

August 07, 2020

The Sr. General Manager
Department of Corporate Services,
BSE Limited, 1st Floor,
PJ Towers, Dalal Street,
Mumbai 400 001

Sub: Compliance under Regulation 51(1) and 51(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulation 2015

Dear Sir/Madam,

Pursuant to clause 16 of Part B of Schedule III read with Regulation 51(2) of the LODR as well as the SEBI circular No. SEBI/HO/CFD/CMD1/CIR/P/2020/84 dated May 20, 2020, a listed entity shall promptly inform to the stock exchange of any other information having bearing on the operation/performance of the listed entity.

In view of the above, Arka Fincap Limited (AFL), submitting herewith the following information. Since AFL has listed its Secured Non-Convertible Debentures, issued on Privately Placement basis, on WDM segment of Bombay Stock Exchange:

(1) Impact of the CoVID-19 pandemic on the business;

(i) Corporate Lending:

The outbreak of the COVID Pandemic in India in March 2020 has resulted in stoppage of economic activity in the country. The lockdown announced by the Government on March 24 2020, has been continuing till date, albeit in a partially relaxed format. The lockdown has affected all almost establishments across India, except essential services. This has resulted in a significant strain on businesses with loss of production, sales and employment.

The impact of the Pandemic, is expected to result in subdued demand across industries, weak consumer confidence going forward, on account of the uncertain nature of the Pandemic.

The subdued growth forecasts for NBFCs are expected to be further accentuated by challenges around asset quality, as COVID related lockdown and disruptions in operations of companies is expected to significantly impact debt repayment ability of borrowers. Lower growth of the sector is likely to result in consolidation as weaker players look to sell portfolios to meet maturing liabilities.



ARKA FINCAP LIMITED

REGD Office: One Indiabulls Centre, Tower 2B, Floor 12B
Senapati Bapat Marg, Mumbai 400013, India
(Formerly known as Kirloskar Capital Limited)

GST No. 27AAHCK0936B1ZU
CIN U65993MH2018PLC308329
T +91 22 40471000, F +9122 40471010
contact@arkafincap.com
www.arkafincap.com

AFL with just one year of largely equity funded operations, is likely to be relatively less affected by the COVID crisis related sector ramifications, as the asset book was rolled out in a risk averse environment, factoring in industry challenges on asset quality. However, the situation has resulted in strong asset quality for the business with no delay in interest or principal repayment in any account as on March 31 2020. The business disbursements going forward are also being rolled out factoring the current challenging business environment.

(ii) Real Estate Lending:

This pandemic has led AFL to be more conservative in its approach i.e. leading it to manage our existing portfolio whilst increasing the new portfolio conservatively. AFL remain cautious with new opportunities. We have tightened our internal underwriting standards to follow a uniform thought process and align it. We have factored multiple benchmarks in the underwriting standards (including Portfolio parameters, product parameters, security parameters; among others) and are targeting to comply with those going ahead. In addition, we are focusing on strengthening our credit by undertaking various measures going forward. The current situation has led us to focus on a few clients and support our existing client, wherever opportunities presents with key focus on counterparty strength and their pedigree.

(iii) SME and MSME:

AFL has not started the SME Business (where they would be extending loans to SME Borrowers) yet and has largely deferred their plans for the year. We shall be running a couple of Pilot Lending Programs this year to start with in order to streamline our Digital Onboarding processes, develop Standard Operating Procedures and fine tune our Credit Policies. This would allow us to lay a foundation of a sound Business and go to market better prepared when we feel that the requirement for loans is coming from genuine borrowers to undertake Capacity Building for meeting the Demand in their Good Produced and Services Rendered.

(2) Ability to maintain operations including the factories/units/office spaces functioning and closed down:

- As per government guidelines, at AFL, we are allowed an office staff of 10% in the physical space of office premises. However, we had chosen not to open our office premises full time for regular operations, so as to keep the danger of risk to the health of employees at a minimal.

In the meantime, to keep the office premises hygienic and available to employees, in case of work exigencies, the office had a security guard and a house-keeping employee. This would take care of continual disinfection of the office space and constant vigilance.

- In terms of maintenance of operations, the following guidelines have been issued to the employees at the start of the lockdown itself:
 1. *No employee to come to the office during this time.*
 2. *Given that all systems are accessible through internet - mail / drive / Videocon / intranet/ HRMS from your laptops / phones and LMS by select employees through VPN, we will be functional from home during this time.*
 3. *Employees need to log-in everyday into HRMS using Zoho app on your phones / web access on laptop. While normally attendance marking is enabled only with the Geo-ranges of our offices, the restriction has been relaxed, so that you can log-in / log-out from home.*
 4. *For any critical tasks falling in this period - payments / receipts as well as activities on outstanding loans, please coordinate the same with your supervisors.*
 5. *For daily, policy related queries, employees are requested to reach out to the HR team of the Company.*

Directory of all employees is also kept available on the intranet as well office what's app group.

- Additionally, AFL has informed to employees that Work from Home Policy which consists of the following guidelines “In certain cases, Work from Home may become necessary. In such cases, the Company will inform the employees as to who is eligible for the same, what will be the duration and what are the rules to be followed during this time.”
- If still an employee needs to visit office for a certain urgent work-related matter, the premises are accessible to them upon prior information to the Administration department of the Company.

(3) Schedule, if any, for restarting the operations:

Currently, a schedule of restarting operations, fully, in physical premises, has not been created. The same will be planned post gauging the COVID-19 threat by 15th of August, 2020. In accordance to the decision made, post internal discussion, the employees would be updated of the availability of a new plan/ schedule or continuation of operations from home, as per requisite guidelines.

(4) Steps taken to ensure smooth functioning of operations:

The Operations at Arka are run Centrally and have been provided adequate IT connectivity and support to effectively work from home (WFH). Access to the Loan Origination System (LOS) and Loan Management System (LMS) had been made available right from day 1 of the lock down period. Soft copies of documents are stored on Google drive and this ensures a convenient access to the various documents. All approvals are taken on email (this is allowed as per the delegation policy).

For loan disbursements AFL uses the Corporate Net Banking portal of ICICI Bank. The portal has a maker checker functionality and payments are allowed only on the basis of the delegation of power matrix.

When there is a need to sign loan documents, the POA holder from Operations and Business travel to office and physically sign the documents. In summary, due to the most efficient use of technology, operations at AFL has been working seamlessly and in a controlled manner during the lockdown period.

(5) Estimation of the future impact of CoVID-19 on its operations:

As stated in point 4 above, operations at AFL are working seamlessly and we expect to work without any trouble even if the lockdown get extended.

(6) Details of impact of CoVID-19 on listed entity's:

(i) Capital and Financial Resources:

AFL has adequate capital and financial resources. The capital adequacy of the company is comfortable and much above the threshold limit prescribed by regulators. Leverage of the Company as on 31st July is app 0.6x.

(ii) Liquidity Position:

AFL has been maintaining decent liquidity in these tough times. As mandated by the Board, Arka has been maintaining liquidity in excess of INR 100 crores all the times. Apart from this, the company has undrawn working capital lines of INR 50 crores from large private sector banks as well, which is available for drawdown at any point of time. As on 31 July, Company has cash and near cash balance of INR 122 crores apart from undrawn working capital lines.

(iii) Ability to service debt and other financing arrangements:

Considering the high liquidity and low leverage, AFL has ability to service debt and other financing arrangements as per the agreed schedule.

(iv) Profitability and Assets:

In accordance with RBI guidelines relating to COVID-19 Regulatory Package dated 27 March 2020, 17 April 2020, the Company has offered a moratorium on the payment of instalments falling due between 1 March 2020 and 31 May 2020 ('moratorium period-1') to eligible borrowers. This moratorium period further extended by another 3 months from 31 May 2020 to 31 August 2020 ('moratorium period-2') in accordance with RBI guidelines dated 23 May 2020. Certain eligible borrowers have availed such extended moratorium of 3 months till 31 August 2020 during the quarter ended 30 June 2020. The extent to which the COVID-19 pandemic will impact the Company business and financial results is at this juncture, dependent on future developments, which are highly uncertain. Considering the current lock down condition and future uncertainty, the Company has revised its business plan and have reduced new business booking. It is closely monitoring its existing portfolio. the impact of Covid-19 on the Profitability and Asset quality will be determined post completion of moratorium period i.e. 31 August 2020.

(v) Internal Financial Reporting and Control:

Covid-19 pandemic has impacted the existing control framework designed by the Company. This require Company to modify its existing control to mitigate the risk created by Covid-19.

The existing IFC control which have now been impacted includes:

- **Manual Control:** this includes physical sign off/ approvals required for day to day transactions like request sent to banks, manual filing of documents etc.
- **Control environment changes:** These include internal control environment changes, like remote working arrangements
- **Assessing operating effectiveness:** Assess controls' operating effectiveness, including management review controls. Re-evaluate control procedures' effectiveness due to remote work.
- **Governance over data access and data sharing:** this includes increased exposure to data breach risk due to remote access of data.
- **Inadequate visibility on controls over financial reporting:** this includes heavy reliance on Management review controls – controls such as impairment, log reviews, financial reviews, etc. may not be operating as designed impacting financial reporting.

(vi) Supply Chain – Not Applicable

(vii) Demand for its products/services:

- (a) Corporate Lending: AFL is likely to be relatively less affected by the above COVID crisis related sector ramifications, as the asset book was rolled out in a risk averse environment, factoring in industry challenges on asset quality. This has resulted in strong asset quality for the business with no delay in interest or principal repayment in any account as on March 31 2020. The business disbursements going forward are also being rolled out factoring the current challenging business environment.

Lowering of business growth targets and lending spreads, on the back of risk aversion in borrower selection, is expected to ensure that the lending book remains clear of asset quality challenges going forward

- (b) Real Estate Lending: Demand remains high as most of the borrowers are looking for liquidity. With RBI repeated efforts to bring down the interest rates in the economy; only borrowers with high credit quality are able to reduce their cost of borrowing as increasingly market has become risk averse thereby cost/ risk premium has increased due to the current crisis.

- (c) SME and MSME Lending: There is demand for Loans from SME Borrowers, but most do not meet our Credit Selection Criteria. Moreover, the demand is primarily coming for Loan Transfer for lowering the cost of Borrowing and less from Borrowers who are seeing increased demand for their Products & Services.
- (7) Existing contracts/agreements where non-fulfilment of the obligations by any party will have significant impact on the listed entity's business:
- As regards Real Estate and Corporate Lending, all our existing clients in the current portfolio are standard in AFL books.
- (8) Other relevant material updates about the listed entity's business: NIL

This is for your information and record

For Arka Fincap Limited

AMIT
TUKARAM
BONDRE

Digitally signed by
AMIT TUKARAM
BONDRE
Date: 2020.08.07
14:11:13 +05'30'

Amit Bondre
Deputy Company Secretary

ARKA FINCAP LIMITED

REGD Office: One Indiabulls Centre, Tower 2B, Floor 12B
Senapati Bapat Marg, Mumbai 400013, India
(Formerly known as Kirloskar Capital Limited)

GST No. 27AAHCK0936B1ZU
CIN U65993MH2018PLC308329
T +91 22 40471000, F +9122 40471010
contact@arkafincap.com
www.arkafincap.com