

Aditya Birla Finance Ltd.

(A subsidiary of Aditya Birla Capital Ltd.)



**ADITYA BIRLA
CAPITAL**

PROTECTING INVESTING FINANCING ADVISING

ADITYA BIRLA FINANCE LIMITED

ANNUAL REPORT
2018-19

Aditya Birla Finance Ltd.

(A subsidiary of Aditya Birla Capital Ltd.)



PROTECTING INVESTING FINANCING ADVISING

ADITYA BIRLA FINANCE LIMITED

Registered Office: Indian Rayon Compound, Veraval,

Dist. Gir Somnath, Gujarat – 362 266

CIN: U65990GJ1991PLC064603

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

Ms. Vijayalakshmi Iyer (resigned w.e.f. November 16, 2018)

Mr. Subhash Chandra Bhargava (appointed w.e.f. January 25, 2019)

KEY MANAGERIAL PERSONNEL

Mr. Rakesh Singh

Chief Executive Officer

Mr. Sekhar Mosur

Manager

Mr. Sanjay Miranka

Chief Financial Officer

Mr. Ankur Shah

Company Secretary

AUDITORS

S R Batliboi & Co. LLP, Mumbai
14th Floor, The Ruby Mills
Senapati Bapat Marg, Dadar (West)
Mumbai 400028
Ph: +91 22 6192 0000

DEBENTURE TRUSTEE

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

Management Discussion & Analysis

Overview of global economy

After strong growth that lasted almost two years, the global economy started to lose momentum from the fourth quarter of 2017. After global growth peaking at about 4% in 2017 and remaining strong at 3.8% in the first half of 2018, growth dropped to 3.2% in the second half of the 2018. The reasons for the downturn were possibly a combination of trade tensions, tightness in financial conditions, as well as idiosyncratic factors impacting large economies. The growth decline in China was a combination of tightening of credit and rise in US-China trade tensions; the Euro area economy lost momentum due to weakening of consumer and business confidence, emissions standards impacting the auto industry and decline in external demand.

Trade tensions remained in the headlines for much of the year and increasingly took a toll on global trade, financial markets, business confidence and investment. The US Federal Reserve raised rates four times in the face of strong US growth. Financial markets' conditions worsened in the second half of 2018 and flows to EMs as well as EM currencies were impacted as US yields surged ahead, before reversing from November. Crude prices remained volatile, peaking in October (Brent crude at \$86/barrel) and bottoming in December (\$50/barrel).

Global economy is projected to grow at a slower pace of 3.5% in 2019 with it being vulnerable to downside risks.

Overview of Indian Economy

The Indian economy started FY19 on a high with a strong 8.0% y-o-y growth in Q1. However, the economy entered a period of slower growth thereafter, with growth declining in the following quarters. CSO Advance Estimates forecast FY19 growth rate at 7.0% compared to 7.2% y-o-y growth in FY18. While industrial growth picked in the year led by strong growth in construction, agricultural and services sector growth moderated. The reasons for the slowdown can be attributed to global weakness, tight financial conditions, elevated real interest rates, NBFC stress, stress in the informal sector, general slowdown in consumption and stress in credit markets.

Rural consumption appeared to have slowed compared to urban consumption, probably due to low agricultural prices and liquidity pressures, and rural wages growth also remained muted. Reports of stress in rural India has already elicited policy response in the FY20 interim budget which should help to ameliorate the stress in FY20. Private investment is showing initial signs of pick-up, although still at a nascent stage, after a long hiatus. Capacity utilization is approaching levels where we should expect a more broad-based pick-up in private capital formation if demand conditions do not deteriorate. India witnessed strong FII outflows in the beginning of the fiscal in sync with generalised EM sell-off, which recovered towards the end of year with net outflow of US\$2 bn. Net FDI flows were decent at US\$34.6 bn. There were healthy inflows into MFs with asset under management rising by 11.4% y-o-y.

Inflation remained well contained in the year with average inflation in FY19 at 3.4%, lower than RBI's target of 4%. Lower inflation was mainly caused by sharp decline in food inflation which remained in the negative zone for 5 months and averaged a low 0.7% in the year. While core inflation was elevated, it also started moderating towards the end of the year. RBI increased rates twice, in June and August 2018, before reversing its tightening. Bond yields rose in the first half of the fiscal, peaking in September and declining thereafter.

India's external account remained under pressure with a balance of payments deficit in the first three quarters, due to both a rise in crude prices as well as FII outflows from the Indian

markets. The Indian Rupee remained under pressure from the beginning of the fiscal and declined through H1, bottoming out in October before retracing some of its decline.

This year witnessed the default on debt obligations by IL&FS, and liquidity shortage in the NBFC Sector, as risk aversion increased leading to consequent slowdown in rollover of CPs and increase in rate. However, the situation improved, for primary issuances of CP and interest rates in primary CP market softened thereafter. The overall issuances of CPs declined only marginally to Rs 12,383 billion in H2:2018-19 from Rs 12,447 billion in H2:2017-18.

Industry structure and developments

NBFCs play an important role in the Indian financial system, complementing banks by leveraging on their nimble operations and tailor made products. Their role in promoting financial inclusion and catering to the needs of small businesses and specialized segments gives an additional dimension to their existence.

Total assets in NBFC sector grew by 15% in FY17-18 and 14% in FY19 upto Sep'18, buoyed by strong credit expansion and access to equity capital and liquidity in the system. However, in the aftermath of default by IL&FS and subsequent liquidity squeeze, NBFC's were faced with increased cost of borrowing and some have had funding challenges. The situation was serious for small players than large players with strong parentage. This led to a slower growth in credit offtake in the second half of the year. However, NBFCs share of overall financial system credit estimated at 18% in FY18, is expected to remain constant despite moderation in credit growth.

As NBFCs continue to expand their role in the financial system, regulations relating to governing them are being increasingly harmonized with those of banks to establish the right balance for financial stability while encouraging them to focus and grow in specialized areas.

Key developments during FY2019:

1. Legal Entity Identifier (LEI) for Non-individual Market Participants: Measure to improve the quality and accuracy of financial data systems for better risk management post Global Financial Crisis
2. Securitization Transactions of NBFCs: to encourage NBFCs to securitize/ assign their eligible assets, the minimum holding period (MHP) for securitization of loans by NBFCs with original maturity above 5 years has been relaxed effective November 29, 2018 for a period of six months, subject to certain conditions.
3. Convergence of Priority Sector Lending (PSL) guidelines for housing loans with Affordable Housing definition under Pradhan Mantri Awas Yojana
4. Permitting Core Investment Companies (CICs) to invest in Infrastructure Investment Trusts (InvITs) as Sponsors to promote infrastructure development. Exposures of core investment companies to InvITs are limited to their holdings as sponsors
5. Co-origination of loans by Banks and Non-Banking Financial Companies (NBFCs) for lending to the priority sector
6. Ombudsman Scheme for Digital Transactions: Covering services provided by non-bank entities falling under Reserve Bank's regulatory jurisdiction
7. Relaxation of External Commercial Borrowing (ECB) framework for Resolution Applicants
8. Risk Weights for rated exposures to Non-Banking Financial Companies (NBFCs): To facilitate flow of credit to well-rated NBFCs, exposures of banks to all NBFCs, excluding CICs, would be risk-weighted as per the ratings

assigned by the accredited rating agencies, in a manner similar to that for corporates

9. Harmonization of NBFC Categories: Major categories of NBFCs engaged in credit intermediation, viz., Asset Finance Companies (AFC), Loan Companies, and Investment Companies, will be merged into a single category. Proposed merger of existing categories would reduce to a large extent the complexities arising from multiple categories and also provide the NBFCs greater flexibility in their operations
10. Licensing of Non-Banking Financial Companies (NBFCs) as Authorised Dealer Category II, to improve the ease of undertaking forex transactions by increasing the last-mile touch points of regulated entities to sell foreign exchange for non-trade current account transactions
11. Extension of NBFC Ombudsman Scheme to cover Non-Deposit taking Non-Banking Financial Companies (NBFCs)
12. Alignment of Government owned NBFCs with Private NBFCs in terms of adherence to all regulations on income recognition, provisioning norms, corporate governance, conduct of business regulations, deposit directions and reserve funds, etc.

Opportunities and Threats

Opportunities

- Faster Turn Around Time, based on Digital information processing and use of Artificial Intelligence and Machine Learning for credit assessment
- Well-diversified book, products catering to all customer segments (institutional, SMEs, and Retail customers), and across a wide range of collateral – opportunity for broad-based growth across customer segment
- Under-penetration of financial services / products in India
- Brand strength of the Aditya Birla Group
- Introduction of array of new products in MSME, Retail and micro SME to meet the varied requirements of customers
- Institutional segment: Tailor made and structured obligations specific to customer requirements

Threats

- Aggressive competition from PSU banks coming out of PCA and private sector banks
- Aggressive pricing competition from both banks and NBFCs, impacting NBFC industry profitability as a whole

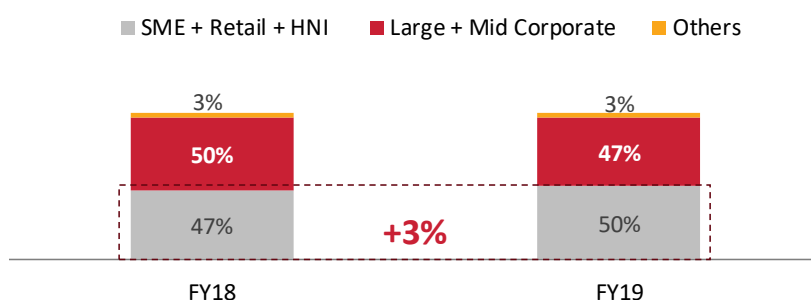
Business Overview and Performance

Headquartered in Mumbai, Aditya Birla Finance Limited (“the Company / ABFL”) ranks among the top five largest private diversified NBFCs in India based on AUM as of March 31, 2017 (Source: CRISIL). It offers end-to-end lending, financing and wealth management solutions to a diverse set of customers. The Company caters to the following diverse set of customers:

- Large Corporates
- Mid Corporates
- SME
- Ultra HNI

- Retail / HNI / Business Owner / Micro Enterprises

The overall loan portfolio of the Company grew y-o-y by 20% from Rs 43,242 Crore in FY18 to Rs 51,714 Crore in FY19. Wealth management business assets under advice (AuA) has grown to Rs 15,859 Crore. Your Company continues to focus on diversification across customers and product categories with a focus on SME and retail lending. Diversification of our customer segments has a significant benefit as it allows us to pick and choose segments that work on a risk-return basis. The retail, SME and HNI segments continue to grow faster (by 27% y-o-y) and constituted ~50% of the portfolio from 47% in the previous year.



Customer segment wise portfolio growth as compared to previous year is given below:

(Rs in Crore)			
Customer Segment	March 2019	March 2018	%
Large Corporate	15,376	14,426	7%
Mid Corporate	9,050	7,281	24%
SME	13,771	11,368	21%
Ultra HNI	4,841	3,919	24%
Retail	6,916	4,815	44%
Others	1,761	1,432	23%
Total	51,714	43,242	20%
Wealth management (AuA)	15,859	14,911	6%

i) Large Corporate Segment:

ABFL serves large corporates across sectors such as manufacturing, infrastructure, hospitality, education, healthcare etc. It caters to this segment with term loans as well as customized and innovative products such as structured finance. ABFL also provides project finance to large corporates. ABFL further offers debt syndication services. ABFL helps the large corporate clients' treasuries by offering third party investment products such as mutual funds, commercial papers, NCDs and alternate assets. Through its dedicated DCM desk, ABFL offers innovative structures and products to its large corporate clients.

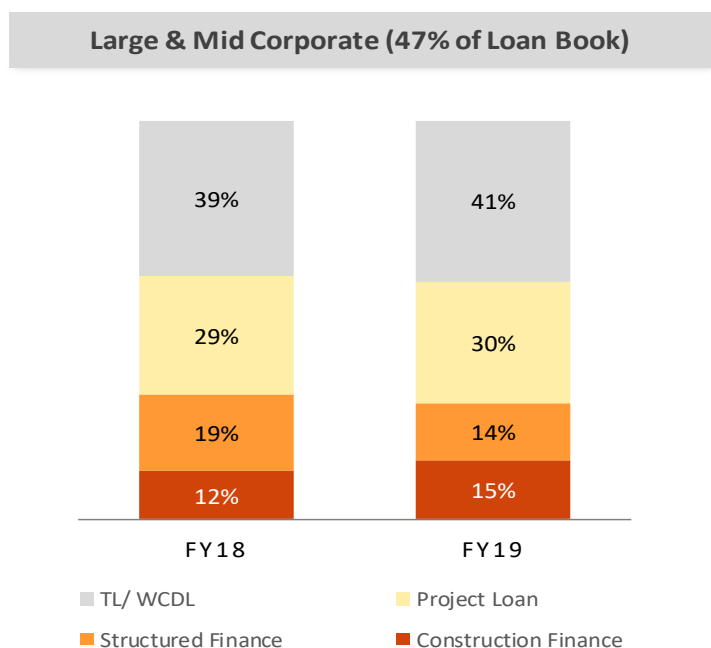
The portfolio base for this segment was at Rs 14,426 Crore at the beginning of the year. With a net addition of Rs 950 Crore of assets, it closed the year at Rs 15,376 Crore, thereby registering 7% growth in FY18-19. This segment's contribution to the total loan book reduced from 33% in FY18 to 30% in FY19. This is in line with the Company's objective to diversify and improve granularity of its loan book. We continue to see opportunities in this space but believe the segment will grow slower than some others.

ii) Mid Corporates Segment:

Mid-corporate clients seek customized and innovative solutions to meet their long term working capital requirements, short term business loans, acquisition finance and other investment requirements, apart from the conventional balance sheet loans. ABFL caters to this segment with products and solutions like term loan, structured finance and construction finance. ABFL also offers debt syndication services by underwriting and syndicating loan transactions. Further, ABFL helps the treasuries of mid-corporate companies by offering third party investment products such as mutual funds, commercial papers, NCDs and alternate assets through its wealth management services. Further, through a dedicated DCM desk, ABFL offers innovative structures and products to this customer segment.

This segment registered a healthy growth rate of 24% during the year with portfolio growing from Rs 7,281 Crore as on March 31, 2018 to Rs 9,050 Crore as on March 31, 2019. This segment contributed 17% to the loan book in FY19.

Large and mid-sized corporate portfolio constitutes ~47% of the overall book as on 31st March, 2019.



The project loan financing segment funds projects with ring fenced cash flows. In the project loan portfolio, ~96% of exposures are towards operational projects and balance 4% projects have recourse to pedigreed sponsors. This segment has an average ticket size of about Rs 100 Crore.

In the structured finance portfolio, our loans are typically structured with recourse to cash flows of the obligor and sponsor entities with adequate security coverage. The average ticket size is ~Rs 90 Crore for this segment.

In construction finance, ABFL deals with top category borrowers having a significant track record.

Term loans and working capital demand loan to large and mid-corporates constitute ~19% of the overall book as on March 31, 2019. This product has an average ticket size of Rs 55 Crore. These loans are typically backed by business cash flows, along with collaterals and are extended to diversified industries.

iii) SME Segment:

ABFL caters to the needs of this segment arising from business financing requirements through solutions like term loans and LAP. ABFL also caters to demand arising out of working capital requirements through its solutions like vendor financing and channel financing. ABFL offers products like Lease rental discounting (LRD) to enable clients to finance business expansion and asset creation by monetizing and unlocking value of their property with rent from lessees becoming the source of repayment.

With the Indian economy expected to emerge as one of the leading economies in the world, major impetus is being given to the SME sector which acts as the backbone of the Indian economy. ABFL reaches out to this segment through relationship managers to meet their financing needs.

This segment registered a strong growth rate of 21% to achieve a closing portfolio of Rs 13,771 Crore as on March 31, 2019 from Rs 11,368 Crore as on March 31, 2018. This segment contributed 27% to total loan book of the company as on March 31, 2019. Our overall average ticket size for the SME book is ~Rs 7 Crore. Term loans and working capital demand loans in SME book are backed by cash flows and security where we have a security cover average of ~1.7 times.

iv) Ultra HNI Segment:

This segment caters to ultra-high net worth individuals including promoters of companies. ABFL offers funding against financial securities to meet needs to expand and grow by starting new operations, entering new markets and introducing new products or increasing stake in their companies through warrants conversion, subscribing to rights issues, equity infusion in other business etc. Company provides solutions in the form of LAP, LAS, IPO financing to allow this segment to raise funds quickly against security of shares, mutual fund units, bonds, or a combination thereof. It also offers debt syndication services by underwriting and syndicating loan transactions along with wealth management solutions through distribution of third party investment products.

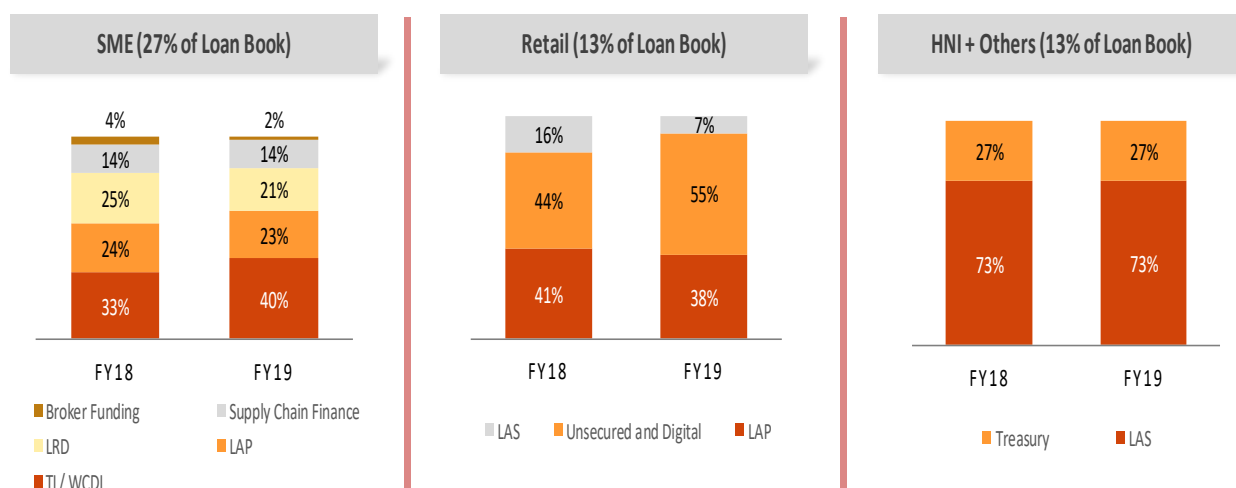
The HNI loan book grew at 24% during the year to reach Rs 4,841 Crore as on March 31, 2019 from Rs 3,919 Crore as on March 31, 2018. This segment contributed 9% to total loan book of the Company as on March 31, 2019.

v) Retail Segment:

ABFL caters to retail / HNI / business owner / micro enterprise segments to fulfil their business, personal and investment needs of customers and to help them meet their expansion plans, asset acquisition and other contingencies or any unexpected liquidity crunch. It has built an entire spectrum of lending, financing and wealth management solutions including (i) loans against property ("LAP"), (ii) unsecured personal loans, (iii) unsecured business loans, (iv) loan against securities ("LAS") which can be availed against marketable securities and (v) ESOP financing to employees of listed corporates with flexible repayment options. ABFL also offers wealth management solutions to such customers through distribution of third party products.

The Company has created a unique online financing platform with lead acquisition, assessment and servicing performed through an all-digital route. This platform, called ABFLDirect.com, caters to demand from MSME and retail customers. Digital Lending has further enhanced its capability to offer unique lending solutions to customers of strategic partners. It has developed a plug-and-play ecosystem which allows integration across customer journeys on partner platforms and is capable of real-time loan disbursements.

This segment had a healthy growth rate of 44%, from Rs 4,815 Crore as on March 31, 2018 to Rs 6,916 Crore as on March 31, 2019. This segment's contribution expanded from 11% in FY18 to 13% in FY19. In the retail book, our average ticket size is about Rs 6 Lakh.



Wealth management

AuA under Wealth Management has grown at a rate of 6% from Rs 14,911 Crore as on March 31, 2018 to Rs 15,859 Crore as on March 31, 2019. The wealth management division of the Company operates through 3 business segments:

- **Wealth Management**

Wealth Management segment (WMS) caters to the requirements of Individual HNI's and UHNI's and aims to provide customized investment options to meet their long term goals.

- **Business Partner Group**

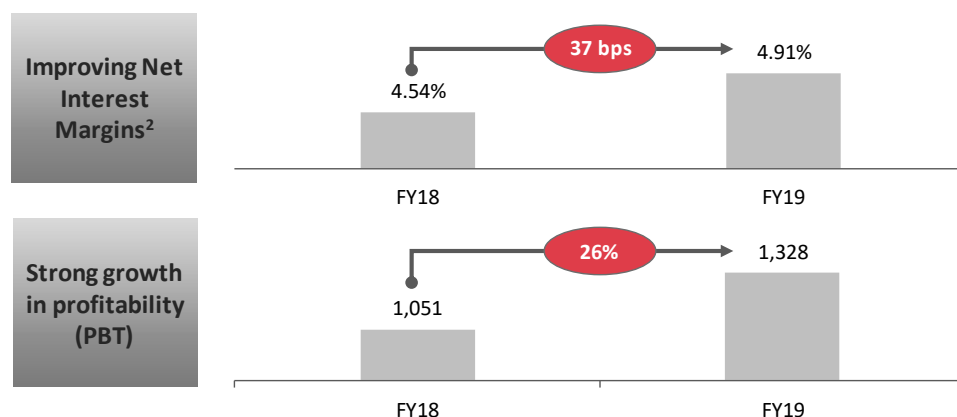
The Business Partner Group (BPG) caters to the IFA's and Channel Partners who work as agents for the organization to sell and advise 3rd party financial products. Business partner works to boost sales, decrease time to market and provide access to competitive markets without the infrastructure cost.

- **Corporate and Treasury Services**

The Corporate and Treasury Services (CTS) caters to the requirements of SMEs, Mid and Large Corporate and aims to provide customized Investment solutions to meet their short and long term investment requirements. This business works to develop and execute thoughtful investment solutions for the diverse corporate client base through our research and advisory.

ABFL continued to deliver strong performance across various parameters. The net interest margin expanded by 37 bps to 4.91% in FY 19. This reflects the increased proportion of higher margin segments in the portfolio. Margin expansion also reflects the ability to pass on the

increased cost of borrowings that the entire industry faced during the year. The EBT grew by 26% y-o-y to Rs 1,328 Crore in FY 19. Return on average equity¹ and return on average assets held steady at 13.7% and 1.9%, respectively. These return numbers are to some extent impacted by the investments being made in digital, branches and the feet-on-street as well as lower wealth management fee income.



1 Based on monthly compounding of annualised ROE

2 NIM including fees

The growth in the loan book has been accompanied by strong credit appraisal and risk management practices. ABFL continues to primarily focus on cash flow-based underwriting. The overall book has more than 80% secured book as on 31st March, 2019.

STAGE-WISE ASSETS AND ECL PROVISIONING (%)

Asset Quality	FY 18	FY 19	
Gross Stage 1 & 2 (Rs in Crore)	99.09	98.51	
		Excl. IL&FS	IL&FS
Gross Stage 3 (in %)	0.91	1.05	0.44
Less: ECL Provision (in %)	0.49	0.50	0.12
Net Stage 3 (in %)	0.42	0.55	0.32
Provision Coverage Ratio (in %)	54	48	27

ABFL believes that diversification is a key method of risk mitigation. Its exposures are diversified across sectors, customer segment and products.

ABFL had a Gross Stage 3 ECL (excluding IL&FS) at 1.05% as on 31st March, 2019. ABFL has an overall exposure of Rs 220 Crore to four IL&FS entities categorised as Stage 3. We have already made provision of Rs 59 Crore under ECL for these IL&FS exposures, which is ~27% of total exposure to this group.

In addition, and along expected lines, the Stage 3 credit loss differs between secured and unsecured loans as 'loss given default' in the case of unsecured loans is generally higher than that experienced in secured loans. Our unsecured retail portfolio can be broadly categorised into two segments, namely, (a) traditional method of lending (i.e.) credit assessed by experienced resources backed by personal meetings and (b) lending based on data analytics and machine learning which target the micro lending segments (e.g. digital channel). The unsecured retail portfolio accounts for less than 8% of our total loan portfolio and products within this segment are generally priced at significantly higher levels than the rest of the portfolio, reflecting the expected higher credit risk and the expected higher Stage 3 provisions.

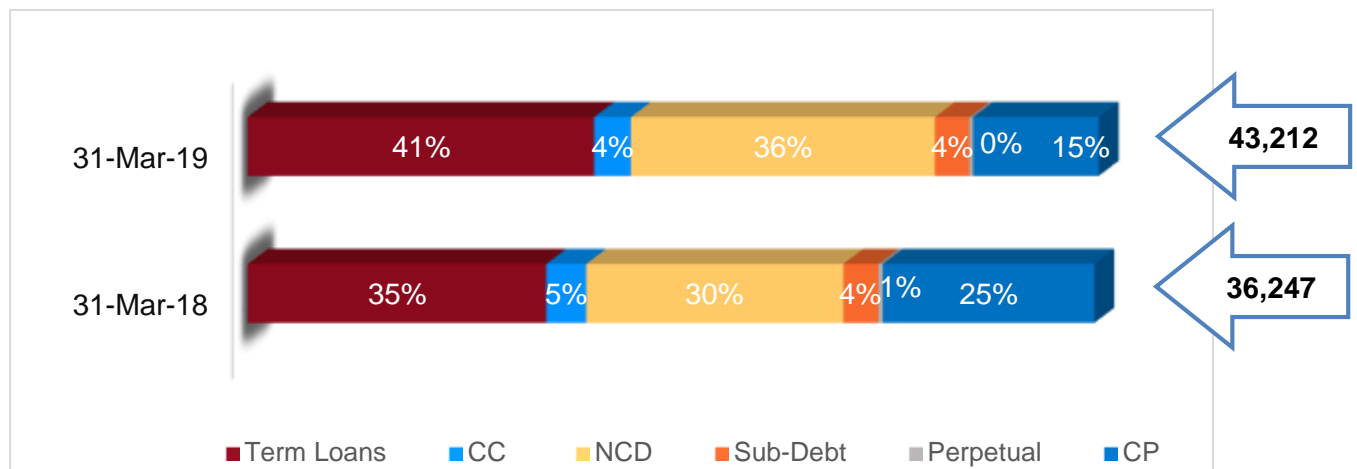
Within the unsecured retail portfolio, the lending based on algorithmic credit assessment has higher customer pricing and higher Stage 3 provisions levels than that of loans acquired through the traditional method.

Liability Management

Borrowing Profile

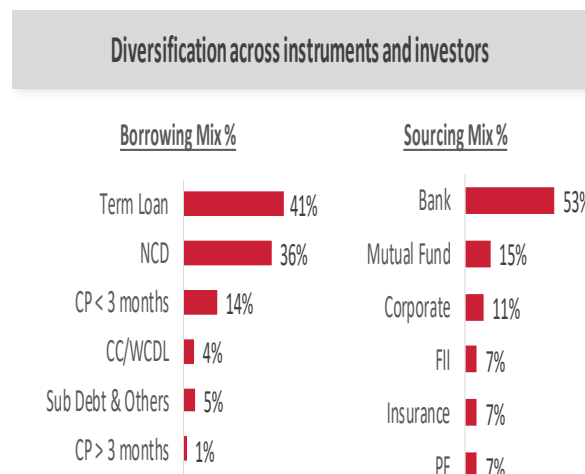
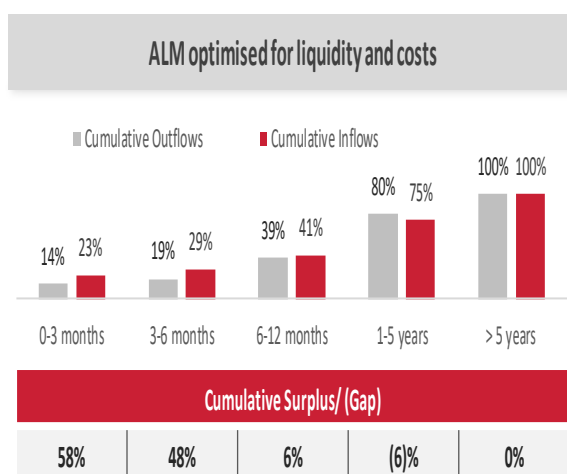
On the liabilities side, ABFL has a diversified borrowings mix, resulting in a competitive cost of funds. Hence, it has been able to optimise borrowing cost in a hardening interest rate environment.

During the year, in view of the overall liquidity scenario, your Company focused on long term borrowings and the same is reflected in its borrowing mix. The same is illustrated below:



Diversification

This year your Company raised long term funds through Rupee External Commercial Borrowing, thus further diversifying its liability instrument profile with a new financial instrument. An aggregate of Rs 1,000 Crore was raised through this instrument. The number of investors increased from 315 investors on March 31, 2018 to 597 investors on March 31, 2019. ABFL is further looking to diversify its borrowing sources.



Rating

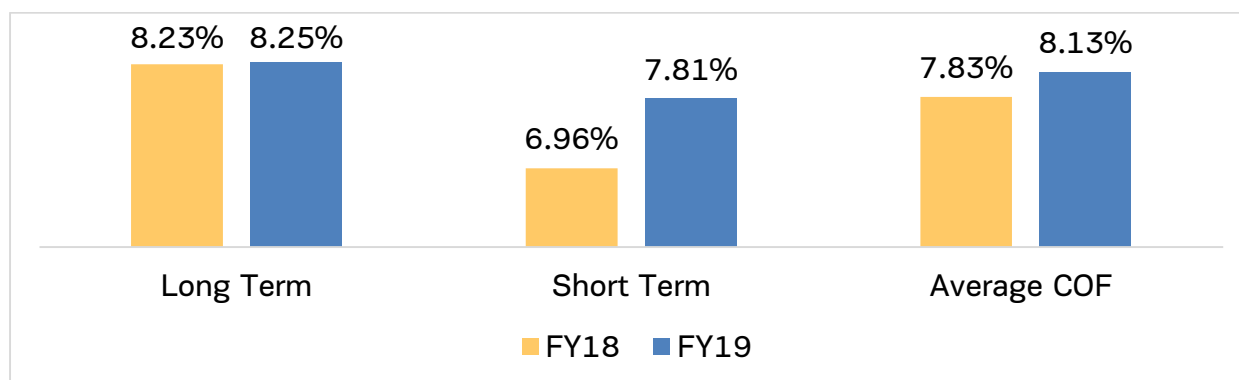
ICRA and CARE have upgraded your Company's long-term debt rating to AAA from AA+. India Ratings continues with the long-term debt rating of AAA.

Liquidity

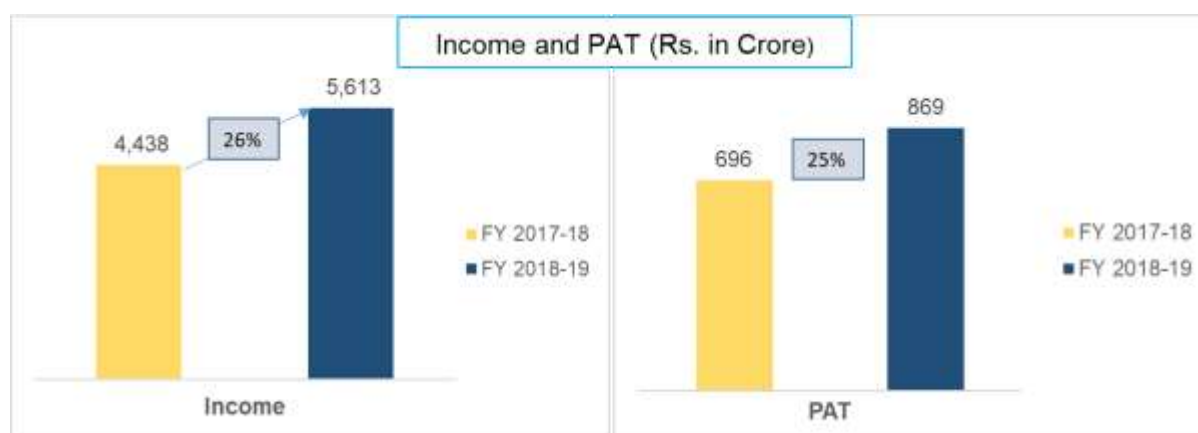
In the aftermath of default on debt obligations by IL&FS, concerns around asset liability mismatches and subsequent liquidity squeeze lead to NBFCs facing increased cost of borrowing as well as funding challenges. With these challenges in the forefront, your Company raised Rs 16,257 Crore of long term debt, during the year, of which, Rs 7,378 Crore was during the time of crisis, in Q3. ABFL's Assets Liability Management (ALM) is optimised for both liquidity and cost. As on 31st March, 2019, we have cumulative surplus up-to a one-year time frame from an ALM perspective. The Company is well placed to meet its future growth requirements.

Cost of Debt

Given the liquidity issues, a near freeze in the funding market and overall rise in interest rate, an increase in cost of funds was inevitable. During the year, the average cost of debt of your Company, increased by 30 bps to 8.13% from 7.83% in the previous year. This is primarily on account of increase in cost of short term borrowings coupled with change in borrowing mix (higher composition of long term debt).



Financial Performance



During the year under review, revenues of the Company grew by 26% to Rs 5,613 Crore, driven by the growth in the lending book. ABFL's EBT rose by 26% from Rs 1,051 Crore to Rs 1,328 Crore. Net profit after tax grew by 25% from Rs 696 Crore to Rs 869 Crore.

KEY FINANCIALS (Rs in Crore)

Key Performance Parameters	FY 18 (PY)	FY 19 (CY)
Lending Book	43,242	51,714
Average Yield	11.29%	11.98%
Interest Cost/Average Lending Book	6.75%	7.07%
Net Interest Margin (incl. Fee Income)	4.54%	4.91%
Opex	576	802
Cost to Income Ratio	31%	34%
Cost to Income Ratio (excl. Wealth)	29%	32%
Credit Provisioning	215	207
Profit Before Tax	1,051	1,328
Profit After Tax	696	869
Net Worth	6,229	7,417

Capital Adequacy Ratio (CAR)

As on March 31, 2019 the Capital Adequacy Ratio for the Company was 17.45% (previous year 17.90%) against a minimum of 15% as required by RBI norms. The Tier I capital of the Company was 14.33% (previous year 14.62%) and Tier II capital was 3.13% (previous year 3.29%).

The Networth of the Company as at March 31, 2019 was Rs 7,416 Crore as against Rs 6,229 Crore in the previous year. Additional capital aggregating to Rs 325 Crore was infused to meet the growth requirements of the Company. Total borrowing outstanding as at March 31, 2019 was Rs 43,212 Crore (previous year Rs 36,247 Crore). The Company has not raised any fixed deposits from the public.

NBFC Outlook

With concerns surrounding the sector due to debt defaults, liquidity squeeze and asset liability mismatches, a structural shift in liability and liquidity management of NBFCs is anticipated. Also, diversification in liability profile is expected to come under focus.

NBFCs have steadily expanded their share of total credit in the country. They have developed innovative and customised financial products and solutions that are delivered efficiently to fulfil customer needs. The sector with its inherent strength in terms of innovative products to meet consumer requirements, faster turnaround, nimble operations, reach and stronger relationships is expected to grow, though more selectively than before.

In FY20, NBFCs could face tighter liquidity conditions and higher funding costs but the well positioned entities in this sector will continue to grow. This, combined with aggressive competition from banks and between NBFCs, could impact the strong growth trajectory of NBFCs. India Ratings expects NBFCs growth rate will be slower at 15 per cent in FY20, against 18 per cent in FY16, FY17 and FY18. However, we believe that there is significant opportunity for NBFCs to target unaddressed customer segments in SME and retail customers, and that could provide significant growth impetus for NBFCs.

ABFL, through its customised lending and financing solutions, is well equipped to grow profitably. ABFL sees opportunity across the spectrum of its customers, out of which SME is probably the largest. Besides asset quality, effective implementation of technology to enhance reach, experience, productivity and broad-basing its liability mix will remain the key focus areas.

Outlook on domestic growth

The Indian economy is currently going through a soft patch though RBI has forecasted FY20 growth at 7.2%. We believe that growth may remain soft for some more time before moving up. Moreover, recovery will be contingent on policy priorities of the new government, quick easing of liquidity and credit stress faced by certain sections of the economy and a benign global environment.

Risks and concerns

The Company's risk philosophy involves developing and maintaining a healthy portfolio within its risk appetite and the regulatory framework. While it is exposed to various types of risks, the most important among them are credit risk, market risk (which includes liquidity risk and price risk) and operational risk. The measurement, monitoring and management of risks remains a key focus area for the Company.

Your Company's risk management strategy is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring. The policies and procedures established for this purpose are continuously benchmarked against best practices in the market.

The primary responsibility for risk mitigations lies with the management of the Company with Board of Directors having an oversight on the risks assumed by the Company.

For credit risk, distinct policies and processes are in place, separately for each business unit. Management of credit risk is carried out through credit policy definition, portfolio diversification, appraisal and approval processes, internal ratings, post sanction monitoring, operations control, fraud control, collection processes and remedial management procedures. For each product, programs defining customer segments, underwriting standards, security structures, etc. are specified to ensure consistency of credit patterns. All the cases are approved by Credit Committees formulated at different levels with respective approval limits.

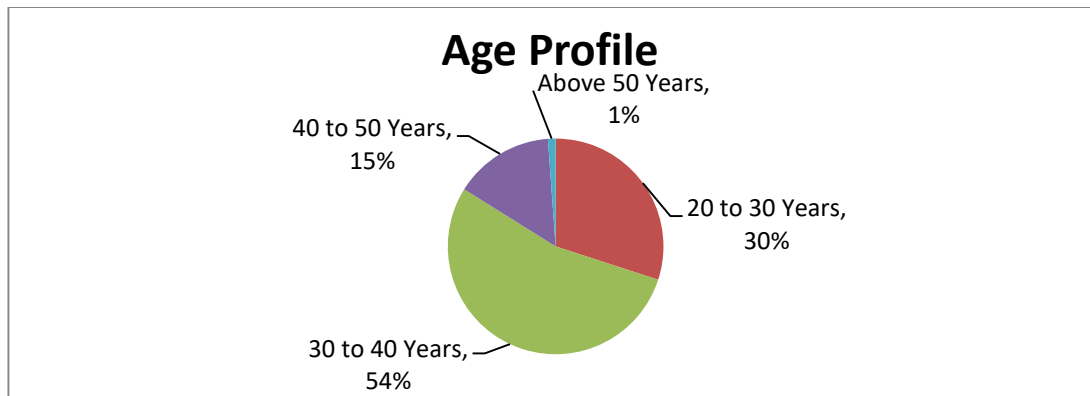
Internal control systems and their adequacy

The Company has adequate internal controls, systems and procedures across all lines of business and support functions, commensurate with the complexity and nature of its business operations. The controls ensure that all assets are safeguarded and protected against loss from unauthorized use or disposition, and that the transactions are authorized, recorded and reported correctly. The Company's management functions undergo an independent internal audit basis the scope and calendar approved by the Audit Committee of the Board. The Company's controls over its business operations are managed effectively by instituting well defined policies and procedures and adequate supervision and reviews to ensure that the internal control systems are adequate to protect the Company against any loss or misuse of the Company's assets.

Material development in Human resources (HR), including number of people employed

As on March 31, 2019 your Company had 1,718 employees. Your Company has cordial relations with its employees and commends their commitment, dedication and competence shown in all aspects of business. With the growing requirements of the Company, HR has taken various initiatives to ensure not only the retention of the employees but also their growth and development. The Employee Value Proposition of the Company has been identified as “WORLD OF OPPORTUNITIES” and is manifested through a structured induction process, robust talent management process & systems– and structured training & development programs across all levels along with a thorough rewards & recognition framework to celebrate valued behavior and competencies.

The age profile of the employees of your Company is as under:



Your Company’s vision is to be a leader and role model. The Human Resource function is aligned to this vision and ensures that it partners the businesses in realising it. In the process, the Company has created a range of HR Best practices to engage its colleagues better:

Recruitment & Selection – PI (Predictive Index) tool is a pre-recruitment tool that serves as a guide to employee behaviour and is administered to all new recruits. This has been introduced to ensure quality talent intake by evaluating the candidature through psychometric testing.

Induction & On boarding – ‘Accelerate’ is the Company’s on-boarding program that spans 6 months. It was conceptualized and implemented with the aim of introducing a comprehensive process which would not only help employees engage better with the organisation, but would also help them align to its strategic objectives, goals and culture. ‘Accelerate’ engages with new employees at regular intervals to ensure that all their requirements are met and they can be integrated in the organisation quickly. New employees receive a pre-joining mailer, a welcome call and a personalised Welcome Kit. Regular feedback is mandated — at the end of 30, 90 and 180 days. Manager feedback is sought after 120 days, based on which appropriate training is planned for the employee to equip him or her with the right skills to excel at the job. The Accelerate programme focuses on:

- Providing **clarity of job role** right at the beginning, thereby removing ambiguity in terms of goals, expectations and KRAs
- Ensuring **seamless transition** into the Company culture
- Liaising with the Learning and Development team for training needs identified by the feedback process
- **Highlighting critical cases** requiring immediate attention, thereby enabling corrective action to be taken and controlling early attrition

“Prarambh” is the employee induction program. Over the two days of classroom new joiners are given a brief overview of the organisation. The new joiner is taken through the values and behaviours that drive the organisation.

Training – At ABFL, equal focus is levied on building functional and behavioural / leadership capabilities of the employees to meet the organizational & employee needs. Employees are encouraged to own their learning journey through an array of initiatives like, MDP, Propel, K-cart, etc.

MDP is a tool that helps employees to chart their own learning needs based on the gaps identified. Propel is a functional competency mapping tool where employees can map the relevant competencies to their roles and the same is reviewed by their managers. ABFL is one of the few to have conceptualized and effectively implemented the functional competency framework. K-cart is the knowledge management portal at ABFL. This platform has been created with a purpose of dissemination of information across all levels.

Evolve – the ABFL Learning Academy is an aggregator of all learning initiatives. All learning interventions planned are collated under EVOLVE. An annual and monthly calendar of training programs, interventions, online modules is circulated to all employees.

Based on the organizations need focused initiatives were launched; Lead to Succeed, stepping into Leadership and GROW Workshops were delivered across locations develop managerial effectiveness across levels. TARA was a unique women leadership development initiative with senior women leaders mentoring young women within the organization.

Employee Engagement – Your Company has a strong focus on employee engagement, borne out by the Engagement Score of 87% in the Employee Engagement Survey, VIBES 2016, conducted biennially.

Employee Wellness – A number of key initiatives help our employees achieve a healthy work-life balance – Annual Health Check-up, ABC and ABG Sports day and participation in the Tata Marathon and Pinkathon (for women). To ensure organisational wellness, a Group level initiative called ‘ABC Wellness’ has regular communications on Health Tip of the Day to all our employees.

Talent Management and Leadership Program – To capitalise on the vast opportunities that have opened up in the Indian financial sector, we aim to strengthen the leadership talent to drive the business to the next level. Talent management process at ABFL is a very structured process. Every year key talent is identified basis performance and potential and are taken through the Leadership Talent Development Program (LTDP). To be future ready, Aditya Birla Capital’s Leadership Talent Development Program (LTDP) is striving to build a reservoir of leadership talent. The LTDP intervention readies our internal talent to take on larger leadership roles and, when the opportunity arises, to take over the baton. LTDP cuts across 3 levels (Senior, Middle, Junior management). It has several learning components which includes intensive workshops, assessments, coaching and ongoing personal development plans.

With ABFL being on a growth trajectory, there is a huge influx of new and young talent, this led to a unique addition to the Talent Management process - Emerging talent with the need to spot talent early and keep focus on their development also keeping talent engaged.

Talent Councils are being conducted at regular intervals to take a close look at key talent and decisions are taken to move key talent within business unit or across ABC. Talent councils are conducted at Apex, business and functional levels.

Succession planning is conducted across functions to develop succession plans for critical roles in leadership positions. Time in Role is also monitored closely and details discussions on career paths conducted.

Rewards & Recognition – At your Company, reward and recognition programmes have been instituted to recognise exceptional employee performance. The rewards and recognition platform - UDAAN includes on the spot, quarterly and annual awards. Regular contests are also announced to encourage employees to push their performance levels. Your Company has also introduced UDAAN for Associate, a platform to instantly recognise efforts of our off-roll employees.

For our sales teams, sales incentives plans are communicated at the beginning of the year. Other functions are on a variable pay structure that links to achievements of goals. The compensation structure is innovative and the variable pay is linked to the achievement of individual, functional and organisation performance.

People Planning & Budgeting

Every year your Company undertakes an HR planning exercise in alignment with the organisation's strategic plan for the year. The HR Plan is based on a thorough analysis of employee productivity, business projections, training needs, business environment, thus aligning the Human Resources function with your Company's mission.

Cautionary Statement

Statements in this Management Discussion and Analysis describing the Company's plan and objectives, financial conditions, business prospects, estimates and expectations may be forward looking statements which are based on the current belief, assumptions, projections of the Directors and the management of the Company. These statements do not guarantee the future performance and are subject to known and unknown risks, uncertainties and other factors some of which may be beyond the control of the Company. Actual results may differ substantially or materially from those expressed or implied. Important developments that could affect the Company's operations include unavailability of finance at competitive rates, significant changes in political and economic environment in India or key markets abroad, tax laws, litigations, exchange rate fluctuations, interest and other costs.

Board's Report

Dear Members,

The Board of Directors of Aditya Birla Finance Limited ("your Company" or "the Company" or "ABFL") is pleased to present the Twenty Eighth Annual Report and the Audited Financial Statements of your Company for the financial year ended March 31, 2019 ("financial year").

FINANCIAL SUMMARY AND HIGHLIGHTS

The highlights of the Financial Results prepared as per Indian Accounting Standards (IND AS) are as under:

Particulars	Year ended 31 st March		% Change over previous year
	2019	2018	
Total Income	5,613	4,438	26%
Less: Total Expenses	4,285	3,387	26%
Profit before Tax	1,328	1,051	26%
Less: Tax expenses	459	355	29%
Profit after Tax	869	696	25%
Other comprehensive income (net of tax)	-	3	
Total comprehensive income (net of tax)	869	699	24%
Transfer to Special Reserve	174	146	19%

The above figures are extracted from the Financial Statements prepared in accordance with Indian Accounting Standards ("IND AS") including the Accounting Standards as notified under Sections 129 and 133 of the Companies Act, 2013 ("the Act") read with the Companies (Accounts) Rules, 2014 and other relevant provisions of the Act.

The detailed Financial Statements as stated above are available on the Company's website at www.abfl.adityabirlacapital.com.

ACCOUNTING METHOD

Implementation of Indian Accounting Standards (IND AS) converged with International Financial Reporting Standards (IFRS)

Reserve Bank of India (RBI) has advised 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 period ending March 31, 2018. Accordingly, the annual financial statements are prepared as per Indian Accounting Standards.

BUSINESS PERFORMANCE

a) Key Highlights

During the year under review, there was a growth in total income to Rs 5,613 Crore as against Rs 4,438 Crore in the previous year, a 26% increase. The total finance costs increased by 26% and the total expenses (including employee benefit expenses, depreciation, other expenses and impairment but excluding interest cost) increased to Rs 1,009 Crore from Rs 791 Crore in the previous year, a 28% increase primarily on account

of increase in the employee benefit expenses resulting from induction of new personnel, brokerage and commission, legal and professional expenses, rent, etc. The profit before tax increased by 26% to Rs 1,328 Crore from Rs 1,051 Crore and the profit after tax increased by 25% to Rs 869 Crore from Rs 696 Crore.

b) Business

Your Company offers end-to-end lending, financing and wealth management solutions to Retail, HNI, Ultra HNI, Micro SME, SME and corporate customers as indicated in the table below. The portfolio is well diversified across various sectors and products.

Retail / HNI / Business Owner / Micro Enterprises	Ultra HNI	SME	Mid Corporates	Large Corporates
Loan Against Property (LAP)	Loan Against Property (LAP)	Term Loan	Term Loan	Term Loan
Unsecured Personal Loans	Promoter Funding	Working Capital Demand Loan (WC DL)	Working Capital Demand Loan (WC DL)	Structured Finance
Unsecured Business Loans	Loan against Securities (LAS)	Loan against Property (LAP)	Structured Finance	Project Finance
Loan Against Securities (LAS)	IPO Financing	Lease Rental Discounting (LRD)	Construction Finance	Fixed Income Investment
IPO Financing	Debt Syndication	Vendor Financing	Debt Syndication	Debt syndication
ESOP Financing	Wealth Management	Channel Financing	Debt Capital Market (DCM) Desk	Debt Capital Market (DCM) Desk
Digital Lending		Broker Funding	Treasury Services	Treasury Services
Wealth Management			Wealth Management	Wealth Management

The detailed customer segment wise performance results are provided in the Management Discussion & Analysis report.

c) Portfolio quality

A few reasons that enabled your Company to maintain a high quality Portfolio are prudent client selection, robust risk management framework, strict underwriting process and a focus on secured and diversified business. The Gross NPA is at 1.19% amounting to Rs 604.28 Crore (previous year 0.91% amounting to Rs 385.73 Crore) and the Net NPA at 0.65% amounting to Rs 328.92 Crore (previous year 0.42% amounting to Rs 178.40 Crore), is amongst the lowest in the industry. The gross NPA has increased due to the newer businesses showing some stress, which is receiving priority attention to ensure these are in line with the Industry Trends.

Exposure to IL&FS group

As of March 31, 2019, your Company has aggregate exposure of Rs 220.64 crore to four SPVs of IL&FS group categorized as amber or red [as submitted by IL&FS to NCLAT]. The said exposures have been classified by your Company under Stage III carrying ECL provision of Rs 58.91 crore, under IND AS.

The exposure mentioned above excludes exposure of Rs 169.75 Crore to one SPV of IL&FS group categorized as green. The account is regular in debt servicing.

Expected Credit Loss (ECL):

The Ministry of corporate affairs (MCA), Government of India had notified the companies (Indian Accounting standards), Rules 2015 on 16 Feb 2015. The said rules are made mandatory for NBFCs from 1st April 2018, however, has been deferred for banks till RBI issues a mandate in accordance with BASEL accords

Expected Credit losses are defined as: “the difference between the contractual cash flow due to the entity and cash flow that entity expect to receive”. This difference is discounted either at original effective interest rate or any other appropriate adjusted discounted rate. Financial assets on which ECL will apply includes – (1) debtors (2) loans given to group companies / inter corporate loans (3) any debt investments (4) loan commitments (5) financial guarantee contracts, (6) lease receivables, etc.

What was the need of a new credit impaired model?

Credit loss provisioning approach has now moved from incurred to expected loss model. An entity needs to understand the significance of credit risk and its movement since its initial recognition. The new model will ensure (a) timely recognition of ECLs (b) assessment of significant increase in credit risk which will provide better disclosure (c) ascertainment of better business ratios

There are certain differences in calculation of provision between I GAAP and IND AS frameworks, which are tabulated below

- I. I GAAP works on incurred loss recognition, whereas IND AS works on expected credit loss
- II. Standard provision of 0.40% is applied for all standard assets under I GAAP, however under IND AS there are two stages that are created. In Stage 1 on initial recognition of the asset– PD for 12 months is applied, Stage 2 - Where Significant Increase in Credit Risk (SICR) has been observed and hence, lifetime PD is applied. Effectively, this could be more or less than the standard applied in I GAAP basis the portfolio performance/ rating
- III. Exposure where dues are not paid for than 90 days, are classified as Stage 3, which corresponds to classifications of such exposures as Non-Performing under IGAAP. While under IGAAP exposures classified as Non-Performing would have attracted provision of 10% of the dues. Under IND AS, exposures where dues are not paid for more than 90 days, default has occurred hence PD is considered at 100%. LGD is estimated basis the future cash flows arising out of business and liquidation of collateral and the balance is recognized as ECL.

The results under ECL are as follows:

ECL Stage 3 book was at Rs 752 Crore and Stage 3 Provisions were at Rs 313 Crore (Previous year ECL Stage 3 book was at Rs 386 Crore and Stage 3 Provisions was at Rs 207 Crore).

d) Treasury

Your Company primarily sources funds through Banks (Term loans and cash credit) and Debt markets (Non-Convertible Debentures (NCDs), Sub-ordinated Debt, perpetual debt and Commercial Paper (CP)). The outstanding debt as on March 31, 2019 was Rs 43,212 Crore as compared to Rs 36,247 Crore as on March 31, 2018.

During the year, your Company availed Term Loans of Rs 8,625 Crore from banks. Your Company also did its maiden Rupee External Commercial Borrowing of Rs 1,000 Crore from a multilateral agency - International Finance Corporation, Washington. This was a 7 year floating rate loan. Further, the Company raised Rs 6,383 Crore through NCDs. This was a 7 year floating rate loan. Further, the Company raised Rs 6,383 Crore through NCDs. This includes the maiden issue of Rs 244 Crore of Principal Protected Market Linked Debentures. We raised a total of Rs 527 Crore through this instrument. Your Company also raised Tier II (Sub-ordinated Debt) bonds of Rs 250 Crore which has strengthened its Capital Adequacy. Asset Liability Management is managed carefully and was within the norms stipulated by the RBI.

ICRA and CARE have upgraded your Company's long-term debt rating to AAA from AA+. India Ratings continues with the long-term debt rating of AAA.

The credit rating enjoyed by your Company from various rating agencies as on March 31, 2019 is detailed below:

Credit Rating Agency	Instruments	Ratings
India Ratings	Non-Convertible Debentures	AAA
	Principal Protected Market Linked Debentures	AAA emr
	Sub-Debt	AAA
	Perpetual Debt	AA+
	Commercial Paper	A1+
	Fund based limits from Banks	AAA/A1+
ICRA	Non-Convertible Debentures	AAA
	Retail NCD Programme	AAA
	Sub-Debt	AAA
	Perpetual Debt	AA+
	Unsecured NCD	AAA
	Commercial Paper	A1+
	Fund based limits from Banks	AAA/A1+
CARE	Sub-Debt	AAA

MATERIAL EVENTS DURING THE YEAR

During the financial year under review, there were no material events in the Company.

HOLDING COMPANY/SUBSIDIARIES/JOINT VENTURES/ASSOCIATES

Holding Company

During the financial year under review, Grasim Industries Limited remains the ultimate Holding Company and Aditya Birla Capital Limited continues to be the Holding Company of your Company. Grasim Industries Limited and Aditya Birla Capital Limited are listed at Bombay Stock Exchange, National Stock Exchange and Luxembourg Stock Exchange. As per clause 16(c) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, your Company is considered as a Material Subsidiary Company of Aditya Birla Capital Limited.

Subsidiary Company

Your Company doesn't have any Subsidiary Company.

Joint Venture/Associate Company

Your Company doesn't have any Joint Venture/Associate Company.

TRANSFER TO RESERVES

During the financial year, the Company transferred Rs 173.78 Crore to the Special Reserve in terms of Section 45-IC of The RBI Act.

DIVIDEND

The Board recommends dividend at 8% coupon rate to the holders of Cumulative Preference Shares as final dividend. The total cash outflow on account of the said dividend will amount to Rs 96.44 Lakh (inclusive of Rs 16.44 Lakh as Dividend Distribution Tax). The said dividend is included in the agenda of the forthcoming annual general meeting. With a view to conserve its resources, the Board does not recommend any dividend on the Equity shares (NIL in previous year).

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

SHARE CAPITAL

During the year under review, your Company had a capital infusion of Rs 325.03 Crore through issue of 1.06 Crore equity shares of Rs 10/- each per share on rights basis to the existing shareholder 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	27.09.2018	77,17,000	10	314	250.03
2	28.03.2019	28,51,720	10	253	75.00
	Total	1,05,68,720			325.03

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

DEPOSITORY SYSTEM

As on March 31, 2019, out of the Company's total equity paid-up share capital comprising of 65,62,45,197 Equity Shares, 65,62,45,137 Equity Shares were held in dematerialised mode.

PUBLIC DEPOSITS

Your Company being a Non-deposit taking systemically important non-banking finance 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.

PARTICULARS OF LOANS GIVEN, INVESTMENT MADE, GUARANTEES GIVEN OR SECURITY PROVIDED

Pursuant to provisions of Section 186 (11) of the Act, your Company being a non-banking finance company registered with the RBI and engaged in the business of giving loans, is exempted from the provisions of the said Section. Accordingly, the disclosures of the loans given as required under the aforesaid Section have not been given in this Report.

CONSERVATION OF ENERGY & TECHNOLOGY ABSORPTION

The particulars with respect to the conservation of energy and technology absorption as required to be disclosed pursuant to provision of Section 134(3)(m) of the Act read with Rule 8(3) of the Companies (Accounts) Rules, 2014 are not applicable to the Company.

FOREIGN EXCHANGE EARNINGS AND EXPENDITURE

There were no foreign exchange earnings during the financial year under review as well as during the previous financial year. However, the foreign exchange outgo during the financial year under review was Rs 271.21 Lakh as compared to Rs 55.24 Lakh, during the previous financial year.

PARTICULARS OF EMPLOYEES

Disclosures pertaining to remuneration and other details, as required under Section 197(12) of the Act, read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, are attached in *Annexure I* of this Report.

Details as required under Section 197(12) of the Act, read with Rules 5(2) and 5(3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, with respect to information of employees of the Company will be provided upon request by a Member. In terms of the provisions of Section 136(1) of the Act, the Report and Accounts, as set out therein, are being sent to all the Members of your Company, excluding the aforesaid Annexure which is available for inspection by the Members at the Registered Office of the Company during business hours on all working days of the Company up to the date of the Annual General Meeting. If any Member is interested in obtaining a copy thereof, the Member may write to the Company Secretary at the Registered Office of the Company in this regard. Additional details on employees is provided in the Management Discussion & Analysis report.

MATERIAL CHANGES AND COMMITMENT AFFECTING FINANCIAL POSITION OF THE COMPANY

There were no material changes and commitments affecting the financial position of the Company from end of the financial year up to the date of this Report.

CHANGE IN NATURE OF BUSINESS

During the year under review, there has been no change in the nature of business of the Company.

EMPLOYEE STOCK OPTION

The shareholders of your Company at its meeting held on August 9, 2017 had approved the extension of benefits of the Aditya Birla Capital Limited Employee Stock Option Scheme 2017 ("Scheme 2017") to the permanent employees in the management cadre of your Company. Pursuant to the provisions of Section 67 of the Act, applicable ESOP charge has been charged by Aditya Birla Capital Limited to the Company. Accordingly, during the year under review an amount of Rs 13.33 crore has been debited to the Employee cost towards Aditya Birla Capital Limited Employee Stock Options granted to Employees of your Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis Report for the financial year under review, is presented as a separate section, which forms part of this Annual Report.

CORPORATE GOVERNANCE REPORT

Your Company and Directors reaffirm their commitment to maintain the highest standards of corporate governance as applicable to your Company. Corporate Governance principles form an integral part of the core values of the Company. Corporate Governance Report forming part of Board's Report for the year under review is attached separately as *Annexure II*.

RISK MANAGEMENT FRAMEWORK

The sustained success of a financial services company is built on the bedrock of a robust risk management system. Your Company's risk philosophy aims to develop and maintain a healthy portfolio which is within its risk appetite and the regulatory framework. Through proactive and improved risk management practices, the Risk Management function strives to achieve financial stability and enhance stakeholders' value.

Your Company is exposed to risk by the very nature of its business. These are as follows:

Credit risk	Market risk	Liquidity Risk	Operational Risk
Strategic Risk	Interest rate Risk	Compliance risk	Pricing Risk
Reputational Risk	Model Risk & Technology Risk	Business Risk & Fraud Risk	

These material risks are factored during decision making and determining the capital requirements. The most important of these are Credit Risk, Market Risk, Liquidity Risk and Operational Risk which are explained in the subsequent sections.

Identifying, measuring, monitoring and managing these risks are critical to balancing the risk-return trade off and determining the ultimate success of your Company. Your Company has a Board approved risk strategy and policy in place. The implementation of this well-defined policy is supervised by the Risk Management Committee of the Board. The committee periodically reviews risk level and direction, portfolio composition, status of impaired credits and risk management initiatives

Credit Risk: Credit Risk Management structure defines credit policies and procedures and the risk framework defines prudential limits, portfolio criteria, exception approval metrics etc. at the Company level. In addition, distinct policies and processes for each business unit are defined which helps in management of credit risk and ensure consistency in credit

patterns for each of the business units through target market definition, customer selection, underwriting standards, security structures, etc.

The credit appraisal process encompasses a detailed risk assessment and rating of obligors, using rating models. These models cover all corporate business segments of portfolio. The ratings of customers are assessed based on their financial performance, industry characteristics, business positioning, project risks, operating performance and other non-financial parameters, such as quality of management and conduct of account.

Appropriate front-end credit buying, portfolio diversification, appraisal and approval processes, internal ratings, post sanction monitoring, operations control, fraud control, collection processes and remedial management procedures are well-defined and documented.

Market Risk: Your Company's market Risk management is governed by a comprehensive Board approved policy. It ensures risks underwritten across business activities are within the stipulated risk appetite of the company. Policies have been benchmarked with industry best practices and RBI regulations. Your Company maintains an investment book of Fixed Income Instruments, mostly Corporate / Government Bonds, NCDs & CPs/ CDs. This is managed through a well-defined Board approved investment policy which caps exposures to various securities through stringent trading risk limits/triggers Mark to Market thresholds.

Liquidity Risk: Management of Liquidity (Asset Liability and Interest Rate) is carried out using quantitative techniques such as sensitivity and stress testing. The Asset Liability Committee reviews liquidity risk and the interest rate risk profile of the organization on a regular basis.

Operational Risk: A Board approved Operational Risk Management Framework has been put in place which is implemented by a dedicated team within the Risk Management function. A bottom up risk control self-assessment process identifies high risk areas, potential gaps and serves as an early warning system so that remedial measures can be initiated in a timely manner.

Committee Structure & Monitoring

The Risk Management oversight structure includes Committees of the Board and Senior Management. The Risk Management Committee of the Board ("RMC") reviews compliance with risk policies, monitors risk tolerance limits, reviews and analyses risk exposure and provides oversight of risk across the organization. The RMC nurtures a healthy and independent risk management function to inculcate a strong risk management culture in the Company.

Credit Committees not only approve counter - party credit exposure in line with the delegation of authority assigned by the Board of Directors, but also focuses on post sanction monitoring. The Credit Committee also reviews the credit portfolios, non-performing loans, accounts under watch, over dues and incremental sanctions on an on-going basis.

The Audit Committee of the Board provides direction to and monitors the quality of the internal audit function and also monitors compliance with audit reports of RBI, other regulators and statutory auditors.

The Company through Risk Policy & Monitoring unit tracks all key components like Key financial indicators, covenants and documentation. Escalation matrix is built in to enable continuous monitoring & timely resolution. This unit works in close coordination with the

business segments to periodically review the individual borrower relationships, identify early warning signals and assess the overall health of borrowers. This unit takes proactive measures to ensure that delinquencies are maintained at a minimum level. Risk Monitoring unit also tracks the entire credit portfolio across all segments, including monitoring of early warning signals, identifies portfolio trends, and generates portfolio level MIS, covering various credit quality indicators. Further, it independently reviews credit policies and programs, including rating models for corporates.

Fraud Risk Management

Risks associated with frauds are mitigated through a Fraud Risk Management framework. Fraud Control Unit reviews matters relating to fraud risk by reviewing cases which are entered in the system. Various fraud control management activities like document sampling, property visit, verification of stock statement, vendor profile check, customer profile check etc. are established.

RELATED PARTY TRANSACTIONS

During the year under review, all transactions entered into by the Company with related parties were in ordinary course of business and on an arm's length basis and were not considered material as per the provisions of Section 188 of the Act read with the Companies (Meetings of Board and its Powers) Rules. Hence, disclosure in form AOC-2 under Section 134(3)(h) of the Act, read with the Rule 8 of Companies (Accounts of Companies) Rules, 2014, is not applicable.

Prior omnibus approval is obtained for Related Party Transactions ("RPTs") which are of a repetitive nature and entered in the Ordinary course of business and at arm's length. A statement on RPTs specifying the details of the transactions, pursuant to each omnibus approval granted, is placed on a quarterly basis for review by the Audit Committee.

The details of contracts and arrangements with related parties of your Company for the year under review, are given in notes to the Standalone Financial Statements, forming part of this Annual Report. The Policy on Related Party Transactions, as approved by the Board, is available on your Company's website at: <https://abfl.adityabirlacapital.com/>.

INTERNAL FINANCIAL CONTROLS

Your Company has put in place adequate internal controls across all lines of business and support functions. Your Company's policies and procedures are designed to ensure sound management of its business operations and adequate compliance to applicable regulations and standards. Roles and responsibilities have been institutionalised to ensure optimal control and supervisory governance with regard to safekeeping of its assets, optimal utilisation of resources and reliability of its financial information. Systems and procedures are periodically reviewed and upgraded to cater to the growing business needs of your Company's operations. The controls have been tested for design and operating effectiveness on a periodic basis and no significant exceptions were noted.

INTERNAL AUDIT

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

The framework is commensurate with the nature of the business, its size and complexity of the operations. Internal auditing of the Company involves a systematic risk-based approach for analyzing the design and governance of business processes, testing the operating effectiveness of controls, and recommending value-added solutions to improve the organization's operations. The audit approach verifies compliance with the regulatory requirements and your Company's operational and systems related procedures and controls.

The Board of Directors at their meeting held on May 5, 2018 had appointed M/s. Aneja Associates as Internal Auditors for the Financial Year 2018-19 and also approved their scope and plans for the said financial year. The objective of the Internal Audit is to cover the following:

- Review adequacy and effectiveness of operating controls
- Review the adequacy of the supervisory control mechanisms
- Recommend improvements in policies & procedures and
- Report significant observations and recommendations for process improvements in concise report for discussion with senior management and Audit Committee of the Board.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 134(5) of the Act and to the best of their knowledge and belief and according to the information and explanations obtained from the Management, the Directors of your Company state that: -

- i) in the preparation of annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;
- ii) 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, 2019 and of the profit of the Company for the year ended on that date;
- iii) 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;
- iv) the attached Statement of Accounts for the financial year ended March 31, 2019 have been prepared on a "going concern basis";
- v) 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;
- vi) 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.

DIRECTORS / KEY MANAGERIAL PERSONNEL

APPOINTMENT/RESIGNATION OF DIRECTORS

The Board of Directors comprises of 8 (eight) Directors out of which 6 (six) are Independent Directors (including 1 Woman Director).

Ms. Vijayalakshmi Iyer (DIN no.: 05242960) tendered her resignation from the office of Director in your Company with effect from 16th November, 2018 due to her current position on the domestic front.

As per Regulation 24 (1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, at least one independent director on the board of directors of the listed

entity shall be a director on the Board of Directors of an unlisted material subsidiary, incorporated in India. Accordingly, on the nomination letter received from your holding company: Aditya Birla Capital Limited, the Board at its meeting held on January 25, 2019, had appointed Mr. Subhash Chandra Bhargava (DIN no.: 00020021) as an Additional Director (Independent) of the Company. The said appointment was duly approved and recommended to the Board of Directors at the meeting of the Nomination and Remuneration Committee held on January 25, 2019.

RETIREMENT BY ROTATION

As per the provisions of the Act, Mr. Ajay Srinivasan (DIN: 0012118) retires from the Board by rotation this year and being eligible, offers himself for re-appointment at the 28th Annual General Meeting of the Company.

A detailed profile of the Director seeking re-appointment is provided in the Notice of the 28th Annual General Meeting of the Company.

DECLARATION BY INDEPENDENT DIRECTORS

Pursuant to Section 149(7) of the Act read with the Companies (Appointment and Qualifications of Directors) Rules, 2014, the Company had received declarations from all the Independent Directors of the Company confirming that they meet the 'criteria of Independence' as prescribed under Section 149(6) of the Act and have submitted their respective declarations as required under Section 149(7) of the Act.

KEY MANAGERIAL PERSONNEL (KMPs)

In terms of the provisions of Sections 2(51) and 203 of the Act, read with the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, Mr. Rakesh Singh, Chief Executive Officer (CEO), Mr. Sekhar Mosur, Manager, Mr. Sanjay Miranka, Chief Financial Officer (CFO) and Mr. Ankur Shah, Company Secretary (CS), are the Key Managerial Personnel of your Company.

ANNUAL PERFORMANCE EVALUATION

The evaluation framework for assessing the performance of the 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, amongst others.

Pursuant to the provisions of the Act and in terms of the Framework of the Board Performance Evaluation, the Nomination and Remuneration Committee and the Board had carried out an annual performance evaluation of the performance of various Committees of the Board, individual Directors and the Chairman. The manner in which the evaluation had been carried out had been set out in the Corporate Governance Report, which forms part of this Annual Report.

BOARD REMUNERATION POLICY

The Board, on the recommendation of the Nomination & Remuneration Committee, has adopted Executive Remuneration Philosophy for remuneration of Directors, KMP and Senior Management. The said policy is attached as *Annexure III*.

MANAGERIAL REMUNERATION

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

MEETINGS OF THE BOARD AND ITS COMMITTEES

Board

The information pertaining to the meetings of the Board of Directors and its Committees are forming part of the Corporate Governance Report and form MGT 9, of the Company.

Audit Committee and its Composition

The Audit Committee comprises of 3 (three) members as on date viz. Mr. Ashwani Puri, Mr. D J Kakalia and Mr. Ajay Srinivasan. 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.

Nomination & Remuneration Committee and its Composition

The Nomination & Remuneration Committee (NRC) comprises of 4 (four) members as on date viz. Mr. Jitender Balakrishnan, Mr. D J Kakalia, Mr. Ajay Srinivasan and Mr. B N Puranmalka. Out of the above members, two members viz. Mr. Jitender Balakrishnan and Mr. D J Kakalia are Independent Directors. Mr. Jitender Balakrishnan is the Chairman of the 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 NRC.

OTHER COMMITTEES

The details of all other Committees of the Board are provided in the Corporate Governance Report, which forms part of this Annual Report.

EXTRACT OF ANNUAL RETURN

Pursuant to the provisions of Section 134(3)(a) of the Act as amended by the Companies (Amendment) Act, 2017, the extract of annual return for the financial year ended March 31, 2019 in Form MGT-9 under the provisions of 92(3) of the Act has been attached to this report as Annexure IV. The Annual Return for Financial Year 2017-18 is also available on the Company's website at <https://abfl.adityabirlacapital.com/>.

AUDITORS

STATUTORY AUDITORS, THEIR REPORT AND NOTES TO FINANCIAL STATEMENTS

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 Act (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 2019-20. 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. The Statutory Auditors have not reported any incident of fraud to the Audit Committee or the Board of Directors under Section 143(12) of the Act, during the financial year ended March 31, 2019.

SECRETARIAL AUDITORS AND SECRETARIAL AUDIT REPORT

Pursuant to the requirements of Section 204(1) of the Act read with Rule 9 of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Company had appointed M/s. BNP & Associates, Company Secretaries to conduct the Secretarial Audit for the year under review. The Secretarial Audit Report in Form MR-3 for the year under review, as received from M/s. BNP & Associates, Company Secretaries, is attached as *Annexure V* of the Board's Report.

Pursuant to Regulation 34(3) and Schedule V of the SEBI Listing Regulations, the Annual Secretarial Compliance Report for the financial year under review, is attached as *Annexure VI* of this Report.

The Secretarial Audit Report and the Annual Secretarial Compliance Report do not contain any qualifications, reservations or adverse remarks.

CORPORATE SOCIAL RESPONSIBILITY

In accordance with Section 135 of the Act, your Company has a Corporate Social Responsibility (CSR) Committee. The CSR Committee has formulated and recommended to the Board, a Corporate Social Responsibility Policy ("CSR Policy") indicating the activities to be undertaken by the Company, which has been approved by the Board.

The CSR Policy is available on the Company's website at <https://abfl.adityabirlacapital.com/>.

As a part of its initiatives under CSR, the Company has undertaken projects in the areas of Health, Education, Livelihood and Rural Development. These projects are also in line with the statutory requirements under the Act and its CSR Policy.

The required disclosure as per Rule 9 of Companies (Corporate Social Responsibility Policy) Rules 2014 is attached as *Annexure VII* to this report.

Further details on the CSR Committee are provided in the Corporate Governance Report, which forms part of this Annual Report.

WHISTLE BLOWER POLICY (VIGIL MECHANISM)

In compliance with the provisions of Section 177(9) of the Act read with Rule 7 of the Companies (Meetings of Board and its Powers) Rules, 2014, the Company has formulated a vigil mechanism for Directors and Employees to report concerns, details of which are covered in the Corporate Governance Report, which forms part of this Annual Report. The said policy is available on the Company's website at: <https://abfl.adityabirlacapital.com/>.

POLICY FOR PREVENTION OF SEXUAL HARASSMENT OF WOMEN AT WORK PLACE

Your Company has in place an appropriate policy which is in line with the requirements of the Sexual Harassment of Women at Workplace (Prevention, Prohibition & Redressal) Act, 2013.

An Internal Complaints Committee has been set up to redress complaints, if any, received regarding sexual harassment. All employees (permanent, contractual, temporary, trainees) are covered under this policy. We further state that during the year under review, there were no complaints received/cases filed under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013.

HUMAN RESOURCES

Your Company believes that human resources are at the core of sustaining and building our organization and will play a critical role in its future growth. With an unwavering focus on nurturing and retaining talent, your Company provides avenues for learning and development through functional, behavioral and leadership training programs, knowledge exchange conferences and providing communication channels for information sharing, to name a few of the initiatives. Additional details on human resources is provided in the Management Discussion and Analysis report.

SECRETARIAL STANDARDS OF ICSI

Your Directors confirm that the Secretarial Standards issued by the Institute of Company Secretaries of India, have been complied with, to the extent applicable.

OTHER DISCLOSURES

In terms of applicable provisions of the Act, your Company discloses that during the year under review:


- From corporate tax perspective, apart from Industry based tax litigations, revenue authorities or tribunal or court have not passed any order impacting going concern status of your Company.
- No Issue of shares (including sweat equity shares) to employees of the Company under any scheme save and except Employees' Stock Option Scheme referred to in this Report.
- No Scheme of provision of money for the purchase of its own shares by employees or by trustees for the benefit of employees.

ACKNOWLEDGEMENTS

Your Directors wish to place their sincere appreciation for the valuable advice, guidance and support provided by the regulators and statutory authorities from time to time. Your Directors express their gratitude to the clients, bankers and all business associates for their continuous support and patronage to the Company.

Your Directors take this opportunity to recognize and place on record their deep sense of appreciation for the exemplary commitment and contribution made by employees at all levels. Their dedicated efforts and enthusiasm have been pivotal to your Company's growth.

For and on behalf of the Board



Ajay Srinivasan
Director
DIN - 00121181



B N Puranmalka
Director
DIN - 00007432

Place: Mumbai
Date: May 2, 2019

Aditya Birla Finance Limited

Details to be included in the Board report as per Section 197(12) & Rule 5 (1) of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 for Financial Year 2018-19

1	Ratio of remuneration of each Director to median remuneration of the employees of the company for the financial year; <i>Not Applicable as all the Directors of the Company are non-executive</i>			
2	Percentage increase in remuneration of each Director, CFO, CEO, CS or Manager, in the FY 2018-19			
	Mr. Rakesh Singh, CEO	Mr. Sekhar Mosur, Manager	Mr. Sanjay Miranka, CFO	Mr. Ankur Shah, CS
	16.7%	12%	14%	10.5%
3	Percentage increase in median remuneration of employees in the FY 8.6%			
4	No. of permanent employees on rolls of the Company 1,718			
5	Average percentile increase already made in the salaries of employees other than the managerial personnel in the last financial year and its comparison with the percentile increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the managerial remuneration <i>Average percentile increase in the salaries of employees other than the managerial personnel in the last financial year – 11.2%</i> <i>Average percentile increase in the salaries of the managerial personnel in the last financial year – 14.7%</i>			
6	It is hereby affirmed that the remuneration paid is as per the remuneration policy of the Company.			

Report on Corporate Governance

Philosophy of Corporate Governance

Your Company continues to be committed to good Corporate Governance aligned with best practices. We believe that good Corporate Governance emerges from the application of best and sound management practices and compliance with the laws coupled with adherence to the highest standards of transparency and business ethics. The Company places great emphasis on values such as empowerment and integrity of its employees, safety of the employees & communities, transparency in decision making process, fair & ethical dealings with all and accountability to all stakeholders.

Corporate Governance reporting under Chapter IV of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Your Company is an unlisted company as its shares are not listed on any stock exchange and hence the provisions of corporate governance prescribed in Chapter IV and Schedule V of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 are not applicable to the Company. Yet the Company on a suo-moto basis, has taken all necessary initiatives to comply with the provisions of corporate governance to the maximum extent possible and endeavors, in true spirit, to go well beyond the mandatory provisions. However, as per the provisions of the Act, the Company is considered as a listed company as its debentures are listed. As per the provisions of the Act, various disclosures are now required to be made in the Boards' Report of which the disclosures relating to the Directors, the Board, its Committees and their meetings are given herein below:

I) Board of Directors ("Board")

The Directors are elected by shareholders of the Company with a responsibility to set strategic objectives for the management and to ensure that the long term interests of all stakeholders are served by adhering to and enforcing the principles of sound corporate governance.

The Board members have diverse areas of knowledge and expertise, which is necessary in providing an independent and objective view on business issues and assess them from the standpoint of the stakeholders of the Company. The Board is independent of the management.

A. Composition of the Board

The Board comprises of 8 (eight) directors as on date, of which 6 (six) are Independent directors including one woman director. As per the provisions of the Act, the Company has appointed a Manager who is not a part of the Board of Directors.

Following are the Independent Directors of the Company as on date:

1. Mr. Darius J Kakalia
2. Mr. Jitender Balakrishnan
3. Mr. Ashwani Puri
4. Ms. Alka Bharucha
5. Mr. Baldev Raj Gupta
6. Mr. Subhash Chandra Bhargava

B. Details of Directorships/Committee memberships

The composition of our Board, their Directorships/Committee memberships* and Chairpersonship as on date is given in the table below:

Name of Director	Designation	No. of Directorships in other Public Cos	No. of Committee Memberships of other Public Cos[#]	Chairpersonship in Committees of other Public Cos[§]
Mr. Ajay Srinivasan	Director	7	6	--
Mr. B N Puranmalka	Director	2	--	--
Mr. D J Kakalia	Director	6	4	1
Mr. Jitender Balakrishnan	Director	9	5	3
Mr. Ashwani Puri	Director	2	--	2
Ms. Alka Bharucha	Director	9	5	3
Mr. B. R. Gupta	Director	3	2	2
Mr. Subhash Chandra Bhargava	Additional Director	9	4	1

* Not including companies incorporated outside India and Private Limited Companies (other than holding or subsidiary company of a public company) and companies under Section 8 of the Act.

§ Only Audit Committee and Shareholders' Grievance/ Stakeholders Relationship Committee of all public limited companies (whether listed or not) have been considered for the purpose of the Committee positions (membership and chairmanship), as per Chapter IV of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

excluding Chairpersonship which is mentioned in the next column.

C. Non-Executive Directors' compensation and disclosures

Your Company pays sitting fees to the Independent Directors for attending meetings as per the following:

Attending Meeting of	Amount in Rs
Board	50,000 per meeting per Director
Audit Committee	25,000 per meeting per member
Other Committees	20,000 per meeting per member

The details of sitting fees paid to the Independent Directors during the FY 2018-19 are given in the table below:

(Amount in Rs)

Name of the Director	Board Meeting	Committee					
		Audit	Risk	Nomination & Remuneration	CSR	Finance	IT Strategy
Mr. D J Kakalia	200,000	100,000	-	60,000	-	80,000	-
Mr. Jitender Balakrishnan	250,000	-	60,000	60,000	-	-	-
Mr. Ashwani Puri	250,000	125,000	-	-	40,000	-	-
Ms. Alka Bharucha	100,000	-	-	-	-	-	-
Mr. Baldev R Gupta	250,000	-	-	-	-	-	-
Ms. Vijayalakshmi Iyer*	200,000	-	-	-	-	-	20,000
Mr. Subhash Chandra Bhargava [#]	50,000	-	-	-	-	-	-

*Resigned w.e.f November 16, 2018

[#]Appointed w.e.f January 25, 2019

D. Board Meetings

i) Agenda and Minutes

The Company Secretary receives details on the matters which require the approval of the Board/ Board Committees, from various departments of the Company in advance, so that they can be included in the Board/ Board Committee agenda. All material information is incorporated, in detail, in the agenda papers for facilitating meaningful and focused discussions at the meetings.

In compliance of the statutory requirements, the following minimum information is supplied to the Board in the agenda of every quarterly Board Meeting:

- Minutes of meetings of previous Board and Committee meetings
- Noting of Circular resolution(s)
- Financial results of the Company
- Compliance certificate
- Status of Action on items of the previous Board meeting
- Business requirements
- Outstanding borrowings and investments
- Approval of policies
- Approval of fees of Auditors

The Company is in compliance with the provisions of the notified Secretarial Standards on the subject.

ii) Attendance of directors

As a good practice the Company ensures optimum presence of the Directors at each meeting.

During the FY 2018-19, five Board meetings were held on May 5, 2018, July 27, 2018, August 6, 2018, October 26, 2018 and January 25, 2019.

The attendance of the Directors at the above Board meetings and at the last Annual General Meeting is given in the table below:

Name of Directors	No. of Board meetings during FY 2018-19		Attendance in the last AGM dated June 5, 2018
	Held	Attended	
Mr. Ajay Srinivasan	5	5	No
Mr. B N Puranmalka	5	4	No
Mr. D J Kakalia	5	4	No
Mr. Jitender Balakrishnan	5	5	No
Mr. Ashwani Puri	5	5	No
Ms. Alka Bharucha	5	2	No
Mr. Baldev Raj Gupta	5	5	No
Ms. Vijayalakshmi Iyer	4*	4	No
Mr. Subhash Chandra Bhargava	1 [#]	1	No

*Resigned w.e.f November 16, 2018

[#]Appointed w.e.f January 25, 2019

E. Code of Conduct

The Company has designed and implemented a Code of Conduct for the employees of the Company. The senior management of the Company is governed by this Code of Conduct. The salient features of the said Code of Conduct policy is as under:

- Maintain highest degree of Corporate Governance practices
- confidentiality of information
- Act in good faith and exercise due care, diligence and integrity
- Ensure compliance with laws
- Minimum standards of conduct
- Fairness in workplace
- Avoiding conflict of interest
- Dealing with other people & organisations
- Dealing with Customers
- Responsibilities
- Adherence & enforcement mechanism
- Commitment

II) Audit Committee

The provisions of Section 177 of the Act (including any statutory modification(s) or re-enactment(s) thereof, for time being in force), prescribes that every public company having paid-up capital of not less than Rupees Ten Crore shall constitute a committee of the Board known as "Audit Committee".

The primary functions which the Committee performs are:

- overseeing company's financial reporting process and the disclosure of its financial information
- Review of Annual Financial Statements
- Review of Management discussion and analysis of financial condition and results of operations
- Review of Related party transactions
- Review of Management letter/ letters of internal control weakness if any issued by Statutory Auditors
- Recommend appointment of Auditors and their remuneration
- Review of Internal Audit reports
- Review of performance of Internal Auditors
- Evaluation of internal financial controls and the risk management systems
- Valuation of undertaking or assets of the Company, wherever it is necessary
- Review of the NPAs and their provisions
- Review of the functioning of the whistle blower mechanism
- Monitoring the end use of funds raised through public offers and related matters

a. Composition of Audit Committee

Our Audit Committee comprises of 3 (three) members viz. Mr. Ashwani Puri, Mr. D J Kakalia and Mr. Ajay Srinivasan. Out of the above, two members viz. Mr. Ashwani Puri and Mr. D J Kakalia are Independent Directors. Mr. Ashwani Puri is the Chairman of the Audit Committee.

All members of the Audit Committee are financially literate and have the necessary accounting and related financial management expertise.

The Chief Executive Officer, the Chief Financial Officer, Chief Risk Officer, Company Secretary, Head – Internal Audit, the Statutory Auditors and the Internal Auditors of the Company are invited for each of the Audit Committee meeting of the Company.

The Company Secretary acts as the Secretary to the Committee.

b. Meetings of Audit Committee and attendance of Audit Committee members

During the FY 2018-19, the Audit Committee met five times on May 2, 2018, July 27, 2018, August 6, 2018, October 26, 2018 and January 25, 2019.

The attendance of the Audit Committee members at the Audit Committee meetings during the FY 2018-19 is given in the table below:

Name of the Committee member	No. of Audit Committee meetings	
	Held	Attended
Mr. Ashwani Puri	5	5
Mr. D J Kakalia	5	4
Mr. Ajay Srinivasan	5	5

III) Other Committees of the Company

For ensuring smooth business activities and as per the requirements of the Act and RBI Directions, the Company has constituted certain Board Committees with well-defined charters for each one of them. The prominent Board Committees, other than the Audit Committee, are as under:

A) Risk Committee

In view of the various lines of business and growing scale of operations undertaken by the Company and as required by RBI norms, the Board had constituted the Risk Committee as its sub-committee, to oversee the risk management and compliance activities of the Company.

As per the documented charter duly approved by the Board of Directors, the primary function of the Risk Committee covers the following:

- Implementation of various directions issued by Board
- Review of Loan Portfolios
- Monitoring various risks affecting the Company
- Guiding the business to ensure effective risk management.
- Progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the Company
- Generally, oversee the risk management function and perform such other related functions as the Board of the Company may entrust to it.

a) Composition of Risk Committee

The Risk Committee comprises of following members as on date viz.:

- Mr. Jitender Balakrishnan
- Mr. Ajay Srinivasan

- Mr. B N Puranmalka
- Mr. Rakesh Singh
- Mr. Sekhar Mosur
- Mr. A Dhananjaya
- Mr. Tushar Shah
- Mr. Ajay Singh

Mr. Jitender Balakrishnan is the Chairman of this Committee. The Company Secretary acts as the Secretary to the Committee.

b) Meetings of Risk Committee and attendance of Risk Committee members

During the FY 2018-19, the Risk Committee met three times on July 10, 2018, November 28, 2018 and March 18, 2019. The attendance of the Risk Committee members at the Risk Committee meetings during the FY 2018-19 is given in the table below:

Name of the Committee member	No. of Risk Committee meetings	
	Held	Attended
Mr. Jitender Balakrishnan	3	3
Mr. Ajay Srinivasan	3	3
Mr. B N Puranmalka	3	2
Mr. A Dhananjaya	3	2
Mr. Rakesh Singh	3	3
Mr. Tushar Shah	3	3
Mr. Sekhar Mosur	3	3
Mr. Ajay Singh	3	3

B) Asset Liability Management Committee

The Board had constituted the Asset Liability Management Committee as its sub-committee to:

Monitor the external environment and initiate appropriate action after evaluation of the following factors:

- Interest rate trends
- Market liquidity
- Monetary and fiscal policies
- Competitor actions
- Review balance sheet growth, mismatches and forecasts.
- Arrive at desirable maturity profiles for assets and liabilities based on anticipated funding needs, loan demands and liquidity position.
- Fine-tune product pricing.
- Ensure adequacy of capital and seek efficiency in its use in the context of a clearly charted growth strategy.
- Ensure compliance with interest rate and liquidity risk related regulatory requirements.

a) Composition of Asset Liability Management Committee

The Asset Liability Management Committee comprises of the following members as on date viz.:

- Mr. Rakesh Singh
- Mr. Tushar Shah
- Mr. Sekhar Mosur
- Mr. Ajay Singh

- Mr. Sanjay Miranka
- Mr. Devang Rawal
- Mr. Hitesh Eidnani
- Mr. Nirmal Kishore
- Mr. Chandramohan Amritkar
- Mr. Rajeev Sharma

The Company Secretary acts as the Secretary to the Committee.

b) Meetings of Asset Liability Management Committee and attendance of Asset Liability Management Committee members

The attendance of the Asset Liability Management Committee members at the Asset Liability Management Committee meetings during the FY 2018-19 is given in the table below:

Name of the Committee member	No. of Asset Liability Management Committee meetings	
	Held	Attended
Mr. Rakesh Singh	12	8
Mr. Tushar Shah	12	9
Mr. Sekhar Mosur	12	9
Mr. Ajay Singh	12	7
Mr. Sanjay Miranka	12	11
Mr. Devang Rawal	12	11
Mr. Rajeev Sharma	12	4
Mr. Chandramohan Amritkar	12	12
Mr. Hitesh Eidnani	12	7
Mr. Prosenjit Aich*	2	0
Mr. Nirmal Kishore	12	9

*Resigned w.e.f June 8, 2018

C) Nomination and Remuneration Committee

The Nomination and Remuneration Committee was formed to recommend to the Board the appointment of Directors, Manager, senior management and Key Managerial Personnel. The Committee also decides the remuneration payable to Directors and Manager. The Committee further ensures fit and proper status of existing / proposed directors. The Committee is formed as per the provisions of the Act and the RBI Directions.

a) Composition of Nomination and Remuneration Committee

The Nomination and Remuneration Committee comprises of the following Members:

- Mr. Jitender Balakrishnan
- Mr. D J Kakalia
- Mr. Ajay Srinivasan
- Mr. B N Puranmalka

b) Meetings of Nomination and Remuneration Committee (NRC) and attendance of NRC members

During the FY 2018-19, the Nomination and Remuneration Committee met three times on May 5, 2018, July 27, 2018 and January 25, 2019. The attendance of the Nomination and Remuneration Committee members at the NRC meetings during the FY 2018-19 is given in the table below:

Name of the Committee member	No. of Nomination and Remuneration Committee meetings during the FY 2018-19	
	Held	Attended
Mr. Jitender Balakrishnan	3	3
Mr. D J Kakalia	3	3
Mr. Ajay Srinivasan	3	3
Mr. B N Puranmalka	3	2

D) Corporate Social Responsibility (CSR) Committee

The CSR Committee had been constituted pursuant to the provisions of Section 135 of the Act.

a) Composition of CSR Committee

The CSR Committee comprises of the following Members:

- Mr. Ashwani Puri
- Mr. Ajay Srinivasan
- Mr. B N Puranmalka

In addition to the above Board members, Mrs. Rajashree Birla, Dr. (Mrs.) Pragnya Ram and Mr. Rakesh Singh are permanent invitees at the Committee.

b) Meeting(s) of CSR Committee and attendance of CSR Committee members

During the FY 2018-19, the CSR Committee met twice on September 17, 2018 and March 26, 2019. The attendance of the CSR Committee members at the CSR meetings during the FY 2018-19 is given in the table below:

Name of the Committee member	No. of CSR Committee meetings during the FY 2018-19	
	Held	Attended
Mr. Ashwani Puri	2	2
Mr. Ajay Srinivasan	2	2
Mr. B N Puranmalka	2	2

E) IT Strategy & Information Security Steering Committee

a) Composition of IT Strategy & Information Security Steering Committee

The IT Strategy & Information Security Steering Committee has been constituted as per the requirements of RBI's master directions on Information technology at the Board meeting held on October 26, 2017. As Ms. Vijayalakshmi Iyer tendered her resignation as a Director from the Board of your Company w.e.f. November 16, 2018, the Committee was re-constituted at the Board meeting held on January 25, 2019 to appoint Mr. Jitender Balakrishnan as a Chairman of the Committee and also inducted Mr. Sudesh Puthran and Mr. Anindya Karmakar in the Committee. The Committee, at present, comprises of the following members:

Mr. Jitender Balakrishnan, Chairman (Independent Director)
 Mr. Rakesh Singh
 Mr. Sekhar Mosur
 Mr. Sanjay Miranka
 Mr. Ankur Kapoor

Mr. Gopakumar Panicker
Mr. Sudesh Puthran
Mr. Anindya Karmakar

b) Meetings of the Committee and attendance of the Committee members

During the FY 2018-19, the IT Strategy & Information Security Steering Committee met twice on June 18, 2018 and December 17, 2018. The attendance of the IT Strategy & Information Security Steering Committee members at the meetings during the FY 2018-19 is given in the table below:

Name of the Committee member	No. of IT Strategy & Information Security Steering Committee meetings during the FY 2018-19	
	Held	Attended
Ms. Vijayalakshmi Iyer#	1	1
Mr. Rakesh Singh	2	2
Mr. Sekhar Mosur	2	2
Mr. Sanjay Miranka	2	2
Mr. Ankur Kapoor	2	-
Mr. Gopakumar Panicker	2	2

resigned w.e.f. November 16, 2018

F) Stakeholders Relationship Committee

The Stakeholders Relationship Committee had been constituted pursuant to the provisions of Section 178(5) of the Act at the meeting of the Board of Directors held on January 25, 2019. The Committee's roles & responsibilities inter alia, includes consideration and resolution of the grievances of security holders of the Company.

a) Composition of Stakeholders Relationship Committee

The Stakeholders Relationship Committee comprises of the following Members:

- Mr. Ajay Srinivasan, Chairman
- Mr. B N Puranmalka
- Mr. D J Kakalia

b) Meeting(s) of Committee and attendance of Committee members

As the Committee was formed on on January 25, 2019, no meeting of the Stakeholders Relationship Committee was held during the FY 2018-19.

IV) Disclosures

A) Related Party Transactions

The related party transactions of the Company are periodically placed and reviewed by the Audit Committee of the Company which in turn briefs the Board at the Board meetings. The details have also been provided in the Board's report.

B) Performance Evaluation of Board

A formal evaluation mechanism has been adopted for evaluating the performance of the Board, Committees thereof, individual directors and the Chairman of the Board.

The evaluation is based on criteria which includes, among others, providing strategic perspective, chairmanship of Board and Committees, attendance and preparedness for the meetings, contribution at meetings, effective decision making ability, role of the Committees. The Independent Directors at their meeting held on January 25, 2019, had completed the performance evaluation exercise. The non-executive Directors too had completed the performance evaluation exercise and submitted their feedback.

C) Remuneration of Directors

Based on the recommendation of the Nomination & Remuneration Committee, all decisions relating to remuneration of Directors are taken by the Board of your Company in accordance with the shareholder's approval, wherever necessary. Apart from sitting fees, travelling, lodging and other incidental expenses with respect to attending Meetings of Board/ Committees payable to the Independent Directors, no other remuneration is being paid to any of the Directors.

D) Shareholders & General information

a) General Body Meetings

The particulars of the last three Annual General Meetings (AGMs) of the Company are provided in the below Table:

AGM	Year	Date of the AGM	Time	Venue
27 th	2018	05/06/2018	9:30 a.m.	Registered Office
26 th	2017	02/06/2017	10:30 a.m.	Registered Office
25 th	2016	26/08/2016	10:30 a.m.	Registered Office

b) General Shareholder Information

Date, Time and Venue of the 28 th Annual General Meeting	July 22, 2019, 10.00 a.m., Indian Rayon Compound, Veraval, Gujarat – 362 266
Year	2019
Corporate Identification Number (CIN) / Registration no. of the Company as per Companies Act with the Registrar of Companies	U65990GJ1991PLC064603
Permanent Account Number (PAN)	AABCB5769M
Address for correspondence	One Indiabulls Centre, Tower 1, 18th Floor, Jupiter Mill Compound, Senapati Bapat Marg, Elphinstone Road, Mumbai – 400 013

Aditya Birla Group

Executive Remuneration Philosophy

At the Aditya Birla Group, we expect our executive team to foster a **culture of growth and entrepreneurial risk-taking**. Our Executive Compensation Philosophy supports the design of programs that **align executive rewards** – including incentive programs, retirement benefit programs, promotion and advancement opportunities – **with the long-term success of our stakeholders**. Our reward programs recognize and reward executives who display initiative, deliver superior individual performance, and contribute to sustainable corporate and business success.

Our business and organizational model

Our Group is a **conglomerate** and organized in a manner such that there is **sharing of resources and infrastructure**. This results in uniformity of business processes and systems thereby **promoting synergies and exemplary customer experiences**.

I. Objectives of the Executive Remuneration Program

Our executive compensation program is designed to **attract, retain, and reward** talented executives who will contribute to our **long-term success** and thereby **build value for our shareholders**.

Our executive compensation program is intended to:

1. Provide for monetary and non-monetary remuneration elements to our executives on a **holistic** basis
2. Emphasize **“Pay for Performance”** by aligning incentives with business strategies to reward executives who achieve or exceed Group, business and individual goals.

II. Covered Executives

Our Executive Compensation Philosophy applies to the following:

1. Directors of the Company
2. Key Managerial Personnel: CFO, CS, any others CEO equivalent (ex: Deputy Managing Director)
3. Senior Management.

III. Business and Talent Competitors

We benchmark our executive pay practices and levels against **peer companies in similar** industries, geographies and of similar size. In addition to this, we look at **secondary reference (internal and external) benchmarks** in order to ensure that pay policies and levels across the Group are generally **equitable internally** and support the Group's **global mobility objectives** for executive talent. The additional reference points may take into account the executive pay practices and pay levels in other markets and industries, recognizing the differences in levels and medium of pay.

IV. Executive Pay Positioning

We aim to provide **competitive remuneration opportunities** to our executives by positioning target total remuneration (including perks and benefits, annual incentive pay-outs, long term incentive pay-outs at target performance) and target total cash compensation (including annual incentive pay-outs) at target performance **directionally between median and top quartile** of the primary talent market. We recognize the **size and scope** of the role and the **market standing, skills and experience** while positioning our executives.

We use secondary market data only as a reference point for determining the types and amount of remuneration while principally believing that target total remuneration packages should reflect the typical cost of comparable executive talent available in the sector.

V. i. Executive Pay-mix

Our executive pay-mix aims to strike the **appropriate balance** between key components: **(i) Fixed Cash compensation (Basic Salary + Allowances) (ii) Annual Incentive Plan (iii) Long-Term Incentives (iv) Perks and Benefits.**

ii. Performance Goal Setting

We aim to ensure that for both annual incentive plans and long term incentive plans, the target performance goals shall be **achievable and realistic.**

Threshold performance (the point at which incentive plans are paid out at their minimum, but non-zero, level) shall reflect a base-line level of performance, reflecting an estimated **90% probability of achievement.**

Target performance is the **expected level of performance** at the beginning of the performance cycle, taking into account all known relevant facts likely to impact measured performance.

Maximum performance (the point at which the maximum plan payout is made) shall be based on an exceptional level of achievement, reflecting no more than an estimated **10% probability of achievement**.

VI. i. Performance Measurement

Annual Incentive Plan:

We tie annual incentive plan pay-outs of our executives to **relevant financial and operational metrics achievement and their individual performance**. We **annually align** the financial and operational metrics with priorities/ focus areas for the business.

Long-Term Incentive:

Our Long-term incentive plans incentivize **stretch performance**, link executive remuneration to **sustained long term growth** and act as an **attraction and retention tool**

We use stock options as the primary long-term incentive vehicle for our executives as we believe that they best align executive incentives with stockholder interests. We grant restricted stock units, as a secondary long term incentive vehicle, to motivate and retain our executives.

ii. Executive Benefits and Perquisites

Our executives are eligible to participate in our broad-based retirement, health and welfare, and other employee benefit plans. In addition to these broad-based plans, they are eligible for **other benefits plans commensurate with their roles**. These benefits are designed to encourage long-term careers with the Group. They are also eligible for certain perquisites with **each perquisite serving a clear business purpose or need**.

Other Remuneration Elements

Each of our executives is subject to an **employment agreement**. Each such agreement generally provides for a total remuneration package for our executives.

We **limit other remuneration elements**, for e.g. Change in Control (CIC) agreements, severance agreements, to instances of compelling business need or competitive rationale and we **do not provide for any tax gross-ups** for our executives.

Risk and Compliance

We aim to ensure that the Group's remuneration programs **do not encourage excessive risk taking**. We review our remuneration programs for factors such as

1. Remuneration mix overly weighted towards annual incentives
2. Uncapped pay-outs
3. Unreasonable goals or thresholds
4. Steep pay-out cliffs at certain performance levels that may encourage short-term decisions to meet pay-out thresholds

Claw back Clause:

In an incident of restatement of financial statements due to fraud or non-compliance with any requirement of the Companies Act 2013 and the rules made thereafter, we shall recover from our executives the remuneration received in excess of what would be payable to him / her as per restatement of financial statements the executives is obligated to pertaining to the relevant performance year.

Implementation

The Group and Business Centre of Expertise teams will assist the Nomination & Remuneration Committee in **adopting, interpreting and implementing** the Executive Remuneration Philosophy. The costs of these services will be established through "arm's length", market-based agreements entered into as needs arise in the normal course of business.

Annexure IV

Form No. MGT-9
EXTRACT OF ANNUAL RETURN
as on the financial year ended on March 31, 2019
of Aditya Birla Finance Limited

[Pursuant to Section 92(3) of the Companies Act, 2013 and Rule 12(1) of the Companies (Management and Administration) Rules, 2014]

I. REGISTRATION AND OTHER DETAILS:

1.	CIN	:	U65990GJ1991PLC064603
2.	Registration Date	:	August 28, 1991
3.	Name of the Company	:	Aditya Birla Finance Limited
4.	Category / Sub- Category of the Company	:	Public Limited – Limited by shares and company having share capital
5.	Address of the Registered Office	:	Indian Rayon Compound, Veraval, Gujarat – 362 266
	Contact details	:	Tel. No. - 022 43567000
6.	Whether listed company	:	Yes (only Debentures are listed on National Stock Exchange of India Limited and BSE Limited)
7.	Name, Address of Registrar & Transfer Agents (RTA), if any	:	Link Intime India Private Limited C 101, 247 Park, L.B.S. Marg, Vikhroli (West), Mumbai 400 083
	Contact details of RTA	:	Tel. No. +91 22 2596 3838; Fax no: +91 22 2594 6969; Email : isrl@intimespectrum.com

II. PRINCIPAL BUSINESS ACTIVITIES OF THE COMPANY

All the business activities contributing 10 % or more of the total turnover of the company shall be stated:

Sl. No.	Name and Description of main products / services	NIC Code of the Product/ service	% to total turnover of the company
1.	Non deposit accepting systemically important Non-Banking finance Company engaged in lending and allied activities holding certificate of registration issued by Reserve Bank of India	6492	98.86

III. PARTICULARS OF HOLDING, SUBSIDIARY AND ASSOCIATE COMPANIES –

Sl. No.	Name and address of the company	CIN/GLN	Holding/ Subsidiary/ Associate	% of shares held	Applicable Section
1.	Aditya Birla Capital Limited, (formerly known as Aditya Birla Financial Services Limited) (“ABCL”) Indian Rayon Compound, Veraval, Gujarat 362266	L67120GJ2007 PLC058890	Holding Company	100%	2(46)

Category of Shareholders	No. of Shares held at the beginning of the year				No. of Shares held at the end of the year %				% change during the year
	Demat	Physical	Total	% of Total	Demat	Physical	Total	% of Total	
(h) Foreign Venture Capital Funds	-	-	-	-	-	-	-	-	-
(i) Others (specify)	-	-	-	-	-	-	-	-	-
Sub-total (B)(1):-	-	-	-	-	-	-	-	-	-
2. Non-Institutions									
(a) Bodies Corp.	-	-	-	-	-	-	-	-	-
(i) Indian	-	-	-	-	-	-	-	-	-
(ii) Overseas	-	-	-	-	-	-	-	-	-
(b) Individuals	-	-	-	-	-	-	-	-	-
(i) Individual shareholders holding nominal share capital upto Rs 1 lakh	-	-	-	-	-	-	-	-	-
(ii) Individual shareholders holding nominal share capital in excess of Rs 1 lakh	-	-	-	-	-	-	-	-	-
(c) Others (specify)	-	-	-	-	-	-	-	-	-
Sub-total (B)(2):-	-	-	-	-	-	-	-	-	-
Total Public Shareholding (B)=(B)(1)+(B) (2)	-	-	-	-	-	-	-	-	-
C. Shares held by Custodian for GDRs & ADRs	-	-	-	-	-	-	-	-	-
Grand Total (A+B+C)	63,82,79,917	73,96,560*	64,56,76,477	100.00	65,62,45,137	60*	65,62,45,197	100.00	1.64%#

* 60 shares are held by individuals as nominees of ABCL.

#There was increase in no. of Equity shares due to issuance of Equity Shares on Rights basis.

(ii) Shareholding of Promoters

Sl. No.	Shareholder's name	Shareholding at the beginning of the year			Shareholding at the end of the year			% Change during the year
		No. of Shares	% of total Shares of the company	% of Shares Pledged / encumbered to total shares	No. of Shares	% of total Shares of the company	% of Shares Pledged /Encumbered to total shares	
1.	Aditya Birla Capital Limited	64,56,76,477	100.00	-	65,62,45,197	100.00	-	1.64%#

* 60 shares are held by individuals as nominees of ABCL.

#There was increase in no. of Equity shares due to issuance of Equity Shares on Rights basis.

(iii) Shareholding Pattern of top ten Shareholders (other than Directors, Promoters and Holders of GDRs and ADRs):

Sl. No.	Shareholder's name	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of Shares	% of total Shares of the company	No. of Shares	% of total Shares of the company
	For Each of the Top 10 Shareholders				
	At the beginning of the year	Not Applicable			
	Date wise Increase / Decrease in Shareholding during the year specifying the reasons for increase / decrease				
	At the End of the year (or on the date of separation, if separated during the year)	Not Applicable			

(iv) **Change in Promoters' Shareholding (please specify, if there is no change)**

No			No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
1	Aditya Birla Capital Limited (ABCL)					
	At the beginning of the year		64,56,76,477	100	64,56,76,477	100 [#]
	Increase / (Decrease) in Promoters Shareholding during the Year	subscription to Rights issue	77,17,000	0.63	65,33,93,477	100 [#]
	specifying the reasons for increase / decrease	subscription to Rights issue	28,51,720	0.43	65,62,45,197	100 [#]
	At the end of the year				65,62,45,197	100 [#]

#There was increase in no. of Equity shares due to issuance of Equity Shares on Rights basis.

(v) **Shareholding of Directors and Key Managerial Personnel:**

Sl. No.	Shareholder's name	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of Shares	% of total Shares of the company	No. of Shares	% of total Shares of the company
	For Each of the Directors and KMP				
	At the beginning of the year	Nil			
	Date wise Increase / Decrease in Shareholding during the year specifying the reasons for increase / decrease				
	At the End of the year	Nil			

V. INDEBTEDNESS

Indebtedness of the Company including interest outstanding/accrued but not due for payment

(Rs in Lakh)

	Secured Loans excluding deposits	Unsecured Loans	Deposits	Total Indebtedness
Indebtedness at the beginning of the financial year				
i) Principal Amount	2,556,465.19	1,068,226.82	-	3,624,692.01
ii) Interest due but not paid	-	-	-	-
iii) Interest accrued but not due	75,909.74	8,409.25	-	84,318.99
Total (i+ii+iii)	2,632,374.93	1,076,636.07	-	3,709,011.00
Change in Indebtedness during the financial year				
Addition	20,39,149.44	45,02,040.53	-	65,41,189.97
Reduction	(10,90,940.17)	(47,37,909.25)	-	(58,28,849.42)
Net Change	9,48,209.27	(2,35,868.72)	-	7,12,340.55
Indebtedness at the end of the financial year				
i) Principal Amount	34,89,613.31	8,31,596.67	-	43,21,209.98
ii) Interest due but not paid	-	-	-	-
iii) Interest accrued but not due	90,970.89	9,170.68	-	1,00,141.57
Total (i+ii+iii)	35,80,584.20	8,40,767.35	-	44,21,351.55

VI. REMUNERATION OF DIRECTORS AND KEY MANAGERIAL PERSONNEL

A. Remuneration to Managing Director, Whole-time Directors and/or Manager:

(in Rs unless stated otherwise)

Particulars of Remuneration	Name of MD/WTD Manager – Mr. Sekhar Mosur			Total Amount
	Manager	MD	WTD	
Gross salary				
(a) Salary as per provisions contained in Section 17(1) of the Income-tax Act, 1961	1,04,24,091	N.A.	N.A.	1,04,24,091
(b) Value of perquisites u/s 17(2) Income-tax Act, 1961	NIL			NIL
(c) Profits in lieu of salary under Section 17(3) Income-tax Act, 1961	NIL			NIL
Stock Option				
Sweat Equity	NIL			NIL
Commission - as % of profit - others, specify...	NIL			NIL
Others, please specify - Variable pay	70,89,875			70,89,875
Reimbursements	7,61,662			7,61,662
Total (A)	1,82,75,628			1,82,75,628
Ceiling as per the Act (5%)		Rs in Lakh		6,491.84

B. Remuneration to other directors:

(in Rs unless stated otherwise)

Sl. No.	Particulars of Remuneration	Name of Directors						Total Amount	
		Mr. D J Kakalia	Mr. Jitender Balakrishnan	Mr. Ashwani Puri	Ms. Alka Bharucha	Mr. Baldev Raj Gupta	Ms. Vijayalakshmi Iyer		Mr. Subhash Chandra Bhargava
	1. Independent Directors								
	• Fee for attending board / committee meetings	4,40,000	3,70,000	4,15,000	1,00,000	2,50,000	2,20,000	50,000	18,45,000
	• Commission	-	-	-	-	-	-	-	-
	• Others, please specify	-	-	-	-	-	-	-	-
	Total (1)	4,40,000	3,70,000	4,15,000	1,00,000	2,50,000	2,20,000	50,000	18,45,000
	2. Other Non-Executive Directors	The Company doesn't pay any sitting fees, commission to its Non- executive Directors: Mr. Ajay Srinivasan and Mr. B N Puranmalka							
	• Fee for attending board / committee meetings	-	-	-	-	-	-	-	-
	• Commission	-	-	-	-	-	-	-	-
	• Others, please specify	-	-	-	-	-	-	-	-
	Total (2)	-	-	-	-	-	-	-	-
	Total (B)=(1+2)	4,40,000	3,70,000	4,15,000	1,00,000	2,50,000	2,20,000	50,000	18,45,000
	Total Managerial Remuneration	(A + B)							2,01,20,628
	Overall Ceiling as per the Act (11%)	Rs in Lakh							14,282.04

C. REMUNERATION TO KEY MANAGERIAL PERSONNEL OTHER THAN MD/ MANAGER/ WTD

(in Rs)

Sl. no.	Particulars of Remuneration	Key Managerial Personnel			
		Mr. Rakesh Singh, CEO	Mr. Sanjay Miranka, CFO	Mr. Ankur Shah, CS	Total
1	Gross salary (a) Salary as per provisions contained in Section 17(1) of the Income-tax Act, 1961 (b) Value of perquisites u/s 17(2) Income-tax Act, 1961 (c) Profits in lieu of salary under Section 17(3) Income-tax Act, 1961	5,82,33,507 NIL NIL	1,16,77,776 NIL NIL	33,98,310 NIL NIL	7,33,09,593 NIL NIL
2	Sweat Equity	NIL	NIL	NIL	NIL
3	Commission - as % of profit - others, specify...	NIL	NIL	NIL	NIL
4	Others: Variable pay	3,60,50,163	57,39,366	9,18,459	4,27,07,988
	Total	9,42,83,670	1,74,17,142	43,16,769	11,60,17,581
	Ceiling as per the Act	NOT APPLICABLE			

VII. PENALTIES / PUNISHMENT/ COMPOUNDING OF OFFENCES:

There were no penalties / punishment / compounding of offences for year ended March 31, 2019.

FORM No. MR-3

SECRETARIAL AUDIT REPORT

For the financial year ended 31st March, 2019

[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
Aditya Birla Finance Limited
Indian Rayon Compound
Veraval -362266
Gujarat

We have conducted the Secretarial Audit of the compliance of applicable statutory provisions and the adherence to good corporate practices by **Aditya Birla Finance Limited** (hereinafter called 'the Company') having CIN U65990GJ1991PLC064603 for the period covering the financial year ended on 31st March 2019 (hereinafter called "the audit period"). Secretarial Audit was conducted in a manner that provided us a reasonable basis for evaluating the corporate conducts / statutory compliances and expressing our opinion thereon.

Based on our verification of the Company'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, we hereby report that in our opinion, the Company has, during the audit period 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

We have examined the books, papers, minute books, forms and returns filed and other records maintained by the Company for the audit period according to the provisions of:

- (i) The Companies Act, 2013 (the Act) and the Rules made thereunder;
- (ii) The Depositories Act, 1996 and the Regulations and Bye-laws framed thereunder;
- (iii) Foreign Exchange Management Act, 1999 and the Rules and Regulations made thereunder to the extent of External Commercial Borrowing;



- (iv) The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act'):-
- (a) The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015;
 - (b) The Securities and Exchange Board of India (Issue and Listing of Debt Securities Regulations, 2008);
 - (c) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015.
 - (d) The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.
- (v) The specific law applicable to the Company is Non-Banking Financial Company-Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016, as Amended, and other relevant guidelines and circulars issued by the Reserve Bank of India, from time to time.

We have also examined compliance with the applicable clauses of the Secretarial Standards issued by the Institute of Company Secretaries of India.

During the audit period, the Company has complied with the provisions of the Acts, Rules, Regulations, Guidelines, Standards, etc. mentioned above.

During the audit period, provisions of the following Acts/ Regulations were not applicable to the Company:

- (i) Foreign Exchange Management Act, 1999 and the Rules and Regulations made thereunder to the extent of Foreign Direct Investment and Overseas Direct Investment;
- (ii) The Securities Contracts (Regulation) Act, 1956 and the rules made thereunder to the extent of transfer of securities;
- (iii) The following Regulations and Guidelines prescribed under the SEBI Act:-
 - a. The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018;



- b. 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;
- c. The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009;
- d. The Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014, and
- e. The Securities and Exchange Board of India (Buyback of Securities) Regulations, 2008

We further report that -

The Board of Directors of the Company is duly constituted with proper balance of Non-Executive Directors and Independent Directors. The changes in the composition of the Board of Directors that took place during the audit period were carried out in compliance with the provisions of the Act.

Adequate notices is given to all Directors to schedule the Board Meetings, agenda and detailed notes on agenda were sent at least seven days in advance, 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.

Decisions at the meetings of the Board of Directors of the Company were carried through on the basis of majority. There were no dissenting views by any member of the Board of Directors, at the meetings, during the audit period.

We 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.

We further report that during the audit period, the following specific events/ actions having a major bearing on the Company's affairs were held/ taken place:-

1. The Company has obtained approval from its Members at its Annual General Meeting held on 5th June, 2018:
 - a) To borrow funds for a sum not exceeding Rs. 60,000 Crores (Rupees Sixty Thousand Crores)



- b) To grant authority for mortgaging or creating charge on the assets of the Company as security towards borrowing for a sum not exceeding Rs. 60,000 Crores; and
 - c) Authorising the issue of (i) Secured Redeemable Non- Convertible Debenture for amount not exceeding Rs. 30,000 Crores, (ii) Subordinated debt for amount not exceeding Rs. 2,500 Crores, (iii) Perpetual debt not exceeding Rs. 900 Crores, (iv) Unsecured Debentures/ bonds (not qualifying as perpetual/ sub debt, but senior to these debentures) not exceeding Rs. 3,000 Crores and (v) Secured/ Unsecured Redeemable Non-convertible Debentures for an amount not exceeding Rs. 3,000 Crores in the overseas markets (also known as masala bonds).
2. The Company has issued and allotted 77,17,700 Equity Shares of face value of Rs. 10/- each, at price of Rs. 324/- per share (including Rs.314/- premium) aggregating to Rs. 250.03 Crores on September 27, 2018 on rights basis.
 3. The Company has issued and allotted 28,51,720 Equity Shares of face value of Rs. 10/- each at price of Rs. 263/- per share (including Rs.253/- premium) aggregating to Rs. 75 crores on March 28, 2019 on rights basis.
 4. The Company has paid dividend on Preference Shares for financial year 2017-18, aggregating to Rs. 96,44,424/- (including of Rs. 16,44,424 dividend distribution tax).
 5. The Company has issued and allotted the Sub-Debt of Rs. 250 Crores and Non-Convertible Debentures of Rs. 6382.8 Crores, in aggregate in different tranches, during the financial year 2018-19.

Place:- Mumbai
Date:- May 02, 2019



K. Venkataraman

Venkataraman K.
Senior Associate

ACS No.:-8897/ COP No.:- 12459

For BNP & Associates

Company Secretaries

[Firm Regn. No. P2014MH037400]

[PR No.:-544/2017]

Note: - This report is to be read with our letter of even date which is annexed as Annexure "A" and forms an integral part of this report.

Annexure I to the Secretarial Audit Report for the financial year ended 31st March, 2019

To,
The Members,
Aditya Birla Finance Limited

1. The compliance of provisions of all laws, rules, regulations, standards applicable to **Aditya Birla Finance Limited** (the 'Company') is the responsibility of the management of the Company. Our examination was limited to the verification of records and procedures on test check basis for the purpose of issue of the Secretarial Audit Report.
2. Maintenance of secretarial and other records of applicable laws is the responsibility of the management of the Company. Our responsibility is to issue Secretarial Audit Report, based on the audit of the relevant records maintained and furnished to us by the Company, along with explanations where so required.
3. We have followed the audit practices and processes as were appropriate to obtain reasonable assurance about the correctness of the contents of the secretarial and other legal records, legal compliance mechanism and corporate conduct. The verification was done on test check basis to ensure that correct facts as reflected in secretarial and other records produced to us. We believe that the processes and practices we followed, provides a reasonable basis for our opinion for the purpose of issue of the Secretarial Audit Report.
4. We have not verified the correctness and appropriateness of financial records and Books of Accounts of the Company.
5. Wherever required, we have obtained the management representation about the compliance of laws, rules and regulations and major events during the audit period.
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.

Place:- Mumbai
Date:- May 02, 2019


Venkataraman K. ..

Senior Associate

ACS No.:-8897/ COP No.:- 12459

For BNP & Associates

Company Secretaries

[Firm Regn. No. P2014MH037400]

[PR No.:-544/2017]





Office: 26, Orchid Plaza, Behind SBI., R. T. Road, Dahisar (East), Mumbai – 400068;
Tel: 022-28978414 / 28483441; Email: rsmp.pcs@gmail.com

SECRETARIAL COMPLIANCE REPORT
of ADITYA BIRLA FINANCE LIMITED for the year ended March 31, 2019

We, RS & MP Associates, Company Secretaries, have examined:

- (a) all the documents and records made available to us and explanation provided by ADITYA BIRLA FINANCE 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 year ended March 31, 2019 ("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, 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;
- (b) Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018; - **Not applicable to the Company for the financial year under review**
- (c) Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
- (d) Securities and Exchange Board of India (Buyback of Securities) Regulations, 2018; - **Not applicable to the Company for the financial year under review**

MP

- (e) Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014; - **Not applicable to the Company for the financial year under review**
- (f) Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;
- (g) Securities and Exchange Board of India (Issue and Listing of Non-Convertible Redeemable Preference Shares) Regulations, 2013; - **Not applicable to the Company for the financial year under review**
- (h) Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015;

and circulars/ guidelines issued thereunder;

and based on the above examination, We 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, ~~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
N.A.			

- (b) The listed entity has maintained proper records under the provisions of the above Regulations and circulars/ guidelines issued thereunder in so far as it appears from our examination of those records.
- (c) The following are the details of actions 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:

Sr. No.	Action taken by	Details of violation	Details of action taken E.g. fines, warning letter, debarment, etc.	Observations/ remarks of the Practicing Company Secretary, if any.
N.A.				

MEW

- (d) The listed entity 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 ... (The years are to be mentioned)	Actions taken by the listed entity, if any	Comments of the Practicing Company Secretary on the actions taken by the listed entity.
NOT APPLICABLE, Since no previous report under this regulations/Rules is issued.				

For RS & MP Associates, Company Secretaries

Unique code No.: P2017MH061400

M/S. RS & MP ASSOCIATES

M/M Patel

PARTNER

Marmik Patel, Partner

ACS: 35755 CP No.: 13205

Date: May 2, 2019

Place: Mumbai

REPORT ON CSR ACTIVITIES/ INITIATIVES
[Pursuant to Section 135 of the Act & Rules made thereunder]

1. **A brief outline of the Company's CSR policy, including overview of the projects or programmes proposed to be undertaken and reference to the web-link to the CSR Policy and projects or programmes**

"No one", said Mahatma Gandhiji, 'is free, until everyone, regardless of caste, and creed, is rid of not only discrimination, but also deprivation'. On this 150th Birth Anniversary of the Father of Nation, we reaffirm our pledge to inclusive growth.

Even as the struggle for equality, for dignity and for raising the quality of life of, each and every person in 1.2 billion cohort is still on, every effort is being made to mitigate this issue. The Government, has done enormous work and continues to focus on poverty alleviation but we have to do more. Fortunately, social investment, is gaining traction. There is the eco system of investors, entrepreneurs, and enablers, all of whom are significantly engaged, in social impact initiatives. India, is in the midst, of a historic transformation. There is the promise, of the end to poverty by 2022. A decent roof, over every individual's head, and a life of dignity, through sustainable livelihood.

Your Company has framed a CSR Policy in compliance with the provisions of the Companies Act, 2013 which is accessible from our Company's website: (www.abfl.adityabirlacapital.com)

2. **The Composition of CSR Committee is provided below:**

- a) Mr. Ashwani Puri
- b) Mr. Ajay Srinivasan
- c) Mr. B N Puranmalka

Permanent Invitees:

- d) Mrs. Rajashree Birla, Chairperson – Aditya Birla Centre for Community Initiatives and Rural Development
- e) Dr. Pragnya Ram - Group Executive President, Corporate Communications and CSR
- f) Mr. Rakesh Singh - Chief Executive Officer

3. Average Net Profit of the Company for last 3 financial years: Rs 852.38 Crore
4. Prescribed CSR expenditure (2% of amount as in item no. 3 above): Rs 17.05 Crore
5. Details of CSR activities/projects undertaken during the year:
- a) total amount to be spent for the financial year – Rs 17.05 Crore
 - b) amount un-spent, if any – Rs 5.96 Crore
 - c) manner in which the amount spent during financial year is detailed below:

(Amount in Rs)

Sr. No.	CSR project/ activity identified	Sector in which the Project is covered	Projects/Programmes 1.Local area/others- 2.specify the state /district (Name of the District/s, State/s where project/ programme was undertaken	Amount outlay (budget) project/ programme wise	Amount spent on the project/ programs <u>Sub-heads:</u> 1.Direct expenditure on project or programs 2.Overheads:	Cumulative expenditure up to the reporting period	Amount spent: Direct/ through implementing agency*
1.	Aditya Birla Health Services Ltd	Healthcare	Local area: Maharashtra - Pune & PCMC, Satara, Karad, Phaltan, Wai, Baramati, Kolhapur, Ahmednagar, Narayangoan, Latur, Beed, Jalgaon	4,38,00,000	4,38,00,000	4,38,00,000	Aditya Birla Health Services Ltd. is the implementing agency
2.	Cancer Patients Aid Association	Healthcare	Vaccination Program -Local area: Maharashtra – Mumbai, Dindrud, Beed, Latur, Vairag, Barshi, Sholapur, Ralegaon, Siddhi, Vidharbha	97,00,000	97,00,000	197,00,000	Cancer Patients Aid Association is the implementing agency
3.	Department of Sports & Youth Welfare Govt. of MP	Promotion of Sports	PAN India	1,00,00,000	23,19,059	23,19,059	Department of MP State is the implementing agency
4.	Army Central Welfare Fund	Women Empowerment & sustainable livelihood	PAN India	1,50,00,000	1,50,00,000	4,50,00,000	Army Central Welfare Fund is the implementing agency
5.	Gosports Foundation	Promotion of Sports	pan India	1,40,00,000	140,00,000	140,00,000	Gosports Foundation is the implementing agency

Sr. No.	CSR project/ activity identified	Sector in which the Project is covered	Projects/Programmes 1.Local area/others- 2.specify the state /district (Name of the District/s, State/s where project/ programme was undertaken	Amount outlay (budget) project/ programme wise	Amount spent on the project/ programs <u>Sub-heads:</u> 1.Direct expenditure on project or programs 2.Overheads:	Cumulative expenditure up to the reporting period	Amount spent: Direct/ through implementing agency*
6.	Dodamarg Saptakroshi Bahuuddeshiya	Education	Local area: Maharashtra, Sindhudurga	4,33,672	4,33,672	26,41,016	Dodamarg Saptakroshi Bahuuddeshiya
7.	Lords Education & Health Society (Wish Foundation)	Healthcare	Local area: Rajasthan, Sawai Madhopur	1,36,51,182	1,36,51,182	2,49,86,332	Wish Foundation is the implementing agency
8.	Myrada	Women Empowerment & sustainable livelihood	Local area: Karnataka, Chitradurga	44,00,000	44,00,000	1,23,00,000	Myrada is the implementing agency
9.	The Pride India	Healthcare	Local area: Maharashtra, Osmanabad	39,00,000	39,00,000	95,00,000	Pride India is the implementing agency
10.	Samhita Social Ventures Pvt Ltd	Impact Assessment (Overheads)	PAN India	2,77,119	2,77,119	13,85,593	Not applicable
11.	Overheads	-	-		33,49,476	-	
				Total	11,08,30,508	17,56,32,000	

*Give details of implementing Agency.

6. In case the company has failed to spend the 2% of the average net profit of the last 3 financial years or any part thereof, reasons for not spending the amount in its Board Report

The Company formulated its CSR policy in accordance with the directions specified in the Companies Act, 2013 read with the Rules. The Company is part of Aditya Birla Group and its overall vision is to actively contribute to the social and economic development of the communities in which the Group operates and in so doing build a better, sustainable way of life for the weaker and marginalized sections of society and raise the country's human development index.

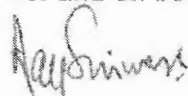
In FY 19, the Company has spent Rs 11.08 Crore and Rs 17.56 Crore cumulatively since 2015 till date towards CSR activities towards the projects included in the table above. During the year the Company identified some new projects towards CSR spend and had contributed towards the same as indicated. For the projects which had required one-time bullet payments, CSR contributions towards the same were released. For some of the projects, the payments were staggered based on achievement of milestones and / or actual expenditure. Thus the pace of implementation and disbursements was based on raising of actual bills (ex. contribution to Department of Sports & Youth Welfare, Government of Madhya Pradesh was purely on basis of reimbursement on actual bills raised of Rs. 23 lakh against total budget of Rs. 1 Crore). The releases of payment to these projects, linked with specific milestones, are made in tranches after evaluating the progress made in line with the mutually agreed schedule. This results in effective monitoring of the progress of the projects and ensuring long term sustainability and larger impact. Post September 2018, the business environment was very challenging and due to tight liquidity conditions, the management was not able to identify additional activities for CSR initiatives. Due to a combination of these reasons, the Company was not able to invest its entire CSR budget for the year.

The Company's key objective is to make a difference to the lives of the underprivileged and help bring them to self-sustaining level. There is a deep commitment to CSR engagement. We are continuously evaluating the new projects towards CSR activities. As a socially responsible caring Company, we desire to play a larger role in India's sustainable development. That our projects make a difference has been recognized by the local communities.

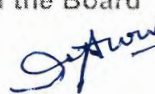
7. A responsibility statement by the CSR Committee that the implementation and monitoring of CSR Policy, is in compliance with CSR objectives and Policy of the Company.

The implementation and monitoring of CSR Policy is in compliance with CSR objectives and Policy of the Company.

For and on behalf of the Board



Ajay Srinivasan
Director
DIN - 00121181



Ashwani Puri
Chairman – CSR Committee
DIN - 00160662

Place: Mumbai
Date: May 2, 2019