

B S R & Associates LLP

Chartered Accountants

8-2-618/2, Reliance Humsafar,
4th Floor, Road, No. 11,
Banjara Hills
Hyderabad - 500 034. India.

Telephone +91 40 3046 5000
Fax +91 40 3046 5299

Independent Auditor's Report
To the Members of
Utkarsh Micro Finance Limited
(formerly Utkarsh Micro Finance Private Limited)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Utkarsh Micro Finance Limited (hereinafter referred to as "the Holding Company") and its subsidiary (the Holding Company and its subsidiary together referred to as "the Group"), comprising of the Consolidated Balance Sheet as at 31 March 2017, the Consolidated Statement of Profit and Loss, the Consolidated Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information (hereinafter referred to as "the consolidated financial statements").

Management's Responsibility for the Consolidated Financial Statements

The Holding Company's Board of Directors is responsible for the preparation of these consolidated financial statements in terms of the requirements of the Companies Act, 2013 (hereinafter referred to as "the Act") that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Group in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 6 and 7 of the Companies (Accounts) Rules, 2014. The respective Board of Directors of the companies included in the Group are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Group and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, which have been used for the purpose of preparation of the consolidated financial statements by the Directors of the Holding Company, as aforesaid.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. While conducting the audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder, to the extent applicable.

Utkarsh Micro Finance Limited
Independent Auditor's Report on the Consolidated Financial Statements (continued)

Auditor's Responsibility (continued)

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those Standards and pronouncements require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion

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

Emphasis of Matter

1. We draw your attention to Note 2.25 of the accompanying consolidated financial statements. Pursuant to condition attached to the approval received from Reserve Bank of India (RBI) for setting small finance bank, the Holding Company has surrendered its NBFC MFI certificate on 13 December 2016 to RBI and applied for systemically Important Core Investment Company (CIC-SI). The approval for registration of the Holding Company as CIC-SI is awaited from the RBI. Our Report is not qualified in respect of this matter.
2. We draw your attention to Note 2.24 and 1(a) of the accompanying consolidated financial statements. The Reserve Bank of India ("RBI") issued the small finance bank license to the Subsidiary pursuant to which the the Holding Company transferred its micro lending business to subsidiary through a Business Transfer Agreement (BTA). In accordance with the BTA, all the assets and liabilities (except certain specified assets and liabilities) as at 21 January 2017 of the Holding Company were transferred at book value on a 'slump sale basis' for cash consideration. Resultant, non-convertible debentures listed on the stock exchange were also transferred in the name of the subsidiary and a transfer was effected by the exchange effective 03 May 2017. The subsidiary has been incorporated on 30 April 2016 and commenced its operations as a Bank effective 23 January 2017. This being the first consolidated financial statements of the Group, no comparative figures have been provided by the Group in these consolidated financial statements. Our report is not qualified in respect of this matter.

Utkarsh Micro Finance Limited
Independent Auditor's Report on the Consolidated Financial Statements (continued)

Report on Other Legal and Regulatory Requirements

As required by Section 143(3) of the Act, we report, to the extent applicable, that:

- (a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit of the aforesaid consolidated financial statements.
- (b) In our opinion, proper books of account as required by law relating to preparation of the aforesaid consolidated financial statements have been kept so far as it appears from our examination of those books and record of the Group.
- (c) The Consolidated Balance Sheet, the Consolidated Statement of Profit and Loss, and the Consolidated Cash Flow Statement dealt with by this Report are in agreement with the relevant books of account maintained for the purpose of preparation of the consolidated financial statements.
- (d) In our opinion, the aforesaid consolidated financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 6 and 7 of the Companies (Accounts) Rules, 2014.
- (e) On the basis of the written representations received from the directors of the Holding Company and subsidiary incorporated in India as on 31 March 2017 taken on record by the Board of Directors of the Holding Company and subsidiary incorporated in India, none of the directors of the Holding Company and subsidiary incorporated in India is disqualified as on 31 March 2017 from being appointed as a director in terms of Section 164 (2) of the Act.
- (f) With respect to the adequacy of the internal financial controls over financial reporting of the Holding Company and its subsidiary incorporated in India and the operating effectiveness of such controls, refer to our separate report in "Annexure A".
- (g) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditor's) Rules, 2017, in our opinion and to the best of our information and according to the explanations given to us:
 - i. The Group has disclosed the impact of pending litigations as at 31 March 2017 on its financial position in the Note 2.34 of the consolidated financial statements.
 - ii. The Group has made provision as at 31 March 2017, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts.
 - iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Holding Company and its subsidiary incorporated in India.

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Independent Auditor's Report on the Consolidated Financial Statements (continued)

Report on Other Legal and Regulatory Requirements (continued)

- iv. The Group has provided requisite disclosure in the Note 2.40 to the consolidated financial statements as to the holdings as well as dealings in Specified Bank Notes during the period 08 November 2016 to 30 December 2016. However, we are unable to obtain sufficient and appropriate audit evidence to report on whether the disclosures are in accordance with books of account maintained by the Company and as produced to us by the Management. Further the said disclosure is not applicable to the Subsidiary, being a Bank in the Group.

for **B S R & Associates LLP**

Chartered Accountants

ICAI Firm Registration Number. : 116231W/W-100024



Hemant Maheshwari

Partner

Membership Number: 096537

Place: Hyderabad

Date: 31 May 2017