

**ADITYA BIRLA**



**FINANCE**

**ADITYA BIRLA FINANCE LIMITED**

ANNUAL REPORT  
2016-17

**ADITYA BIRLA FINANCE LIMITED**  
**REGISTERED OFFICE : Indian Rayon Compound,**  
**Veraval, Dist. Gir Somnath, Gujarat – 362 266**  
**CIN: U65990GJ1991PLC064603**



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## **BOARD OF DIRECTORS**

Mr. B. N. Puranmalka

Mr. Ajay Srinivasan

Mr. Darius J. Kakalia

Mr. Ashwani Puri

Mr. Jitender Balakrishnan

Ms. Alka Bharucha

Mr. Baldev Raj Gupta (appointed w.e.f. July 28, 2016)

## **KEY MANAGERIAL PERSONNEL**

Mr. Rakesh Singh	Chief Executive Officer
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Mr. Sekhar Mosur	Manager
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Mr. Sanjay Miranka	Chief Financial Officer
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Mr. Ankur Shah	Company Secretary
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## **AUDITORS**

S R Batliboi & Co. LLP, Mumbai

## **DEBENTURE TRUSTEES**

Vistra ITCL (India) Ltd.  
Plot C-22, G- Block,  
Bandra Kurla Complex, Bandra (E),  
Mumbai – 400 052  
Ph: +91 22 2653 3333

## ADITYA BIRLA FINANCE LIMITED

Regd. Off.: Indian Rayon Compound, Veraval, Gujarat – 362 266

### Directors' Report

Dear Shareholders,

We are pleased to present the 26<sup>th</sup> Annual Report, along with the audited annual accounts of your Company for the financial year ended March 31, 2017 ("FY 17").

#### 1. Financial Performance Summary

The summarized standalone results of your Company prepared as per Indian GAAP are given in the table below.

Particulars	Year ended 31 <sup>st</sup> March		% Change over previous year
	2017	2016	
Total Income	3,426.00	2,486.60	38%
Total Expenses	2,580.00	1,852.65	39%
Profit before depreciation / amortisation and tax	846.00	633.96	33%
<b>Less:</b> Depreciation / amortization	14.69	7.60	93%
Profit Before Tax	831.31	626.36	33%
<b>Less:</b> Tax expenses	246.46	217.75	13%
Profit After Tax	584.86	408.60	43%
Balance of profit/ loss brought from the previous year	666.12	540.88	23%
Profit Before Appropriations	1,250.97	949.49	32%
Transfer to Special Reserve	117.00	81.80	43%
Proposed Dividend on Cumulative Preference Shares	0.81	0.82	-1%
Corporate Dividend Tax	0.16	0.17	-3%
Loss on account of merger of MGLRCL*	-	200.63 <sup>#</sup>	-
Dividend on Preference Shares on account of merger of MGLRCL	-	0.04	-
Balance of Profit carried to Balance Sheet	1,133.00	666.12	70%

\* MGLRCL – Madura Garments Lifestyle Retail Company Limited

<sup>#</sup> As a result of Merger of MGLRCL with the Company, Preference Shares of Rs 425 Crores held by MGLRCL in the Company have been cancelled. Securities Premium of Rs 426.42 Crores and deficit in Profit and Loss Account of Rs 200.62 Crores of MGLRCL have been considered as securities premium and deficit of the Company. The Company has issued Rs 53.46 Crores equity shares and Rs 10 Crores preference shares to shareholders of MGLRCL. The difference between the net book value after adjusting reserves of MGLRCL and the equity and preference shares issued to shareholders of MGLRCL amounting to Rs 136.61 Crores have been transferred to General Reserve. The net impact of merger is increase in short term loans and advances by Rs 0.86 Crores.

## **2. Business Performance**

### **a) Key Highlights**

During the year under review, there was a growth in total income to Rs 3,426.00 Crore as against Rs 2,486.60 Crore in the previous year, a 38% increase. Correspondingly, the total expenses (including depreciation, provisions and write off) increased to Rs 2,594.69 Crore from Rs 1,860.25 Crore in the previous year, a 39% increase primarily on account of increase in the depreciation, finance cost as a result of increase in portfolio, employee benefit expenses on account of induction of new personnel, etc. The profit before tax increased by 33% to Rs 831.31 crore from Rs 626.36 crore and as a result of better tax management the profit after tax increased by 43% to Rs 584.86 crore from Rs 408.60 crore.

### **b) Business**

Your Company operates through the following business divisions' viz. Corporate Finance Group (CFG), Mortgages, Project & Structured Finance Group (PSFG), Capital Market Group (CMG), unsecured lending (business loans / personal loans), digital lending and in the wealth management business post the merger of the wealth division of Aditya Birla Money Mart Limited (ABMML) with the Company. The portfolio is well diversified across various sectors and products.

Your Company registered excellent growth across its business segments. CFG managed to cross the Rs 10,000 Crore milestone this year registering a year on year growth of 48%. Its portfolio grew from Rs 6,917 Crore at the beginning of the year to Rs 10,219 Crore as on March 31, 2017. The Mortgages business has shown a growth of 17% during the year with its portfolio growing from Rs 6,593 Crore as on March 31, 2016 to Rs 7,700 Crore as on March 31, 2017. The PSFG portfolio also crossed the Rs 10,000 Crore milestone this year with a growth of 50% from Rs 7,336 Crore as on March 31, 2016 to Rs 10,968 Crore on March 31, 2017. The DCM & Syndication team mobilized funds of close to Rs 3,400 Crore (previous year Rs 1,700 Crore) with fee earnings of approximately Rs 17 Crore as of March 2017 as against Rs 11 Crore as on March 31, 2016. CMG registered a growth of 10 % on a year-on-year basis with the portfolio growing from Rs 4,407 Crore as on March 31, 2016 to Rs 4,847 Crore as on March 31, 2017. The newly launched Unsecured Lending business which had achieved a book size of Rs 22 crore since three months of its launch in FY 16, closed FY 17 with a book size of Rs 370 crore.

Your Company launched its Digital Lending business in January 2017 to offer unsecured term loans to SMEs (sole proprietors, partnership firms and companies) and self-employed individuals for business use. The aim is to build a granular, retail business with a focus on business loans to SMEs. Unsecured term loans offered are of a relatively smaller ticket size (<INR 10 lakhs on an average) and complement the existing secured as well as unsecured SME and corporate lending proposition of the Company. The digital business has been built on end-to-end cloud based technology. The consumer journey is entirely online with digital decision making backed by rigorous and 360° credit assessment, providing applicants with real time loan offers and sanctions. With the performance of unsecured lending in India steadily improving over the past 5 years and also with data now available with credit bureaus, and via certified digital vendors, risk to lending can be controlled more effectively.

During the year under review the Wealth management business of ABMML got merged with our Company (further details are provided in pt. no. 5 below). The appointed date for the merger was April 1, 2016. The wealth management business had Assets under

management (AuM) of Rs 13,518 Crore as on March 31, 2017, a growth of 58% over Rs 8,577 Crore AuM as on March 31, 2016.

### c) Portfolio quality

The credit environment continued to be challenging during the year with the added challenges from demonetization. Prudent client selection, robust risk management framework and a focus on secured and diversified business has helped your Company maintain a high portfolio quality. The Gross NPA was improved at 0.48% amounting to Rs 157.18 crore (previous year 0.63% amounting to Rs 157.17 crore) and the Net NPA was 0.22% amounting to Rs 70.69 crore (previous year 0.22% amounting to Rs 55.73 crore) which is amongst the lowest in the industry.

### d) Treasury

Your Company primarily sources funds through Term loans, Non-Convertible Debentures (NCDs), Sub-ordinated Debt and Commercial Paper (CP). The outstanding debt as on March 31, 2017 was Rs 28,951 Crore as compared to Rs 21,457 Crore as on March 31, 2016, an increase of 35%.

During the year under review, your Company focused on enhancing its borrowing through private placement of NCDs and issued NCDs aggregating to Rs 4,576.90 Crore, which were listed on National Stock Exchange. Issuance of Tier II NCDs, aggregating to Rs 637.50 crore, has strengthened the Capital Adequacy.

ALM was within the norms stipulated by the Reserve Bank of India (RBI).

Your Company continues to be rated AA+ from three agencies viz. ICRA, CARE and India Ratings for its long-term debt and sub-debt. The short-term rating limit continues to be A1+. The credit rating enjoyed by your Company as on March 31, 2017 is as follows:

Credit Rating Agency	Instruments	Ratings
ICRA	Commercial Paper	A1+
ICRA	Non-Convertible Debentures	AA+
ICRA	Sub-Debt	AA+
CARE	Sub-Debt	AA+
CARE	Non-Convertible Debentures	AA+
India Ratings	Non-Convertible Debentures	AA+
India Ratings	Sub-Debt	AA+

Your Company has not issued any debentures under rating provided by CARE and any sub-debt under rating provided by India Ratings.

## 3. Reserves

Section 45-IC of the Reserve Bank of India Act, 1934 requires Non-Banking Finance Companies to transfer an amount not less than 20% of its net profit to Special Reserve Fund. Accordingly, the Company transferred Rs 117 Crore to the Special Reserve Fund.

## 4. Dividend

The Board recommends dividend at 8% coupon rate to the holders of Cumulative Preference Shares and dividend at 0.01% coupon rate to the holders of Cumulative Preference Shares Compulsory Convertible upto the date of their conversion into equity

shares of the Company, as final dividend. With a view to conserve its resources, the Board did not recommend any dividend on the Equity shares (NIL in previous year).

The total cash outflow on account of dividend amounts to Rs 96.97 Lakh (inclusive of Rs 16.40 Lakh as Dividend Distribution Tax) as against Rs 98.57 Lakh (inclusive of Rs 16.82 Lakh as Dividend Distribution Tax) during the previous year.

There were no sums liable to be transferred to the Investor Education Protection Fund.

## 5. Share Capital

During the year under review, your Company had a capital infusion of Rs 699.99 Crore through issue of 4.60 Crore equity shares of Rs.10/- each at a premium of Rs.142/- per share on rights basis to the existing shareholders of your Company as detailed below:

Sr. No.	Date of Allotment	No. of Equity Shares	Face value per Equity Share (in Rs.)	Premium Amount per Equity Share (in Rs.)	Total amount (Rs in Crore)
1	29.07.2016	92,10,000	10	142	139.99
2	08.03.2017	46,00,000	10	142	69.92
3	24.03.2017	1,31,50,000	10	142	199.88
4	27.03.2017	1,34,86,800	10	142	205.00
5	30.03.2017	56,05,260	10	142	85.20
	<b>Total</b>	<b>4,60,52,060</b>			<b>699.99</b>

The said equity shares were issued mainly to strengthen the capital structure of the Company and improve its capital adequacy ratio.

During the year under review, 17.50 crore - 0.01% Compulsorily Convertible Cumulative Preference shares (CCCPS) of the face value of Rs 10/- each issued to Aditya Birla Financial Services Limited, Holding Company were converted into 1,15,13,158 fully paid up equity shares of the Company of the face value of Rs 10/- each at Rs 152/- each (including premium) per share being the fair value in accordance with the valuation report dated July 25, 2016 from M/s. Bansi S Mehta & Co., Chartered Accountants.

Your Company had filed a petition to the Hon'ble High Court of Judicature at Ahmedabad on October 1, 2016 to obtain sanction to the Scheme of Arrangement, inter alia, proposing demerger of the Wealth Management Undertaking of Aditya Birla Money Mart Limited (hereinafter referred to as "ABMML") and merger of the same with the Company. The appointed date of the said Arrangement is April 1, 2016 and has become effective from December 31, 2016. The Hon'ble High Court of Judicature at Ahmedabad on November 24, 2016 approved the said Scheme of Arrangement of merger of Wealth Management Undertaking of ABMML with your Company. Both the companies are ultimately wholly owned subsidiaries of Aditya Birla Nuvo Limited.

As a result of the said Arrangement, your Company had to issue and allot equity shares in the ratio of 3 (Three) equity shares in the Company of face value Rs 10 (Rupees Ten Only) each credited as fully paid-up to each shareholder of ABMML for every 8 (Eight) equity shares of face value Rs.10 (Rupees Ten Only) each fully paid up held by such shareholder in ABMML and 1 (One) equity share in the Company of face value Rs 10 (Rupees Ten Only) each credited as fully paid-up to each preference shareholder of ABMML for every 36 (Thirty Six) 0.01% redeemable Non-convertible cumulative preference shares of face value Rs.10 (Rupees Ten Only) each fully paid up, on the same

terms and conditions. Your Company had issued 1,02,77,778 equity shares to its Holding Company for the said Arrangement.

No shares with differential voting rights were issued by the Company during the year.

## **6. Corporate Governance Report**

Your Directors reaffirm their commitment to the corporate governance standards to the extent they are applicable to your Company. Corporate Governance Report forming part of Directors' Report for the year under review is attached separately as Annexure 1.

## **7. Subsidiary**

Your Company doesn't have any subsidiary company.

## **8. Public Deposits**

Your Company has not accepted or renewed any deposit as covered under Chapter V of the Act read with the Companies (Acceptance of Deposit) Rules, 2014, as amended, from its members or the public during the year under review.

## **9. Management Discussion and Analysis**

Management Discussion and Analysis Report forming part of Directors' Report is attached separately as Annexure 2.

## **10. Conservation of energy and technology absorption, foreign exchange earnings and outgo**

The details pertaining to conservation of energy and technology absorption are not applicable to your Company due to the very nature of industry in which it operates.

During the year under review, there were no foreign exchange earnings. Your Company had spent Rs 55.24 Lakh (previous year Rs 50.72 Lakh) as expenditure in foreign exchange.

## **11. Particulars of Employees**

The information on remuneration as per the provisions of Rule 5 (1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is provided in Annexure 3. In accordance with the provisions of Section 197 read with Rule 5 (2) to (3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the statement containing particulars of employees including their names and other particulars of employees are to be set out in the Directors Report as an addendum thereto.

However, in terms of the provisions of Section 197 read with Rule 5 (2) and (3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the details of employees of the Company, will be provided upon request. In terms of Section 136 of the Act, the Report and Accounts are being sent to the Members and others entitled thereto, excluding the information on employees' particulars which is available for inspection by the Members at the Registered Office of the Company during business hours on working days of the Company up to the date of the ensuing Annual General Meeting. If any Member is interested in obtaining a copy thereof, such Member may write to the Company Secretary in this regard.

## **12. Directors / Key Managerial Personnel**

### **A. Directors**

The Board of Directors comprises of 7 (seven) Directors out of which 5 (five) are Independent Directors (including 1 Woman Director).

All Independent Directors have given declarations that they meet the criteria of independence as laid down under Section 149(6) of the Companies Act, 2013. Your Company has received requisite disclosures and undertakings from all the Directors in compliance with the provisions of the Companies Act, 2013 (including any statutory modification(s) or re-enactment(s) thereof, for time being in force) and the Reserve Bank of India directions.

At the Board meeting held on July 28, 2016, Mr. Baldev Raj Gupta (DIN no.: 00020066) was appointed as an Additional Director (Independent) of the Company. The said appointment was duly approved at the meeting of the Nomination and Remuneration Committee held on July 28, 2016.

In accordance with the provisions of Section 152 of the Companies Act, 2013 (including any statutory modification(s) or re-enactment(s) thereof, for time being in force), Mr. Ajay Srinivasan (DIN: 00121181), retires by rotation at the ensuing Annual General Meeting (AGM) and being eligible, has offered himself for re-appointment.

Mr. D J Kakalia (DIN No.: 00029159), Mr. Jitender Balakrishnan (DIN No.: 00028320) and Mr. Ashwani Puri (DIN No.: 00160662), Directors, were appointed as Independent Directors at the extraordinary general meeting held on March 9, 2015, for a term of three years ending on March 8, 2018. The said directors have given their consent for being reappointed as Independent directors for a further term of five years with effect from March 9, 2018 up till March 8, 2023.

Your Directors proposes the appointment of Mr. Baldev Raj Gupta (DIN no.: 00020066) and reappointment of Mr. Ajay Srinivasan (DIN: 00121181), Mr. D J Kakalia (DIN No.: 00029159), Mr. Jitender Balakrishnan (DIN No.: 00028320) and Mr. Ashwani Puri (DIN No.: 00160662). Resolutions seeking their appointment / reappointment has been included in the notice of the ensuing AGM.

### **(i) ANNUAL EVALUATION BY THE BOARD OF ITS OWN PERFORMANCE AND THAT OF ITS COMMITTEES AND INDIVIDUAL DIRECTORS**

The evaluation framework for assessing the performance of Directors of your Company comprises of assessment of their contributions at the meetings, strategic perspective or inputs regarding the growth and performance of your Company, among others. Pursuant to the provisions of the Act and the Listing Regulations, the Directors have carried out the annual performance evaluation of the Board, Independent Directors, Non-executive Directors, Committees and the Chairman of the Board. The manner of evaluation is provided in the Corporate Governance Report.

### **(ii) Board Remuneration Policy**

The Board, on the recommendation of the Nomination & Remuneration Committee, has formulated a policy for selection and appointment of Directors, Senior Management and their remuneration. The said policy is attached as annexure 4.



### **(iii) Managerial Remuneration**

The details on remuneration to Directors/Manager are disclosed in the Corporate Governance Report.

### **B. Key Managerial Personnel (KMPs)**

The Board of Directors at their meeting held on July 28, 2016 had considered revision in remuneration of Mr. Mosur w.e.f. 1st July, 2016 and his variable pay for FY 2015-16 as per the terms of his employment and remuneration cycle followed by the Company. The details on remuneration to KMPs are disclosed in the relevant annexures.

## **13. Board Meetings**

The information pertaining to the meetings of the Board of Directors and its Committees and Corporate Social Responsibility (CSR) are forming part of the Corporate Governance Report of the Company.

## **14. Audit Committee and its composition**

Our Audit Committee comprises of 3 (three) members as on date viz. Mr. Ajay Srinivasan, Mr. Ashwani Puri and Mr. D J Kakalia. Out of the above members, two members viz. Mr. Ashwani Puri and Mr. D J Kakalia are Independent Directors. Mr. Ashwani Puri is the Chairman of the Audit Committee. Additional details about the Committee are provided in the Corporate Governance report. During the year under review, the Board of Directors of your Company has accepted all the recommendations as put forth by the Audit Committee.

## **15. Vigil Mechanism/ Whistle Blower policy:**

Pursuant to the provisions of Section 177(9) & (10) of the Companies Act, 2013, Company has a Whistle Blower Policy in place for providing a platform to all the employees, vendors and customers to report any suspected or confirmed incident of fraud/misconduct through any of the determined reporting protocols. The Company has Vigil Mechanism provided for in the said Whistle Blower policy.

## **16. Directors' Responsibility Statement**

Pursuant to Section 134(5) of the Companies Act, 2013 ("the Act"), your Directors confirm that, to the best of their knowledge and belief:

- in the preparation of annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;
- appropriate accounting policies have been selected and applied consistently and such judgments and estimates are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March 31, 2017 and of the profit of the Company for the year ended on that date;
- proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- the attached Statement of Accounts for the financial year ended March 31, 2017 have been prepared on a "going concern basis";

- that there were no significant deviations which could be construed as material weakness in the existing control framework and that the Company has laid down internal financial controls which were adequate and operating effectively;
- that there are proper processes and systems to ensure compliance of all laws applicable to the Company and that such systems were adequate and operating effectively.

## **17. Auditors and Auditors' Report**

S.R. Batliboi & Co. LLP, Chartered Accountants (Membership no. 301003E/E300005) holds office as Statutory Auditors of the Company upto the ensuing Annual General Meeting and have offered themselves for re-appointment. A certificate from them has been received to the effect that their appointment as Statutory Auditors of the Company, if made, would be within the limits prescribed under Section 139 (2) of the Companies Act, 2013 (including any statutory modification(s) or re-enactment(s) thereof, for time being in force). The auditors have further certified that they have subjected themselves for the peer review process of the Institute of Chartered Accountants of India (ICAI) and they hold a valid certificate issued by the "Peer Review Board" of ICAI.

The Board, on the recommendation of the Audit Committee, proposes the re-appointment of S.R. Batliboi & Co. LLP, as the Statutory Auditors of your Company for the year 2017 - 18. The said appointment of the Statutory Auditors will be subject to the approval by the shareholders at their annual general meeting.

The other observations, if any, made by the Auditors of the Company in their report read with relevant notes to the Accounts are self-explanatory and therefore do not call for any further comments.

## **18. IMPLEMENTATION OF IND AS**

The Ministry of Corporate Affairs (MCA), Government of India has notified the Companies (Indian Accounting Standards) Rules, 2015 on February 16, 2015. Further, a press release was issued by the MCA on January 18, 2016 outlining the roadmap for implementation of Indian Accounting Standards (IND AS) converged with International Financial Reporting Standards (IFRS). RBI has advised the NBFCs to comply with the Indian Accounting Standards (IND AS) for financial statements for accounting periods beginning from April 1, 2018 onwards, with comparatives for the periods ending March 31, 2018. Your Company is well placed to meet this requirement within the stipulated time frame.

The accounts of the Company are consolidated by Aditya Birla Nuvo Limited (ABNL) the ultimate holding Company. As IND AS is applicable to ABNL, the Company has prepared its account under IND AS and Indian Generally Accepted Accounting Principles (IGAAP). The accounts presented in this report are prepared as per IGAAP.

## **19. Internal Audit framework**

Your Company has in place a robust internal audit framework to monitor the efficacy of internal controls with the objective of providing to the Audit Committee and the Board of Directors, an independent, objective and reasonable assurance on the adequacy and effectiveness of the organization's risk management, control and governance processes.

The framework is commensurate with the nature of the business and the size of its operations. Internal auditing of the Company involves the utilization of a systematic methodology for analyzing business processes or organizational problems and