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Independent Auditors' Report on Standalone Annual Financial Results under Regulation 52 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 for the year ended 31 March 2020

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF NORTHERN ARC CAPITAL LIMITED

Report on the audit of the Standalone Annual Financial Results

Opinion

We have audited the accompanying standalone annual financial results of Northern Arc Capital Limited (hereinafter referred to as the "Company") for the year ended 31 March 2020, attached herewith, being submitted by the Company pursuant to the requirement of Regulation 52 of the Securities Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended ("Listing Regulations").

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone annual financial results:

- are presented in accordance with the requirements of Regulation 52 of the Listing Regulations in this regard; and
- give a true and fair view in conformity with the recognition and measurement principles laid down in the applicable Indian Accounting Standards, and other accounting principles generally accepted in India, of the net profit and other comprehensive income and other financial information for the year ended 31 March 2020.

Basis for Opinion

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

B.S.R. & Co. LLP, a company incorporated in India
Registration No. 2484228 (2019) LLPIN
B.S.R. & Co. LLP is a member of the Institute of Chartered Accountants of India
with LLP Registration No. AAB-2019-012
with effect from 30.09.2019

Registered Office
B.S.R. & Co. LLP
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Page 3 of 4

Auditor's Responsibilities for the Audit of the Standalone Annual Financial Results

Our objectives are to obtain reasonable assurance about whether the standalone annual financial results as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual standalone financial results.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the standalone annual financial results, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under Section 143(3)(i) of the Act, we are also responsible for expressing our opinion through a separate report on the complete set of standalone financial statements on whether the Company has adequate internal financial controls with reference to financial statements in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures in the standalone annual financial results made by the Management and Board of Directors.
- Conclude on the appropriateness of the Management and Board of Directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the appropriateness of this assumption. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the standalone annual financial results or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the standalone annual financial results, including the disclosures, and whether the standalone annual financial results represent the underlying transactions and events in a manner that achieves fair presentation.

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Page 2 of 4

Emphasis of Matter

As more fully described in Note 5 to the standalone annual financial results, in respect of accounts overdue but standard as at 29 February 2020 where moratorium benefits have been granted, the staging of those accounts as at 31 March 2020 is based on the days past due status as on 29 February 2020, in accordance with Reserve bank of India COVID-19 Regulatory Package.

Further, the extent of impact of the COVID - 19 pandemic will impact the Company's financial position and performance including the Company's estimates of impairment of loans and fair valuation of investments, are dependent on future developments, which are highly uncertain.

Our opinion is not modified in respect of this matter.

Management's and Board of Directors' Responsibilities for the Annual Financial Results

These standalone annual financial results have been prepared on the basis of the standalone annual financial statements.

The Company's Management and the Board of Directors are responsible for the preparation and presentation of these standalone annual financial results that give a true and fair view of the net profit / loss and other comprehensive income and other financial information in accordance with the recognition and measurement principles laid down in Indian Accounting Standards prescribed under Section 133 of the Act and other accounting principles generally accepted in India and in compliance with Regulation 52 of the Listing Regulations. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring accuracy and completeness of the accounting records, relevant to the preparation and presentation of the standalone annual financial results that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the standalone annual financial results, the Management and the Board of Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.



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Page 4 of 4

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

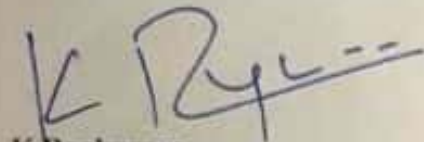
Other Matters

The standalone annual financial results include the results for the half year ended 31 March 2020 and the corresponding half year ended in the previous year being the balancing figure between the audited figures in respect of the full financial year and the published unaudited year to date figures for the half year ended 30 September 2019 and half year ended 30 September 2018 respectively which were subjected to limited review by us.

for B S R & Co. LLP

Chartered Accountants

Firm's Registration No: 101248W/W-100022



K Raghuram

Partner

Membership No: 211171

UDIN: 20211171AAAABR5309

Place: Chennai

Date : 26 June 2020

Northern Arc Capital Limited
CIN: U65910TN1989PLC017021
Regd. Office: IITM Research Park, Phase I, 10th Floor, Kanagam Village, Taramani, Chennai - 600 113
Statement of Standalone Assets and Liabilities as at 31 March, 2020

(All amounts are in lakhs, except share data and as stated)

Particulars	As at 31 March, 2020 (Audited)	As at 31 March, 2019 (Audited)
ASSETS		
Financial assets		
Cash and cash equivalents	32,485.12	18,285.52
Bank balances other than cash and cash equivalents	7,720.21	5,233.88
Receivables		
-Trade receivables	821.57	1,650.25
Loans	294,597.06	278,805.38
Investments	104,828.13	104,926.98
Other financial assets	1,173.42	988.79
	441,625.51	409,890.80
Non-financial assets		
Current tax assets (net)	3,662.18	1,365.39
Deferred tax assets (net)	360.35	599.67
Other non- financial assets	244.11	413.20
Property, plant and equipment	178.19	67.59
Right of Use asset	1,324.14	-
Intangible assets	831.54	290.99
Intangible assets under development	94.94	342.75
	6,695.45	3,079.59
TOTAL ASSETS	448,320.96	412,970.39
LIABILITIES AND EQUITY		
LIABILITIES		
Financial liabilities		
Derivative financial instruments	-	10.65
Trade payables		
-total outstanding dues of micro and small enterprises	-	-
-total outstanding dues of creditors other than micro and small enterprises	793.17	929.54
Debt securities	86,020.70	124,386.13
Borrowings (Other than debt securities)	206,087.40	166,885.56
Subordinated liabilities	-	1,213.41
Other financial liabilities	4,683.04	3,251.51
	297,584.31	296,676.80
Non-financial liabilities		
Provisions	1,327.09	1,210.72
Other non-financial liabilities	127.68	362.97
	1,454.77	1,573.70
EQUITY		
Equity share capital	8,747.79	7,836.57
Other equity	140,534.09	106,883.32
	149,281.88	114,719.89
TOTAL LIABILITIES AND EQUITY	448,320.96	412,970.39
See accompanying notes to the financial results		



Northern Arc Capital Limited
CIN: U65910TN1989PLC017021
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Standalone Annual Financial Results for the half year and year ended 31 March 2020

(All amounts are in lakhs, except share data and as stated)

Particulars	Half year ended 31 March 2020	Half year ended 31 March 2019 (Refer note 10)	Year to date 31 March 2020	Year to date 31 March 2019
	Audited	Audited	Audited	Audited
Revenue from operations				
Interest income	26,432.06	24,046.04	52,986.97	47,533.90
Fees and commission income	3,012.32	2,437.97	5,060.12	4,933.33
Net gain on fair value changes	1,605.54	3,133.00	1,341.94	3,669.94
Net gain on derecognition of financial instruments	489.38	3.98	489.38	4.72
Total revenue from operations	31,539.30	29,620.99	59,878.41	56,141.89
Other income	132.20	1,582.50	186.49	1,614.42
Total income	31,671.50	31,203.49	60,064.90	57,756.31
Expenses				
Finance costs	15,458.75	15,603.69	30,920.50	30,183.93
Fees and commission expense	1,137.30	611.57	2,289.11	1,154.64
Impairment on financial instruments (refer note 5)	4,532.21	1,884.79	3,523.08	1,444.69
Employee benefits expenses	2,533.35	3,715.84	6,047.37	6,758.72
Depreciation and amortisation expenses	384.73	202.12	671.62	289.80
Other expenses	1,769.48	1,747.55	3,549.39	3,344.22
Total expenses	25,815.82	23,765.56	47,001.07	43,176.00
Profit before tax	5,855.68	7,437.93	13,063.83	14,580.31
Tax expense				
Current tax	1,179.99	2,495.23	3,370.00	5,046.73
Deferred tax	182.71	653.69	731.90	598.03
Profit for the period	4,492.98	4,289.01	8,961.93	8,935.55
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurements of the defined benefit asset/ (liability)	192.09	30.85	54.48	14.07
Income tax relating to items that will not be reclassified to profit or loss	(48.35)	(10.78)	(13.71)	(4.92)
Net other comprehensive income not to be reclassified subsequently to profit or loss	143.74	20.07	40.77	9.15
Items that will be reclassified subsequently to profit or loss				
Fair valuation of investment in debt instruments	(224.41)	379.43	(224.94)	(1,797.59)
Income tax relating to items that will be reclassified to profit or loss	56.53	(132.59)	506.27	628.15
Net other comprehensive income to be reclassified subsequently to profit or loss	(167.88)	246.84	281.33	(1,169.44)
Other comprehensive income for the year, net of income tax	(24.14)	266.91	322.10	(1,160.29)
Total comprehensive income, net of income tax	4,468.84	4,555.92	9,284.03	7,775.26
Earnings per equity share				
Basic (in rupees)	5.21	5.47	10.67	11.40
Diluted (in rupees)	3.44	4.96	7.55	9.84
See accompanying notes to the financial results				



Notes:

- 1 Northern Arc Capital Limited ("the Company") is a Systematically important and non deposit taking Non-Banking Finance Company registered with the Reserve Bank of India ("the RBI").
- 2 The standalone annual financial results for the year ended 31 March, 2020 have been reviewed by the Audit Committee and subsequently approved by the Board of Directors at their respective meetings held on 26 June 2020. The auditors have issued an unmodified opinion on the financial results.
- 3 The above financial results of the Company have been prepared in accordance with Indian Accounting Standards ('Ind AS') notified under the Companies (Indian Accounting Standards) Rules, 2015 as amended from time to time, prescribed under section 133 of the Companies Act 2013 ('the Act') read with relevant rules issued thereunder and the other accounting principles generally accepted in India. Any application guidance/ clarifications/ directions issued by the Reserve Bank of India or other regulators are implemented as and when they are issued/ applicable.
- 4 There are no separate reportable segments in accordance with Ind AS 108 on "Operating Segments" in respect of the Company.
- 5 The outbreak of COVID-19 pandemic and consequent lockdown has severely impacted various activities across the country. The impact of COVID-19 on the economy is uncertain and would also be dependent upon future developments including various measures taken by the Government, Regulator, responses of businesses, consumers etc. Hence, the extent to which COVID-19 pandemic will impact the company's business, cash flows and financial results, is dependent on such future developments, which are highly uncertain. In accordance with the Board of Directors approved moratorium policy read with the Reserve Bank of India (RBI) guidelines dated 27 March 2020 and 17 April 2020 relating to 'COVID-19 –Regulatory Package', the Company has granted moratorium upto three months on the payment of installments falling due between 1 March 2020 and 31 May 2020 on a case to case basis to eligible borrowers in accordance with the Company's policy approved by its Board. Further pursuant to the RBI notification dated 23 May 2020 the moratorium is being extended to eligible borrowers for a further period of three months in accordance with the Company's policy approved by its Board. Having regard to the guidance provided by the RBI and the Institute of Chartered Accountants of India, in the assessment of the Company, extension of such moratorium benefit to borrowers as per the COVID-19 Regulatory Package of the RBI by itself is not considered to result in significant increase in credit risk as per Ind AS 109 - Financial Instruments. The Company continues to recognise interest income during the moratorium period and in the absence of other credit risk indicators, the granting of a moratorium period does not result in accounts becoming past due and automatically triggering Stage 2 or Stage 3 classification criteria. Estimates and associated judgments / assumptions applied in preparation of these financial results including determining the impairment loss allowance, fair valuation of investments and expected future cash inflows/ outflows are based on a combination of historical experience and emerging / forward looking indicators resulting from the pandemic. In addition to the early indicators available during the moratorium period, the Company has also used potential stress on probability of default and exposure at default on the expected credit losses and accordingly recognized an expected credit loss (including write off) of INR 3,523.08 lakhs during the year. This includes an additional impairment overlay provision amounting to INR 2,279.87 lakhs. The Company believes that it has considered all the possible impact of the currently known events arising out of COVID-19 pandemic in the preparation of financial results including financial resources, profitability and liquidity position. However, since the impact assessment of COVID-19 is a continuing process given its uncertainty in nature and duration, this may have corresponding impact in the financial position in future. The Company will continue to monitor any material changes to the future economic conditions.
- 6 Reserves include Statutory Reserves as per Section 45IC of Reserve Bank of India Act 1934, balance in Securities Premium, Capital Redemption Reserve, Employee Stock Option Plan Reserve and retained earnings.
- 7 In terms of the requirement as per RBI notification no. RBI/ 2019/170 DOR (NBFC) CC PD No. 109/22 10.106/2019-20 dated 13 March 2020 on implementation of Indian Accounting Standards. Non Banking Financial Companies (NBFCs) are required to create an impairment reserve for any shortfall in impairment allowances under Ind AS 109 and income recognition asset classification and provisioning (IRACP) norms (including provision on standard assets). The impairment allowances under Ind AS 109 made by the Company exceeds the total provision required under IRACP (including provision on standard assets) as at 31 March 2020 and accordingly, no amount is required to be transferred to impairment reserve.
- 8 The Company has elected to exercise the option permitted under section 115BAA of the Income tax Act, 1961, as introduced by the Taxation laws (Amendment) Ordinance, 2019. Accordingly, the Company has recognised provision for income tax and remeasured its net deferred tax asset at concessional rate for the half year ended 30 September 2019 and continued to apply the concessional tax rate for the year ended 31 March 2020. The impact of above mentioned change has been recognised in the statement of profit and loss for the half year ended 30 September 2019 and has been carried forward for the year ended 31 March 2020.
- 9 Effective 1 April 2019, the Company has adopted Ind AS 116 - Leases and applied it to all lease contracts existing on 1 April 2019 using the modified retrospective method. Based on the same and as permitted under the specific transitional provisions in the standard, the Company is not required to restate the comparative figures. On transition, the adoption of the new standard resulted in recognition of Right-of-use asset and a lease liability.
- 10 The figures for the half year ended 31 March 2020 and corresponding half year ended in the previous year as reported in these Financial Results are the balancing figures between respective audited figures in respect of full financial year and the published year to date figures for the half year ended 30 September 2019 and half year ended 30 September 2018 have not been subjected to audit
- 11 Previous period's figures have been regrouped / reclassified wherever necessary, to conform with the current period presentation.

For and on behalf of the Board of Directors

Place: Chennai
Date: 26 June 2020

Kshama Fernandes
Director & CEO

