

**KARNAVATI  
FINANCE LIMITED  
32<sup>ND</sup> ANNUAL REPORT  
2015-16**

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## Corporate Information

### KARNAVATI FINANCE LIMITED

**CIN:** L65910MH1984PLC034724

<b>Board of Directors</b>	<b>Committees of the Board of Directors</b>
Mr. Jay Morzaria      Managing Director	<b>Audit Committee</b>
Mr. Raman Morzaria      Whole-time Director	Mr. Jay Somaiya
Mr. Jay Somaiya      Independent Director	Ms. HardikaMandavia
Ms. HardikaMandavia      Independent Director	Mr. Jay Morzaria
<b>Registered Office</b>	<b>Stakeholders' Relationship Committee</b>
Unit No 2, Sagar Deep Darshan Co Operative Housing Society Limited, S. V. Road, Borivali (West) Mumbai – 400 092 Maharashtra.	Mr. Jay Somaiya
<b>Tel No:</b> +91 – 0288 – 266 3042	Ms. HardikaMandavia
<b>Fax No:</b> +91 – 0288 – 267 3759	Mr. Jay Morzaria
<b>E-Mail:</b> karnavatifinance@gmail.com	<b>Nomination and Remuneration Committee</b>
<b>Web:</b> www.karnavatifinancelimited.in	Mr. Jay Somaiya
<b>Corporate Office</b>	Ms. HardikaMandavia
Vraj, 5th Floor, Opp. President Hotel, Near Bhumi Press, Limda Lane, Jamnagar – 361 001, Gujarat.	Mr. Jay Morzaria
<b>Statutory Auditor</b>	<b>Banker</b>
M/s. Maharishi & Co., Chartered Accountants "Aparna", Behind Jivandeep Hospital, Limda Lane, Jamnagar – 361 001. <b>E-Mail ID:</b> info@jainandmaharishi.com	Corporation Bank
	<b>Secretarial Auditors</b>
	Mr. Anand S. Lavingia Practicing Company Secretary 415-416, Pushpam Complex, Opp. Seema Hall, Anandnagar Road, Satellite, Ahmedabad–380051
<b>Registrar and Share Transfer Agent</b>	
Satellite Corporate Services Private Limited B-302, Sony Apartment, Opp. St. Judes High School, Off Andheri Kurla Road, JarimariSakinaka, Mumbai – 400 072 <b>Tel No.:</b> +91-22-2852 0461/462 <b>Fax No.:</b> +91-22- 2851 1809 <b>Email:</b> service@satellitecorporate.com <b>Web:</b> www.satellitecorporate.com	

## Notice to Shareholders

Notice is hereby given that the 32<sup>nd</sup> Annual General Meeting of the Members of Karnavati Finance Limited will be held at the Registered Office of the Company situated at Unit No 2, Sagar Deep Darshan Co Operative Housing Society Limited, S.V. Road, Borivali (West), Mumbai, Maharashtra- 400 092 on Friday, September 30, 2016 at 03:00P.M. to transact the following businesses:

### Ordinary Businesses:-

1. To receive, consider and adopt audited financial statement of account for the financial year ended on March 31, 2016 and the reports of the Director's and the Auditor's thereon.
2. To appoint a Director in place of Mr. JayMorzaria(DIN: 02338864), Managing Director of the Company, who retires by rotation and being eligible, seeks re-appointment.
3. Ratification of Appointment of Statutory Auditor and to fix their remuneration.

To consider and if thought fit, to pass with or without modification(s), if any, the following resolution as an

### Ordinary Resolution:

**"RESOLVED THAT** pursuant to the provisions of Section 139, 142, and other applicable provisions, if any, of the Companies Act, 2013 and the rules made thereunder, including any statutory modification(s) or re-enactment(s) thereof for the time being in force, the Company hereby ratifies the appointment of M/s. Maharishi & Co., Chartered Accountants (Firm Registration No.124872W) as Statutory Auditors of the Company to hold office from the conclusion of the this Annual General Meeting till the conclusion of the 33<sup>rd</sup> Annual General Meeting to be held in the year 2017, on a remuneration as may be agreed upon by the Board of Directors and the Auditors, apart from out-of-pocket expenses that may be incurred by them for the purpose of audit."

### Special Businesses:-

4. **Appointment of Ms. HardikaMandavia(DIN: 05115162)as Non-ExecutiveIndependent Director, designated as Woman Director of the Company.**

To consider and if thought fit, to pass with or without modification(s), if any, the following resolution as an

### Ordinary Resolution:

**"RESOLVED THAT** pursuant to the provisions of Sections 149 and 152 read with Schedule IV and other applicable provisions, if any, of the Companies Act, 2013 ("the Act") and the Companies (Appointment and Qualification of Directors) Rules, 2014 (including any statutory modification(s) or re-enactment(s) thereof, for the time being in force), Ms. HardikaMandavia(DIN: 05115162), who was appointed as an Additional(Non - Executive Independent) Director of the Company in terms of Section 161 of the Act and whose term of office expires at this Meeting and who qualifies for being appointed as an Independent Director and in respect of whom the Company has received a notice in writing under Section 160 of the Act from a member proposing her candidature for the office of Independent Director, be and is hereby appointed as Non-Executive Independent Director, designated Woman Director of the Company to hold office for a term of 5 (five) consecutive years i.e. up to April 12, 2021.

**RESOLVED FURTHER THAT** the Board be and is hereby authorized to do all such acts, deeds and things and execute all such documents, instruments and writings as may be required and to delegate all or any of its powers herein conferred to any Committee of Directors or Director(s) to give effect to the aforesaid resolution."

### Registered Office

Unit No. 2, Sagar Deep Darshan Co. Op.  
Housing Society Limited, S. V. Road, Borivali (West)  
Mumbai – 400 092, Maharashtra

By order of the Board  
For, **Karnavati Finance Limited**

**Place:** Jamnagar

**Date:** September 5, 2016

### Notes:

1. The relative Explanatory Statement pursuant to Section 102 of the Companies Act, 2013 ("Act") setting out material facts concerning the business covered under Item No. 4 of the Notice, is annexed hereto. The relevant details, as required under Regulation 36(3) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations"), of the person seeking re-appointment/ appointment as Director under Item Nos. 2 and 4 of the Notice, are also annexed.

**Jay Morzaria**  
**Managing Director**  
**DIN: 02338864**

**2. A Member entitled to attend and vote at the Annual General Meeting (AGM) is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a Member of the Company.**

A person can act as proxy on behalf of Members not exceeding 50 (fifty) and holding in the aggregate not more than 10% of the total share capital of the Company. In case a proxy is proposed to be appointed by a Member holding more than 10% of the total share capital of the Company carrying voting rights, then such proxy shall not act as a proxy for any other person or shareholder.

The instrument appointing the proxy, in order to be effective, must be deposited at the Company's Registered Office, duly completed and signed, not less than 48 (Forty-Eight) Hours before the commencement of the AGM. Proxies submitted on behalf of limited companies, societies etc., must be supported by appropriate resolutions / authority, as applicable.

During the period beginning 24 hours before the time fixed for the commencement of Meeting and ending with the conclusion of the Meeting, a Member would be entitled to inspect the proxies lodged at any time during the business hours of the company.

3. Members/Proxies should bring their Attendance slip duly completed for attending the meeting. The signature of the attendance slip should match with the signature(s) registered with the Company. Members holding shares in dematerialized form are requested to bring their Client ID and DP ID numbers for identification.
4. Corporate members intending to send their authorized representatives to attend the meeting are requested to send a certified copy of the board resolution authorizing their representative to attend and vote on their behalf at the meeting.
5. In case of joint holders attending the meeting together, only whose name appearing first will be entitled to vote.
6. The Register of Members and Share Transfer Books of the Company will be closed from Saturday, September 24, 2016 to Friday, September 30, 2016 (both days inclusive) and same will be re-opened from Saturday, October 1, 2016 onwards.
7. The route map showing directions to reach the venue of the thirty-second AGM is annexed at the end of this Annual Report and uploaded on the website of the Company.
8. To prevent fraudulent transactions, members are advised to exercise due diligence and notify the Company of any change in address or demise of any member as soon as possible. Members are also advised not to leave their demat account(s) dormant for long period of time. Periodic statement of holdings should be obtained from the concerned Depository Participant and holdings should be verified.
9. The members who holds shares of the Company in Physical form are informed that the company is in process of updating records of the shareholders in order to reduce the physical documentation as far as possible. In line with new SEBI (LODR), 2015, it is mandatory for all the investors including transferors to complete their KYC information. Hence, members are requested to update and intimate their PAN, phone no., e-mail id and such other information to the Company's Registrars and Transfer Agents, Satellite Corporate Services Private Limited (SCSPL). Members are further requested to update their current signature in SCSPL system. The Performa of updation of Shareholder information is provided at the end of Annual Report.
10. Members holding shares in dematerialized form are requested to intimate all changes pertaining to their bank details such as bank account number, name of the bank and branch details, MICR code and IFSC code, mandates, nominations, power of attorney, change of address, change of name, e-mail address, contact numbers, etc., to their depository participant (DP). Changes intimated to the DP will then be automatically reflected in the Company's records which will help the Company and the Company's Registrars and Transfer Agents to provide efficient and better services.
11. The Securities and Exchange Board of India ("SEBI") has mandated the submission of Permanent Account Number (PAN) by every participant in securities market. Members holding shares in electronic form are, therefore, requested to submit the PAN to their depository participants with whom they are maintaining their demat accounts. Members holding shares in physical form can submit their PAN details to SCSPL.
12. Members holding shares in physical form are requested to consider converting their holdings to dematerialized form to eliminate all risks associated with physical shares and for ease of portfolio management. Members can contact SCSPL for assistance in this regard.
13. Members holding shares in physical form, in identical order of names, in more than one folio are requested to send to SCSPL, the details of such folios together with the share certificates for consolidating their holdings in one folio. A consolidated share certificate will be issued to such Members after making requisite changes.
14. As per the provisions of Section 72 of the Act, the facility for making nomination is available for the Members in respect of the shares held by them. Members who have not yet registered their nomination are requested to register the same by submitting Form No. SH-13. The Nomination Form can be obtained from the SCSPL. Members holding shares in physical form may submit the same to SCSPL. Members holding shares in electronic form may submit the same to their respective depository participant.
15. The Company is concerned about the environment and utilizes natural resources in a sustainable way. We request every member to update their email address with concerned Depository Participant and SCSPL to enable us to send you the communications via email.

16. The Notice of the AGM along with the Annual Report 2015-16 is being sent by electronic mode to those Members whose e-mail addresses are registered with the Company / Depositories, unless any Member has requested for a physical copy of the same. For Members who have not registered their e-mail addresses, physical copies are being sent by the permitted mode. Members may note that this Notice and the Annual Report 2015-16 will also be available on the Company's website viz. [www.karnavatifinancelimited.in](http://www.karnavatifinancelimited.in).
17. The Ministry of Corporate Affairs ('MCA') on May 10, 2012 notified the Investor Education and Protection Fund (Uploading of information regarding Unpaid and Unclaimed amounts lying with Companies) Rules, 2012 (IEPF Rules), which is not applicable to the Company as the Company has not declared any dividend. Further, the Company does not have any unpaid or unclaimed dividend amount outstanding as on the closure of financial year 2015-16. Therefore, the Company is not required to upload the details of Unpaid and unclaimed dividend amounts. Further, during the year, the Company has not transferred any amount to IEPF.
18. The Register of Directors and Key Managerial Personnel and their shareholding, maintained under Section 170 of the Companies Act, 2013, will be available for inspection by the members at the Annual General Meeting.
19. The Register of Contracts or Arrangements in which Directors are interested, maintained under Section 189 of the Companies Act, 2013, will be available for inspection by the members at the Annual General Meeting.
20. Members seeking any information with regard to the accounts are requested to write to the Company at an early date, so as to enable the Management to keep the information ready at the Annual General Meeting.
21. In pursuance of the provisions of Section 108 of the Act and the Rules framed there under, as amended from time to time, the Company is exempted from giving the Members the facility to cast their vote electronically, through the remote e-voting services on the resolutions set forth in this Notice. However, voting through permitted mode under the Companies Act, 2013 will be allowed at the venue of Annual General Meeting.
22. All documents specifically referred to in this Notice and the Explanatory Statement are open for inspection at the Registered office of the Company between 02.00 p.m. to 04.00 p.m. on all working days (except Saturdays, Sundays and Holidays) up to the date of AGM.
23. The relevant details, as required under Regulation 36(3) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations"), of the person seeking appointment or re-appointment as Director under Item No. 2 and 4 of the Notice are provided hereunder;

Particulars	Mr. Jay Morzaria	Ms. Hardika Mandavia
<b>Date of Birth</b>	August 14, 1989	February 17, 1989
<b>Date of Appointment at current designation and term</b>	July 1, 2014	April 13, 2016
<b>Educational Qualifications</b>	Post Graduate	Graduate
<b>Expertise in specific functional areas - Job profile and suitability</b>	Mr. Jay R Morzaria is core promoter of the company and has been appointed as Managing Director of the company with the effect from July 01, 2014. He has completed bachelor of commerce from Mumbai University and law graduation in the year 2012 from Mumbai University. He has an overall experience of around 3 years in the field of finance and construction business.	Ms. Hardika Mandavia is having a expertise in Marketing and is a Commerce Graduate.
<b>Directorships held in other public companies</b>	-	-
<b>Memberships / Chairmanships of committees of public companies**</b>	Member – 2	Member - 2
<b>Inter-se Relationship with other Directors.</b>	Mr. Raman Morzaria is the Father of Mr. Jay Morzaria.	-

\*\*Includes only Audit Committee and Stakeholders' Grievances and Relationship Committee.

## Annexure to Notice

### Explanatory Statement pursuant to Section 102 of the Companies Act, 2013 ("The Act")

#### Item No. 4:

Pursuant to provisions of Section 161 of the Companies Act, 2013 and the Articles of Association of the Company, the Board of Directors of the Company has appointed Ms. Hardika Mandavia as an Additional Director with effect from April 13, 2016. Ms. Hardika Mandavia is a Non-Executive Independent Director, designated as Woman Director on the Board of the Company.

Pursuant to provisions of Section 161 of the Companies Act, 2013, Ms. Hardika Mandavia holds office upto the date of ensuing Annual General Meeting of the Company. A notice has been received from Member along with deposit of requisite amount under Section 160 of the Companies Act, 2013 proposing candidature of Ms. Hardika Mandavia for appointment as a Non-Executive Independent Director of the Company designated as the Woman Director.

Ms. Hardika Mandavia is not disqualified from being appointed as Director in terms of section 164 of the Act and has given her consent to act as a Non-Executive Independent Director of the Company. Section 149 of the Act, inter alia, stipulates the criteria of independence. As per the provisions of the said section, an Independent Director can hold office for a term up to five consecutive years on the Board of a Company and he / she shall not be included in determining the total number of Directors liable to retire by rotation.

The Company has received a declaration from Ms. Hardika Mandavia that she meets criteria of independence as prescribed under section 149 of the Companies Act, 2013. Ms. Hardika Mandavia possesses experience in the field of marketing. Brief resume of Ms. Hardika Mandavia, nature of her expertise in specific functional areas and names of the Companies in which she holds directorships and memberships / chairperson of the Board / Committees and shareholding are provided in Note no. 23 of the Notice.

In the opinion of the Board, Ms. Hardika Mandavia fulfills the conditions specified in the Act and rules made thereunder for appointment as a Non-Executive Independent Director, designated woman Director of the Company.

Keeping in view of her experience and knowledge, the Board considers that her association would be beneficial to the Company and it is desirable to continue to avail the services of Ms. Hardika Mandavia as a Non-Executive Independent Director, designated as Woman Director.

Save and except Ms. Hardika Mandavia and her relatives to the extent their shareholding in the Company, none of the Directors and Key Managerial Personnel of the Company and their relatives is concerned or interested, financially or otherwise, in the resolution set out at item No. 4.

#### Registered Office

Unit No. 2, Sagar Deep Darshan Co. Op.  
Housing Society Limited, S. V. Road, Borivali (West)  
Mumbai – 400 092, Maharashtra

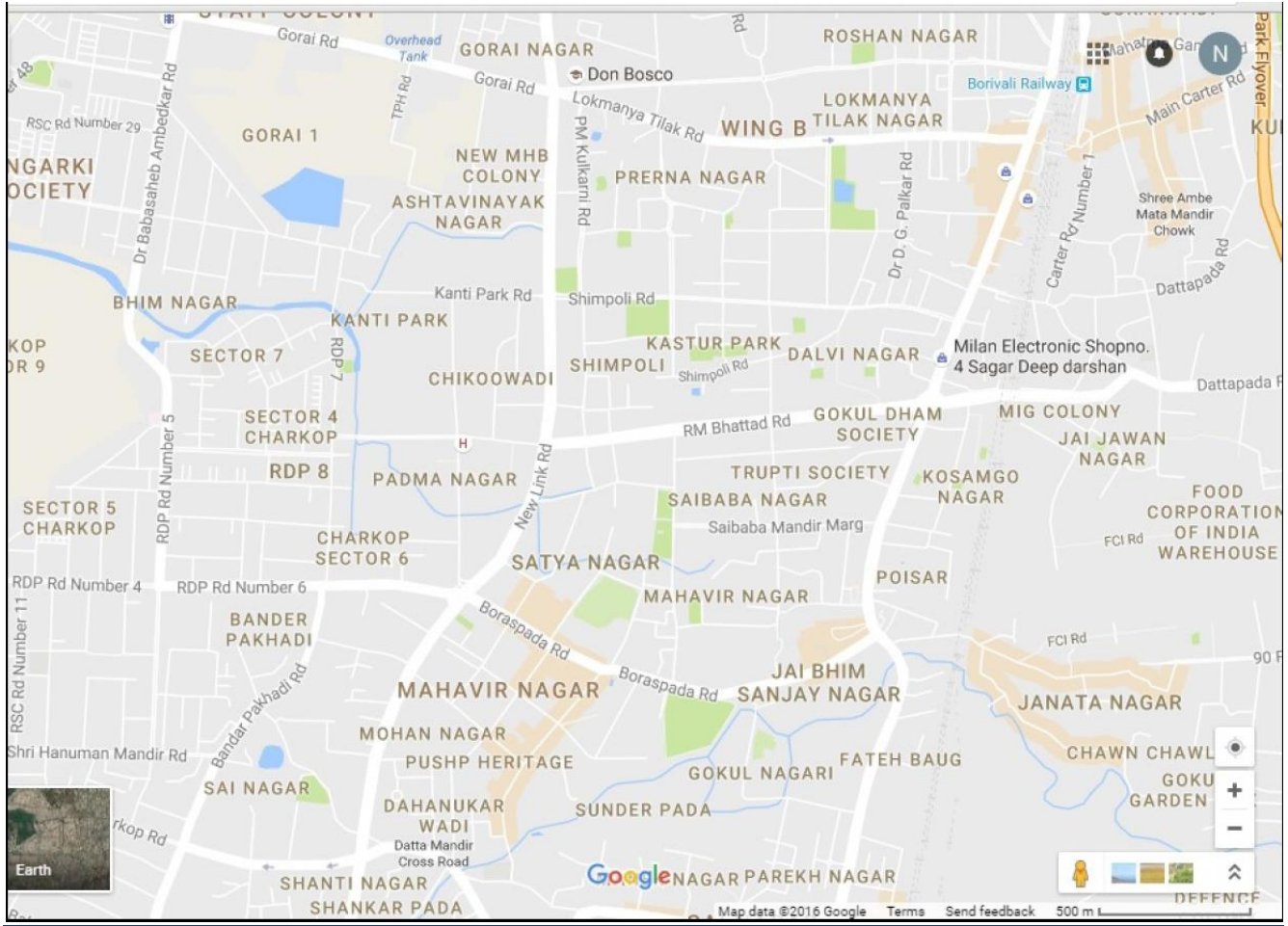
**Place:** Jamnagar

**Date:** September 5, 2016

By order of the Board  
For, **Karnavati Finance Limited**

**Jay Morzaria**  
**Managing Director**  
**DIN: 02338864**

### Route map to the venue of Annual General Meeting





## **DIRECTORS' REPORT**

To,

The Shareholders,

The Directors have the pleasure of presenting the 32<sup>nd</sup> Annual Report of your Company with the Audited Financial Statements of the Company for the year ended March 31, 2016.

### **Financial Results**

(Rs. In lakhs)

<b>Particulars</b>	<b>F.Y. 2015-16</b>	<b>F.Y. 2014-15</b>
Revenue from Operations	44.42	47.58
Other operating Income	19.03	-
<b>Total Revenue</b>	<b>63.45</b>	<b>47.58</b>
Less: Total Expenses	(18.18)	(80.81)
<b>Operating Profits before Exception item, Depreciation, Interest and Tax</b>	<b>45.27</b>	<b>(33.23)</b>
Less: Depreciation	1.58	1.57
Interest	-	-
<b>Profit / (Loss) Before Tax</b>	<b>43.69</b>	<b>(34.80)</b>
Less : Exceptional Items	-	-
Less: Current Tax	11.68	2.72
Less : Deferred Tax Liabilities/ (Assets)	(4.81)	-
<b>Profit / (Loss) after Tax</b>	<b>36.82</b>	<b>(37.52)</b>

### **Review of Business Operation**

During the financial year 2015-16, The Company has earned total income of Rs. 63.45 Lakhs from business activities (Finance Charge) compared to that of Rs. 47.58 Lakhs of previous year which shows growth in Revenue from Operations by 33% over the previous year.

Due to expansion of Business, the overall revenue of the Company was increased. Further, in the financial year 2015-16, due to decrease in the loan losses and other expenses compared to previous year, the performance of the Company was satisfactory during the financial year 2015-16.

During the financial year 2015-16, there were no loans written off and even provision for NPA was reduced by almost 80% compared to that of previous year.

The total Profit before tax for the financial year 2015-16 stood at Rs. 43.69 Lakh compared to loss before tax of Rs. 34.80 Lakh for the financial year 2014-15 making net profit after tax of Rs. 36.82 Lakh for financial year 2015-16 compared to loss after tax of Rs. 37.52 Lakh for the financial year 2014-15.

The Directors of the Company are planning to expand the business of the Company in the current year by providing the varied types of the financial services to the customers and thus confident of presenting the better figures in the coming years.

### **Dividend**

To conserve resources for future prospect and growth of the Company, your Directors regret to declare Dividend for the Financial Year 2015-16 (Previous year - Nil).

### **Net Profit Transfer to Reserve**

The Company has transferred Rs. 7.36 Lakh to Statutory Reserve Fund in terms of Section 45-1C of the Reserve Bank of India Act, 1934. The balance net profit was adjusted against the debit balance of carried forward loss of the Company.

### **Change in Nature of Business**

During the year, your Company has not changed its business or object and continues to be in the same line of business as per main object of the Company.

### **License for Money Changer**

The Company had made application to Reserve Bank of India for issue of license to carry on business for Full Fledge Money Changer. The Reserve Bank of India has considered the application and issued License No. 1916/2016 dated June 1, 2016.

However, the Company has not started the business of Full Fledge Money Changer till date. The Board of Directors is in planning to commence the business in the current year.

### Information of Board of Directors and its Meetings

The Board of Directors of the Company consists of four (4) Directors; one (1) of whom is Promoter - Managing Director, one (1) is Promoter - Whole-time Director and two (2) are Non-Executive Independent Directors.

The composition of Board complies with the requirements of the Companies Act, 2013. Further, in pursuance of Regulation 15(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"), the Company is exempted from requirement of having composition of Board as per Listing Regulations.

The Board of the Company comprises following Directors as on date of this report;

Name of Directors	Category of Directorship	No. of Directorships	No. of Committee <sup>1</sup> Membership/ Chairmanship in Companies	Attendance at the AGM held on 21-09-2015
Mr. Jay Morzaria	Managing Director (Promoter)	4 <sup>^</sup>	Member – 2	Yes
Mr. Raman Morzaria	Whole-time Director (Promoter)	4	-	Yes
Mr. Jay Somaiya	Non-Executive Independent Director	3	Chairman – 2	Yes
Ms. HardikaMandavia	Non-Executive Independent Director	2	Member – 2	N.A.

<sup>1</sup> Committee includes Audit Committee and Shareholders' Grievances Committee across all Public Companies.

<sup>^</sup> One of the Companies is in process of Striking Off.

### Board Meetings

During the year under review, Board of Directors of the Company met 7 (Seven) times, viz. April 3, 2015, May 30, 2015, August 01, 2015, August 24, 2015, November 10, 2015, February 15, 2016 and March 30, 2016. The gap between two consecutive meetings was not more than one hundred and twenty days as provided in section 173 of the Act.

The details of attendance of each Director at the Board Meeting and Annual General Meeting are given below;

Name of Director	Mr. Jay Morzaria	Mr. Raman Morzaria	Mr. Jay Somaiya	Mr. Kaushal Ruparel
No. of Board Meeting held	7	7	7	7
No. of Board Meeting attended	7	7	5	5
Presence at the previous AGM	Yes	Yes	Yes	Yes

### Independent Directors

In terms of Section 149 of the Companies Act, 2013 ("The Act") and rules made there under, the Company has two Non-Promoter Independent Directors in line with the act. A separate meeting of Independent Directors was held on March 30, 2016 to review the performance of Non-Independent Directors and Board as whole and performance of Chairperson of the Company including assessment of quality, quantity and timeliness of flow of information between Company management and Board. The terms and conditions of appointment of Independent Directors and Code for Independent Director are incorporated on the website of the Company at [www.karnavatifinancelimited.in](http://www.karnavatifinancelimited.in).

The Company has received necessary declaration from each independent director under Section 149 (7) of the act that they meet the criteria of independence laid down in Section 149 (6) of the act.

### Information on Directorate

During the year under review, there was no change in the constitution of the Board of Directors. However, after the closure of financial year 2015-16, Mr. Kaushal Ruparel, Independent Director of the Company has resigned from the board w.e.f. April 13, 2016. The Board of Directors had placed their appreciation to Mr. Kaushal Ruparel for providing his service as director of the Company.

In terms of Section 149 of the act, the Board of Directors in their meeting held on April 13, 2016 has appointed Ms. HardikaMandaviaas an Additional (Non - Executive) Director of the company w.e.f. April 13, 2016. In terms of provisions of Section 161 of the act she holds office up to the date of ensuing Annual General Meeting of the Company. A Notice under Section 160 of the act has been received from member proposing candidature of Ms.

Hardika Mandavia for appointment as an Independent Director of the Company. The Board of Directors recommend her appointment as Non-Executive Independent Director, designated as Woman Director of the Company and resolution to that effect has been proposed for approval of Members of the company at the ensuing Annual General Meeting.

In accordance with the provisions of the Articles of Association and Section 152 of the Companies Act, 2013, Mr. Jay Morzaria, Managing Director of the Company retires by rotation at the ensuing annual general meeting. He, being eligible, has offered himself for re-appointment as such and seeks re-appointment. The Board of Directors recommends his appointment on the Board.

The relevant details, as required under Regulation 36 (3) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations"), of the person seeking re-appointment/appointment as Director are also provided in Note No. 23 of the Notice convening the 32<sup>nd</sup> annual general meeting.

None of the Director of the Company is serving as a Whole-Time Director in any Listed Company and is holding position of Independent Director in more than 3 Listed Company and none of the Director of the Company is holding position as Independent Director in more than 7 Listed Company. Further, none of the Directors of the Company is disqualified for being appointed as Director as specified in Section 164 (2) of the Companies Act, 2013.

### **Key Managerial Personnel**

In accordance with Section 203 of the Companies Act, 2013, the Company has Mr. Jay Morzaria who is acting as Managing Director of the Company. During the year, the Company has not appointed/re-appointed any Key Managerial Personnel. Further, no Key Managerial Personnel has resigned from the post.

### **Performance Evaluation**

The Board of Directors has carried out an annual evaluation of its own performance, board committees and individual directors pursuant to the provisions of the Act.

Further, Nomination and Remuneration has also carried out the performance evaluation of the individual directors on the basis of the criteria such as the contribution of the individual director to the board and committee meetings. In addition, the chairman was also evaluated on the key aspects of his role.

Separate meeting of independent directors was held to evaluate the performance of non-independent directors, performance of the board as a whole and performance of the chairman, taking into account the views of executive directors and non-executive directors.

### **Directors' Responsibility Statement**

Pursuant to section 134(5) of the Companies Act, 2013, the board of directors, to the best of their knowledge and ability, confirm that:

- a) In preparation of annual accounts for the year ended March 31, 2016, the applicable accounting standards have been followed and that no material departures have been made from the same;
- b) The Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that year;
- c) The Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- d) The Directors had prepared the annual accounts for the year ended March 31, 2016 on going concern basis.
- e) The Directors had laid down the internal financial controls to be followed by the Company and that such Internal Financial Controls are adequate and were operating effectively; and
- f) The Directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

### **Committee of Board**

The Board of Directors, in line with the requirement of the act, has formed various committees, details of which are given hereunder.

#### **A. Audit Committee**

The Company has formed audit committee in line with the provisions Section 177 of the Companies Act, 2013. Audit Committee meeting is generally held for the purpose of recommending the half yearly and yearly financial

result. Additional meeting is held for the purpose of reviewing the specific item included in terms of reference of the Committee. During the year under review, Audit Committee met 4 (Four) times viz on May 30, 2015, August 24, 2015, November 10, 2015 and February 15, 2016.

The composition of the Committee and the details of meetings attended by its members are given below:

Name of the Director	Category	Designation	No. of Meetings Attended
Mr. Jay Somaiya	Independent Director	Chairman	4
Mr. Kaushal Ruparel	Independent Director	Member	4
Mr. Jay Morzaria	Managing Director	Member	4

The representative of Statutory Auditors of the Company was invited in the meeting of the Committee whenever required.

Mr. Jay Somaiya, the Chairman of the Committee had attended last Annual General Meeting of the Company held on September 21, 2015.

Recommendations of Audit Committee have been accepted by the Board wherever/whenever given.

Composition of the Audit Committee was revised w.e.f. April 13, 2016 due to resignation of Mr. Kaushal Ruparel. Ms. Hardika Mandavia, Independent Director of the Company was inducted as Member of the Committee in place of Mr. Kaushal Ruparel.

### **Vigil Mechanism**

The Company has established a vigil mechanism and accordingly framed a Whistle Blower Policy. The policy enables the employees to report to the management instances of unethical behavior, actual or suspected fraud or violation of Company's Code of Conduct. Further the mechanism adopted by the Company encourages the Whistle Blower to report genuine concerns or grievances and provide for adequate safe guards against victimization of the Whistle Blower who avails of such mechanism and also provides for direct access to the Chairman of the Audit Committee, in exceptional cases. The functioning of vigil mechanism is reviewed by the Audit Committee from time to time. None of the Whistle blowers has been denied access to the Audit Committee of the Board. The Whistle Blower Policy of the Company is available on the website of the Company at [www.karnavatifinancelimited.in](http://www.karnavatifinancelimited.in).

### **B. Stakeholders' Grievances and Relationship Committee**

The Company has constituted Stakeholder's Grievance & Relationship Committee mainly to focus on the redressal of Shareholders' / Investors' Grievances, if any, like Transfer / Transmission / Demat of Shares; Loss of Share Certificates; Non-receipt of Annual Report; Dividend Warrants; etc. During the year under review, Stakeholder's Grievance & Relationship Committee met 4 (Four) times viz on May 30, 2015, August 24, 2015, November 10, 2015 and February 15, 2016.

The composition of the Committee and the details of meetings attended by its members are given below:

Name of the Director	Category	Designation	No. of Meetings Attended
Mr. Jay Somaiya	Independent Director	Chairman	4
Mr. Kaushal Ruparel	Independent Director	Member	4
Mr. Jay Morzaria	Managing Director	Member	4

Composition of the Stakeholders' Grievances and Relationship Committee was revised w.e.f. April 13, 2016 due to resignation of Mr. Kaushal Ruparel. Ms. Hardika Mandavia, Independent Director of the Company was inducted as Member of the Committee in place of Mr. Kaushal Ruparel.

### **Complaint**

During the year, the Company had not received any complaints from the Shareholders. There was no complaint pending as on March 31, 2016.

### **Nomination and Remuneration Committee**

The Company has formed Nomination and Remuneration committee. Nomination and Remuneration Committee meetings are generally held for identifying the persons who are qualified to become Directors and may be appointed in senior management and recommending their appointments and removal. During the year under review, Nomination and Remuneration Committee met 1 (One) time viz on March 30, 2016 for performance evaluation of individual directors.

The composition of the Committee and the details of meetings attended by its members are given below:

Name of the Director	Category	Designation	No. of Meetings Attended
Mr. Jay Somaiya	Independent Director	Chairman	1
Mr. Kaushal Ruparel	Independent Director	Member	1
Mr. Jay Morzaria	Managing Director	Member	1

Composition of the Nomination and Remuneration Committee was revised w.e.f. April 13, 2016 due to resignation of Mr. Kaushal Ruparel. Ms. Hardika Mandavia, Independent Director of the Company was inducted as Member of the Committee in place of Mr. Kaushal Ruparel.

### **Nomination and Remuneration Policy**

The Company has adopted the Nomination and Remuneration Policy. Key points of the Nomination and Remuneration Policy are;

#### **a. Policy on Appointment of Directors, Key Managerial Personnel and Senior Management Personnel:**

The policy is formulated to identify and ascertain the integrity, qualification, expertise and experience of the person for appointment as Director, Key Managerial Personnel and Senior Management personnel and recommend to the Board for his / her appointment.

- A person should possess adequate qualification, expertise and experience for the position he/ she is considered for appointment.
- In case of appointment of Independent Director, the Committee shall satisfy itself with regard to the independent nature of the Director vis-à-vis the Company so as to enable the Board to discharge its function and duties effectively.

#### **b. Policy on remuneration of Director, KMP and Senior Management Personnel**

The Company's remuneration policy is driven by the success and performance of Director, KMP and Senior Management Personnel vis-à-vis the Company. The Company's philosophy is to align them with adequate compensation so that the compensation is used as a strategic tool that helps us to attract, retain and motivate highly talented individuals who are committed to the core value of the Company. The Company follows mixed of fixed pay, benefits and performance based variable pay. The Company pays remuneration by way of salary, benefits, perquisites and allowance. The remuneration and sitting fees paid by the Company are within the salary scale approved by the Board and Shareholders.

The Nomination and Remuneration Policy, as adopted by the Board of Directors, is placed on the website of the Company at [www.karnavatifinancelimited.in](http://www.karnavatifinancelimited.in).

### **Remuneration of Director**

The details of remuneration paid during the financial year 2015-16 to Executive Director of the Company is provided in Form MGT-9 which is the part of this report.

### **Public Deposit**

The company being Non-Deposit accepting Non-Banking Finance Company has not accepted any deposits from the public. Hence, the directives issued by the Reserve Bank of India & the Provision of Section 73 to 76 of the Company Act, 2013 or any other relevant provisions of the Act and the Rules there under are not applicable.

### **Particulars of Loans, Guarantees, Investments & Security**

Details of Loans, Guarantees, Investments and Security covered under the provisions of Section 186 of the Companies Act, 2013 are given in the notes to the Financial Statement.

### **Contracts or Arrangements with Related Parties**

All transactions to be entered by the Company with related parties will be in the ordinary course of business and on an arm's length basis. The Company has entered into one related party transaction, details of which are given in "**Annexure – A**" in Form AOC-2 and the same forms part of this report.

### **Extract of Annual Return**

Pursuant to sub-section 3(a) of Section 134 and sub-section (3) of Section 92 of the Companies Act, 2013 read with Rule 12 of Companies (Management and Administration) Rules, 2014 the extract of the Annual Return as at March 31, 2016 in Form MGT-9, forms part of this Annual Report as "**Annexure - B**".

### **Particular of Employees**

In terms of the provisions of 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, a statement showing the names and other particulars of the employees drawing remuneration in excess of the limits set out in the said rules will be

available for inspection at the Registered Office of the Company during working hours and any member interested in obtaining such information may write to the Company Secretary and the same will be furnished on request.

Having regard to the provisions of the first proviso to Section 136(1) of the Act and as advised, the Annual Report excluding the aforesaid information is being sent to the members of the Company.

Disclosures relating 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 provided as an "**Annexure – C**", which forms part of this Report.

### **Energy Conservation, Technology Absorption and Foreign Exchange Earnings and Outgo**

The details of conservation of energy, technology absorption etc. as required to be given under section 134(3)(m) of the Companies Act 2013 read with the Companies (Accounts) Rules, 2014, are not applicable to our Company, as the Company is not carrying on any manufacturing activities.

Further, there was no foreign exchange earnings and outgo during the financial year 2015-16 (Previous Year – Nil).

### **Material Changes and commitment affecting financial position of the Company**

There are no material changes and commitments, affecting the financial position of the Company which has occurred between and after the end of financial year of the Company till the date of Director's Report i.e. September 5, 2016.

### **Sexual Harassment of women at workplace**

There were no incidences of sexual harassment reported during the year under review, in terms of the provisions of the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 as there are no woman employees employed by the Company during the Financial Year 2015-16.

### **Corporate Governance**

Your Company strives to incorporate the appropriate standards for corporate governance. However, pursuant to Regulation 15(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 the Company is not required to mandatorily comply with the provisions of certain regulations of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and therefore the Company has not provided a separate report on Corporate Governance, although few of the information are provided in this report of Directors under relevant heading.

### **Management Discussion and Analysis**

Management Discussion and Analysis, for the year under review, as stipulated under Regulations 27(2) of the SEBI (LODR), 2015, is presented in a separate section forming part of this Annual Report.

### **Risk Management**

A well-defined risk management mechanism covering the risk mapping and trend analysis, risk exposure, potential impact and risk mitigation process is in place. The objective of the mechanism is to minimize the impact of risks identified and taking advance actions to mitigate it. The mechanism works on the principles of probability of occurrence and impact, if triggered. A detailed exercise is being carried out to identify, evaluate, monitor and manage both business and non-business risks.

### **Internal Financial Control Systems and their Adequacy:**

The details on Internal Financial Control and their adequacy are provided in Management Discussion and Analysis Report.

### **Auditors**

#### **Statutory Auditor & their report**

The Company's Auditor, M/s. Maharishi & Co., Chartered Accountants, Jamnagar, (FRN:124872W), were appointed as the Statutory Auditors' of the Company for a period of 3 years from the conclusion of 31<sup>st</sup> (Thirty First) Annual General Meeting till the 34<sup>th</sup> (Thirty Forth) Annual General Meeting subject to ratification at every ensuing Annual General Meeting from members.

The resolution for the ratification of their appointment has been put in the Notice convening the 32<sup>nd</sup> (Thirty Second) Annual General Meeting of the Members for their approval.

The Board of Directors, based on recommendation made by the Audit Committee, has recommended the ratification of appointment of M/s. Maharishi & Co., Chartered Accountants, Jamnagar, (FRN: 124872W) as the

Statutory Auditors of the Company to hold the office from the ensuing AGM till the conclusion of the 33<sup>rd</sup> AGM of the Company on such remuneration as may be determined by the Board in consultation with the auditors.

The Auditors' Report on the accounts of the Company for the accounting year ended March 31, 2016 is self-explanatory and do not call for further explanations or comments that may be treated as adequate compliance of Section 134 of the Companies Act, 2013 except the auditor has stated that they are unable to obtain sufficient appropriate audit evidence to provide a basis for our opinion whether the Company had adequate internal financial controls were operating effectively as at March 31, 2016.

Your Director stated that the company is in process of establishment of its internal financial control over financial reporting on criteria based on or considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India.

### **Secretarial Auditor & their report**

Pursuant to the provisions of Section 204 of the Act and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Company has appointed Mr. Anand S Lavingia, Practicing Company Secretary, Ahmedabad to carry out the Secretarial Audit for the financial year ended on March 31, 2016. Secretarial Audit Report is attached to this report as "**Annexure – D**".

The Secretarial Auditors' Report of the Company for the Financial Year ended March 31, 2016 contains annotations relating to appointment of Key Managerial Personnel i.e. Company Secretary and Chief Financial Officer, Woman Director and Internal Auditor as required under Companies Act, 2013.

The Board of Directors states that the Board has taken adequate steps to find a suitable persons having work experience in finance Company. The Company is in process to appoint the key managerial personnel. In fact, the Company has appointed Ms. Hardika Mandavia, Independent Director, designated as Woman Director of the Company.

Further, the Company is in process to align the activities of the Company in line with the statutory requirement applicable to the Company.

### **General Disclosure**

Your Directors state that the Company has made disclosures in this report for the items prescribed in section 134(3) of the Act and Rule 8 of The Companies (Accounts) Rules, 2014 to the extent the transactions took place on those items during the year.

Your Directors further state that no disclosure or reporting is required in respect of the following items as there were no transactions on these items during the year under review:

1. Details of Annual Report on Corporate Social Responsibility as Company is not falling within the criteria as prescribed u/s 135 of the Companies Act, 2013
2. Issue of Equity Shares with differential rights as to dividend, voting or otherwise.
3. Issue of shares (including sweat equity shares) to employees of the Company under any scheme save and ESOS.
4. No significant or material orders were passed by the Regulators or Courts or Tribunals which impact the going concern status and Company's operations in future.

### **Acknowledgement**

Your Directors take this opportunity to place on record the valuable co-operation and support extended by the banks, government, business associates and the shareholders for their continued confidence reposed in the Company and look forward to having the same support in all future endeavors.

For and on behalf of Board of Directors  
**Karnavati Finance Limited**

**Place:** Jamnagar  
**Date:** September 5, 2016

**Jay Morzaria**  
**Managing Director**  
**DIN: 02338864**

**Raman Morzaria**  
**Whole time Director**  
**DIN: 00203310**

**Annexure - A****Form No. AOC-2****Particulars of Contracts/arrangements made with related parties**

(Pursuant to section 134(3)(h) of the Act and Rule 8(2) of the Companies (Accounts) Rules, 2014)

**Forms for disclosure of particulars of contracts/arrangements entered into by the company with related parties referred to in section 188(1) of the Companies Act, 2013 including certain arm's length transactions under third proviso thereto****A. Details of contracts or arrangements or transactions not at arm's length basis:**

<b>Particulars</b>	<b>RPT – 1</b>
<b>Name(s) of the related party and nature of relationship</b>	Mr. Raman Morzaria, Whole-Time Director of the Company.
<b>Nature of contracts/ arrangements/ transactions</b>	Leave and License Agreement (Payment of Rent Amount)
<b>Duration of the contracts / arrangements/transactions</b>	36 Months from September 15, 2013 i.e. up to September 14, 2016
<b>Salient terms of the contracts or arrangements or transactions including the value, if any</b>	The Agreement was entered into between the Company and Mr. Raman Morzaria, owner of the property. As per the terms of agreement; the Company shall pay monthly Rent of Rs. 5,000/- to Mr. Raman Morzaria.
<b>Justification for entering into transactions</b>	The Company's majority operation are carried out from Jamnagar and therefore, the Company has established its Corporate office in the city of Jamnagar and the same is owned by one of the Promoter Director of the Company and therefore, the Company has obtained the said office on leave and license basis.
<b>Date(s) of approval by the Board/Members</b>	September 15, 2013
<b>Amount paid as advances, if any</b>	N.A.

**B. Details of material contracts or arrangement or transactions at arm's length basis:**

There were no such contracts or arrangements or transactions entered in to by the Company during the financial year ended on March 31, 2016.

For and on behalf of Board of Directors  
**Karnavati Finance Limited**

**Place:** Jamnagar  
**Date:** September 5, 2016

**Jay Morzaria**  
**Managing Director**  
**DIN: 02338864**

**Raman Morzaria**  
**Whole time Director**  
**DIN: 00203310**



## EXTRACT OF ANNUAL RETURN

as on the financial year ended March 31, 2016

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

FORM NO. MGT - 9

## 1) Registration and Other Details:

<b>CIN</b>	:	L65910MH1984PLC034724
<b>Registration Date</b>	:	December 5, 1984
<b>Name of the Company</b>	:	Karnavati Finance Limited
<b>Category / Sub-Category of the Company</b>	:	Company limited by shares/ Indian Non-Government Company
<b>Address of the Registered Office and contact details</b>	:	Unit No 2, Sagar Deep Darshan Co Operative Housing Society Limited, S.V. Road, Borivali (W) Mumbai - 400 092 <b>Tel No:</b> +91 - 022 - 3190 8900 <b>Email:</b> karnavatifinance@gmail.com <b>Web Site:</b> www.karnavatifinancelimited.in
<b>Whether listed Company</b>	:	Yes
<b>Name, address and contact details of Registrar and Transfer Agent, if any</b>	:	Satellite Corporate Services Private Limited B-302, Sony Apartment, Opp. St. Jude High School, 90 ft. Road, Off Andheri Kurla Road, Jarimari, Sakinaka, Mumbai - 400 072 <b>Tel:</b> +91-22- 28520461/462 <b>Fax:</b> +91-22- 28511809 <b>Email Id:</b> service@satellitecorporate.com <b>Website:</b> www.satellitecorporate.com

## 2) Principal Business Activity of the Company:

Name and Description of main Products / Services	NIC Code of the Product / Service	% to total turnover of the Company
Finance Charges	64920 (Other than Credit Granting)	98.36%

## 3) Particulars of Holding, Subsidiary and Associate Companies:

SR. No.	Name and Address of the Company	Holding/ Subsidiary /Associate	CIN/GLN	% of shares held	Applicable Section
					N.A.

## 4) Shareholding Pattern (Equity Share Capital Breakup as percentage of Total Equity):

Category of Shareholders	No. of Shares held as at April 1, 2015				No. of Shares held as at March 31, 2016				% Change during the year
	Demat	Physical	Total	% of Total Shares	Demat	Physical	Total	% of Total Shares	
<b>I) Category-wise Shareholding</b>									
<b>A. Promoters</b>									
(1) Indian									
a) Individual/ HUF	5,305,400	-	5,305,400	63.46	5,305,400	-	5,305,400	63.46	-
b) Central Govt.	-	-	-	-	-	-	-	-	-
c) State Govt.	-	-	-	-	-	-	-	-	-
d) Bodies Corporate	23,900	-	23,900	0.29	23,900	-	23,900	0.29	-
e) Banks/FI	-	-	-	-	-	-	-	-	-
f) Any other	-	-	-	-	-	-	-	-	-
<b>Sub-Total (A)(1):</b>	<b>5,329,300</b>	<b>-</b>	<b>5,329,300</b>	<b>63.75</b>	<b>5,329,300</b>	<b>-</b>	<b>5,329,300</b>	<b>63.75</b>	<b>-</b>
<b>(2) Foreign</b>									
a) NRIs - Individuals	-	-	-	-	-	-	-	-	-
b) Other - Individuals	-	-	-	-	-	-	-	-	-
c) Bodies Corporate	-	-	-	-	-	-	-	-	-
d) Banks / FI	-	-	-	-	-	-	-	-	-
e) Any Other....	-	-	-	-	-	-	-	-	-
<b>Sub-Total (A)(2):</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Shareholding of Promoters (A) = (A)(1)+(A)(2)</b>	<b>5,329,300</b>	<b>-</b>	<b>5,329,300</b>	<b>63.75</b>	<b>5,329,300</b>	<b>-</b>	<b>5,329,300</b>	<b>63.75</b>	<b>-</b>
<b>B. Public Share Holding</b>									
<b>(1) Institutions</b>									
a) Mutual Funds / UTI	-	-	-	-	-	-	-	-	-
b) Banks / FI	-	-	-	-	-	-	-	-	-
c) Central Govt.	-	-	-	-	-	-	-	-	-
d) State Govt.(s)	-	-	-	-	-	-	-	-	-
e) Venture Capital Funds	-	-	-	-	-	-	-	-	-
f) Insurance Company	-	-	-	-	-	-	-	-	-
g) FIs	-	-	-	-	-	-	-	-	-
h) Foreign Venture Capital Funds	-	-	-	-	-	-	-	-	-
i) Others (specify)	-	-	-	-	-	-	-	-	-
<b>Sub-Total (B)(1):</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>(2) Non-Institution</b>									
<b>a) Bodies Corporate</b>									
i. Indian	60,000	-	60,000	0.72	20,000	-	20,000	0.24	(0.48)
ii. Overseas	-	-	-	-	-	-	-	-	-
<b>b) Individuals**</b>									
i. Individual Shareholders holding nominal share capital upto Rs. 1 lakhs / 2 lakhs	400,000	700	400,700	4.79	440,000	700	440,700	5.27	0.48
ii. Individual Shareholders holding nominal share capital in excess of Rs. 1 lakhs/2 lakhs	1,720,000	360,000	2,080,000	24.88	1,720,000	360,000	2,080,000	24.88	-
<b>c) Others (specify)</b>									
Market Maker	130,000	-	130,000	1.56	140,000	-	140,000	1.67	0.12
HUF	260,000	90,000	350,000	4.19	260,000	90,000	350,000	4.19	-
Clearing Members	10,000	-	10,000	0.12	-	-	-	-	(0.12)
<b>Sub-Total (B)(2):</b>	<b>2,580,000</b>	<b>450,700</b>	<b>3,030,700</b>	<b>36.25</b>	<b>2,580,000</b>	<b>450,700</b>	<b>3,030,700</b>	<b>36.25</b>	<b>(0.00)</b>
<b>Total Public Shareholding (B)=(B)(1)+(B)(2)</b>	<b>2,580,000</b>	<b>450,700</b>	<b>3,030,700</b>	<b>36.25</b>	<b>2,580,000</b>	<b>450,700</b>	<b>3,030,700</b>	<b>36.25</b>	<b>(0.00)</b>
<b>C. Shares held by Custodian for GDRs &amp; ADRs</b>									
	-	-	-	-	-	-	-	-	-
<b>Grand Total (A+B+C)</b>	<b>7,909,300</b>	<b>450,700</b>	<b>8,360,000</b>	<b>100.00</b>	<b>7,909,300</b>	<b>450,700</b>	<b>8,360,000</b>	<b>100.00</b>	<b>(0.00)</b>

\*\* Note: In Public Shareholding "Individual Category":-

- Individual Shareholders holding nominal share capital upto Rs. 1 lakh is considered in the No. of Shares held at the beginning of the year.
- Individual Shareholders holding nominal share capital in excess of Rs. 1 lakh is considered in the No. of Shares held at the beginning of the year.
- Individual Shareholders holding nominal share capital upto Rs. 2 lakh is considered in the No. of Shares held at the beginning of the year.
- Individual Shareholders holding nominal share capital in excess of Rs. 2 lakh is considered in the No. of Shares held at the beginning of the year.

<b>II) Shareholding of Promoters &amp; Promoters Group</b>									
Name	Shareholding as at April 1, 2015		Date wise Increase/Decrease in Shareholding			Cumulative Shareholding during the year		Shareholding as at March 31, 2016	
	No. of Share	% of total shares of the Company	Date	Increase/Decrease in shareholding	Reason	No. of Share	% of total shares of the Company	No. of Share	% of total shares of the Company
Raman P Morzaria	2,682,700	32.09	-	-	-	-	-	2,682,700	32.09
Kush Ramanbhai Morzaria	1,325,100	15.85	-	-	-	-	-	1,325,100	15.85
Jay R Morzaria	1,003,600	12.00	-	-	-	-	-	1,003,600	12.00
Daxaben R Morzaria	294,000	3.52	-	-	-	-	-	294,000	3.52
Midas Impex Pvt Ltd	23,900	0.29	-	-	-	-	-	23,900	0.29

<b>(III) Shareholding Pattern of top ten Shareholders (other than Directors, Promoters and Holders of GDRs and ADRs)</b>									
Name	Shareholding as at April 1, 2015		Date wise Increase/Decrease in Shareholding			Cumulative Shareholding during the year		Shareholding as at March 31, 2016	
	No. of Shares	% of total shares of the Company	Date	Increase/Decrease in shareholding	Reason	No. of Share	% of total shares of the Company	No. of Share	% of total shares of the Company
Mr. Dilip Bhagat	150,000	1.79	-	-	-	-	-	150,000	1.79
NNM Securities Private Limited	140,000	1.67	-	-	-	-	-	140,000	1.67
Mr. Mitesh Lavti	120,000	1.44	-	-	-	-	-	120,000	1.44
Mr. Ashok Lavti	120,000	1.44	-	-	-	-	-	120,000	1.44
Mr. Prakash Lavti	100,000	1.20	-	-	-	-	-	100,000	1.20
M/s. Jamanbhai Faldu HUF	90,000	1.08	-	-	-	-	-	90,000	1.08
Mr. Jamanbhai Faldu	90,000	1.08	-	-	-	-	-	90,000	1.08
Mr. Paras Varia	90,000	1.08	-	-	-	-	-	90,000	1.08
Mr. Bhagwatilal Lavti	90,000	1.08	-	-	-	-	-	90,000	1.08
Ms. Hetal Faldu	80,000	0.96	-	-	-	-	-	80,000	0.96
Mr. Divyesh Shah	40,000	0.48	Oct 9, 2015	40,000	Purchase of Shares	80,000	0.96	80,000	0.96
Mr. Navneetbhai Varia	80,000	0.96	-	-	-	80,000	0.96	80,000	0.96
Ms. Kalpanaben Patel	-	-	June 26, 2015	80,000	Purchase of Shares	80,000	0.96	80,000	0.96
Mr. Hardik Mehta	80,000	0.96	-	-	-	80,000	0.96	80,000	0.96
Ms. Mehta Kiranben	70,000	0.84	-	-	-	70,000	0.84	70,000	0.84
Ms. Labhuben Faldu	70,000	0.84	-	-	-	70,000	0.84	70,000	0.84
Ms. Faldu Jignasa	70,000	0.84	-	-	-	70,000	0.84	70,000	0.84
Ms. Drashti Faldu	70,000	0.84	-	-	-	70,000	0.84	70,000	0.84
Ms. Jasmin Faldu	70,000	0.84	-	-	-	70,000	0.84	70,000	0.84
Mr. Paresch Chauhan	-	-	Dec 11, 2015	60,000	Purchase of Shares	60,000	0.72	60,000	0.72
Ms. Niyati Mehta	60,000	0.72	-	-	-	-	-	60,000	0.72
Ms. Ranjanben Somaiya	50,000	0.60	-	-	-	-	-	50,000	0.60
Mr. Ketanbhai Somaiya	50,000	0.60	-	-	-	-	-	50,000	0.60
Mr. Bhavin Variya	50,000	0.60	-	-	-	-	-	50,000	0.60
M/s. Dhimant Shah HUF	40,000	0.48	-	-	-	-	-	40,000	0.48
M/s. Divyesh Shah HUF	40,000	0.48	-	-	-	-	-	40,000	0.48
Mr. Navinbhai Katariya	40,000	0.48	-	-	-	-	-	40,000	0.48
Mr. Jagdish Katariya	40,000	0.48	-	-	-	-	-	40,000	0.48
Mr. Nishith Shah	40,000	0.48	-	-	-	-	-	40,000	0.48
Mr. Dhimant Shah	40,000	0.48	-	-	-	-	-	40,000	0.48
Ms. Jagruti Shah	40,000	0.48	-	-	-	-	-	40,000	0.48
Ms. Zankhana Shah	40,000	0.48	-	-	-	-	-	40,000	0.48
Ms. Ilaben Shah	40,000	0.48	Oct 9, 2015	40,000	Sale of Shares	-	-	-	-

\*The trading in the shares of the Company took place on daily basis, therefore the date wise increase/ decrease in Shareholding is taken on the basis of weekly benpoze.

<b>(IV) Shareholding of Directors and Key Managerial Personnel</b>									
Name	Shareholding as at April 1, 2015		Date wise Increase/Decrease in Shareholding			Cumulative Shareholding during the year		Shareholding as at March 31, 2016	
	No. of Share	% of total shares of the Company	Date	Increase/Decrease in shareholding	Reason	No. of Share	% of total shares of the Company	No. of Share	% of total shares of the Company
Mr. Raman P Morzaria	2,682,700	32.09	-	-	-	-	-	2,682,700	32.09
Mr. Jay R Morzaria	1,003,600	12.00	-	-	-	-	-	1,003,600	12.00
Mr. Jay Somaiya	-	-	-	-	-	-	-	-	-
Kaushal Ruparel	-	-	-	-	-	-	-	-	-

#### 5) Indebtness

Particulars	Secured Loans excluding deposits	Unsecured Loans	Deposits	Total Indebtedness
<b>Indebtness at the beginning of the financial year</b>				
i) Principal Amount	-	-	-	-
ii) Interest due but not paid	-	-	-	-
iii) Interest accrued but not due	-	-	-	-
<b>Total A (i+ii+iii)</b>	-	-	-	-
<b>Change in Indebtedness during the financial year</b>				
Additions	-	-	-	-
Reduction	-	-	-	-
<b>Net Change B</b>	-	-	-	-
<b>Indebtedness at the end of the financial year</b>				
i) Principal Amount	-	-	-	-
ii) Interest due but not paid	-	-	-	-
iii) Interest accrued but not due	-	-	-	-
<b>Total C (i+ii+iii)</b>	-	-	-	-
<b>Grand Total A+B+C</b>	-	-	-	-

**6) REMUNERATION OF DIRECTORS AND KEY MANAGERIAL PERSONNEL**

<b>A) Remuneration to Managing Director, Whole-time Directors and/or Manager</b> (Amount in Rs.)			
Particulars of Remuneration	Name of the MD/WTD/Manager	Name of the MD/WTD/Manager	Total Amount
	Mr. Jay Morzaria Managing Director	Mr. Raman Morzaria Whole-Time Director	
<b>Gross salary</b>			
(a) Salary as per provisions contained in section 17(1) of the Income Tax, 1961.	-	300,000	<b>300,000</b>
(b) Value of perquisites u/s 17(2) of the Income tax Act, 1961	-	-	-
(c) Profits in lieu of salary under section 17(3) of the Income Tax Act, 1961	-	-	-
<b>Stock option</b>		-	-
<b>Sweat Equity</b>		-	-
<b>Commission</b>		-	-
as % of profit		-	-
others (specify)		-	-
<b>Others, please specify</b>		-	-
<b>Total (A)</b>	-	<b>300,000</b>	<b>300,000</b>

**B) Remuneration to other Directors:** The Company has not paid any amount of Sitting Fees / Commission to the Independent Directors as well as Non-Executive Directors due to Nominal Profits occurred during the year under review.

**C) Remuneration to key Managerial Personnel Other than MD/Manager/WTD:** There are no Key Managerial Personnel appointed in the Company.

**7) PENALTIES / PUNISHMENT/ COMPOUNDING OF OFFENCES**

Type	Section of the Companies Act	Brief Description	Details of Penalty / Punishment / Compounding fees imposed	Authority (RD/ NCLT/ Court)	Appeal made if any (give details)
<b>A. Company</b>					
Penalty	N.A.	N.A.	N.A.	N.A.	N.A.
Punishment					
Compounding					
<b>B. Directors</b>					
Penalty	N.A.	N.A.	N.A.	N.A.	N.A.
Punishment					
Compounding					
<b>C. Other Officers in Default</b>					
Penalty	N.A.	N.A.	N.A.	N.A.	N.A.
Punishment					
Compounding					

For and on behalf of Board of Directors  
**Karnavati Finance Limited**

**Place:** Jamanagar  
**Date:** September 5, 2016

**Jay Morzaria**  
Managing Director  
DIN: 02338864

**Raman Morzaria**  
Whole time Director  
DIN: 00203310

**Annexure - C****Particulars of Employees**

(Pursuant to Section 197(12) read with Rules made thereunder)

**Disclosures pertaining to remuneration and other details as required under Section 197(12) of the Companies Act, 2013 read with Rules made there under.****A. Information as per Rule 5(2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014****a) The ratio of remuneration of each director to the median remuneration of employees for the financial year:**

Sr. No.	Name	Designation	Ratio against median employee's remuneration
1.	Raman Morzaria	Whole-Time Director	5 : 1

**b) The Percentage increase in remuneration of each director, Chief Financial Officer, Chief Executive Officer, Company Secretary or Manager, if any, in the financial year:**

Sr. No.	Name	Designation	Nature of Payment	Percentage Increase over previous year
1.	Raman Morzaria	Whole-Time Director	Remuneration	Nil

**c) The percentage increase in the median remuneration of employees in the financial year:** There was no change in the median remuneration of employee.**d) The number of permanent employees on the rolls of the Company:** 5Employees**e) Average percentile increase in the Salaries of the Employees and Managerial Remuneration:**

The average salaries of the employees are increased by 13.62 % over a previous year. Further, there was no increase in the remuneration of Whole-Time Director.

The Board of Directors of the Company affirmed that remuneration of all the Key Managerial Personnel of the Company are as per the Remuneration Policy of the Company.

For and on behalf of Board of Directors  
**Karnavati Finance Limited**

**Place:** Jamnagar  
**Date:** September 5, 2016

**Jay Morzaria**  
**Managing Director**  
**DIN: 02338864**

**Raman Morzaria**  
**Whole time Director**  
**DIN: 00203310**

**SECRETARIAL AUDIT REPORT****Form No. MR-3**

For the financial year ended March 31, 2016

[Pursuant to section 204(1) of the Companies Act, 2013 and  
Rule 9 of the Companies (Appointment and Remuneration Personnel) Rules, 2014]

To,  
The Members,  
**Karnavati Finance Limited**

I have conducted the secretarial audit of the compliance of applicable statutory provisions and the adherence to good corporate practices by Karnavati Finance Limited (hereinafter called 'the Company'). Secretarial Audit was conducted in a manner that provided me a reasonable basis for evaluating the corporate conducts / statutory compliances and expressing my opinion thereon.

Based on my verification of the Company's books, papers, minutes books, Forms and Returns filed with regulatory authorities and other records maintained by the Company and also the information provided by the Company, its officers, agents and authorized representatives during the conduct of secretarial audit, I hereby report that, in my opinion, the Company has, during the audit period covering the financial year ended on March 31, 2016, generally complied with the statutory provisions listed hereunder and also that the Company has proper Board-processes and compliance-mechanism in place to the extent, in the manner and subject to the reporting made hereinafter:

I further report that maintenance of proper and updated Books, Papers, Minutes Books, filing of forms and returns with applicable regulatory authorities and maintaining other records is responsibility of management and of the Company. My responsibility is to verify the content of the documents produced before me, make objective evaluation of the content in respect of compliance and report thereon. I have examined, on test basis, the books, papers, minutes books, forms and returns filed and other records maintained by the Company and produced before us for the Financial Year ended on March 31, 2016, according to provisions of:

- i. The Companies Act, 2013 ('the Act') and the rules made there under as applicable;
- ii. The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made there under;
- iii. The Depositories Act, 1996 and the Regulations and Bye-laws framed there under;
- iv. 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 (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
  - b) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 (upto May 14, 2015) and Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 w.e.f. May 15, 2015;
  - c) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009;
  - d) The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015 w.e.f. December 1, 2015.

I have also examined compliance with the applicable;

- a) Clauses of the Listing Agreements entered into by the Company with BSE Limited (SME Segment) (upto November 30, 2015 and Regulations of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015 ('The Listing Regulations') w.e.f. December 1, 2015 and;
- b) Secretarial Standards as issued by the Institute of Company Secretaries of India under the provisions of the Companies Act, 2013 w.e.f. July 1, 2015.

Further the Company being Non Deposit accepting Non-banking Financial Company, followings are few specific applicable acts, regulation, guidelines and direction to the Company.

- i. Reserve Bank of India Act, 1934

- ii. KYC & PML Policy on securities formulated in terms of the Prevention of Money Laundering Act, 2005, rules made thereunder and guidelines issued by SEBI;
- iii. Prevention of Money Laundering Act, 2002
- iv. Guidelines on Fair Practices Code for NBFCs
- v. Non-Banking Financial (Non-Deposit Accepting or Holding Companies Prudential Norms (Reserve Bank) Directions, 2007

We have relied on the representation made by the Company and its officers for systems and mechanism framed by the Company for compliance under the respective acts, regulations, guidelines and direction applicable to the Company.

During the period under review the Company has generally complied with the provisions of the Act, Rules, regulations, guidelines, direction etc. mentioned above except *appointment of key managerial personnel i.e. Company Secretary and Chief Financial Officer under Section 203 of the act and appointment of Internal Auditor under Section 138 of the act.*

Further, provisions of the following Acts, Rules, Regulations, Guidelines, Standards, etc. were not applicable to the Company during the period under review:

- i. The Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014;
- ii. The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;
- iii. 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; - Not applicable as the Company is not registered as Registrar to an Issue & Share Transfer Agent. However, the Company has appointed Satellite Corporate Services Private Limited as Registrar & Share Transfer Agent as per the Listing Agreement entered between the Company and the BSE Limited (SME Segment) and the Listing Regulations.
- iv. The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009;
- v. The Securities and Exchange Board of India (Buy Back of Securities) Regulations, 1998;
- vi. Foreign Exchange Management Act, 1999 and the rules and regulations made there under to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings;

**I further report that -**

The Board of Directors of the Company is duly constituted with proper balance of Executive Directors, Non-Executive Directors and Independent Directors *except the Company has not appointed Woman Director on the Board.*

Adequate notice is given to all Directors to schedule the Board Meetings, agenda and detailed notes on agenda were sent 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.

Majority decision is carried through while the dissenting members' views are captured and recorded as part of the minutes.

**I further report that -**

There are adequate systems and processes in the Company commensurate with the size and operations of the Company to monitor and ensure compliance with applicable laws, rules, regulations and guidelines.

**I further report that –**

During the audit period, there were no specific events/ actions having a major bearing on the operations of the Company's affairs happened during the audit period except the Reserve Bank of India has approved the application of the Company and issued a License for carrying on the business of Full Fledge Money Changing activities.

**Place:** Ahmedabad  
**Date:** September 5, 2016

**AnandLavingia**  
**Company Secretary in Practice**  
**ACS No.: 26458 C P No. : 11410**

**Note:** This Report is to be read with my letter of above date which is annexed as Annexure I and forms an integral part of this report.

**Annexure I**

To,  
The Members,  
**Karnavati Finance Limited**

My report of even date is to be read along with this letter.

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

**Place:** Ahmedabad  
**Date:** September 5, 2016

**AnandLavingia**  
**Company Secretary in Practice**  
**ACS No.: 26458 C P No. : 11410**

## **MANAGEMENT DISCUSSION AND ANALYSIS REPORT**

More than half of personal savings in India are invested in physical assets such as land, houses, cattle, and gold.

The Indian money market is classified into:

- a) the organized sector (comprising private, public and foreign owned commercial banks and cooperative banks, together known as scheduled banks); and
- b) the unorganized sector (comprising individual or family owned indigenous bankers or money lenders and non-banking financial companies (NBFCs)). The unorganized sector and microcredit are still preferred over traditional banks in rural and sub-urban areas, especially for non-productive purposes, like ceremonies and short duration loans.

Since liberalization, the government has approved significant banking reforms. While some of these relate to nationalized banks (like encouraging mergers, reducing government interference and increasing profitability and competitiveness), other reforms have opened up the banking and insurance sectors to private and foreign players.

### **INDUSTRY STRUCTURE AND DEVELOPMENTS**

The NBFC sector has been gaining systemic importance in the recent years and the share of NBFC has steadily grown from 10.7% of banking assets in 2009 to 14.3% of banking assets in 2014.

NBFCs typically have several advantages over banks due to their focus on niche segment, expertise in the specific asset classes, and deeper penetration in the rural and unbanked markets. However, on the flip side, they depend to a large extent on bank borrowings, leading to high cost of borrowings and face competition from banks which have lower cost of funds.

The growing asset size of the NBFC sector has increased the need for risk management in the sector due to growing interconnectedness of NBFCs with other financial sector intermediaries. The Reserve Bank of India (RBI) has been in the recent past trying to strengthen the risk management framework in the sector, simplify the regulations and plug regulatory gaps so as to prevent regulatory arbitrage between banks and NBFCs.

The Reserve Bank of India released the 'Revised Regulatory Framework for NBFCs' on November 10, 2014 which broadly focuses on strengthening the structural profile of NBFC sector, wherein focus is more on safeguarding of the depositors money and regulating NBFCs which have increased their asset-size over time and gained systemic importance.

Due to subdued economic growth, last two years, have been challenging period for the NBFCs with moderation in rate of asset growth, rising delinquencies resulting in higher provisioning thereby impacting profitability. However, comfortable capitalization levels and conservative liquidity management, continues to provide comfort to the credit profile of NBFCs in spite of impact on profitability.

### **OPPORTUNITIES AND THREATS**

#### **Increasing size and systemic importance**

Over the years, the NBFC sector has been gaining systemic importance. The same can be seen with the rise in share of NBFC assets as a percentage of bank assets. The share of NBFC assets have steadily grown over the years from 2009 to 2016.

#### **Stronger Regulatory Environment leading to higher capital cover and Better Risk Management**

With increase in systemic importance, RBI has been tightening the regulations to manage the risk in the sector and has been prescribing higher capital and provisioning requirement. RBI also has been emphasizing on higher disclosures by large size NBFCs as well as deposit taking NBFCs to safeguard public money and avert any systemic shocks. In addition, the RBI has taken prompt preventive actions in addressing specific issues to manage systemic risk.

#### **Move towards Secured Lending**

The credit crisis of 2008-2009, saw a surge in Non-Performing Assets (NPAs) in the unsecured lending products like short term personal loans. As a result, NBFCs which had high exposure to unsecured loans faced severe losses on account of higher provisioning. Post 2009, most NBFCs have reduced the proportion of unsecured lending in their portfolio and moved towards secured lending products.

#### **Lower Liquidity Risk**



Over the years, NBFCs have shifted towards maintaining conservative Asset Liability Maturity (ALM) profile by increasing the proportion of long term funding and generally maintaining liquidity buffers in terms of liquid investments and committed lines from banks.

### **Stronger Lending Infrastructure**

In the last 5 years, the sector has grown stronger in terms of lending infrastructure. NBFCs have seen increase in scale of operations which has necessitated up-gradation in technology and IT systems. The establishment of Credit Bureaus has helped improvement in credit culture which has helped the NBFCs in the retail financing business. Over the period, the credit bureaus have built sizeable database which will help in strengthening the lending infrastructure in the long run. High growth in scale of business requires better management capability as a result most NBFCs have now put in professional management teams to manage business and credit operations.

### **Diversification and Mortgage Based lending**

During last couple of years most of the large sized NBFCs have diversified in various product segments in order to mitigate product concentration risk. In the recent past, mortgage finance has emerge as one of the better performing asset class resulting in most of the large NBFCs diversifying in mortgage finance including housing loans and loan against property. Also many NBFCs have set up their housing finance companies in order to focus on this asset class.

### **SEGMENT-WISE OR PRODUCT WISE PERFORMANCE**

The Company is mainly engaged in business loans and personal loans broadly classified as Business Loan and Personal Finance. Further, the Company is mainly operative in the state of Gujarat and Maharashtra and therefore all the revenue and income has been generated from these two geographic areas only. The performance of financial result is provided in Director Report under head financial highlights.

### **OUTLOOK**

The MSME sector is a catalyst for socio-economic transformation of the country. The sector has exhibited consistent growth over the last few years and is being irrigated with unique ideas and dauntless efforts. However, for a micro and small business, to get loan from a bank is a herculean task. This has been happening in spite of dedicated MSME branches set up by various banks and MSME lending being a part of priority sector lending. Karnavati Finance Limited ("the Company" or "Karnavati") being a SME focused lending organization has its vision set to be a trusted partner for the customers. Not only by providing timely credit to SMEs, Karnavati has also started working towards initiatives to provide holistic growth to SMEs. Financial year 2016 has seen traction on all the strategic goals; which sets us for next level of 'growth trajectory', making Karnavati as force to reckon within SME Lending space specifically and NBFC industry at large.

The company is confident in spite of the possible recessionary conditions in the industry that it will perform better in view of the strong fundamentals of the Indian companies and hope to improve its Turnover.

### **RISKS AND CONCERNS**

Financial service providers witnessed a challenging period of subdued growth and a build-up in delinquencies from the F.Y. 2014-15 as a result of prolonged weakness in economic and business outlook.

At the same time willingness of financial service providers to tap these opportunities would be linked to the credit profiles and collection performance of such customers. The possible improvement in macro indicators and the new governments focus on revival of key sectors such could have a positive impact on recovery rates, although the pace of this reversal is expected to be gradual.

Key regulatory changes which could impact LAP/ MSMEs focused NBFCs over the past few months are as follows:

- RBI in July 2014 announced that NBFCs would not be permitted to charge prepayment penalties on floating rate loans, which largely impacted lending under the LAP/Mortgage segment, as most other NBFC lending products are at floating rates. Prepayment rates in the LAP segment have in the past witnessed to be high at ~20-30%, reflecting the industry practice of lenders to offer top-up loans and balance transfers/loan takeovers to gain customer of other lenders. The new regulations eliminating prepayment penalties (typically 1.5%-3.0%) would further lower exit barriers for loan takeovers and enhance competitive pressures in the segment. The proportion of the mortgage book of the NBFCs range from about 10% to as high as 60%; the impact of the above on the RoE of the entities could be about 20-80bps, depending on the proportion of the mortgage book in their overall portfolio.
- On the liability side, RBI opened up funding avenues for NBFC-AFC through the External Commercial Borrowings (ECB) route; while funding under this route has been limited given the high post

hedging cost, this route could become an attractive funding avenue for NBFCs once cost of hedging were to stabilize.

- RBI also permitted non deposit accepting NBFCs to act as business correspondents (BC) which could enhance NBFCs position as a conduit for banks to meet PSL lending requirements and support the non-interest income of the NBFCs.
- Changes introduced in the Companies Act 2013 with respect creation of Debenture Redemption Reserve (DRR) are unlikely to pose major challenges for NBFCs given the exemption provided which limits this requirement only to public issue of debentures. RBI guidelines permitting some amount of re-set of credit enhancements on securitization transactions should benefit some Originators by reducing their effective cost of securitization and consequently improved profitability.

### **INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY**

The Company is in process of establishment Internal Financial Control over financial reporting on criteria based on or considering the essential components of Internal Control stated in the Guidance note on Audit of Internal Financial Control.

### **DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE**

During the financial year 2015-16, The Company has earned total income of Rs. 63.45 Lakhs from business activities (Finance Charge) compared to that of Rs. 47.58 Lakhs of previous year which shows almost 33% growth in Revenue from Operations over the previous year.

Due to expansion of Business, the overall revenue of the Company was increased. Further, in the financial year 2015-16, due to decrease in the loan losses and other expenses compared to previous year, the performance of the Company was satisfactory during the financial year 2015-16.

During the financial year 2015-16, there were no loans written off and even provision for NPA was reduced by almost 80% compared to that of previous year.

The Total Profit before tax for the financial year 2015-16 stood at Rs. 43.69 Lakh compared to loss before tax of Rs. 34.80 Lakh for the financial year 2014-15 making net profit after tax of Rs. 36.82 Lakh for financial year 2015-16 compared to loss after tax of Rs. 37.52 Lakh for the financial year 2014-15.

The Directors of the Company are planning to expand the business of the Company in the current year by providing the varied types of the financial services to the customers and thus confident of presenting the better figures in the coming years.

(Rs. In lakhs)

<b>Particulars</b>	<b>F.Y. 2015-16</b>	<b>F.Y. 2014-15</b>
Revenue from Operations	44.42	47.58
Other operating Income	19.03	-
<b>Total Revenue</b>	<b>63.45</b>	<b>47.58</b>
Less: Total Expenses	(18.18)	(80.81)
<b>Operating Profits before Exception item, Depreciation, Interest and Tax</b>	<b>45.27</b>	<b>(33.23)</b>
Less: Depreciation	1.58	1.57
Interest	-	-
<b>Profit / (Loss) Before Tax</b>	<b>43.69</b>	<b>(34.80)</b>
Less : Exceptional Items	-	-
Less: Current Tax	11.68	2.72
Less : Deferred Tax Liabilities/ (Assets)	(4.81)	-
<b>Profit / (Loss) after Tax</b>	<b>36.82</b>	<b>(37.52)</b>

### **MATERIAL DEVELOPMENTS IN HUMAN RESOURCES / INDUSTRIAL RELATIONS FRONT, INCLUDING NUMBER OF PEOPLE EMPLOYED**

In keeping with the vision of the organization to set standards of excellence by which others are measured by in the Industry, the HR practices at the organization have been evolving over time to support business through organizational efficiency, process change support and various employee engagement programs. The HR strategy is focusing on creating and driving a performance-oriented culture where employees are motivated and encouraged to realize their potential. The organization made significant people investments in the year, institutionalizing initiatives in the areas of talent management, employee engagement and improving workplace health and wellness.

The Company continued to attract and retain the best talent in the market, hiring a number of experienced professionals from banks and financial institutions. The balance between recruitment of top and senior management professionals at one end was maintained with middle, junior and general management professionals at the other. In today's war for talent, attracting the best resources from the market is the key differentiator for the organization's success and we have developed a sourcing model with a high focus on employee referrals. The highlight of the model is that the employees feel pride in referring applicants to the organization despite the fact that we do not give any payout for referrals.

### **Talent Development**

The Company adopts a blended approach towards ongoing training and development - product training and behavioral training. In order to ensure instantaneous access to new employees with an 'anywhere and anytime' learning philosophy, Product training is deployed through a robust online delivery mechanism for the employee audience that is geographically dispersed pan-India.

Career development for employees is also facilitated through a robust internal job posting framework which is in line with our philosophy of providing suitable assignments and responsibilities to employees so as to fulfill their career aspirations and bring out the best in people. Opportunities to move across roles, functions and geographies give employees a platform to have a holistic view of the business and develop a well-rounded career.

### **Compliance**

The Company ensures compliance of employment and labour laws, tracking changes in applicable regulations on a regular basis.

### **CAUTIONARY STATEMENT**

Statement in the Management Discussion and Analysis, describing the Company's objective, projections and estimates are forward looking statements and progressive within the meaning of applicable security Laws and Regulations. Actual results may vary from those expressed or implied, depending upon economic conditions, Government Policies and other incidental factors.

# INDEPENDENT AUDITOR'S REPORT

**To the Members of  
Karnavati Finance Limited  
Report on the Financial Statements**

We have audited the accompanying financial statements of Karnavati Finance Limited ("the Company"), which comprise the Balance Sheet as at March 31, 2016, the Statement of Profit and Loss and the Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls and ensuring their operating effectiveness and 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our 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 there under.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial controls system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion/qualified audit opinion/adverse audit opinion on the financial statements.

**Opinion**

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid 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 state of affairs of the Company as at March 31, 2016 and its profit and its cash flows for the year ended on that date.

**Report on Other Legal and Regulatory Requirements**

- (1) As required by the Companies (Auditors' Report) Order, 2016 ("the Order") issued by the Central Government of India in terms of sub-section (11) of Section 143 of the Act, we give in the "**Annexure A**", a statement on the matters specified in paragraphs 3 and 4 of the Order.
- (2) As required by Section 143(3) of the Act, we report 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;

- b. In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;
- c. The Balance Sheet and the Statement of Profit and Loss dealt with by this Report are in agreement with the books of account;
- d. In our opinion, the aforesaid financial statements comply with the Accounting Standards specified under Section 133 of the Act read with Rule 7 of the Companies (Accounts) Rules, 2014;
- e. On the basis of written representations received from the directors as on March 31, 2016, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2016 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 164(2) of the Act.
- f. With respect to the adequacy of the internal financial controls over financial reporting of the company and the operating effectiveness of such controls, refer to our separate report in "**Annexure B**", and
- 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 Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
  - i. The Company does not have any pending litigations which would impact its financial position;
  - ii. The Company did not have any long-term contracts including derivative contracts hence, the question of any material foreseeable losses does not arise;
  - iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.

For, **Maharishi & Co.**  
**Chartered Accountants**  
**ICAI Firm Registration No.124872W**

**Kapil Sanghvi**  
**Partner**  
**Memb. No. 141168**

**Place:** Jamnagar  
**Date :** May 30, 2016

**"ANNEXURE A" TO INDEPENDENT AUDITOR'S REPORT**

(Referred to in paragraph 1 under 'Report on Other Legal and Regulatory Requirements' in the Independent Auditor's Report of even date to the members of Karnavati Finance Limited on the financial statements for the year ended March 31, 2016)

- i. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.  
 (b) During the year, fixed assets have not been physically verified by the management. However, there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets.  
 (c) According to the information and explanations given to us and on the basis of our examination of the records of the company, company does not have any immovable properties.
- ii. The Company is a Non Banking Finance Company and it does not hold any physical inventories. Thus paragraph 3(ii) of the Order is not applicable to the company.
- iii. As informed, the Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under Section 189 of the Act. Accordingly, the provisions stated in paragraph 3 (iii)(a) and 3 (iii)(b) of the Order are not applicable.
- iv. In our opinion and according to the information and explanations given to us, the company has neither granted any loans or guarantees to parties covered under section 185 nor have any investment hence provisions of Section 185 and section 186 of act shall not apply to the company.
- v. In our opinion and according to the information and explanations given to us, the company has not accepted any deposits from the public within the provisions of section 73 to 76 of the Act and rules framed there under.
- vi. The Central Government has not prescribed the maintenance of cost records under section 148(1) of the act, for any of the services rendered by the company.
- vii. (a) According to information and explanations given to us and on the basis of our examination of the books of account, and records, the Company has been generally regular in depositing undisputed statutory dues with the appropriate authorities. According to the information and explanations given to us, no undisputed amounts payable in respect of the above were in arrears as at March 31, 2016 for a period of more than six months from the date on when they become payable.  
 (b) According to the information and explanation given to us, there are no dues of income tax, sales tax, service tax, duty of customs, duty of excise, value added tax outstanding on account of any dispute.
- viii. In our opinion and according to the information and explanations given to us, the Company has not obtained any loan from banks or financial institutions.
- ix. The company did not raise any money by way of initial public offer or further public offer (including debt instruments) and term loans during the year. Accordingly, paragraph 3(ix) of the Order is not applicable.
- x. Based upon the audit procedures performed and the information and explanations given by the management, we report that no fraud by the company or on the company by its officers or employees has been noticed or reported during the year.
- xi. Based upon the audit procedures performed and the information and explanations given by the management, the managerial remuneration has been paid or provided in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act;
- xii. In our opinion, the Company is not a Nidhi Company. Therefore, the provisions of clause 4 (xii) of the Order are not applicable to the Company.
- xiii. In our opinion, all transactions with the related parties are in compliance with section 177 and 188 of Companies Act, 2013 and the details have been disclosed in the Financial Statements as required by the applicable accounting standards.
- xiv. Based upon the audit procedures performed and the information and explanations given by the management, the company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review. Accordingly, the provisions of clause 3 (xiv) of the Order are not applicable to the Company and hence not commented upon.
- xv. Based upon the audit procedures performed and the information and explanations given by the management, the company has not entered into any non-cash transactions with directors or persons

connected with him. Accordingly, the provisions of clause 3 (xv) of the Order are not applicable to the Company and hence not commented upon.

- xvi. In our opinion, the company is Non-Banking Finance Company registered under section 45IA of the Reserve Bank of India Act, 1934 vide certificate of registration no. 13.00064 dated February 24, 1998.

For, **Maharishi & Co.**  
**Chartered Accountants**  
**ICAI Firm Registration No.124872W**

**Kapil Sanghvi**  
**Partner**  
**Memb. No. 141168**

**Place:** Jamnagar  
**Date :** May 30, 2016

**"ANNEXURE B" TO INDEPENDENT AUDITOR'S REPORT OF EVEN DATE OF  
 KARNAVATI FINANCE LIMITED**

**['Report on the Internal Financial Controls' under Clause (i) of Sub-section 3 of section 143 of the  
 Companies Act, 2013('the Act')']**

We have audited the internal financial controls over financial reporting of Karnavati Finance Limited("the Company") as of March 31, 2016 in conjunction with our audit of the financial statements of the Company for the year ended on that date.

**Management's Responsibility for Internal Financial Controls**

The Company's management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the company considering the essential components of internal control stated in the Guidance Note on Audit of internal Financial Controls over Financial Reporting issued by the institute of Chartered Accountants of India ('ICAI'). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

**Auditors' Responsibility**

Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") and the Standards on Auditing, issued by ICAI and deemed to be prescribed under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls, both applicable to an audit of Internal Financial Controls and, both issued by the Institute of Chartered Accountants of India. Because of the matter described in Disclaimer of Opinion paragraph below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on internal financial controls system over financial reporting of the Company.

**Meaning of Internal Financial Controls over Financial Reporting**

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

A company's internal financial control over financial reporting includes those policies and procedures that;

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
2. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and

3. provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

### **Inherent Limitations of Internal Financial Controls over Financial Reporting**

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### **Opinion**

According to the information and explanation given to us, the company is in process of establishment of its internal financial control over financial reporting on criteria based on or considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India. Because of this reason, we are unable to obtain sufficient appropriate audit evidence to provide a basis for our opinion whether the Company had adequate internal financial controls were operating effectively as at March 31, 2016.

We have considered the disclaimer reported above in determining the nature, timing, and extent of audit tests applied in our audit of the financial statements of the Company, and the disclaimer does not affect our opinion on the financial statements of the Company.

**For, Maharishi & Co.**  
**Chartered Accountants**  
**ICAI Firm Registration No.124872W**

**Kapil Sanghvi**  
**Partner**  
**Memb. No. 141168**

**Place:** Jamnagar  
**Date :** May 30, 2016



**KARNAVATI FINANCE LIMITED**  
**Balance Sheet as at March 31, 2016**

Particulars		Notes	March 31, 2016	March 31, 2015
<b>I</b>	<b>EQUITY AND LIABILITIES</b>			
1	Shareholders Fund			
	(a) Share Capital	3	8 36 00 000	8 36 00 000
	(b) Reserves & Surplus	4	- 68 11 994	-1 04 93 909
	<b>sub-Total Shareholder's Fund</b>		<b>7 67 88 006</b>	<b>7 31 06 091</b>
2	Non - Current Liabilities			
	(a) Long-term borrowings	5	2 00 000	27 04 300
	<b>sub-Total Non - Current Liabilities</b>		<b>2 00 000</b>	<b>27 04 300</b>
3	Current Liabilities			
	(a) Trade payables	6	15 05 192	22 76 458
	(b) Short Term Provisions	7	15 38 060	3 68 311
	(c) Other Current Liabilities	8	15 000	2 57 000
	<b>sub-Total Current Liabilities</b>		<b>30 58 252</b>	<b>29 01 769</b>
	<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>8 00 46 258</b>	<b>7 87 12 160</b>
<b>II</b>	<b>ASSETS</b>			
1	Non-Current Assets			
	(a) Fixed Assets			
	(i) Tangible assets	9	9 74 233	11 00 600
	(ii)Deferred Tax Assets(net)		4 81 000	0
	<b>Sub-Total - Non Current Assets</b>		<b>14 55 233</b>	<b>11 00 600</b>
2	Current Assets			
	(a) Cash and cash equivalents	10	13 38 535	45 55 841
	(b) Short-term loans and advances	11	7 69 92 490	7 27 13 063
	(c) Other current assets	12	2 60 000	3 42 656
	<b>Sub-Total - Current Assets</b>		<b>7 85 91 025</b>	<b>7 76 11 560</b>
	<b>TOTAL ASSETS</b>		<b>8 00 46 258</b>	<b>7 87 12 160</b>
<b>Summary of Notes to Accounts &amp; Significant Accounting Policies</b> 1 & 2				
The notes referred to above forms an integral part of the Balance Sheet. As per our report of even date				
<b>For Maharishi &amp; Co</b> <b>Chartered Accountants</b> <b>Firm Reg. No. 124872W</b>		<b>For and on behalf of Board of Directors</b> <b>Karnavati Finance Limited</b>		
<b>Kapil Sanghvi</b> <b>Partner</b> <b>M. No.: 141168</b>	<b>Jay Morzaria</b> <b>Managing Director</b> <b>DIN: 02338864</b>	<b>Raman Morzaria</b> <b>Whole-Time Director</b> <b>DIN: 00203310</b>		
<b>Place:</b> Jamnagar <b>Date:</b> May 30, 2016	<b>Place:</b> Jamnagar <b>Date:</b> May 30, 2016			

**KARNAVATI FINANCE LIMITED**  
**Statement of Profit & Loss for the year ended March 31, 2016**

(Amount in Rs.)

Particulars		Note	March 31, 2016	March 31, 2015
I	<b>INCOME</b>			
	Revenue from operations	13	44 42 193	47 58 347
	Other Operating Income		19 02 465	0
	<b>TOTAL REVENUE</b>		<b>63 44 658</b>	<b>47 58 347</b>
II	<b>EXPENSES</b>			
	Employee benefits expense	14	7 44 690	6 56 075
	Loan Losses and Provisions	15	1 19 404	33 29 150
	Other expenses	16	9 53 976	40 95 632
	Depreciation and amortization expense	9	1 57 870	1 57 431
	<b>TOTAL EXPENSES</b>		<b>19 75 940</b>	<b>82 38 287</b>
III	Profit before tax (II-I)		43 68 718	- 34 79 940
IV	Tax expense:			
	(1) Current tax		11 67 802	2 72 119
	(2) Deferred Tax		- 4 81 000	-
	Sub-Total Tax Expenses		6 86 802	2 72 119
V	<b>PROFIT/(LOSS) FOR THE YEAR</b>		<b>36 81 916</b>	<b>- 37 52 059</b>
VI	Earnings per equity share	17	<b>0.44</b>	<b>-0.72</b>
Summary of Notes to Accounts & Significant Accounting Policies		1 & 2		
The notes referred to above forms an integral part of the Profit & Loss Account As per our report of even date				
<b>For Maharishi &amp; Co</b>		<b>For and on behalf of Board of Directors</b>		
<b>Chartered Accountants</b>		<b>Karnavati Finance Limited</b>		
<b>Firm Reg. No. 124872W</b>				
<b>Kapil Sanghvi</b>		<b>Jay Morzaria</b>		<b>Raman Morzaria</b>
<b>Partner</b>		<b>Managing Director</b>		<b>Whole-Time Director</b>
<b>M. No.: 141168</b>		<b>DIN: 02338864</b>		<b>DIN: 00203310</b>
<b>Place: Jamnagar</b>		<b>Place: Jamnagar</b>		
<b>Date: May 30, 2016</b>		<b>Date: May 30, 2016</b>		

**Karnavati Finance Limited**  
**Cash Flow Statement for the year ended on March 31, 2016**

PARTICULARS	March 31, 2016	March 31, 2015
<b>A. Cash flow from operating activities</b>		
<b>Net profit before taxation</b>	43 68 718	- 34 79 940
Adjustment for:		
Depreciation & Impairment	1 57 870	1 57 431
Provision for doubtful debts and advances	1 15 764	5 89 975
General Provision on Standard Assets	3 640	1 27 441
<b>Operating Profit before working capital changes</b>	46 45 992	- 26 05 094
Movements in working capital:		
Decrease/-Increase in Short Term Current Assets (Loans & Advances and Other Assets)	- 43 95 191	-4 41 81 787
Increase/-Decrease in Trade Payables	- 7 71 266	20 928
-Increase/Decrease in Other Current Assets	82 656	2 09 344
Increase/-Decrease in Other Liabilities & Provisions	- 85 250	2 57 000
Sub-Total Movement in Working Capital	- 51 69 051	-4 36 94 515
Net Cash generated from operations	- 5 23 059	-4 62 99 609
Direct taxes paid (net of refunds)	- 1 58 443	- 1 56 795
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>- 6 81 502</b>	<b>-4 64 56 404</b>
<b>B. Cash flow from investing activities</b>		
Purchase of fixed assets	- 31 504	0
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>- 31 504</b>	<b>0</b>
<b>C. Cash flow from financing activities</b>		
Refund of Share application money	0	0
Proceeds from Issue of Equity Shares	0	4 58 00 000
Decrease in Long Term Borrowing	- 25 04 300	
Increase in Long Term Borrowing	0	24 00 000
<b>NET CASH CLOW FROM FINANCING ACTIVITIES</b>	<b>- 25 04 300</b>	<b>4 82 00 000</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>- 32 17 306</b>	<b>17 43 596</b>
<b>Cash and cash equivalents at the beginning of the year</b>	45 55 841	28 12 245
<b>Cash and cash equivalents at the end of the year</b>	13 38 535	45 55 841
<b>Components of cash and cash equivalents as at the</b>		
Cash and cheques on hand	96 989	60 518
With bank		
- On current account	12 41 546	44 95 323
<b>TOTAL</b>	<b>13 38 535</b>	<b>45 55 841</b>
As per our report of even date		
<b>For Maharishi &amp; Co</b> Chartered Accountants Firm Reg. No. 124872W	<b>For and on behalf of Board of Directors</b> Karnavati Finance Limited	
<b>Kapil Sanghvi</b> Partner M. No.: 141168	<b>Jay Morzaria</b> Managing Director DIN: 02338864	<b>Raman Morzaria</b> Whole-Time Director DIN: 00203310
Place Jamnagar Date May 30, 2016	Place: Jamnagar Date: May 30, 2016	

## **Karnavati Finance Limited**

### **Notes on Accounts & Significant Accounting Policies**

#### **1. Notes on Accounts**

##### **a) Corporate information**

Karnavati Finance Limited, incorporated on December 5, 1984 is a Non-Banking Finance Company registered with Reserve Bank of India engaged in the business of financing.

**b)** The Company has initiated the process of obtaining the confirmation from suppliers who have registered under the Micro, Small and Medium enterprise development Act, 2006 (MSMED Act, 2006) based on the information available with the company, the balance due to micro and small enterprise as defined under the MSMED Act, 2006 is Nil. No interest has been paid or payable under MSMED Act, 2006 during the year.

**c)** The disclosures required in terms of Paragraph 13 of the Non-Banking Financial (Non-Deposit Accepting or Holding Companies Prudential Norms (Reserve Bank) Directions, 2007 are given in the Annexure forming part of these Financial Statements.

##### **2. Basis of Preparation**

The financial statements of the company have been prepared in accordance with the generally accepted accounting principles in India (Indian GAAP). The company has prepared these financial statements to comply in all material respects with the accounting standards notified under section 133 of the Companies Act, 2013, read together with paragraph 7 of the Companies (Accounts) Rules, 2014.

All assets and liabilities have been classified as current and non – current as per the Company's normal operating cycle and other criteria set out in the Schedule III of the Companies Act, 2013. Based on the nature of services and their realisation in cash and cash equivalents, the Company has ascertained its operating cycle as 12 months for the purpose of current – non current classification of assets and liabilities.

Further, the Company follows prudential norms for Income Recognition, assets classification and provisioning for Non-performing assets as well as contingency provision for Standard assets as prescribed by The Reserve Bank of India (RBI) for Non-Banking Financial Companies.

The accounting policies adopted in the preparation of financial statements are consistent with those of previous year.

#### **2.1 Summary of significant accounting policies**

##### **a) Use of estimates**

The Preparation of financial statements in conformity with Indian GAAP requires the management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting period. Although these estimates are based on the management's best knowledge of current events and actions, uncertainty about these assumptions and estimates could result in the outcomes requiring a material adjustment to the carrying amounts of assets and liabilities in future periods.

##### **b) Tangible fixed assets**

Fixed assets are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. The cost comprises purchase price, borrowing costs if capitalization criteria are met and directly attributable cost of bringing the asset to its working condition for the intended use. Any trade discounts and rebates are deducted in arriving at the purchase price.

Subsequent expenditure related to an item of fixed asset is added to its book value only if it increases the future benefits from the existing asset beyond its previously assessed standard of performance. All other expenses on existing fixed assets, including day-to-day repair and maintenance expenditure, and cost of replacing parts, are charged to the statement of profit and loss for the period during which such expenses are incurred.

##### **c) Depreciation on tangible fixed assets**

Depreciation on fixed assets is calculated on a straight-line basis using the rates arrived at based on the useful lives under section 123 of the Companies Act, 2013

##### **d) Income taxes**

Tax expense comprises current and deferred tax. Current income-tax is measured at the amount expected to be paid to the tax authorities in accordance with the Income-tax Act, 1961 enacted in India and tax laws prevailing in the respective tax jurisdictions where the company operates. The tax rates and tax laws used to compute the

amount are those that are enacted or substantively enacted, reporting date. Current income tax relating to items recognized in equity and in the statement of profit & loss.

#### **e) Earnings Per Share**

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting preference dividends and attributable taxes) by the weighted average number of equity shares outstanding during the period. Partly paid equity shares are treated as a fraction of an equity share to the extent that they are entitled to participate in dividends relative to a fully paid equity share during the reporting period. The weighted average number of equity shares outstanding during the period is adjusted for events such as bonus issue, bonus element in a rights issue, share split, and reverse share split (consolidation of shares) that have changed the number of equity shares outstanding, without a corresponding change in resources.

#### **f) Segment Reporting**

The company is engaged primarily in the business of loan financing and accordingly there are no separate reportable segments as per Accounting Standard 17 dealing with Segment Reporting.

#### **g) Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Further, in accordance with the guidelines issued by The Reserve Bank of India for Non-Banking Financial Companies, income on business assets classified as Non-performing Assets, is recognised on receipt basis. Unrealized interest recognized as income in the previous period is reversed in the month in which the loan is classified as Non-performing. The following specific recognition criteria must also be met before revenue is recognized:

#### **h) Income from Loans:**

Interest Income from loan transactions is accounted for by applying the interest rate implicit in such contracts

#### **i) Provisions**

A provision is recognized when the company has a present obligation as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not discounted to their present value and are determined based on the best estimate required to settle the obligation at the reporting date. These estimates are reviewed at each reporting date and adjusted to reflect the current best estimates.

Where the company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit and loss net of any reimbursement."

#### **j) Contingent Liabilities**

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the company or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognized because it cannot be measured reliably. The company does not recognize a contingent liability but discloses its existence in the financial statements.

#### **k) Cash and cash equivalents**

Cash and cash equivalents for the purposes of cash flow statement comprise cash at bank and in hand and short-term investments with an original maturity of three months or less.

#### **l) Retirement and other employee benefits**

Retirement benefit in the form of provident fund is a defined contribution scheme. The company has no obligation, other than the contribution payable to the provident fund. The company recognizes contribution payable to the provident fund scheme as expenditure, when an employee renders the related service. If the contribution payable to the scheme for service received before the balance sheet date exceeds the contribution already paid, the deficit payable to the scheme is recognized as a liability after deducting the contribution already paid. If the contribution already paid exceeds the contribution due for services received before the balance sheet date, then excess is recognized as an asset to the extent that the pre-payment will lead to, for example, a reduction in future payment or a cash refund.

#### **m) Impairment**

The carrying value of assets/cash generating units at each balance sheet date is reviewed for impairment. If any indication of impairment exists, the recoverable amount of such assets is estimated and impairment is recognised, if the carrying amount of these assets exceeds their recoverable amount. The recoverable amount is the greater of the net selling price and their value in use. Value in use is arrived at by discounting the future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life to their present value based on an appropriate discount factor.

The company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the company's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the statement of profit and loss, except for previously revalued tangible fixed assets, where the revaluation was taken to revaluation reserve. In this case, the impairment is also recognized in the revaluation reserve up to the amount of any previous revaluation.

After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit and loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

KARNAVATI FINANCE LIMITED					
Note	Particulars	March 31, 2016		March 31, 2015	
<b>3</b>	<b>SHARE CAPITAL</b>	<b>No.</b>	<b>Amount</b>	<b>No.</b>	<b>Amount</b>
a	Authorised Share Capital Equity Shares of Rs. 10 each	1 00 00 000	10 00 00 000	1 00 00 000	10 00 00 000
	Issued, Subscribed & Paid up Share Capital Equity Shares of Rs. 10 each	83 60 000	8 36 00 000	83 60 000	8 36 00 000
	<b>TOTAL SHARE CAPITAL</b>		<b>8 36 00 000</b>		<b>8 36 00 000</b>
b	<b>Reconciliation of the shares outstanding at the beginning and at the end of the reporting period - Equity Shares</b>				
	<b>PARTICULARS</b>	<b>No.</b>	<b>Amount</b>	<b>No.</b>	<b>Amount</b>
	At the beginning of the period	83 60 000	8 36 00 000	37 80 000	3 78 00 000
	Issued during the period	0	0	45 80 000	4 58 00 000
	Outstanding at the end of the period	83 60 000	8 36 00 000	83 60 000	8 36 00 000
c	<b>Terms/Rights attached to Equity Shares</b>				
	The company has only one class of equity shares having a per share value of Rs. 10/- per share. Each holder of equity shares is entitled to one vote per share. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing General Meeting.				
	In the event of liquidation of the company, the holders of equity shares will be entitled to receive remaining assets of the company, after distribution of all preferential amounts. The distribution will be in proportion to the number of equity shares held by the shareholders.				
d	<b>Details of shareholders holding more than 5% shares in the company</b>				
		<b>No.</b>	<b>% of total holding</b>	<b>No.</b>	<b>% of total holding</b>
	Raman Paragibhai Morzaria	26 82 700	32.09%	26 82 700	32.09%
	Jay Ramanbhai Morzaria	10 03 600	12.00%	10 03 600	12.00%
	Kush R. Morzaria	13 25 100	15.85%	13 25 100	15.85%
	As per records of the company, including its register of shareholders/members and other declaration received from shareholders regarding beneficial interest, the above shareholding represents both legal and beneficial ownership of shares.				
<b>4</b>	<b>RESERVES &amp; SURPLUS</b>	<b>Amount</b>		<b>Amount</b>	
a	Reserve Fund in terms of section 45IC(1) of the Reserve Bank Of India Act, 1934				
	Balance as per last financial statement	1 64 623		1 64 623	
	Add: set aside during the year	736,383		-	
	Closing Balance		9 01 006		1 64 623
c	General Reserve		15 000		15 000
d	Profit & Loss A/c				
	Opening Balance	-1 06 73 532		- 68 79 677	
	Add: Profit/(Loss) during the year	36 81 916		- 37 52 059	
	Less: Depreciation	-		- 41 796	
	Less: Transferred to Statutory Reserve Fund in terms of Section 45-1C of The Reserve Bank of India Act, 1934	-736,383		-	
	Closing Balance		- 77 28 000		-1 06 73 532
	<b>TOTAL RESERVE &amp; SURPLUS</b>		<b>- 68 11 994</b>		<b>-1 04 93 909</b>
<b>5</b>	<b>LONG TERM BORROWINGS</b>	<b>Non - Current</b>	<b>Current Maturities</b>	<b>Non - Current</b>	<b>Current Maturities</b>
	Loan From Present & Previous Directors				
	Rajnikant Vora	0		1 04 300	
	Kush Morzaria			24 00 000	
	Kamlesh G. Morzaria	2 00 000		2 00 000	
	<b>TOTAL BORROWINGS</b>	<b>2 00 000</b>		<b>27 04 300</b>	
(a)	The above loans are unsecured and interest free.				
(b)	The above loans are not repayable within period of 12 months from 31st March, 2016.				

KARNAVATI FINANCE LIMITED					
Note	Particulars	March 31, 2016		March 31, 2015	
<b>6</b>	<b>TRADE PAYABLES</b>	<b>Amount</b>		<b>Amount</b>	
	Payable for expenses	15 05 192		22 76 458	
	<b>TOTAL</b>	<b>15 05 192</b>		<b>22 76 458</b>	
	Details of dues to Micro, small and Medium Enterprises as per MSMED Act, 2006				
	The Company has initiated the process of obtaining the confirmation from suppliers who have registered under the Micro, Small and Medium enterprise development Act, 2006 (MSMED Act, 2006) based on the information available with the company, the balance due to micro and small enterprise as defined under the MSMED Act, 2006 is Nil. No interest has been paid or payable under MSMED Act, 2006 during the year.				
	There are no dues payable to small scale industries undertaking in view of the business of the company.				
<b>7</b>	<b>Short Term Provisions</b>	<b>Amount</b>		<b>Amount</b>	
	Provision for Income Tax	11 99 487		1 90 128	
	General Provision on Standard Assets	1 81 823		1 78 183	
	Provision For Audit Fees	1 56 750			
	<b>TOTAL</b>	<b>15 38 060</b>		<b>3 68 311</b>	
<b>8</b>	<b>Other Current Liabilities</b>	<b>Amount</b>		<b>Amount</b>	
	Statutory Dues	15,000		2 57 000	
	<b>TOTAL</b>	<b>15,000</b>		<b>2 57 000</b>	
<b>10</b>	<b>CASH &amp; CASH EQUIVALENT</b>	<b>Amount</b>		<b>Amount</b>	
	Balances with Bank on Current Accounts	12 41 546		44 95 323	
	Cash on Hand	96 989		60 518	
	<b>TOTAL</b>	<b>13 38 535</b>		<b>45 55 841</b>	
<b>11</b>	<b>SHORT TERM LOANS &amp; ADVANCES</b>	<b>Current</b>	<b>Non -</b>	<b>Current</b>	<b>Non -</b>
	Unsecured (including overdue loans)				
	Standard Assets	4 54 55 672		7 07 41 721	-
	Sub-Standard Assets	3 99 76 670		17 05 076	-
	Doubtful Assets	67 90 933		95 90 697	-
		9 22 23 275		8 20 37 494	-
	Less: Provision of Interest & Income Reversal	60 86 055		2 95 465	-
		8 61 37 220		8 17 42 029	-
	Provisions for NPA	91 44 730		90 28 966	-
	<b>Net Loans Unsecured</b>	<b>7 69 92 490</b>		<b>7 27 13 063</b>	-
	<b>TOTAL</b>	<b>7 69 92 490</b>		<b>7 27 13 063</b>	
<b>12</b>	<b>OTHER CURRENT ASSETS</b>	<b>Amount</b>		<b>Amount</b>	
	Deposits	2 60 000		3 42 656	
	<b>TOTAL</b>	<b>2 60 000</b>		<b>3 42 656</b>	
<b>13</b>	<b>REVENUE FROM OPERATIONS</b>	<b>Amount</b>		<b>Amount</b>	
	Income (Finance Charges)	63 44 658		47 58 347	
	<b>TOTAL</b>	<b>63 44 658</b>		<b>47 58 347</b>	
<b>14</b>	<b>EMPLOYEE BENEFIT EXPENSES</b>	<b>Amount</b>		<b>Amount</b>	
	Directors Remuneration	3 00 000		3 00 000	
	Salary, Wages & Bonus	4 02 200		3 27 000	
	Staff Welfare Exp	42 490		29 075	
	<b>TOTAL</b>	<b>7 44 690</b>		<b>6 56 075</b>	
<b>15</b>	<b>LOAN LOSSES AND PROVISIONS</b>	<b>Amount</b>		<b>Amount</b>	
	Provision & Write Offs				
	General Provision on Standard Asset	3 640		1 27 441	
	Amount Written Off	0		26 11 734	
	Provision for Non Performing Assets(as per RBI norms)	1 15 764		5 89 975	
	<b>TOTAL</b>	<b>1 19 404</b>		<b>33 29 150</b>	



KARNAVATI FINANCE LIMITED				
Note	Particulars	March 31, 2016		March 31, 2015
<b>16</b>	<b>OTHER EXPENSES</b>	<b>Amount</b>		<b>Amount</b>
	Auditor's Remuneration	1 71 750		2 00 563
	ROC Fees	21 600		39 000
	Issue Expenses			35 44 674
	Other General & Admin Exp	7 60 626		3 11 395
	<b>TOTAL</b>		<b>9 53 976</b>	<b>40 95 632</b>
	Payment to auditors includes			
	Statutory Audit	1 03 050		1 80 900
	Other matters	17 175		0
	Taxation matters	51 525		19 663
	<b>TOTAL</b>		<b>1 71 750</b>	<b>2 00 563</b>
<b>17</b>	<b>EARNING PER SHARE</b>	<b>Amount</b>		<b>Amount</b>
	Net profit as per P & L	36 81 916		- 37 52 059
	No. of Shares	83 60 000		83 60 000
	<b>TOTAL</b>		<b>0.44</b>	<b>-0.45</b>

<b>KARNAVATI FINANCE LIMITED</b>						
<b>Note No.</b>	<b>Particulars</b>					
<b>9</b>	Tangible Fixed Assets	Furniture & Fixtures	Other Assets	Computer	Vehicle	TOTAL
	<b>Cost</b>					
	As at 31st March, 2015	10 43 868	66 549	62 964	8 19 000	19 92 381
	Additions	31 500				31 500
	Disposals	0	0	0	0	0
	As at 31st March, 2016	10 75 368	66 549	62 964	8 19 000	20 23 881
	<b>Depreciation</b>					
	As at 31st March, 2015	2 08 263	18 680	62 964	6 01 874	8 91 781
	Additions					
	Disposals					
	As at 31st March, 2016	3 06 374	31 367	62 964	6 48 946	10 49 651
	Net Block					
	At 31st March, 2015	835,605	47,869	-	217,126	1,100,600
	At 31st March, 2016	7 68 994	35 182	-	1 70 054	974,230

		<b><u>KARNAVATI FINANCE LIMITED</u></b>	
Note	Particulars	31.03.2016	31.03.2015
###	<b><u>RELATED PARTY DISCLOSURE</u></b>		
a	<u>Name of Related Parties</u>		
	Key Management Personnel:		
		1	Raman Morzaria
		2	Jay Morzaria
		3	Jay Somaiya
		4	Kaushal Ruparel
		5	Vinesh Makadia
	(b) <u>Transaction with Related Parties</u>		
	<b><u>Remuneration paid to Key Managerial personnel</u></b>		
	Ramanbhai Morzaria	300,000	300,000
	<b><u>Rent</u></b>		
	Raman Morzaria	30,000	45,000
	<b><u>Balance Payable</u></b>		
	Key Managerial Personnel		
	Raman P. Morzaria	3 49 110	6 49 110
	Vinesh P. Makadia	6 80 000	6 80 000
	Relatives of Key Managerial		
	Kush Morzaria	-	24 00 000
	Daxaben R. Morzaria	-	1 20 000
	Jay R Morzaria	-	1 80 000
	<b>Total</b>	<b>10 29 110</b>	<b>40 29 110</b>



**Karnavati Finance Limited****CIN:** L65910MH1984PLC034724**Regd. Off:** Unit No 2, Sagar Deep Darshan Co Operative Housing Society Limited, S. V. Road, Borivali (West) Mumbai – 400 092.**Corp. Off:** Vraj, 5th Floor, Opp. President Hotel, Near Bhumi Press, Limda Lane, Jamnagar – 361 001, Gujarat.**Phone:** +91-288-266 3042 **Fax:** +91-288-267 3759 **E-mail:** karnavatifinance@gmail.com **Web:** www.karnavatifinancelimited.in**ATTENDANCE SLIP**

Regd. Folio No./DP Id No./Client Id No.* (*Applicable for investor holding shares in electronic form.)	
No. of Shares held	
Name and Address of the First Shareholder (IN BLOCK LETTERS)	
Name of the Joint holder (if any)	

I/we hereby record my/our presence at the thirty-second Annual General Meeting of Karnavati Finance Limited held on Friday, September 30, 2016 at 03:00 p.m. at the registered office of the Company situated at Unit No 2, Sagar Deep Darshan Co Operative Housing Society Limited, S. V. Road, Borivali (West) Mumbai – 400 092.

**Member's/Proxy's Name in Block Letters****Member's/Proxy's Signature**

**Notes:** Please fill up this attendance slip and hand it over at the entrance of the venue of meeting. Members are requested to bring their copies of the Annual Report to the AGM.

-----Please tear here-----

**PROXY FORM**

(Form No. MGT-11 - Pursuant to section 105(6) of the Companies Act, 2013 Rules made thereunder)

Name of the member(s)	
Registered Address	
E-mail Id	
Folio No/Client Id	

I/We, being the member (s) of.....shares of the above named company, hereby appoint

- Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
E-mail Id: \_\_\_\_\_ Signature: \_\_\_\_\_ or failing him
- Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
E-mail Id: \_\_\_\_\_ Signature: \_\_\_\_\_ or failing him
- Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
E-mail Id: \_\_\_\_\_ Signature: \_\_\_\_\_

as my/our proxy to attend and vote (on a poll) for me/us and on my/our behalf at the thirty-second Annual General Meeting and/or any adjournment thereof of Karnavati Finance Limited to be held on Friday, September 30, 2016 at 03:00 p.m. at the registered office of the Company situated at Unit No 2, Sagar Deep Darshan Co Operative Housing Society Limited, S. V. Road, Borivali (West) Mumbai – 400 092 and/or any adjournment thereof in respect of such resolutions as are indicated below:

Resolution No.	Resolution	Vote (Optional see Note 2) (Please mention no. of shares)		
		For	Against	Abstain
<b>Ordinary businesses</b>				
1.	Adoption of financial statements			
2.	Appointment of Mr. Jay Morzaria as a director liable to retire by rotation			
3.	Ratification of appointment of Statutory Auditors and fix their remuneration			
<b>Special Businesses</b>				
4.	Appointment of Ms. Hardika Mandavia as a Non-Executive Director, designated as Women Director.			

Signed this.....day of.....2016

Affix Revenue Stamp of not less than Rs. 1
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\_\_\_\_\_  
**Signature of shareholder**\_\_\_\_\_  
**Signature of Proxy holder(s)****Note:**

- This form, in order to be effective, should be duly stamped, completed, signed and deposited at the registered office of the Company, not less than 48 hours before the Annual General Meeting (on or before September 28, 2016 at 03:00 p.m.)
- It is optional to indicate your preference. If you leave the 'for', 'against' or 'abstain' column blank against any or all of the resolutions, your proxy will be entitled to vote in the manner as he/she may deem appropriate.