-enhanced debt and portfolio financing products for our originator partners and mid-market companies. We also demonstrate skin-in-the-game in our syndication and structuring offerings, which provides comfort to our Investor Partners and which differentiates us from other debt arrangers in the market which do not assume skin-in-the-game.

Fund management – based on contributions received from Investor Partners, our subsidiary, Northern Arc Investment Managers Private Limited (“NAIM”), manages debt funds that invest in mid-market companies and our originator partners. As part of our skin-in-the-game approach, we make capital contributions to our funds, including contribution as sponsor of the funds.

## **Financing**

### **Institutional Lending:**

As a diversified financial services platform, we cater to the diversified credit requirements for NBFCs (including NBFC-MFIs & HFCs) and fintech platforms reaching the underserved borrowers. NBFCs continue to form a sizeable portion of the systemic credit owing to their innovative offerings with considerably lesser lead time and last mile reach which helps them cater to the large credit demand in the market. Despite the headwinds over last years, NBFCs continue to remain resilient, as can be envisaged with the strong growth pattern exhibited over the same years.

As of March 31, 2022 our Originator partners reported a cumulative AUM of ~INR 3.32 trillion. Our partners had borrowers spread across 666 districts, in 36 states and UTs in India. Our exposure to these Partners has risen to INR 5,449 crore.

We enable financing to underserved customers through our Originator Partners in multiple ways depending on their specific needs – including lending to and investing in debt securities issued by the partners for their on-lending activities. The products include Loans, NCDs, MLDs, CPs, securitization and assignment of receivables (sale of assets). In addition to these, we also provide partial guarantees for borrowings of our Originator Partners and third-party credit enhancements for securitization of receivables with other lenders. Through the expansion of our Markets franchise, we continue to deepen access to reliable and efficient debt capital, onshore and offshore for our Originator Partners.

Further, given our expertise in structured finance and understanding of credit requirements of our Originator Partners and Lenders, we have regularly come up with newer structures to enable financing for our partners. Over the last few years, we have closed single and pooled loans, Bonds including credit enhanced structures and Persistent Securitization structures, in addition to our oft-concluded MOSEC and single originator securitization transactions. During the course of the current fiscal, we were also successful in concluding variations of securitization transactions, leading to cost optimization for the Originator Partner. This works to cement our value addition with the Originator

Partners making us the first port of call for their funding requirement. These innovative structures and our principal approach give additional comfort to investors, to work with us as preferred partners and co-investors.

#### **Markets:**

While the economy continued to reel from the aftereffects of the COVID19 pandemic, **FY22 witnessed a turning point for the Indian Debt Capital Market.** Contrary to investors and institutions becoming wary and adopting the hold-and-observe strategy in FY21, we witnessed investor appetite returning across a wide gamut of debt products and across a broad spectrum of companies, despite the challenging low-interest-rate environment.

FY22 also saw an expansion of the investor base that was active. The total count of unique investor partners that participated in transactions structured by Northern Arc stood at **109 in FY22** (as compared to 76 in FY21). Of the 109 investor partners, 72 engaged with us on **primary** issuances, 31 on **secondary sell downs** and 6 by way of **both** primary and secondary issuances. Placements were well diversified across Banks, NBFCs, international funds, DFIs, wealth platforms and capital markets investors.

In addition to successfully onboarding new investors, we achieved horizontal diversification across our existing investor universe by curating products suitable to the market environment and investor preference - such as transitioning from vanilla NCD's to **credit enhanced, market linked debentures**, from secured ECBs to **semi-secured/unsecured ECBs**. We continued to engage holistically with investors supporting their efforts to monitor their investment portfolio and sharing insights at a both field and data level on the underlying portfolios, as the broader economy and our clients recovered from the impact of successive waves of the Covid-19 pandemic.

**Wider adoption of technology may be seen as one of the key learnings from the pandemic.** To keep up with the active transformation in technology, we encouraged our investor partners to engage with us through **our proprietary debt platform 'Nimbus'**. The Nimbus ecosystem allows investor partners to perform end-to-end seamless evaluation of potential opportunities, supports disbursement and in-depth post disbursement monitoring. As of Mar 22, a number of our investor partners have been onboarded on Nimbus and dedicatedly utilize the platform and its functionalities for their investments and portfolio monitoring.

Another unique development in FY22 for us has been our **ability to scale up secondary domestic debt capital market placements**, specifically across **wealth managers, domestic funds, family offices and HNIs**. Sell downs, midst a downward yield curve environment in FY22 garnered investor traction, as high-quality opportunities were made available of investors at relatively attractive rates. We have identified significant potential in this investor class and look forward to dedicatedly scaling this practice, in conjunction with our investment in Altifi.ai.

The pandemic brought renewed focus on **ESG**, as we recognized better, the importance of environment, sustainability, and healthcare to stable and inclusive growth and risk management. We expect this focus to strengthen across both domestic and global debt markets. We could expect a surge of sustainable debt issuance and investments; with investors earmarking an increased



allocation towards more thematic ESG mandates in the coming years and this is a significant tailwind for our own focus on enabling access to finance for these end uses.

In FY22, the **we strengthened our position as a preferred partner of choice for investors through continuous engagement and by providing them with best-in-class services**. Our ability to constantly innovate and introduce structured products that meet investor and originator preference, has always helped us be a preferred arranger of choice for our stakeholders. Speaking of a few landmark deals and structures for the year:

- We supported our clients in raising financing from domestic DFIs under special liquidity and refinance schemes
- We facilitated a one-of-a-kind global partnership with a Dutch bank to provide transaction support on global securitization deals
- We structured the 1<sup>st</sup> unsecured ECB for a leading microfinance company;
- We led India’s largest securitization transaction in the education finance space

We would like to thank our investors for demonstrating confidence in our sectors, our clients and in us, in challenging times and for partnering to tap promising credit opportunities in India’s emerging sectors and to enable access to credit for the underserved.

To conclude, while the full-fledged resurgence of COVID19 may be unexpected, the top risks factors that we continue to monitor closely, which could affect markets in FY23 include - geo-political unrest, macro instability, tightening of liquidity, increase in interest rates and their impact on credit spreads across originators, rising inflation, and volatile hedge costs. Despite these headwinds, we remain confident and committed to work alongside our partners – innovate, ideate, and to continue to build an efficient and a reliable platform to serve our partners in the years to come.

#### **AltiFi:**

Over the past decade, Northern Arc has been a pioneer in helping institutional investors invest in the debt securities of financial institutions and emerging corporates. While there were a few individuals who invested in transactions structured and executed by Northern Arc, these were largely HNIs and sophisticated investors, who had the luxury of working with wealth advisors.

In the last few years, we have witnessed a trend of increasing financial literacy, largely spurred by the revolution in the digital content space. Affluent, mass affluent and retail investors are becoming aware of asset classes apart from equity and Fixed Deposits. They are also realizing the importance of holistic financial planning required to achieve goals over different time frames, and the role played by the fixed income asset class as part of that overall portfolio.

To address this demand, and to tap into the immense untapped opportunity here, we established the AltiFi (<https://altifi.ai/>) platform. It provides investors a seamless and completely online journey, that helps them invest in bonds and Commercial Papers in a few clicks. To ensure quality, the platform offers only securities that have been diligenced and onboarded by Northern Arc. We take

disclosures and investor protection very seriously – As part of the customer journey, there is repeated emphasis on highlighting the risks relating to the products on the platform.

AltiFi has received widespread adoption in the immediate few months since its launch. It has over 1,000 registered users and has seen over INR 90 crore of transaction volume so far. Going forward, we will add new products to help investors further diversify their investments and achieve complete financial planning.

### **Mid-Market Corporate Lending:**

The Mid-Market Corporate Lending vertical was started five years back with a mission to enable finance to underbanked corporates and to expand our coverage beyond financial institutions. This is across sectors such as Education, Food & Agri, Healthcare, B2B, FMCG, Logistics and Clean Energy. Many of these underlying sectors are aligned with target areas of investment under the UN SDGs and focus for impact investment. We have backed high growth businesses with strong promoters, sound corporate governance and strong process controls. This has been ably supported by our robust underwriting framework, and risk monitoring practices. Our underwriting approach has been cashflow based wherein we have been able to tailor our debt offering through innovative products such that debt repayments can match the cashflows from the business. Our offerings include financing working capital, capital expenditure, acquisition financing & other growth related investments that our partners are looking to invest in.

In FY 22, we expanded our client coverage with the addition of 40 new clients. We enabled financing to the tune of INR 800 crores; growing 2x y-o-y. The year also saw a 2x growth in our placement business with participation from diverse capital market players across products including CP, NCD, Term Loans and WC.

### **Rural Finance Business (Pragati):**

Pragati FinServ Pvt Ltd. was incorporated in Fiscal Year 2021 with the aim of offering small ticket loans through an efficient, agile, and scalable digital platform to under-served rural and semi-urban areas of the country. It is promoted by Northern Arc Capital under the leadership of Mr. Jagadish Babu Ramadugu, an industry veteran. Pragati has been incorporated to meet the diverse customers' needs of the low-income households of rural and semi-urban areas. Pragati FinServ aims to become a one stop provider for its borrowers covering small ticket personal and business loans, two-wheeler loans, MSME loans, home improvement loans, commercial vehicle loans etc. Pragati aspires to have a national footprint and deliver its product nationally and be a dominant player in its area of operation.

Currently, the loan products of Northern Arc are being delivered by Pragati through a Business Correspondence arrangement. The team at Pragati has spent a tremendous amount of time and energy in the field in understanding the customers segments it wants to serve, their needs and aspirations.

As Pragati is targeting low-income households in rural and semi urban areas, most of its target customers are living in the digital shadow. These customers either do not have access to digital tools to access the financial services or they lack digital literacy to use these channels to access credit. Pragati is adopting a phygital or assisted digital mode to deliver credit to its target customers. Pragati has built a digital workflow application and integrated this with all the latest lending suites such as KYC authentication, Credit Bureau verification, account integration, payment and collection services, credit underwriting using data analytics, geo analytics, rule engine and credit engine etc. Pragati has also adopted the latest technology for its non-lending applications such as HRMIS, Audit, Accounting etc. The technology would enable Pragati to provide best in class Customer services, right-sized loans and quick turnaround time and these three would be the key focus for its product delivery.

Pragati recognizes its employees as a most important resource and it's imperative that the company provides formal and informal training to the employees at all levels of operations & management. This will help the employees to achieve the desired level of productivity and also enhance the overall human capital. For the Fiscal year under consideration, Pragati has 45 employees on roll, further recruitment & training would continue as the company expands. Pragati aims to become an employer of choice and aims to enter the "Great place to work" club

Pragati has devised a business plan to serve the customers in 10 states, the selected geography would establish Pragati as a national player. Pragati has started its branch expansion in Karnataka and soon spread out to other targeted geographies. Pragati has selected a right mix of developed and relatively underdeveloped (From the perspective of financial market development) states to balance its aspirations of improving the financial inclusion and at the same time, this is also a risk prudent strategy.

Pragati has tested its lending methodology along with Northern Arc & Smile and disbursed INR 25.78 Cr of JLG loans across 4 states from 45 branches with very good portfolio quality. The results from this limited pilot are very encouraging and the company is ready to scale up.

Pragati has also applied to become an NBFC-MFI and the application process is in progress.

### **Retail lending business**

We serve our retail borrowers through a tech and data analytics-based lending platform. Backed by a strong understanding of retail lending processes and the performance of retail loans, we commenced this business in FY16. We were one of the first NBFCs to implement such a model then. We serve our MSME and individual customers directly and through partnerships, offering multiple products like secured loans, unsecured loans, personal loans, BNPL etc.

We have been able to achieve seamless technology integrations with our retail lending partners, and in some cases, this integration spans across major business processes like sourcing, underwriting, disbursements, collections and customer servicing. The digital integration ensures a seamless flow of customer data at the time of customer onboarding, which is processed using

automated credit decisioning for small ticket size loans and is supported by a team of credit managers for larger ticket sizes.

We have so far disbursed over 8 million loans through the platform. The underwriting of these loans is heavily supported by our analytical models which are increasingly built using machine learning techniques. These underwriting models are recalibrated periodically by incorporating more variables and features as we disburse more loans and collect more data.

In FY22, we deepened our grassroots presence by setting up specialized verticals across Supply Chain Finance, end user driven consumer finance and Loans Against Property.

### ***Supply Chain Finance***

The Supply Chain Finance vertical was conceptualized and is being built to democratize credit and tap into INR 1TN+ financing opportunities for MSMEs. We are building a best-in-class digital platform and Client Portal (for real-time access to stakeholders) through one of the large global IT players in the BFSI domain. We shall leverage our proprietary Loan Origination System (LOS) “Nimbus” for seamless onboarding of Corporates (Anchors) and the linked ecosystem (Dealers / Suppliers). Further, payments and settlements are being automated through an API-driven integration with one of the house banks.

During the year, the relevant contracts with various technology partners were signed up and the development work progressed as planned. In terms of people, we onboarded an experienced team during the year including the Business Head and a team in Operations, Credit, Product, etc.

We intend to build the SCF business by financing the entire ecosystem (Tier 1 / Tier 2) of Mid & Large Corporates (Anchors). We believe the opportunity is immense in the last mile / long tail of well-oiled corporate ecosystems. Our proposition would include Dealer & Vendor Financing, Sales & Purchase Bill Discounting (largely to MSME borrowers) to begin with. Self-liquidating, short-term trade credit backed by a strong commercial linkage between buyers & suppliers would assist in concurrent credit monitoring. With portfolio seasoning, we shall introduce more products to complement the trade finance limits and become a meaningful lending partner to the MSMEs.

We shall go live in FY23 and the ultimate end state of the client life cycle (Onboarding > Underwriting > Documentation > Transaction Processing > Monitoring) would be automated/digital to the extent possible; backed by robust underwriting including credit score cards. We shall focus on sectors including but not limited to IT/ITES, B2B & B2C e-commerce, Chemicals, Pharmaceuticals, Consumer Durables, apparel and logistics.

### ***End-use driven consumer finance***

India has seen an exceptional growth in the field of Education. There are more than 25 crore students currently in K 12 segment. This number is poised to increase in the coming days with the country’s demographic dividends coming in to play. Education sector offers a holistic platform for financial services companies to step in and offer their resources. There is a tremendous requirement

for capital from the institutions. The parents are looking at ways to fund the ever increasing fees to ensure quality education for their children.

We see an opportunity to be a critical part of the education finance sector. As a first calibrated product, Northern Arc Capital has launched Education Loan to lend directly to schools, coaching organizations, online training programs, and skill development establishments.

We will provide a holistic approach to offer education loan for people who wish to pursue their education and for parents who would like to pay the amount over the year instead of paying one time at the institution which isn't feasible for all.

We're not just a student lender – our goal is to set students up for academic, professional, and financial successes. With our seamless, easily accessible, and customer friendly services, we assist in providing children the best education they deserve. For extending our reach, we have teamed with prominent institutions in contiguous geo-regions of operation.

The Education Loan products would be offered in a digital format which would be seamless for the Parent/Student and efficient. The digital support in terms of tracking the business and communicating with the Education partners would also be enabled. The Journey of participating and contributing in the education space has just begun in Northern Arc Capital. We envisage a tremendous growth and value addition from this segment.

### **Loans Against Property**

Indian MSME segment is large, central to our economy and is also an enormous credit opportunity. The segment is very attractive considering the size of unmet credit demand and given that it is poised for an expected double digit credit growth rate.

Northern Arc Capital has started MSME loans, as a first calibrated product, to lend directly to the small businesses and proprietorships.

Northern Arc MSME Loans, secured by residence, office, or factory of the MSME borrower, will have average tenor of 7-10 years. Almost entire MSME loan book, focussed upon business needs for small enterprises, will come under the Priority Sector Lending category.

Northern Arc has a decade long business/ credit experience, and our MSME programs, will leverage our existing robust credit talent and network. We have also partnered with strategic players in contiguous geo-regions of operation, to increase our reach.

The MSME products are offered through a Phygital (Physical + Digital) model: distribution based on a few strategically located owned business locations, taking support of a capable digital infrastructure (under development). The physical process of security creation is to be aptly supported by a paperless approval workflow, intelligent credit scoring and analytics based upon the prospect's offline and online behaviour patterns. Our digital assisted process flow, with stage-wise updates to customer, will also help shore up customer stickiness during the onboarding process.

## **Syndication and Structuring**

### **Structuring New Products**

Our Company has over time pioneered the introduction of multiple innovative products such as the first securitization of microfinance loans, the first pooled multi-originator securitization transactions (“MOSEC®”), and persistent securitization (“PERSEC®”). Embedded in our product designing capability is an understanding of the diverse credit requirements of our retail borrowers, Originator Partners, and mid-market companies, the sectors that they operate in, as also the risk and return expectations of our Investor Partners. Our knowledge in product designing and customization is further strengthened by Nimbus, which makes use of technology and our Company’s large data lake to offer curated opportunities to both Originator Partners and Investor Partners.

For our Originator Partners, we offer a wide variety of debt and credit-enhanced debt products aimed at access to efficient cost of funds. These include term and working capital loans, Principal Protected Market-Linked Debentures (“PP-MLD”), commercial paper, External Commercial Borrowings (“ECBs”), sub-debt products, guarantee-backed lending, SPiCE loans and SPiCE BOND® (together, “SPiCE”), pooled loan and bond issuance programmes that are suited to their specific lifecycles, credit ratings, and their requirements on size, tenor, pricing, etc. We also offer portfolio financing products such as rated securitization and direct assignment that help our clients avail liquidity through the sale of assets. Our Company has enabled small and medium Originator Partners to access securitization markets where large NBFCs are active participants.

Further, we selectively assume skin-in-the-game in some of these products to enhance their credit rating and enable our Originator Partners and other businesses to raise debt from investors. The skin-in-the-game could be in the form of guarantees for a stated amount, co-investment, and credit enhancement in the form of investment in subordinate tranches of an instrument or unfunded second-loss credit enhancement.

The overall securitization and direct assignment volumes in the market stood at Rs. 1.25 trillion for Fiscal 2022, of which our Company has enabled the funding of Rs. 43billion through securitization and direct assignment. Further, the overall market volumes for securitization and direct assignment in microfinance, MSME finance and Two-wheeler finance being the sectors where most of our Originator Partners operate, we contributed 10%, 20% and 19% respectively of the total market volumes that were enabled for Fiscal 2022. Our Company has also ventured into securitization of relatively newer asset classes such as gold loans, trade receivables, cash loans, education loans, consumer durables and end-use driven consumer loans to cater to the funding needs of its existing and new Originator Partners.

### **Fund Management Business**

FY22 was the best year to date for NAIM as we doubled our assets under management to INR 2,918 crore. NAIM closed FY22 with cumulative investor commitments of INR 3,187 crore across all its funds and brought on board 414 new investors during the year, comprising corporates, family offices and HNIs. A total of INR 6,392 crore was deployed across sectors during the year, while the cumulative distributions made to investors stood at INR 851 crore, as of the end of the year.

Fundraising and deployment were mildly impacted during Q1FY22 due to the Covid wave. Despite the lockdown situation and containment zones in multiple parts of the country, all our active funds maintained excellent portfolio quality and delivered consistent cashflow pay-outs to investors throughout the year with no instances of any shortfall or delay. As the COVID cases started to subside and investor confidence got revived, fundraising picked up and the green-shoe option was exercised for both Northern Arc Income Builder Fund Series-II (INR 200cr + INR 150cr) and Northern Arc India Impact Fund (INR 350cr + INR 350 cr). The Northern Arc Impact Fund was our first fund offering with a Mauritius feeder access for offshore investors, and we clocked USD 26mn in FY22 and expect another USD 8.5mn in Q1FY23.

Northern Arc Money Market Alpha Fund has become our flagship fund as it continued to be a competent alternative for investors to park their short-term funds (3-6 months) with a target return of ~9%. The fund achieved a peak AUM of INR 1,225 crore in March 2022. The fund has received investments of INR 1,700 crore from 367 investors and has successfully redeemed investor capital of around INR 1,096 crore during the year under review.

NAIM launched a new platform – Portfolio Management Services in FY22 to broad base the product offerings for its investors. Northern Arc Income Builder - Series A has launched as the first Discretionary PMS portfolio of Listed Principal Protected MLDs with a target size of INR 250 crore. This provides an investor with not only a curated set of investments with the benefit of significant diversification, easy exit options and superior risk-adjusted returns but also allows investors to leverage Northern Arc's specialized asset management, deep insight on portfolio companies and high-touch monitoring.

NAIM's digitisation journey picked up steam in FY22 with vendor solutions piloted and successful parallel implementation underway. While net asset value computation via the system is live, calculation of net asset values, investor portal access on NAV, statement of accounts, fund factsheet information etc. is in parallel run mode with rollout starting April 2022. Digital and single-step investor onboarding for both AIF and PMS products has gone live reducing operational friction for new investors.

IFMR FImpact Medium Term Opportunities Fund ("Fund 5") received a one-notch upgrade in FY22 to AA (SO) from AA- (SO), showcasing the confidence CRISIL has in NAIM's fund management and underwriting capabilities.

NAIM was featured in the ImpactAssets50 list consecutively for the second year in FY22, an annual showcase featuring fifty fund managers from across the world, who led their respective fields in creating a positive social impact while generating financial returns for investors. This makes us the only Debt fund from India to receive this honour. Along with this, NAIM added another feather to its hat by securing first place in the category 'Most Consistent Top Performing Private Debt Fund Manager' by Preqin. All these recognitions from international forums, along with the earlier awards conferred on NAIM for excellence and innovation in the fund management domain, are a testimony of the extensive underwriting expertise, innovative approach towards investment management and thought leadership that NAIM brings about in its target sectors. The recognitions reinforce the belief

that NAIM is a unique debt AIF platform delivering superior risk-adjusted returns to investors while creating a positive social impact.

### **Treasury**

FY22 has been a watershed year for Treasury at Northern Arc Capital. The year started on a cautious note with the 2nd wave of the Covid-19 pandemic at its peak. Despite the uncertain and challenging times, Northern Arc Capital raised INR 4,658 crore in FY22 from 47 different lenders. This is the highest ever debt capital raise in a single financial year since the company's inception. The debt raise demonstrates our robust and time-tested relationships with our lenders and investors and our focussed efforts in constantly expanding and diversifying our lender base.

The company, over the years, has taken active measures to broaden and diversify its funding profile. During FY22, the company added 15 new lenders. The year was marked by funds raise from marquee lenders such as Japan International Cooperation Agency (JICA), SIDBI, SMBC Bank, HDFC Bank and a host of public and private sector institutions. We raised USD 50 million from JICA during the year, thereby becoming the first mid-size NBFC to receive funding from the agency. The fundraising demonstrates our capabilities in raising funds from offshore markets and our efforts in building a dedicated offshore liability franchise over the last three years. We will continue to build on our relationships in this segment and focus on raising long-term funds from global development financial institutions.

As of March 31, 2022, we had 56 lenders and investors, with 58% of the total borrowings from the banking system, 30% from DFIs & offshore impact funds. The Balance of 12% were from the Capital markets investors such as mutual funds, private wealth etc and other lenders and investors. Our diversified base of lenders and investors provides us with a strong base for increased funding.

During the year, the company also raised liquidity by undertaking a periodic sell-down of assets held on the balance sheet (bonds, securitisation investments and investment in AIF units). Such sell downs, while generating liquidity, also help to improve price discovery, build visibility for our assets in the market and manage liquidity and capital efficiently.

During FY22 the company raised funding through market-linked debentures placed with private wealth investors. In addition, the company has increasingly tapped into capital markets space by issuing commercial paper thereby lowering the overall cost of borrowing. We also reduced the cost of our working capital debt by about 150 to 200 bps during the year and availed FCNR facilities vis-à-vis term debt, thereby lowering the cost of corresponding debt by 170 bps. We have also utilised the prevailing lower interest rate scenario during FY22 to lock in long-term funds at lower rates. Consequently, our cost of funds reduced significantly to 9% for FY22 vis-à-vis 10.7% for FY21. The incremental cost of borrowings has also come down to 8.2% for the year.

In addition to lender diversification, we continue to seek cost-effective debt funding from a variety of sources and instruments.

Our credit rating continues to be a key enabler for our diversified and cost-efficient funding profile. Since 2015, our Company's commercial paper program has been assigned the highest possible rating of A1+. Our non-convertible debentures and long-term bank facilities have been rated A+.



Further, our market-linked debentures, and subordinated debt program currently have a rating of A+. During the year, ICRA revised the outlook on our ratings from 'Negative' to 'Stable' citing comfortable collection efficiency and expected improvement in asset quality and earnings profile.

All the aforementioned factors resulted in the company maintaining healthy on-balance sheet liquidity throughout the year. Further, prudent liquidity management ensured that the company has positive cumulative mismatches in all the ALM maturity buckets as stipulated by RBI for the next five-year period.

### **Liquidity And Interest Rate Risk Management**

Our Company has an asset liability management policy in place which requires us to monitor and manage interest rate and liquidity risks proactively from time to time. Liquidity risk relates to the risk of loss in the event sufficient liquid assets will be unavailable or will be available only at excessive cost, to meet the cash flow requirements of obligations when they are due. In this context, the company has a suitable liquidity risk management framework in place, the purpose of which is to ensure the availability of adequate liquidity to meet upcoming repayment commitments as well as liquidity for ongoing business requirements. Further, the company's Asset Liability Committee (ALCO), which comes under the purview of the Finance Committee, regularly monitors the liquidity position and ensures that liquidity is managed in accordance with the ALCO policy, approved by the board.

The company also undertakes measures to actively manage the interest rate risk on our balance sheet. Interest rate risk is the risk of loss resulting from movements in interest rates and their impact on future profitability and cash flows. Northern Arc follows duration gap analysis to measure and control the interest rate risk with the duration gap being the difference between the duration of assets and the duration of liabilities. The company has a defined internal threshold for equity duration (impact on return on equity due to movement in interest rates) and monitors it on an ongoing basis. Given the floating rate nature of a sizeable portion of our assets linked to an internal benchmark i.e., Floating Benchmark Linked Rate, we expect the same to provide a buffer against any adverse interest rate movements in the future.

We have in place strong internal processes and controls on all treasury-related activities. We continue to comply with all regulatory guidelines including guidelines on tolerance limits on ALM mismatches, and liquidity coverage ratio amongst others. During the year, our LCR requirement has gone up from 30 per cent to 50 per cent. Accordingly, we maintained the requisite quantum of High-Quality Liquid Assets (HQLA).

### **Technology**

As we move towards the forefront of the digital era, 'Nimbus' our proprietary technology system which was built in-house has an intention to execute all our investments via our technology sub-systems like NPOS, Altifi, Originator & Investor Portal. Our continued focus on the effective use of technology is aimed at further improving the customer experience and streamlining processes leading to cost efficiencies and productivity. Our focus is to leverage greater user experience and seamless user journey for the end customers with the use of AI & machine learning techniques to

enhance our data analytics capabilities, and enable Investor Partners to choose granular transaction-level terms to customise syndication and structuring transactions as per their requirements, deploying Nimbus for new products and new offerings including for our proposed offering in relation to MSME supply chain financing. N-POS, an extension of Nimbus, is designed to support retail co-lending transactions with originator partners, including underwriting capabilities, as a platform service to financial institutions. It provides a straight-through processing (STP) approach for retail lending partnerships in multiple sectors. Overall, NACL’s technology systems are expected to provide value-added services to both investors and partners, which can support fee-based income going forward.

Nimbus has capabilities to integrate seamlessly with our Originator Partners, Investor Partners, lending partners and borrowers, enable transaction execution with efficiency, deliver a superior customer experience and offer business and risk insights in a context-sensitive manner, among others. Most of our clients and investors make use of Nimbus, the drastic increase in the number of transactions on the platform can provide larger datasets as inputs for our analytics algorithms which can further improve the quality of opportunities and insights that we can offer.

Set out below are some of the benefits offered by Nimbus to our Originator Partners through N-POS platform.

<p>Nimbus Partner Origination System</p>	<p>N-POS is the Cloud based platform enhanced with highly scalable and advanced in-house technology for running one of the country’s largest Partnership based lending programs, catering to multiple products and sectors, with this we are onboarding the partners in less than 10 working days with the standardized APIs, and our systems are currently processing more than 1.5 million loans a month end to end and disbursing the loan to the borrower in less than 45 seconds and serving the borrowers 24*7.</p> <p>N-POS supports loan origination, underwriting, digitally authenticating the KYC data, AML check, disbursement, and collection apportion in real-time with our lending partners, the solution is serving multiple products including Personal loans, B2C BNPL, B2B BNPL, Business loans, Microfinance loans, and Vehicle loans originated by the new age fintech players and as well as traditional players by configuring the systems which are suitable for them.</p>
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	We achieved the above by integrating with multiple intermediaries for KYC validation, credit bureau reports, banks, and payment gateways for disbursement and collection tracking.
Retail Investment Platform-Altifi	<ul style="list-style-type: none"> <li>• provides curated opportunities for investments</li> <li>• provides a digital platform for the execution of a wide range of investments such as issuance of NCDs, MLDs</li> <li>• provides a mobile application for both Android and iOS</li> </ul>

In Fiscal 2022, on the Nimbus system, we onboarded 36 Originator Partners and 36 mid-market companies and conducted risk monitoring on 261 Originator Partners. Further, we conducted transactions involving a value of 90% of the aggregate value of financing and syndication and structuring transactions in Fiscal 2022 on Nimbus. We have so far disbursed over 8 million loans through the n-POS platform, amounting to a total value of over INR 5,000 crore.

We have hosted our data centre on cloud and created a virtual IT infrastructure to host new applications. Our IT infrastructure is built on a robust architecture consisting of a primary data centre and a disaster recovery centre that links all our offices. We use a combination of customized, off-the-shelf, and tailored software developed in-house.

## BOARD'S REPORT

Dear Shareholders,

Your directors have pleasure in presenting this annual report along with the audited financial statements of the Company for the year ended March 31, 2022.

### FINANCIAL HIGHLIGHTS

(Rs in Lakhs)

Particulars	Standalone		Consolidated	
	Year ended	Year ended	Year ended	Year ended
	31-Mar-22	31-Mar-21	31-Mar-22	31-Mar-21
Total income	87,411.93	64,604.25	91,654.47	68,528.45
Finance costs	41,026.93	32,296.76	41,067.24	32,296.76
Net interest income	46,385.00	32,307.49	50,587.23	36,231.69
Operating expenses	19,079.60	10,397.76	21,140.05	12,017.29
Depreciation	911.82	673.83	957.44	674.10
Pre-provision profit	26,393.58	21,235.90	28,489.74	23,540.30
Impairment and write-offs	3,684.74	13,602.68	3,650.85	13,540.96
Profit before tax	22,708.84	7,633.22	24,838.89	9,999.34
Tax expense	6,335.91	2,028.23	6,645.12	2,340.10
Profit for the period	16,372.93	5,604.99	18,193.77	7,659.24
Other comprehensive income/(loss)	-2,724.34	622.07	-3,346.98	320.15
Total comprehensive income	13,648.59	6,227.06	14,846.79	7,979.39
Total comprehensive income to Owners	13,648.59	6,227.06	14,170.00	7,211.70
Opening balance of retained earnings	36,194.46	31,701.21	37,462.26	31,795.65
Transfer to reserves	-3,274.58	-1,121.00	-3,274.58	-1,121.00

Appropriations and other adjustments	-128.28	9.26	-96.75	36.17
Closing balance of retained earnings	49,164.53	36,194.46	51,340.90	37,462.26

During the year ended March 31, 2022, on a consolidated basis, your company generated total income of INR 916.54 crores, a growth of 33.74 % over the earlier year. Net Interest Income was INR 505.87 crores, representing year-on-year increase of 40%, which resulted in a profit before tax of INR 248.39 crores, 148 % higher than the previous year.

#### **DIVIDEND**

Due to the need for deploying the funds back into the business for the growth of your Company, your directors have not proposed any dividend on equity shares for the year under review.

#### **TRANSFER TO RESERVES**

During financial year 2021-22, your Company has transferred an amount of INR 32.75 Crores to reserves in accordance with the requirements of s. 45-IC (1) of the Reserve Bank of India Act, 1934.

#### **CREDIT RATING**

The Credit ratings of the company as on March 31, 2022, are summarised below:

<b>Instrument</b>	<b>Rating Agency</b>	<b>Rated Amount (INR crore)</b>	<b>Rating and rating action</b>
Long-term Fund-based Limits	ICRA	2500	ICRA A+/Stable
Non-Convertible Debentures	ICRA	1175	ICRA A+/Stable
	India Ratings	800	IND A+/Stable
Market linked debentures	ICRA	20	PP-MLD[ICRA]A+(Negative)
	India Ratings	300	IND PP-MLD A+emr / Stable
Subordinated Debt	ICRA	40	ICRA A+/Stable
Commercial Paper	ICRA	300	ICRA A1+
	CARE	500	CARE A1+

#### **CAPITAL ADEQUACY**

The company's capital adequacy ratio as of March 31, 2022, was 22.79% as against 28.89% as at March 31, 2021. The minimum capital adequacy ratio prescribed by Reserve Bank of India is 15%.

## SHARE CAPITAL

During the financial year, your company had issued 9,85,993 equity shares under the Employees Stock Option Schemes of the Company.

Consequent to the aforesaid allotments of equity shares, the total paid up capital of the Company as on March 31, 2022, was INR 171,55,39,510 comprising of 8,89,07,543 equity shares of INR 10 each and 4,13,23,204 compulsorily convertible preference shares of INR 20 each.

The shareholding pattern of the Company as of March 31, 2022, on a fully diluted basis was as follows:

Name of shareholder	No. of shares	% of holding
Leapfrog Financial Inclusion India (II) Limited	29952665	23.00%
Augusta Investments Pte II Ltd.	23584935	18.11%
Eight Roads Investments Mauritius (II) Limited	13610748	10.45%
Dvara Trust	12878682	9.89%
Accion Africa Asia Investment Company	7699529	5.91%
Sumitomo Mitsui Banking Cooperation	7004364	5.38%
IIFL Special Opportunities Fund	6721940	5.16%
IIFL Special Opportunities Fund – Series 2	4986680	3.83%
IIFL Special Opportunities Fund – Series 3	2193541	1.68%
IIFL Special Opportunities Fund – Series 4	7538980	5.79%
IIFL Special Opportunities Fund – Series 5	6185901	4.75%
IIFL Special Opportunities Fund – Series 6	253781	0.19%
IIFL Special Opportunities Fund – Series 7	6125875	4.70%
Kshama Fernandes	1	0.00%
Bama Balakrishnan	1	0.00%
C Kalyanasundaram	1	0.00%

Northern Arc Employee Welfare Trust	1493123	1.15%
<b>Total</b>	<b>130230747</b>	<b>100.00%</b>

## **DIRECTORS AND KEY MANAGERIAL PERSONNEL**

### **Directors**

The composition of the Board of Directors of the Company is in accordance with the provisions of section 149 of the Companies Act, 2013 with an appropriate combination of Non-Executive Directors and Independent Directors.

During the year under review Mr. Rajesh Kumar Dugar (DIN: 00040516) resigned from the Board with effect from June 03, 2021 and thereby ceased to be a member of the committees of which he was a part of. The Board places on record its appreciation of the valuable services rendered by Mr. Rajesh Kumar Dugar during his tenure with the Company.

Mr. Ashish Mehrotra (DIN: 07277318) was appointed as Executive Director with effect from February 14, 2022, till March 31, 2022, and as Managing Director and Chief Executive Officer of the Company with effect from April 01, 2022, for a period of five consecutive years. Further, Ms. Bama Balakrishnan (DIN: 06531188) was appointed as Executive Director of the Company with effect from February 14, 2022, for a period of five years and Dr. Kshama Fernandes (DIN: 02539429), Managing Director and Chief Executive Officer of the Company was redesignated as Non-Executive Vice Chairperson of the Board of Directors with effect from April 01, 2022.

Further Mr. Arun Kumar was appointed as an Independent Director effective 14<sup>th</sup> February 2022 on the recommendation of the Nomination and Remuneration Committee.

The Board noted the evaluation carried out by the Nomination and Remuneration Committee (NRC) of Mr. Ashish Mehrotra and Ms. Bama Balakrishnan on various parameters viz., integrity, qualification, expertise, experience and it has satisfied itself with the positive attributes of Mr. Ashish Mehrotra and Ms. Bama Balakrishnan in accordance with the Nomination and Remuneration (NR) Policy read with the provisions of Section 178 of the Act, 2013, RBI Guidelines and the Listing Regulations, as applicable.

The Board noted the evaluation carried out by the Nomination and Remuneration Committee (NRC) of Mr. N T Arun Kumar on various parameters viz., integrity, qualification, expertise, experience and it has satisfied itself with the positive attributes of Mr. N T Arun Kumar in accordance with the Nomination and Remuneration (NR) Policy read with the provisions of Section 178 of the Act, 2013, RBI Guidelines and the Listing Regulations, as applicable. In accordance with Section 149(7) of the Act, 2013, Mr. Arun Kumar has declared that they meet the criteria of independence as provided under Section 149(6) of the Act, 2013 and the Board confirms that Mr. N T Arun Kumar is independent of the management.

The shareholders had at their extraordinary general meeting held on 26<sup>th</sup> March 2022 approved the following changes to the composition of the Board of Directors:

- a) Appointment of Mr. Ashish Mehrotra (DIN: 07277318) as a Whole-Time Director designated as Executive Director of the Company with effect from February 14, 2022, to March 31, 2022; and as Managing Director and Chief Executive Officer of the Company with effect from April 01, 2022, for a period of five years.
- b) Appointment of Mr. N T Arun Kumar (DIN: 02407722) as an Independent Director of the Company with effect from February 14, 2022, for a period of three consecutive years; and
- c) Appointment of Ms. Bama Balakrishnan (DIN: 06531188), Chief Operating Officer as whole-time director designated as Executive Director of the Company for a period of five years with effect from February 14, 2022.
- d) Re-designation of Dr. Kshama Fernandes (DIN: 02539429), Managing Director and Chief Executive Officer of the Company as a non-executive director and vice chairperson of the Board to be designated as Non-Executive Vice Chairperson with effect from April 01, 2022.

### **Key Managerial Personnel**

Dr. Kshama Fernandes, Managing Director and Chief Executive Officer, Ms. Bama Balakrishnan, Chief Operating Officer, Mr. Atul Tibrewal, Chief Financial Officer and Ms. R Srividhya, Company Secretary of the Company have been designated as the Key Managerial Personnel of the Company (KMP) pursuant to the provisions of Sections 2(51) and 203 of the Companies Act, 2013 read with the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014.

Mr. Atul Tibrewal was appointed as Chief Financial Officer of the Company with effect from May 18, 2021.

Subsequent to the appointment of Mr. Ashish Mehrotra as the Executive Director, Mr. Ashish Mehrotra would also be considered as a Key Managerial Personnel of the Company pursuant to the provisions of Sections 2(51) and 203 of the Companies Act, 2013 read with the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, with effect from 14<sup>th</sup> February 2022.



### **Declaration of independence under Section 149(6) of the Companies Act, 2013**

In accordance with Section 149(7) of the Act, 2013, all Independent Directors have declared that they meet the criteria of independence as provided under Section 149(6) of the Act, 2013 and the Board confirms that they are independent of the management.

The detailed terms of appointment of Independent Directors are disclosed on the Company's website in the following link [www.northernarc.com](http://www.northernarc.com). All the Independent Directors have registered with the databank of Independent Directors developed by the Indian Institute of Corporate Affairs in accordance with the provisions of Section 150 of the Act, 2013 and obtained Independent Director registration certificate. Woman Director:

In compliance with Section 149 of the Act, 2013 read with the Companies (Appointment and Qualification of Directors) Rules, 2014, Ms. Anuradha Rao, is the Independent Woman Director of the Company. The other women directors on the Board are Dr. Kshama Fernandes and Ms. Bama Balakrishnan.

### **Pecuniary Transactions with non-executive directors**

Details of remuneration to non-executive directors are provided under the head "Remuneration to Other Directors" in Form MGT-7 available on the website of the Company.

## **MANAGEMENT DISCUSSION AND ANALYSIS REPORT**

### **I. MACRO OVERVIEW**

#### **A. Economic Outlook**

The world has shown remarkable resilience in the face of two consecutive waves of COVID-19 in FY22. The lockdowns imposed by governments across the world were quite significant. Specifically, during the Delta variant but was limited during the third wave. While economic activities were on an upswing, supply side constraints disrupted financial markets and businesses. Central banks implemented an array of measures to ensure credit was available to businesses and individuals.

The Indian economy grew significantly in FY22, surpassing pre-pandemic levels of output. As per CSO (Central Statistical Organisation), India's GDP grew by 8.7 percent compared to a contraction of 6.6 percent in FY21. Growth was primarily supported by private consumption recovery, that picked up pace and rose above pre-pandemic levels. Uptick in investment cycle (supported by Government capital expenditure and some revival in private capital expenditure) and strong export growth remained key drivers. In addition, both the Central Government and the RBI announced a host of measures to contain the impact of the second wave on domestic economic activity. The Government focused on providing relief and credit flow to small businesses, health, tourism sectors and other service sectors that were affected by the pandemic. On the monetary policy side, the RBI

kept its stance accommodative and policy rates unchanged at 4.0 per cent in FY22 (as at Mar-22) and announced measures to provide liquidity support.

In the Union Budget for FY23, the Government increased its allocation on capital expenditure by 24.5 per cent to INR 7.5 lakh crore. In addition, it announced measures in the Union Budget for FY 23 such as extension of the credit guarantee scheme by a year and an increase in guaranteed amount earmarked for specific sectors. However, economic outlook for FY23 remains uncertain, primarily due to geopolitical conflicts, inflation concerns (both domestically and globally), a weakening rupee, interest rate cycles and supply-side constraints. Counter balanced, in part by a rise in exports and a push through Government capital expenditure. However, global macros weigh in, and could lead to lower global growth which could have a bearing on India's export. IMF expects the world economy to grow at a slower pace of 3.6 per cent in 2022 from 6.1 per cent in 2021.

India's GDP growth is expected to rise by 7.3 per cent in FY23, making it the fastest growing large economy in the world. External stability related indicators (short-term debt, Forex reserves, FDI flows) show that India is better positioned than the '13 taper tantrum episode. Domestically, to rein in elevated inflation, the RBI raised rate by 40 bps in an off-cycle meeting on 4-May-22 and delivered another rate hike of 50 bps in the June-22 policy, taking the repo rate to 4.9%. The central bank justified its rate action as a step to control the second-round impact of inflationary pressures and an effort to anchor inflation expectations. The RBI raised its inflation forecast by 100 bps to 6.7% for FY23.

The International Monetary Fund (IMF) warns that it could again cut the global economic growth forecast as impact of Russia's invasion of Ukraine, pandemic-related shutdowns in China, and rising inflation have made the cost-of-living crisis worse for millions. IMF said that the global economic outlook has darkened significantly and the outlook for this year and next will be downgraded in July when the IMF releases its World Economic Outlook Update.

## **B. Sector outlook**

NBFCs have gained systemic importance in the Indian financial services industry with a growing share in credit. NBFCs' credit intensity measured by the credit/GDP ratio reached a high of 13.7% in 2021. NBFCs operate in a wide variety of asset classes ranging from granular retail loans (e.g., personal loans, vehicle loans, small business loans, gold loans, microfinance loans, etc.) to large-ticket wholesale loans (e.g., lending to corporates, infrastructure, real estate, and structured credit).

NBFCs have carved a niche for themselves in the Indian financial sector through their differentiated business models and credit appraisal methods, targeting the relatively un-banked borrower segments with niche domain expertise. They provide last mile credit delivery and have been significantly using technology to achieve better operational efficiency and risk management. Heavily impacted by the first wave of the pandemic in 2020, the NBFC sector faced headwinds again when

the second wave struck the country in Mar-21. Disbursements were severely impacted with the first two months being impacted by lockdowns.

Heavily impacted by the first wave of the pandemic in 2020, the NBFC sector faced headwinds again when the second wave struck the country in March 2021. Disbursements were severely impacted with the first two months being impacted by lockdowns. Monthly collection efficiency deteriorated significantly. This led to a sharp increase in asset restructuring in the first half of the year. With the passing of the second wave, collection efficiency improved progressively during the year and reached pre-COVID levels, reflecting a return to normalcy. Collections saw a modest decline by about 3% following the third wave of infections in Jan-22, but recovery was prompt given the lower severity of the COVID variant and limited restrictions on movement during this period.

The outlook for NBFCs is expected to remain stable owing to a better operating environment and favourable regulatory measures. Sufficient capital buffers across participants, and sizeable on-balance sheet provisioning with adequate liquidity would help counter any adversity in the medium term. As per India Ratings, the annual loan growth for NBFCs is likely to be around 14% in FY23.

The sector is probable to observe normalcy in disbursements alongside increased demand for products, like MFI, SME, HL and VF, while PL and UBL that witnessed high demand during the pandemic, could see some moderation in growth.

### C. Regulatory outlook

During the year, aimed at tightening the regulatory loop on NBFCs, RBI introduced scale-based regulation to align the overall framework of all NBFCs, ensuring that all NBFCs are well funded and effectively managed. New clarifications were provided by the RBI on the IRACP norms in the last quarter of FY22 eventually led to a movement towards daily recognition of NPAs and added a layer of restriction on upgrades of NPA accounts. In end-September the Reserve Bank issued Master Circulars on 'Transfer of Loan Exposure' and 'Securitisation of Standard Assets' to bring in transparency in the process and to improve liquidity in the system, besides corporate governance.

## II. NORTHERN ARC CAPITAL

### A. Business overview

- Total income increased from INR 645 Crores (FY21) to INR 854 Crores (FY22), an increase of 34%, primarily led by higher average loan book, and improving fee realisation (higher by 56% Y-o-Y)
- Assets under management grew >35% year-on-year from INR 5,221 Crores (Mar-21) to INR 7,098 Crores (Mar-22) –

INR Crores	FY21	FY22	Growth	Inst. Added	Inst. Count
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Financial Institution business	3,906	5,083	30%	40	267
Partnership based lending*	549	1,062	96%	7	35
Mid-corporate lending	440	578	30%	43	110
NACL investment in NAIM	326	375	15%	n.a.	n.a.
<b>Grand total</b>	<b>5,221</b>	<b>7,098</b>	<b>36%</b>	<b>90</b>	<b>412</b>

- Overall business volumes grew >50% year-on-year from INR 13,054 Crores (FY21) to INR 19,871 Crores (FY22), primarily backed by >120% increase in balance sheet volume from INR 4,093 Crores (FY21) to INR 9,283 Crores (FY22)
- We disbursed around 5.1 million loans in FY22, which was over a 100% growth over FY21
- Improvement in cost of funds also contributed significantly to higher profits with cost of funds reducing from 10.7% in FY21 to 9.0% in FY22, marginal cost of funds being lower by ~80 bps from FY21 to 8.2% in FY22.
- Strong profitability indicators with profit after tax increasing >150% year-on-year from INR 77 Crores (FY21) to INR 182 Crores (FY22) at consolidated level
- Strong Capital Adequacy at 23%, D:E ratio of 3.4x and maintained Liquidity buffer equivalent to 3 months requirement
- Maintained overlays of upwards of INR 79 Crores (post write-off) resulting in a healthy Provision Coverage Ratio (PCR) of 64% for Gross Stage -3
- Our employee base stood at ~300 employees as on Mar-22

## **B. Credit Rating**

Our credit rating was reaffirmed at ICRA A+, however outlook was revised to Stable from Negative in FY22

## **C. Strategic Overview**

Earlier this year, we also laid out our three-part strategic plan:

- Grow and strengthen our existing businesses
- Diversify our products and services; and
- Operate more efficiently, to produce higher, more consistent returns.

Key to our success has been a renewed focus on clients. Through our client centric initiatives, we are unlocking the power of our franchise by providing more comprehensive and integrated service while also using our network of clients to support our growth. Unlocking the power of our franchise for our clients is not only driving growth in our core businesses, but also allowing new initiatives to scale and in the years ahead, we will continue to drive returns for our shareholders.

For example, >40 financial institution and mid-market partners, work with our asset management business - Northern Arc's Investment Manager. While >30 financial institution

partners, work with our direct origination business (co-lending business). Our progress confirms one of our core beliefs: sufficiently harness the power of our decade long relationships with our client partners to build a high quality, scalable, and profitable franchise.

#### **D. Opportunity and Threat analysis**

##### Opportunities

- Industry leadership with dominant position
- Serving the under-served retail markets
- Revival in rural consumption
- New pivots of growth: co-lending, direct retail lending, and wealth distribution
- Strong brand pedigree and successful track record
- Building a strong distribution network
- Digitalisation and data driven decision making

##### Threats

- Regulatory challenges and credit availability
- Impact on demand in the backdrop of sustained inflation
- Fast changing interest rate environment
- Steep competition from banks and fintech's alike
- Product commoditisation
- Retention of talent

#### **E. New initiatives**

- We rapidly continue to build our digital infrastructure under the aegis of the Nimbus platform. During the year, the functionalities available to internal users as well as our investor partners have been further expanded. In what we believe is a first in the industry, your company has successfully adopted Nimbus to cover the full spectrum of internal functions ranging from client on-boarding, approval of credit exposure limits, credit decisioning, data-driven risk monitoring and analytics, to documentation (including e-stamping and digital signatures of documentation). This has helped our Company cultivate three advantages: scalability, precision, and efficiency in terms of turnaround time. Nimbus is a key pillar of the Company's strategy and a source of competitive strength and differentiation.
- We also launched AltiFi by Northern Arc™ ("AltiFi"), a digital platform that enables us to sell down dematerialized securities held by Northern Arc Capital. All categories of eligible buyers can digitally access the system to explore instruments available for sale on the platform. An integrated third-party gateway enables seamless payment for securities purchased on AltiFi and delivery of instruments is affected through the depositories.

- We also made significant progress on our direct retail businesses during the year. We disbursed our first loan SME loan from Madurai branch in Tamil Nadu. Overtime we intend to grow our direct retail assets under management through technology enabled and data led solutions across Rural finance (via Pragati), Supply Chain finance and end-use driven finance.
- We also appointed Ashish Mehrotra as our Managing Director and Chief Executive Officer, effective 1-Apr-22. Ashish has over 25 years of experience across Retail and Commercial Banking, Wealth Management, and Insurance. He will also serve as the Non-Executive Chairman of Pragati Finserv, the microfinance subsidiary of our group, and will be a board member of Northern Arc Investment Managers.
- We also appointed Mr. Jagadish Ramadugu was appointed as the Managing Director and CEO of Pragati Finserv Private Limited, the subsidiary of the company. We believe that Jagadish's experience and expertise in the microfinance and retail businesses would be immensely beneficial and add value to the Northern Arc business.

## **F. Subsidiaries**

Your Company has four (4) subsidiary companies, i.e., Northern Arc Investment Managers Private Limited; Pragati Finserv Private Limited, Northern Arc Foundation (a company incorporated under section 8 of the Act) and Northern Arc Investment Adviser Services Private Limited. The details of subsidiaries are as follows:

### **i. Northern Arc Investment Managers Private Limited (NAIM)**

FY22 has been the best year till date for NAIM as we doubled our assets under management to INR 2,918 crore. NAIM closed FY22 with cumulative investor commitments of INR 4,699 crore across all its funds, vs. INR 2,840 crore as of end-FY21, registering a 65% growth. NAIM brought on board 248 new investors during the year, comprising corporates, family offices and HNIs. A total of INR 6,641 crore was deployed across sectors during the year, a 4x growth from FY21, while the cumulative distributions made to investors stood at INR 851 crore, as at the end of the year.

Fund raising and deployment was mildly hit during the second wave of the pandemic in the first quarter of FY22. Despite the lockdown situation and containment zones in multiple parts of the country, all our active funds maintained excellent portfolio quality and delivered consistent cashflow pay-outs to investors throughout the year with no instances of any shortfall or delay. As the COVID cases started to subside, investor confidence got revived, and this led us to successfully exercising the green-shoe option for both Northern Arc Income Builder Fund Series-II (INR 200 crore + INR 150 crore) and Northern Arc India Impact Fund (INR 350 crore + INR 350 crore).

Northern Arc Money Market Alpha Fund has become our flagship fund as it continued to be a competent alternative for investors to park their short-term funds (3-6 months) with a target return of 9-10%. The fund achieved a peak AUM of INR 1225 crore in March 2022. The fund has received investments of INR 1,700 crore from 367 investors and has successfully redeemed investor capital of around INR 1096 crore during the year under review.

NAIM started a new Portfolio Management Services platform in FY22 for its investors. Northern Arc Income Builder - Series A was launched as the first Discretionary PMS portfolio of Listed Principal Protected MLDs with a target size of INR 250 crore. This provides an investor with not only a curated set of investments with the benefit of significant diversification, easy exit options and superior risk adjusted returns but also allows investors to leverage on Northern Arc's specialized asset management, deep insight on portfolio companies and high touch monitoring.

NAIM continued to focus on its three investor segments – domestic institutional, domestic private wealth and offshore investors – by offering innovative products across various tenors and addressing diverse investment objectives. On the operations front, Edelweiss Custodial Services Ltd has been appointed as the custodian for Northern Arc India Impact fund and migration of fund accounting for the same has been successfully completed as well. The process for changing of custodian for Northern Arc Money Market Alpha Fund from Kotak Mahindra Bank to Yes Bank has been initiated and its fund accounting migration is also in process with Edelweiss Custodial Services Ltd. Both are expected to be completed by Q1FY23. Client onboarding process for retail investors with 1 Silver Bullet Platforms Pvt Ltd has been initiated and is currently in UAT phase.

IFMR Impact Medium Term Opportunities Fund ("Fund 5") received a one-notch upgrade in FY22 to **AA+ (SO)** from **AA- (SO)**, showcasing the confidence CRISIL has on NAIM's fund management and underwriting capabilities.

NAIM got included in the ImpactAssets50 list consecutively for the second year in FY22, an annual showcase featuring fifty fund managers from across the world, who led their respective fields in creating positive social impact, while generating financial returns for investors. This makes us the only Debt fund from India to receive this honour. Along with this, NAIM added another feather to its hat by securing the first place in the category 'Most Consistent Top Performing Private Debt Fund Manager' by Preqin. All these recognitions from international forums, along with the earlier awards conferred on NAIM for excellence and innovation in the fund management domain, are a testimony of the extensive underwriting expertise, innovative approach towards investment management and thought leadership in that NAIM brings about in its target sectors. The recognitions reinforce the belief that NAIM is a unique debt AIF platform delivering superior risk-adjusted returns to investors while creating positive social impact.

## **ii. Pragati Finserv Private Limited**

Pragati, was incorporated in FY21 with the aim of offering small ticket loans through a digital platform to under-served rural and semi-urban areas of the country. Pragati will offer micro loans through group-based and individual models of lending. We propose to build a lending model for Pragati that will apply data to assess the creditworthiness and ability of a borrower to service loans. Pragati is developing a mobility-based technology stack with API which will be fully deployed on the cloud. In addition to real-time portfolio monitoring and credit modelling, we will make use of our data repositories and analytics capability to build predictive models on borrower behaviour and geo risk management. During the year, Northern Arc Capital announced its acquisition of the Microfinance portfolio of S.M.I.L.E Microfinance via a slump sale agreement.

## **iii. Northern Arc Foundation:**

At Northern Arc, our goal is to contribute to the well-being of the communities and society we cater to and on which we depend. At the same time, we also aim to align our company's social and environmental activities with its business purpose and values. This we believe will enhance our reputation and contribute to business results. Through our CSR programs, we are aiming to fulfill our true potential, and expect to spend across various community development programs across the sectors, communities, and geographies, where we create an impact. Northern Arc Foundation ("Foundation") acts as the CSR arm for Northern Arc Capital and focuses on skill building, employment development and education and considering the recent events around the Covid-19 pandemic, we have lent support to these initiatives to alleviate any stress in the healthcare or education sector.

Throughout the Covid-19 pandemic, we did not slow down or discontinue any of our CSR initiatives. Instead, we enhanced our approach to need-based support, and fulfilled starving needs of healthcare and medical institutions primarily, and continued to support our existing partners who worked through challenging conditions to meet demands of food supply, education and livelihood creation amidst lockdowns and hospitalisations. We believe we have not only created a strong CSR impact during FY 2021-22 in our own small way, but also laid the foundation for a deeper long-term focused strategy for our social impact program.

Your company supported the following initiatives during Financial Year 2021-22:

- a) Provided oxygen concentrators, PPE kits and Covid supplies for three government hospitals in Chennai
- b) Provided need-based support for food supplies, healthcare and livelihood support and education through Akshay Patra Foundation, Dr. Ashwini Charitable Hospital, SOS Children's India and Hand in Hand Foundation.
- c) Continued support to our education initiatives through the Doorstep School and Swadha Foundation



- d) Our assistance to the government schools continued unaffected through the pandemic and we proudly built the “Northern Arc Block” with two classrooms, in one of the primary schools that was in a dilapidated condition.

#### **iv. Northern Arc Investment Adviser Services Private Limited (NAIA)**

NAIA was established to provide high quality advice and products in asset classes that impact the financially excluded. During FY22, the Company continued to offer transaction advisory services given the limited growth opportunities resulting from the dislocations from the COVID-19 pandemic.

#### **FIXED DEPOSITS**

The Company being non-deposit taking Non-Banking Financial Company - Investment and Credit Company (NBFC-ICC), has not accepted any deposits during the year under review. Further, the Company had also passed a resolution to the effect that the company has neither accepted public deposit nor would accept any public deposit during the year under review, as per the requirements of Master Direction - Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016.

#### **CONSERVATION OF ENERGY AND TECHNOLOGY ABSORPTION**

Our mission is to create sustainable impact with a returns-focused approach. We have focused on building a consistently profitable business with a strong focus on environment, social and governance (“ESG”) considerations. While Social and Governance dimensions have been a strong area of focus since inception, we have also been committed to contribute to climate action.

By way of our areas of operation and focus business sectors, we have endeavoured to work with businesses that display strong social and governance models while ensuring environmental sustainability. This has helped us adhere to several ESG parameters and further our contribution to the Sustainable Development Goals (“SDGs”). Our underwriting guidelines incorporate a responsible financing framework across governance, customers, employees and environment. We have also specifically committed to abide by Leapfrog’s Responsible Investor Code including to minimize adverse impact on the environment and communities that we serve and our employees.

While the ESG principles are ingrained in our everyday actions, to further strengthen our vision and focus on ESG, we are committed to instituting certain formal structures and practices and taking more concrete actions over the coming 3 years. These include:

- Constitution of a separate ESG committee of the Board which will formulate an organization wide 3- year strategy and roadmap with priorities, targets and planned activities While we have identified our material ESG issues based on the Sustainability Accounting Standards Board (SASB) and other international frameworks which have been central to our current sustainability initiatives, we intend to undertake a comprehensive materiality assessment

through external stakeholder engagement and understand their expectations and accordingly to revisit our initiatives with stretch goals and targets.

- We expect to publishing our ESG and impact report for the financial year 2021-22.
- We intend to institute a structured approach to measuring and tracking emissions intensity per employee (Scope 1 and Scope 2) and undertake planned initiatives for reduction in our carbon footprint and waste generation.
- Renewed focus on climate risks associated with lending practices and growth of green financing products and services

#### **FOREIGN EXCHANGE EARNINGS AND OUTGO**

There were no foreign exchange earnings during the year or the previous year. Total foreign exchange outgo during the year under review was INR 379.40 Lakhs (previous year: INR 63.08 Lakhs) under the heads listed below:

(in INR  
Lakhs)

Head of Expense	March 31, 2022	March 31, 2021
Subscription	0.00	0.56
Consultancy charges	368.91	133.28
Advertisement and publishing	4.64	4.51
Loan processing fees	457.96	241.05
<b>Total</b>	<b>831.51</b>	<b>379.40</b>

#### **MEETING OF INDEPENDENT DIRECTORS**

In terms of Para VII of the Code for Independent Directors, your Company conducted a meeting of its independent directors on March 7, 2022, without the presence of non-independent directors and members of the management. The Directors, inter alia, discussed the following:

- a) review the performance of non-independent directors and the Board as a whole.
- b) review the performance of the Chairperson of the company, taking into account the views of executive directors and non-executive directors.
- c) assess the quality, quantity, and timeliness of flow of information between the company management and the Board that is necessary for the Board to effectively and reasonably perform their duties.

## **STATUTORY AUDITORS AND AUDITORS REPORT**

The shareholders of the Company had appointed M/s. B S R & Co LLP, Chartered Accountants as the statutory auditors of the Company at the annual general meeting held on July 04, 2018, for a period of five years, ie from financial year 2018-19 and upto financial year 2022-23. B S R & Co LLP, have tendered their resignation as statutory auditors of the company due to regulatory change on maximum tenure of statutory auditors, brought about by Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) dated April 27, 2021, issued by Reserve Bank of India, resulting in a casual vacancy in the office of statutory auditors of the Company as per Section 139(8) of the Companies Act, 2013.

Accordingly, the shareholders at the extraordinary general meeting held on January 05, 2022 had appointed S.R. Baliboi & Associates LLP, Chartered Accountants, having ICAI Firm Registration No: 101049W/E300004 as the statutory auditors of the Company based on recommendation of audit committee, board of directors and after obtaining a confirmation on eligibility under Section 141 of the Act and the above-mentioned RBI Regulations, from S.R. Baliboi & Associates LLP for being appointed as Statutory Auditors of the Company to fill the casual vacancy. Since the appointment of S.R. Baliboi & Associates LLP was to fill the casual vacancy, the appointment was made for one financial year, i.e. for the financial year ended on March 31, 2022.

There has been no qualification, reservation or adverse remark given by the Statutory Auditors in their Report for the year under review.

## **REPORTING OF FRAUDS BY THE AUDITORS TO THE COMPANY**

During the year, the Auditors have not reported any instance of fraud to the Audit Committee and Board as per Section 143 (12) of the Companies Act, 2013.

## **COMPLIANCE**

Your Company is registered with Reserve Bank of India under Section 451A of the Reserve Bank of India Act, 1934. Further, your Company has complied with and continues to comply with all applicable laws, rules, circulars and regulations and it does not carry on any other those specifically permitted by RBI for NBFCs.

## **PARTICULARS OF LOANS, GUARANTEES OR INVESTMENTS IN SECURITIES**

In terms of Rule 11(2) of the Companies (Meetings of Board and its Powers) Rules, 2014 NBFC Companies are excluded from the applicability of Section 186 of the Act, 2013, where the loans, guarantees and securities are provided in the ordinary course of its business.

Details of investments under Section 186 of the Act, 2013 for the financial year 2021-22 are provided in the financial statements.

## **POLICY ON APPOINTMENT AND REMUNERATION POLICY OF DIRECTORS AND KEY MANAGERIAL PERSONNEL OF THE COMPANY**

The policy on directors' appointment is based on the evaluation of fit and proper criteria for directors by the Nomination and Remuneration Committee prior to appointment of directors.

The Company's policy on directors' appointment and remuneration along with Terms of Reference and other matters provided in Section 178(3) of the Act is available on website of the Company and the weblink for the same is <https://www.northernarc.com/governance>.

### **BOARD MEETINGS**

During financial year 2021-22, eight meetings of the Board of Directors were held on the following dates:

May 06, 2021, July 07, 2021, July 10, 2021, July 30, 2021, October 01, 2021, November 09, 2021, 18, December 2021, February 14, 2022.

### **COMMITTEES OF BOARD OF DIRECTORS**

The Board Committees play a crucial role in the governance structure of the Company and have been constituted to deal with specific areas / activities in accordance with the requirements of the applicable provisions of the Act, 2013 and the Corporate Governance Directions issued by the Reserve Bank of India from time to time.

#### **Audit Committee**

Pursuant to provisions of Section 177(8) of the Companies Act, 2013, the composition of Audit Committee of the Company as on March 31, 2022, was as follows:

<b>Name</b>	<b>Category</b>
Mr. Ashutosh Pednekar	Independent Director, Chairman of the Committee
Mr. P S Jayakumar	Independent Director
Ms. Anuradha Rao	Independent Director
Mr. Vijay Nallan Chakravarthi	Nominee Director

Audit Committee was last reconstituted by the Board of Directors on July 07, 2021.

The recommendations of the Audit Committee were duly approved and accepted by the Board during the year under review.

Brief description of terms of reference:

The Audit Committee of the Company is entrusted with the responsibility to supervise the Company's internal control and financial reporting process and interalia performs the following functions:

- The recommendation for appointment, remuneration and terms of appointment of auditors of the Company;
- Review and monitor the auditor's independence and performance and effectiveness of audit process;
- Examination of the financial statement and the auditor's report thereon;
- Approval or any subsequent modification of transactions of the Company with related parties;
- Scrutiny of inter-corporate loans and investments;
- Valuation of undertakings of assets of the Company, wherever it is necessary;
- Evaluation of internal financial controls and risk management systems;
- Monitoring the end use of funds raised through public offers and related matters.
- Monitoring, reviewing, recommending and approving all related party transactions including granting omnibus approval for all related party transactions and any material modifications to the related party transactions.

#### **Nomination and Remuneration Committee**

The Composition of Nomination and Remuneration Committee of the Company as on March 31, 2022, was as follows:

<b>Name</b>	<b>Category</b>
Ms. Anuradha Rao	Independent Director, Chairperson of the Committee
Mr. P S Jayakumar	Independent Director
Mr. Samir Shah	Nominee Director
Mr. Michael Jude Fernandes	Nominee Director

The Nomination and Remuneration Committee was last reconstituted by the Board of Directors on July 07, 2021.

The Terms of Reference for the Nomination and Remuneration Committee are below:

- a) formulating the criteria for determining qualifications, positive attributes and independence of a director and recommend to Board a policy relating to the remuneration of the directors, key managerial personnel and other employees;
- b) formulation of criteria for evaluation of the performance of independent directors and the Board;
- c) devising a policy on diversity of the Board;
- d) identifying persons, who are qualified to become directors or who may be appointed in senior management in accordance with the criteria laid down, recommending to the Board their appointment and removal and carrying out evaluation of every director's performance;
- e) determining whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors;
- f) recommend remuneration of executive directors and any increase therein from time to time within the limit approved by the members of the Company;
- g) recommending remuneration to non-executive directors in the form of sitting fees for attending meetings of the Board and its committees, remuneration for other services, commission on profits;
- h) recommend to the Board, all remuneration, in whatever form, payable to senior management;
- i) performing such functions as are required to be performed by the compensation committee under the SEBI SBEB Regulations;
- j) engaging the services of any consultant/professional or other agency for the purpose of recommending compensation structure/policy;
- k) ensuring 'fit and proper' status of proposed and existing directors in terms of the Master Directions;
- l) analysing, monitoring and reviewing various human resource and compensation matters;
- m) reviewing and approving compensation strategy from time to time in the context of the then current Indian market in accordance with applicable laws;

- n) performing such other functions as may be delegated by the Board and/or prescribed under the SEBI Listing Regulations, the Master Directions, Companies Act, each as amended or other applicable law.

#### **DIRECTORS' RESPONSIBILITY STATEMENT**

The directors' responsibility statement as required under section 134(5) of the Companies Act, 2013, reporting the compliance with the Accounting Standards is attached and forms a part of the Board's Report.

The Directors accept the responsibility for the integrity and objectivity of the Profit & Loss Account for the year ended March 31, 2022 and the Balance Sheet and Cash Flow Statement as at that date ("financial statements") and confirm that:

- a) in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- b) the directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit and loss of the company for that period;
- c) the directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
- d) the directors have prepared the annual accounts on a going concern basis;
- e) the directors have laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively; and
- f) the directors have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

#### **BOARD EVALUATION**

The evaluation of all the Directors, the Board as a whole and each of the Committees of the Board was conducted based on the following criteria as recommended by the Nomination & Remuneration Committee adopted by the Board.

Evaluation criteria for independent directors and non-executive directors:

1. Understanding of the business of the company and contribution towards its strategic direction.
2. Attendance and participation in Board Meetings, whether in person, telephone or via video conferencing
3. Providing timely and effective inputs on minutes and other materials circulated to the Board

4. Inter-personal relations with the rest of the Board and management
5. Adherence to ethical standards and disclosure of non-independence, where it exists

#### **DISCLOSURE UNDER THE SEXUAL HARASSMENT OF WOMEN AT WORKPLACE (PREVENTION, PROHIBITION AND REDRESSAL) ACT, 2013**

The Company has in place a Policy for prevention of Sexual Harassment, in line with the requirements of the "Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013." Internal Complaints Committee (ICC) has been set up to redress complaints, as and when received, regarding sexual harassment and all employees are covered under this Policy.

The Policy has been hosted on the Company's website: <https://www.northernarc.com>

There were no referrals received by the Committee, during the financial year 2021-22.

#### **EXTRACT OF ANNUAL RETURN**

Pursuant to the provisions of Section 134(3) (a) and Section 92(3) of the Act, 2013 read with Rule 12(1) of the Companies (Management and Administration) Rules, 2014, an extract of the Annual Return in in prescribed form is available on the Company's website in the link as provided below:

<https://www.northernarc.com>.

#### **SECRETARIAL AUDIT REPORT**

Pursuant to the provisions of Section 204 of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Board of Directors has appointed M/s. M Damodaran & Associates LLP, a firm of Company Secretaries in practice to undertake the Secretarial Audit of the Company for FY 2021-22. The Secretarial Audit Report, in the prescribed Form No. MR-3, is annexed as **Annexure 1**.

There are no qualifications, reservations or adverse remarks or disclaimers made by M Damodaran & Associates LLP, Company Secretaries in their Secretarial Audit Report on the secretarial and other related records of the Company for the financial year 2021-22.

The Board of Directors in their meeting held on 10<sup>th</sup> May 2022, has appointed M Damodaran & Associates LLP, Company Secretaries as Secretarial Auditors of the Company for the FY 2022-23.

#### **EMPLOYEE STOCK OPTION SCHEME**

Your company introduced the Employee Stock Option Plan, providing grants to employees of your Company and its subsidiaries. The details of the Employee Stock Option Plan as required to be provided under Rule 12(9) of the Companies (Share Capital and Debentures) Rules, 2014 are annexed to this Report as **Annexure 2** and forms an integral part of the Report.

#### **INFORMATION ON MATERIAL CHANGES AND COMMITMENTS**

There are no material changes or commitments affecting the financial position of the Company which have occurred between the end of the financial year and date of this report. We also hereby confirm that there has been no change in the nature of business of the Company.



## **DETAILS OF SIGNIFICANT AND MATERIAL ORDERS PASSED BY THE REGULATORS OR COURTS OR TRIBUNALS IMPACTING THE GOING CONCERN STATUS AND COMPANY'S OPERATION IN FUTURE**

No significant or material orders were passed by the Regulators or Courts or Tribunals which impact the going concern status operations of your Company in future.

## **RELATED PARTY TRANSACTIONS**

The Company has adopted a policy on related party transactions for the purpose of identification, monitoring and approving of such transactions. The Related party policy is available on website of the Company and the weblink for the same is <https://www.northernarc.com/governance>.

During the year, your Company has not entered into any transactions with Related Parties which are not in the ordinary course of its business or not on an arm's length basis and which require disclosure in this Report in terms of the provisions of Section 188(1) of the Companies Act, 2013.

Hence, no particulars are being provided in Form AOC-2. Related Party disclosures, as per IND-AS have been provided in Notes to the financial statement

## **COMPANIES WHICH HAVE BECOME OR CEASED TO BE SUBSIDIARIES, JOINT VENTURES, OR ASSOCIATES OF THE COMPANY DURING THE YEAR.**

No companies became or ceased to be subsidiaries, joint ventures, or associates of the company during the year.

## **RISK MANAGEMENT POLICY**

In the opinion of the Board, the Company has, since inception developed and implemented Risk Management policies and procedures that are sufficient to combat risks that may threaten the existence of the Company. The company, being a systemically important company registered with the Reserve Bank of India has a proactive approach to reporting, measuring, evaluating and resolving all material risks associated with its business.

Risk assessment reports are periodically placed before the Risk Management Committee and the Asset Liability Management Committee for reviewing and monitoring these risks at periodic intervals.

Liquidity risk and interest rate risk arising out of maturity mismatch of assets and liabilities are managed through regular monitoring of the maturity profiles. Operational risks arising from inadequate or failed internal processes, people and systems or from external events are adequately addressed by the internal control systems and are continuously reviewed and monitored.

## **CORPORATE SOCIAL RESPONSIBILITY (CSR)**

The brief outline of the Corporate Social Responsibility (CSR) policy of the Company and the initiatives undertaken by the Company on CSR activities during the year are set out in **Annexure 3** of this report in the format prescribed in the Companies (Corporate Social Responsibility) Rules, 2014.

It may also be noted that the CSR Committee has approved the projects or programmes to be undertaken by Northern Arc Foundation, the CSR implementation agency for the company, for the financial year 2022-23, preferably in local areas including the manner of execution, modalities of utilisation of funds and implementation schedules and also monitoring and reporting mechanism for the projects or programmes, as required under the Companies Amendment Act, 2020.

#### **ADEQUACY OF INTERNAL FINANCIAL CONTROL WITH REFERENCE TO THE FINANCIAL STATEMENTS**

The Company's comprehensive and effective internal control system ensures smooth business operations, meticulously recording all transaction details and ensuring regulatory compliance and protecting the Company's assets from loss or misuse. The Board is accountable for evaluating and approving the effectiveness of the internal controls, including financial, operational and compliance controls. The internal control system is subject to continuous improvement, with system effectiveness assessed regularly.

The Company is strengthening the controls by leveraging technology and centralising processes, enhancing monitoring and maintaining effective tax and treasury strategies.

The completeness and adequacy of internal financial controls of the Company was evaluated by an independent audit agency and report of the same has been shared with the Statutory Auditors of the Company. The same has also been presented to the Audit Committee, based on which the Board has certified that the internal financial controls are adequate and are operating effectively.

#### **INTERNAL AUDIT:**

The company has an internal audit function commensurate with its size and nature of operations. The Reserve Bank of India vide Ref.No.DoS.CO.PPG./SEC.05/11.01.005/2020-21 dated February 3, 2021 notified the Risk Based Internal Audit (RBIA) framework for NBFCs. The company has, accordingly, adopted an internal audit policy and the RBIA assessment framework.

#### **REQUIREMENTS UNDER SECTION 197(12) OF THE COMPANIES ACT, 2013 READ WITH RULE 5 OF THE COMPANIES (APPOINTMENT AND REMUNERATION OF MANAGERIAL PERSONNEL) RULES, 2014**

Disclosure to be made under Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 are given below:

Ratio of remuneration of each director to the median employee's remuneration for the financial year:

<b>Sr. No.</b>	<b>Name of Directors (Executive Director)</b>	<b>Director's Remuneration (in INR)</b>	<b>ESOP Units</b>	<b>Employees' Median Remuneration (in INR)</b>	<b>Ratio</b>
1.	Dr. Kshama Fernandes, Managing Director and CEO	2,42,39,347	8,11,037	10,23,548	1:23
2.	Mr. Ashish Mehrotra	1,50,00,000	7,00,000	10,23,548	1:15

	Executive Director				
3.	Bama Balakrishnan Executive Director	1,83,50,106	6,29,394	10,23,548	1:18

Percentage increase in remuneration of each director, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Company Secretary in the Financial Year vis-à-vis last financial year:

Name of director/ Key Managerial Personnel	% increase in remuneration vis-à-vis last financial year
Dr. Kshama Fernandes, Managing Director and CEO	0
Ms. Bama Balakrishnan, Executive Director	8%
Mr. Ashish Mehrotra, Executive Director	25%
Mr. Atul Tibrewal	9%
Ms. R. Srividhya, Company Secretary	8%

- Percentage increase in the median remuneration of employees in the financial year: 9 %
- Number of permanent employees on the rolls of the company: 278 (as of 31st March 2022)
- Average percentage increase in the salaries of employees other than the KMP in FY 2021-22: 9%\* and percentage increase in key managerial remuneration: 10%
- Affirmation that the remuneration is as per the remuneration policy of the company: The Company affirms that remuneration of directors and employees of the company is in accordance with the remuneration policy of the company.  
*\*the average increase in salaries of employees based on performance appraisal during the last year.*

#### **PARTICULARS OF EMPLOYEES UNDER RULE 5(2) OF THE COMPANIES (APPOINTMENT AND REMUNERATION OF MANAGERIAL PERSONNEL) RULES, 2014**

The statement containing particulars of employees as required under section 197(12) of the Act read with Rule 5(2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, is in a separate **Annexure 6** forming part of this report. A copy of the Board's Report is being sent to all the members excluding Annexure 6. The said Annexure is available for inspection by the members at the Registered Office of the Company during business hours on working days. Any member interested in obtaining a copy of the same may write to the Company Secretary at the Registered Office of the Company.

#### **VIGIL MECHANISM AND WHISTLE BLOWER POLICY**

Adequate vigil mechanism for directors and employees to report genuine concerns is in place and the same have been disclosed on the website of the company, [www.northernarc.com](http://www.northernarc.com). No references under the whistle blower policy were received during the Financial Year 2021-22. The same has also been affirmed by the Audit Committee of the Board on a quarterly basis.

**SECRETARIAL STANDARDS**

The company has complied with the applicable Secretarial Standards issued by The Institute of Company Secretaries of India, as amended from time to time.

**ACKNOWLEDGEMENT**

The Directors wish to thank the Reserve Bank of India and other statutory authorities for their continued support and guidance. The Directors also place on record their sincere thanks for the support and co-operation extended by the bankers and shareholders of the Company.

The Directors also thank the employees of the Company for their contribution toward the performance of the Company during the financial year.

**On behalf of the Board**

**For Northern Arc Capital Limited**

**P S Jayakumar**  
**Independent Chairman**  
**DIN: 01173236**

**Ashish Mehrotra**  
**Managing Director & CEO**  
**DIN: 07277318**

**Date:**

**Place:**

## ANNEXURE 1

**Form No. MR-3**

**SECRETARIAL AUDIT REPORT**

**FOR THE FINANCIAL YEAR ENDED 31.03.2022**

*[Pursuant to section 204(1) of the Companies Act, 2013 and Rule No.9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014]*

To,

The Members,

**NORTHERN ARC CAPITAL LIMITED**

(CIN: U65910TN1989PLC017021)

No. 1, Kanagam Village,

10th Floor, IITM Research Park,

Taramani, Chennai – 600113.

I, M. Damodaran, Managing Partner of M Damodaran & Associates LLP, Practicing Company Secretaries, Chennai have conducted the secretarial audit of the compliance of applicable statutory provisions and the adherence to good corporate practices by **M/s. NORTHERN ARC CAPITAL LIMITED** (hereinafter called the Company). Secretarial Audit was conducted in a manner that provided me a reasonable basis for evaluating the corporate conducts/statutory compliances and expressing my opinion thereon.

Based on my verification of **M/s. NORTHERN ARC CAPITAL LIMITED's** books, papers, minute books, forms and returns filed and other records maintained by the Company and also the information provided by the Company, its officers, agents and authorized representatives during the conduct of secretarial audit, I hereby report that in my opinion, the Company has, during the audit period covering the financial year ended on **31.03.2022** complied with the statutory provisions listed hereunder and also that the Company has proper Board-processes and compliance-mechanism in place to the extent, in the manner and subject to the reporting made hereinafter:

I have examined the books, papers, minute books, forms and returns filed and other records maintained by **M/s. NORTHERN ARC CAPITAL LIMITED** ("the Company") for the financial year ended on **31.03.2022** according to the provisions of:

- (i) The Companies Act, 2013 (the Act) and the rules made there under; (ii) The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made there under;

- (iii) The Depositories Act, 1996 and the Regulations and Bye-laws framed there under;
- (iv) Foreign Exchange Management Act, 1999 and the rules and regulations made there under to the extent of Foreign Direct Investment and External Commercial Borrowings;
- (v) The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act'):- (to the extent applicable):
- (a) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015;
  - (b) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018;
  - (c) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;
  - (d) Securities and Exchange Board of India (Issue and Listing of Non-Convertible Securities) Regulations, 2021;
  - (e) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993;
  - (f) Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015;
  - (g) Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014;
  - (h) Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021;
- (vi) Reserve Bank of India Act, 1934 and RBI Directions and Guidelines as applicable to the Systemically Important non-deposit taking Non-Banking Financial Company.

I have also examined compliance with the applicable Regulations and standards of the following:

- i. Listing Agreements entered into by the Company with the BSE Limited (BSE) & National Stock Exchange of India Limited (NSE) as per the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015; and
- ii. Secretarial Standards (SS-1) for Board Meeting and Secretarial Standards (SS-2) for General Meeting issued by the Institute of Company Secretaries of India.

During the period under review the Company has complied with the provisions of the Act, Rules, Regulations, Guidelines, Standards, etc. mentioned above subject to the following Observations:

NIL

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

Adequate notice is given to all directors to schedule the Board & Committee Meetings, agenda and detailed notes on agenda were sent at least seven days in advance for meetings other than those held at shorter notice with the consent of all the directors, and a system exists for seeking and obtaining further information and clarifications on the agenda items before the meeting and for meaningful participation at the meeting. As per the minutes of the meetings duly recorded and signed by the Chairman, the decisions of the Board were unanimous and no dissenting views have been recorded.

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

**I further report that** during the audit period the company has;

- a) issued Redeemable Non-Convertible Debentures on various dates on private placement basis.
- b) redeemed the Redeemable Non-Convertible Debentures on various dates.
- c) passed a Special Resolution under section 42, 71 and all other applicable provisions of the Companies Act, 2013 at the Extra-ordinary General Meeting held on 25<sup>th</sup> May, 2021 for issue of secured/unsecured non-convertible debentures in one or more tranches up to a maximum amount not exceeding Rs. 5,000 Cr. (Rupees Five Thousand Crore) during a period of one year.
- d) passed a Special Resolution under section 180(1)(c) of the Companies Act, 2013 at the Annual General Meeting held on 29<sup>th</sup> November, 2021 to increase the Borrowing limit of the Company up to Rs. 12,000 Cr (Rupees Twelve Thousand Crore Only).

- e) passed a Special Resolution under section 180(1)(a) of the Companies Act, 2013 at the Annual General Meeting held on 29<sup>th</sup> November, 2021 to create security on the assets of the Company up to Rs. 12,000 Cr (Rupees Twelve Thousand Crore Only).
- f) passed a Special Resolution at the Extra-ordinary General Meeting held on 25<sup>th</sup> May, 2021 to approve the revocation of the Northern Arc Capital Limited Employees Stock Option 2020 – Scheme IV.
- g) passed a Special Resolutions at the Extra-ordinary General Meetings held on 25<sup>th</sup> May, 2021 & 08<sup>th</sup> October, 2021 to approve the amendments and adoption of the Northern Arc Employee Stock Option Plan 2016, Northern Arc Employee Stock Option Scheme I, 2016, Northern Arc Employee Stock Option Scheme II, 2016 & Northern Arc Employee Stock Option Scheme III, 2018.
- h) passed a Special Resolution at the Extra-ordinary General Meeting held on 12<sup>th</sup> July, 2021 to approve of the Initial Public Offer and the Issuance of Equity Shares in the Initial Public Offer.
- i) passed a Special Resolution under section 5 & 14 of the Companies Act, 2013 at the Extra-ordinary General Meeting held on 12<sup>th</sup> July, 2021 to adopt a new set of alteration of Articles of Association of the Company for compliance with the listing requirements of the Stock Exchanges.
- j) passed a Special Resolution under section 61 and 64 of the Companies Act, 2013 at the Extra-ordinary General Meeting held on 08<sup>th</sup> October, 2021 to amend the Memorandum of Association of the Company for increasing the authorised share capital of the Company from Rs. 265,00,00,000 (Rupees Two Hundred and Sixty Five Crores Only) to Rs. 277,00,00,000 (Rupees Two Hundred and Seventy Seven Crores Only).
- k) passed an Ordinary Resolution under section 139(8) and 142 of the Companies Act, 2013 at the Extra-ordinary General Meeting held on 05<sup>th</sup> January, 2022 to fill the casual vacancy in the office of Company's statutory auditor caused by the resignation of the existing statutory auditors, B S R & Co. LLP (ICAI Firm Registration No: 101248W/W-100022) by appointing S.R. Batliboi & Associates LLP (ICAI Firm Registration No: 101049W/E300004) as the statutory auditors of the Company for financial year 2021-22.
- l) passed an Special Resolution under section 149 and 152 of the Companies Act, 2013 at the Extra-ordinary General Meeting held on 26<sup>th</sup> March, 2022 for appointment of Mr. Arunkumar Nerur Thiagarajan (DIN: 02407722) to act as Independent Director of the



Company for a period of 3 consecutive years from 14<sup>th</sup> February, 2022 to 13<sup>th</sup> February, 2025.

- m) passed an Ordinary Resolution under section 196, 197 and 203 of the Companies Act, 2013 at the Extra-ordinary General Meeting held on 26<sup>th</sup> March, 2022 for appointment of Mr. Ashish Mehrotra, (DIN: 07277318) as a Whole-Time Director of the Company for a period effective from 14<sup>th</sup> February, 2022 to 31<sup>st</sup> March, 2022.
- n) passed an Ordinary Resolution under section 196, 197 and 203 of the Companies Act, 2013 at the Extra-ordinary General Meeting held on 26<sup>th</sup> March, 2022 for appointment of Ms. Bama Balakrishnan (DIN: 06531188) as a Whole-Time Director of the Company for a period of five consecutive years from 14<sup>th</sup> February, 2022 to 13<sup>th</sup> February, 2027.
- o) passed a Special Resolution under section 196, 197 and 203 of the Companies Act, 2013 at the Extra-ordinary General Meeting held on 26<sup>th</sup> March, 2022 for appointment of Mr. Ashish Mehrotra, (DIN: 07277318) as Managing Director and Chief Executive Officer of the Company for a period of five consecutive years from 01<sup>st</sup> April, 2022, to 31<sup>st</sup> March, 2027.
- p) passed an Ordinary Resolution under section 196, 197 and 203 of the Companies Act, 2013 at the Extra-ordinary General Meeting held on 26<sup>th</sup> March, 2022 for re-designation of Dr. Kshama Fernandes, Managing Director & Chief Executive Officer as the Non-Executive, Non-Independent, Vice Chairperson of the Company and payment of profit related commission w.e.f. 01<sup>st</sup> April, 2022.
- q) Passed a Board resolution and shareholders' resolution dated 7<sup>th</sup> July 2021 and 12<sup>th</sup> July 2021 for approving the Initial Public Offer (IPO) and the Issuance of equity shares in the IPO. Further, the Board passed a resolution dated 10<sup>th</sup> July 2021 approving the filing of the Draft Red Herring Prospectus (DRHP) to undertake an initial public offer (the "Offer") of its equity shares of face value of Rs.10 each (the "Equity Shares"), which comprises a fresh issue of Equity Shares by the Company (the "Fresh Issue") and an offer for sale of Equity Shares by certain shareholders of the Company aggregating up to ₹ 3,000 million and an offer for sale of 36,520,585 equity shares by certain existing shareholders of the Company. Approval of SEBI for the IPO was received vide final observations letter dated September 3, 2021. In-principle approval of NSE and BSE were received by the company vide letters dated August 3, 2021 and August 5, 2021.

For **M DAMODARAN & ASSOCIATES LLP**

Place: Chennai

Date:

M. DAMODARAN

Managing Partner

Membership No.: 5837

COP. No.: 5081

FRN: L2019TN006000

PR 1374/2021

ICSI UDIN:

*'Annexure 1'*

To

The Members,

**NORTHERN ARC CAPITAL LIMITED,**

(CIN: U65910TN1989PLC017021)

No. 1, Kanagam Village,

10<sup>th</sup> Floor, IITM Research Park,

Taramani, Chennai – 600113.

My Secretarial Audit Report of even date is to be read along with this letter.

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

For **M DAMODARAN & ASSOCIATES LLP**

Place: Chennai

Date:

M. DAMODARAN

Managing Partner

Membership No.: 5837

COP. No.: 5081

FRN: L2019TN006000

PR 1374/2021

ICSI UDIN:

Draft

## Annexure 2

### **Disclosure relating to Employees Stock Option Scheme in accordance with Rule 12(9) of the Companies (Share Capital and Debentures) Rules, 2014**

		<b>Scheme 1*</b>	<b>Scheme 2*</b>	<b>Scheme 3*</b>
(a)	Options granted	341371	4414500	1307982
(b)	Options vested	23000	1499450	728532
(c)	Options exercised	318371	732550	88619
(d)	The total number of shares arising as a result of exercise of option	-	-	-
(e)	Options lapsed	324000	2992000	625459
(f)	The exercise price	10	110-121-181-188-210-275	181-188-275
(g)	Variation of terms of options	-	-	-
(h)	Money realized by exercise of options	23000	3681950	1219363
(i)	Total number of options in force	341371	4414500	1307982
(j)	Employee wise details of options granted to:	23000	1499450	728532
	(i) key managerial personnel;	296371 No's	1550000 No's	450988 No's
	(ii) any other employee who receives a grant of options in any one year of option amounting to five percent or more of options granted during that year.	None	None	None
	(iii) identified employees who were granted option, during any one year, equal to or exceeding one percent of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant;	None	None	None

**\*Note:** Scheme 1, Scheme 2 and Scheme 3 mentioned above refers to Northern Arc Employees Stock Option Plan - Scheme I, IFMR Capital Employees Stock Option Plan - Scheme II; and Northern Arc Capital Limited Employees Stock Option Scheme 2018 respectively.

### Annexure 3

#### ANNUAL REPORT ON CSR ACTIVITIES

##### 1. Brief outline on CSR Policy of the Company

The company's CSR policy is in line with the mission of ensuring access to financial services to every individual and enterprise. Following the pandemic, there were areas that were impacted in an unprecedented manner, some of the impact may be irreversible in terms of social and economic impact. During the FY 2021-22, the company contributed towards education, the sector that was impacted most through the pandemic, as many under-privileged and marginalised children and older students lost their access to education in ways that will never be the same for them:

- a) Conducting of Employment Linked Skilling Program and BFSI Skilling Program for the benefit of public at large.
- b) Doorstep school project for the benefit of underprivileged children
- c) Project for providing higher education facilities for deserving economically disadvantaged children through Swadha Foundation
- d) Creating an impact across eight government schools in and around Chennai

The complete CSR policy of the Company can be accessed on the company's website at [www.northernarc.com](http://www.northernarc.com).

##### 2. Composition of CSR Committee:

Sl. No.	Name of Director	Designation / Nature of Directorship	Number of meetings of CSR Committee held during the year	Number of meetings of CSR Committee attended during the year
1	Mr. Ashutosh Pednekar	Independent Director	1	1
2	Mr. Michael Fernandes	Nominee Director	1	1
3	Dr. Kshama Fernandes	Managing Director & CEO	1	1

3. Web-link where Composition of CSR committee, CSR Policy and CSR projects approved by the board are disclosed on the website of the company: <https://www.northernarc.com/governance>.
4. Details of Impact assessment of CSR projects carried out in pursuance of sub-rule (3) of rule 8 of the Companies (Corporate Social Responsibility Policy) Rules, 2014, if applicable (attach the report): Not Applicable.

5. Details of the amount available for set off in pursuance of sub-rule (3) of rule 7 of the Companies (Corporate Social Responsibility Policy) Rules, 2014 and amount required for set off for the financial year, if any: Not Applicable.

6. Average net profit of the company as per section 135(5): INR 1,15,18,51,333

7. (a) Two percent of average net profit of the company as per section 135(5): INR 2,30,37,027

(b) Surplus arising out of the CSR projects or programs or activities of the previous financial years:  
NIL

(c) Amount required to be set off for the financial year, if any: NIL

(d) Total CSR obligation for the financial year (7a+7b-7c): INR 2,30,37,027

8. (a) CSR amount spent or unspent for the financial year: NIL

Total Amount Spent for the Financial Year. (in Rs.)	Amount Unspent (in Rs.)				
	Total Amount transferred to Unspent CSR Account as per section 135(6).		Amount transferred to any fund specified under Schedule VII as per second proviso to section 135(5).		
	Amount.	Date of transfer.	Name of the Fund	Amount.	Date of transfer.
2,30,37,027	NIL	--	--	--	--

(b) Details of CSR amount spent against ongoing projects for the financial year: NIL

(1)	(2)	(3)	(4)	(5)		(6)	(7)	(8)	(9)	(10)	(11)	
S No	Name of the Project.	Item from the list of activities in Schedule VII to the Act.	Local area (Yes/No)	Location of the project.		Project Duration	Amount Allocated For the Project (Rs)	Amount Spent in the current financial year (in Rs)	Amount transferred to Unspent CSR Account for the project as per Section 135(6) (in Rs.)	Mode of Implementation - Direct (Yes/No)	Mode of Implementation - Through Implementing Agency	
				State	Dist.						Name	CSR Regn number.
--	--	--	--	--	--	--	--	--	--	--	--	--

(c) Details of CSR amount spent against other than ongoing projects for the financial year:

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
-----	-----	-----	-----	-----	-----	-----	-----

S No.	Name of the Project	Item from the list of activities in schedule VII to the Act.	Local area (Yes/No)	Location of the project		Amount spent for the project (in Rs.).	Mode of implementation - Direct (Yes/No).	Mode of implementation - Through implementing agency.	
				State	Dist			Name	CSR registration number.
1	Supply of liquid oxygen concentrators, PPE kits and other covid related supplies	Covid related support (promotion of healthcare)	Yes	Tamil Nadu	Chennai	1.35 crores		Northern Arc Foundation	--
2	Ashwini Public Charitable Trust, Eravanjeri	Covid related support (promotion of healthcare)	Yes	Tamil Nadu	Nagapattinam	0.10 crores		Northern Arc Foundation	--
3	SOS Children's Village India	Setting up care for women and orphans	Yes			0.09 crores		Northern Arc Foundation	--
4	Hand in Hand Foundation	Education of under privileged children	Yes	Tamil Nadu	Kanchipuram	0.11 crores		Northern Arc Foundation	--
5	Akshay Patra Foundation	Eradication of hunger and poverty	Yes	Maharashtra	Mumbai	0.37 crores		Northern Arc Foundation	--
6	Punyatma Prabhakar Sharma Seva Mandal	Education of tribal deaf and mute girls	Yes	Maharashtra	Thane & Palghar	0.22 crores		Northern Arc Foundation	--
7	Other overheads, expenses, attributable to CSR					0.11 crores		Northern Arc Foundation	--

**(d) Amount spent in Administrative Overheads: NIL**

**(e) Amount spent on Impact Assessment, if applicable: Not Applicable**

**(f) Total amount spent for the Financial Year (8b+8c+8d+8e):**

**(g) Excess amount for set off, if any: Not Applicable**

SI No.	Particulars	Amount (in Rs)
(i)	Two percent of average net profit of the company as per section 135(5)	--
(ii)	Total amount spent for the Financial Year	--
(iii)	Excess amount spent for the financial year [(ii)-(i)]	--



(iv)	Surplus arising out of the CSR projects or programmes or activities of the previous financial years, if any	--
(v)	Amount available for set off in succeeding financial years [(iii)-(iv)]	--

**9. (a) Details of Unspent CSR amount for the preceding three financial years:**

S No.	Preceding Financial Year.	Amount transferred to Unspent CSR Account under section 135 (6) (in Rs.)	Amount spent in the reporting Financial Year (in Rs.)	Amount transferred to any fund specified under Schedule VII as per section 135(6), if any.			Amount remaining to be spent in succeeding financial years. (in Rs.)
				Name of the Fund	Amount (in Rs).	Date of transfer.	
1	2018-19	1,16,31,443	--	NA	NA	NA	NA
2	2019-20	40,00,000	40,00,000	NA	NA	NA	NA
3	2020-21	NIL	NIL	NA	NA	NA	NA
	Total						

**(b) Details of CSR amount spent in the financial year for ongoing projects of the preceding financial year(s):NIL**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
S No.	Project ID	Name of the Project	Financial Year in which the project was commenced	Project duration	Total amount allocated for the project (in Rs.)	Amount spent on the project in the reporting Financial Year (in Rs)	Cumulative amount spent at the end of reporting Financial Year. (in Rs.)	Status of the project - Completed /Ongoing.
1	--	--	--	--	--	--	--	--
	Total							

**10. In case of creation or acquisition of capital asset, furnish the details relating to the asset so created or acquired through CSR spent in the financial year: NIL**

(asset-wise details).

(a) Date of creation or acquisition of the capital asset(s): Nil

(b) Amount of CSR spent for creation or acquisition of capital asset: Nil

(c) Details of the entity or public authority or beneficiary under whose name such capital asset is registered, their address etc: Nil

(d) Provide details of the capital asset(s) created or acquired (including complete address and location of the capital asset): Nil

11. Specify the reason(s), if the company has failed to spend two per cent of the average net profit as per section 135(5): Not Applicable

**Ashish Mehrotra**

**Ashutosh Pednekar**

**Managing Director & Chief Executive Officer**

**Chairman of CSR Committee**

**DIN: 02539429**

**DIN: 00026049**

Place: Chennai

Date:

**SECRETARIAL COMPLIANCE REPORT OF NORTHERN ARC CAPITAL LIMITED FOR THE YEAR ENDED 31.03.2022**

*(Pursuant to Regulation 24A of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with SEBI Circular No. CIR/CFD/CMD1/27/2019 dated February 08, 2019)*

I, M. Damodaran, Managing Partner of M Damodaran & Associates LLP, Practicing Company Secretaries, Chennai have examined:

- a) all the documents and records made available to me and explanation provided by **NORTHERN ARC CAPITAL LIMITED** ("the listed entity"),
- b) the filings/ submissions made by the listed entity to the stock exchanges,
- c) website of the listed entity,
- d) any other document/ filing, as may be relevant, which has been relied upon to make this certification,

for the Financial Year ended **31.03.2022 ("Review Period")** in respect of compliance with the provisions of:

- a) the Securities and Exchange Board of India Act, 1992 ("SEBI Act") and the Regulations, circulars, guidelines issued thereunder; and
- b) the Securities Contracts (Regulation) Act, 1956 ("SCRA"), rules made thereunder and the Regulations, circulars, guidelines issued thereunder by the Securities and Exchange Board of India ("SEBI");

The specific Regulations amended from time to time, whose provisions and the circulars/guidelines issued thereunder, have been examined, include:-

- a) Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('SEBI LODR');
- b) Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018;
- c) Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 - *Not Applicable to the Company during the Review Period.*
- d) Securities and Exchange Board of India (Buyback of Securities) Regulations, 2018 – *Not Applicable to the Company during the Review Period.*
- e) Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 – *Not Applicable to the Company during the Review Period.*
- f) Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 - *Not Applicable to the Company during the Review Period.*
- g) Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;
- h) Securities and Exchange Board of India (Issue and Listing of Non-Convertible and Redeemable Preference Shares) Regulations, 2013 – *Not Applicable to the Company during the Review Period.*
- i) Securities and Exchange Board of India (Issue and Listing of Non-Convertible Securities) Regulations, 2021;
- j) Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 – *Applicable to the extent to debt listed companies during the Review Period.*
- k) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client;
- l) Securities and Exchange Board of India (Depositories and Participants) Regulations, 2018.
- m) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009 - - *Not Applicable to the Company during the Review Period.*
- n) Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2021 - *Not Applicable to the Company during the Review Period.*

and circulars/ guidelines issued thereunder;

and based on the above examination, I hereby report that, during the Review Period:

- a) The Listed entity has complied with the provisions of the above Regulations and Circulars/ guidelines issued thereunder from time to time to the extent applicable except in respect of matters specified below:-

Sr. No	Compliance Requirement (Regulations/ circulars / guidelines including specific clause)	Deviations	Observations/ Remarks of the Practicing Company Secretary
NIL			

The company has suitably included the conditions as mentioned in Para 6(A) and Para 6 (B) of the SEBI Circular CIR/CFD/CMD1/114/2019, dated October 18, 2019 in terms of appointment of statutory auditor of the Company.

- b) The listed entity has maintained proper records under the provisions of the above Regulations and circulars/ guidelines issued thereunder insofar as it appears from my examination of those records.
- c) There was no action taken against the listed entity/ its promoters/ directors/ material subsidiaries either by SEBI or by Stock Exchanges - *(including under the Standard Operating Procedures issued by SEBI through various circulars)* under the aforesaid Acts/ Regulations and circulars/ guidelines issued thereunder.
- d) The Company has taken the following actions to comply with the observations made in previous reports:

Sr. No.	Observations of the Practicing Company Secretary in the previous reports	Observations made in the secretarial compliance report for the year ended 31.03.2021	Actions taken by the listed entity, if any	Comments of the Practicing Company Secretary on the actions taken by the listed entity

NA				

**For M Damodaran & Associates LLP**

Place: Chennai

Date:

M. DAMODARAN

Managing Partner

Membership No.: 5837

COP. No.: 5081

FRN: L2019TN006000

PR 1374/2021

ICSI UDIN:

Draft