

Annual Report 2018-2019

















ANNUAL REPORT 2018-19



CONTENTS

03	Message From Hon. Chie	f Minister
9 5	I Wicobuge From From Crite	

- O5 Message From Hon. Finance Minister
- O7 Board Directors
- O8 Principal Officers
- O9 Notice to shareholders
- 10 Directors' Report
- 21 Auditors' Report
- 23 Financial Statements
- Notes forming part of financial statements
- 31 Significant Accounting Policies and Notes to Accounts
- 43 Disclosure Requirements
- 45 Cashflow Statement
- 46 | Summary of Operations
- 49 Highlights of performance
- 51 Proxy form
- Financial Highlights

MESSAGE





I am happy to note that the Kerala Financial Corporation has undergone a complete transformation during the financial year 2018-19 and could double its business through its focused business strategy and more customer friendly approach.

Now KFC has acquired a new image the MSME sector as the partner of choice. I hope that KFC will scale new heights in its endeavour to provide timely assistance to entrepreneurs and industrial development of the State.

My best wishes to KFC and its customers.

Pinarayi Vijayan

MESSAGE



I am happy to note that Kerala Financial Corporation witnessed complete transformation during the year under review. Not only has its lending business tripled over this one year period, KFC has also become much more client focused and competitive. The Corporation could reduce its net NPA levels to 1.82%, which is an industry leading performance.

With the tremendous success of new base rate structure implemented by the Corporation coupled with launch of new products like contractor's loans, bill discounting, etc, KFC's portfolio is set to double in next two years. This together with further reduction in NPAs is bound to lead to an enhanced rating for KFC, thereby yielding a lower cost of funds. These benefits would allow KFC to serve its clients better for the overall development of MSMEs in the state.

I wish the customers, stakeholders and employees of KFC all success and progress.

M. Thomas Isaac

BOARD OF DIRECTORS



Sri. Sanjeev Kaushik IAS Chairman & Managing Director



Smt. Sharmila Mary Joseph IAS Secretary, (Finance & Expenditure) till 24.01.2019



Sri. K. N Satheesh IAS Director(Industries & Commerce) Govt. of Kerala) till 12.08.2018



Sri. K Biju IAS Director (Industries & Commerce, Govt. of Kerala)



Sri. E.K Harikumar Chief General Manager SBT (Rtd.)



Sri. Anilkumar Parameswaran Sri. Alok Kumar Sharma Chartered Accountant



General Manager, SBI till 15.07.2018



Sri. Partha Sarathi Patra General Manager, SBI



Smt. Santha Varkey Senior Divisional Manager, LIC



Sri. Allada Sreenivas Chief General Manager, SIDBI till 06.05.2018



Sri. Vatsakumar Dy. General Manager, SIDBI till 06.05.2018



Sri. TS Ajith Deputy General Manager, SIDBI



PRINCIPAL OFFICERS

(AS ON 31.03.2019)

Executive Director

Sri. Premnath Ravindranath

General Managers

Sri. Mushtaq Ahammed M

Sri. Renjithkumar E R

Deputy General Managers

Sri. P B Sreekumar

Sri. K S Rajeev

Sri. Ajithkumar K

Sri. K G Ajithkumar

Sri. Adarsh R

Sri. Rajesh R

Sri. M Manisankar

Smt. Annamma M

Financial Controller

Smt. Soya K

Statutory Auditors

Krishnan Retna & Associates, Chartered Accountants

Thiruvananthapuram

KERALA FINANCIAL CORPORATION

(Incorporated under the State Financial Corporations Act No. LXIII Of 1951 H.O: Vellayambalam, Thiruvananthapuram - 695 033.

Phone: 0471-2737500 / 2737576 /2737566. Fax: 2311750

Email: info@kfc.org Website: www.kfc.org

NOTICE TO SHARE HOLDERS

Notice is hereby given that the 66th Annual General Meeting of the shareholders of Kerala Financial Corporation will be held at the Head Office of the Corporation, Vellayambalam, Thiruvananthapuram on Monday, 17th of June, 2019 at 11.00 A.M. to transact the following business:

- 1. To consider and adopt the Balance Sheet as at 31st March, 2019 and the Profit & Loss account for the year ended 31st March, 2019 of the Corporation, the Report of the Board of Directors on the working of the Corporation for the Financial Year 2018-19 and the Auditor's Report on the said Balance Sheet and Accounts.
- 2. To appoint Statutory Auditors of the Corporation for the Financial Year 2019-20 under Section 37 (1) of the SFCs Act.
- 3. To declare dividend

By Order of the Board

Executive Director

Place: Thiruvananthapuram,

Date: 24.05.2019

NOTES:

- 1. The Share Register of the Corporation shall remain closed and transfer of shares will be suspended from 10.06.2019 to 17.06.2019 (both days inclusive).
- **2.** The form of proxy is enclosed.
- **3.** Voting rights of the shareholders shall be determined in terms of the provisions under Section 4F of the State Financial Corporations Act, 1951.
- 4. Any shareholder entitled to attend and vote at the meeting shall be entitled to appoint another person (whether a shareholder or not but not being an officer or employee of the Corporation) as his proxy to attend and vote instead of himself. No proxy shall be valid unless it is duly stamped and unless it, together with the power of attorney or other authority (if any) under which it is signed, or a copy of that power or authority certified by a notary public or a magistrate, is deposited at the Head Office of the Corporation not less than 48 hours before the time fixed for the meeting.
- 5. A shareholder being a Company including Small Industries Bank, Public Sector Banks, Co-operative Banks, Co-operative Societies and LIC may, by a resolution of its Directors, authorise any of its officials or any other person (not being an officer or employee of the Corporation) to act as its representative at the meeting. The copy of the resolution appointing him as a duly authorised representative certified to be true copy by the Chairman of the meeting at which it was passed shall have been deposited at the Head Office of the Corporation not less than 48 hours before the time fixed for the meeting.
- **6.** The State Government may, by order in writing, authorise any of its officers, whether a Director of the Corporation or not, to act as its representative at the meeting. The copy of the order shall be deposited at the Head Office of the Corporation before the time fixed for the meeting.
- 7. The meeting shall be held, conducted, and the business thereat shall be transacted in adherence to the provisions of the State Financial Corporations Act 1951 (As amended up to date) and in terms of the provisions of the General Regulations of Kerala Financial Corporation.



DIRECTORS' REPORT

То

The Members,

The Directors take great pleasure in presenting the 66th Annual Report on the business and operations of the Corporation, together with the audited accounts for the year ended March 31, 2019.

Kerala Financial Corporation (KFC), incorporated under the State Financial Corporations Act of 1951, is a trend setter and path breaker in the field of long term finance, playing a major role in the development and industrialization of Kerala extending financial assistance to Micro, Small and Medium Enterprises in manufacturing and service sector. Since inception KFC has nurtured more than 60,000 projects, spread over the length and breadth of the State. The aim is to strengthen the Corporation to transform it as a major developmental financing institution of the State there by hand holding industrial units and new entrepreneurs in addition to extending low cost finance and better service delivery.

The year under review has been extremely satisfying with the Corporation witnessing a complete transformation. Not only has its lending business tripled over this one year period, KFC has also become much more client focused and competitive with a focused business strategy and vigorous marketing efforts. As a result of these far reaching changes, today KFC has acquired a new image in the MSME sector as a partner of choice. The metric that best captures performance is the loan portfolio growth which stood at about 9.47 %. The other key performance indicators are Sanctions (up 127.23%), Disbursements (up 35.91%), Net Profit (up 113.25%) and Gross NPA (down 9.42%). However, the year proved to be a difficult one for the entire banking sector due to various factors and the performance of the Corporation can be considered remarkable given this difficult economic environment. This assumes even more significance as it came in the face of floods which led to growth pangs from the second quarter onwards.

Financial Highlights of the Corporation

The performance is a reflection of the reforms taken in leveraging the business through digitization to improve customer experience, productivity, revenues and quality of loan portfolio thereby establishing itself as State's leading focused financial institution with unmatched reach, product range and innovative schemes for various sectors.

A snapshot of the operational performance of the Corporation during the last three years is as below:

₹ in crore

Financial Year	2018-19	2017-18	2016-17
Portfolio Size	2684.01	2451.79	2474.11
Sanctions	1644.95	723.93	385.31
Disbursements	815.79	600.23	655.27
Recovery	900.00	944.67	874.28
Interest Income	292.20	319.50	305.16
Total Income	428.26	376.88	364.73
Total Expenditure	397.27	356.69	356.86
Op. Profit before technical write off of bad debts	198.03	144.63	127.68
Op. Profit after technical write off of bad debts	31.00	20.19	7.87
Net Profit before Tax	26.65	15.04	7.87
Net profit after tax	17.70	8.30	5.69
Net worth	457.41	441.08	435.45
Capital Adequacy Ratio %	19.24	17.26	17.03
Gross NPA %	5.77	6.37	8.51
Net NPA %	1.82	2.03	4.25



The Corporation is committed to capitalise growth opportunities and enhance customer experience by developing a responsible corporate governance framework in adherence to highest ethical standards and without compromising regulatory compliance. The Corporation is striving to deliver even better performance in the coming years by repositioning itself as a partner of choice for MSME entrepreneurs through a focused strategy. Our journey towards being one of the best Financial Corporations in the country would not have been possible without the support and trust of our employees, customers, regulators and the Government and we look forward for their unflinching support in all our future endeavours.

Business Strategy & Key Business Initiatives:

During the year, the Corporation adopted the three pronged strategy to drive its strategic transformation through focused interventions, viz. (i) Strengthening Credit Mechanism (ii) Reducing Cost of Funds and (iii) Clean up Balance Sheet to Recover Maximum Bad Loans. It has been a transformational year for the Corporation with lot of reforms and other major policy developments put in place. The strategies adopted by the Corporation and the reforms set in are for the long term benefits of the Corporation and the success of these efforts would enable KFC to secure a better credit rating, thereby lowering the cost of funds, lend at competitive rates and increase its loan portfolio further. In keeping with its intended positioning as a full-service financial institution and to ensure a more balanced business mix, Corporation offers an array of products and services to cater to the full spectrum of its customers' requirements. Taking into consideration the emerging and evolving customer needs and trend, the Corporation constantly launched new products and services and also fine-tuned the existing array of products, services and processes to remain competitive.

As a part of its comprehensive turnaround strategy, Corporation has been working towards realignment of its business mix in favour of high rated and good customers lending business while limiting the exposure to low-rated corporate clients, CRE sector, other risky sectors etc. This strategy has been adopted as it would facilitate in improving the quality, strength and size of the balance sheet. Simultaneously, the Corporation has adopted a comprehensive action plan and road map for reduction of Non-Performing Assets (NPAs), which involves strengthening the overall structure, defining clear-cut policy guidelines, emphasizing on timely data availability/ analysis-based activity monitoring and structured review, case-specific strategy-based recovery action for high value accounts and persistent, timely, action-based approach to other accounts. To support this overarching strategy, Corporation has ensured that the credit appraisal, credit monitoring and recovery teams are adequately staffed. Additionally, the Corporation has been leveraging its core strengths, that is, strong brand name in the State, efficient and excellent customer service, robust IT platform, among others, to achieve its business objectives. Underlying its strategic initiatives, Corporation continues to remain committed towards its customers with a number of customer-centric initiatives. The key business initiatives taken during the year are given below.

Switch over from Existing PLR Regime to Base Rate Regime. The Corporation was following the concept of Prime lending Rate (PLR), where interest rates were linked to PLR with fixed spread above or below PLR. Quality customers could be attracted only with competitive interest rates and accurate service delivery platforms, for which Corporation needed revamping its entire credit delivery procedures and switch over to base rate interest regime. The Corporation switched over from PLR regime to Base rate regime w.e.f June 2018. The benefit of this reduction in rates has resulted in huge savings to MSME customers and will further help to channelize funds for development of MSME enterprises and job creation in Kerala.

Setting up New Marketing Vertical. The reforms will stand up only if good businesses are brought in and its business volume is increased. In order to canvass good business, a Marketing vertical with executives and officers, including retired bankers, has been set up, spread across the state to attract good customers from other financial institutions and banks.

Setting up Centralized Business Review Mechanism. Taking a decision to accept or not to accept a proposal, with in short time, gives confidence to the entrepreneurs to deal with Corporation, for which a mechanism has been created for Centralized Business Review, to give in-principal clearance to proceed with proposals within 7 days, ensuring that only quality proposals are added to the basket and bad proposals are rejected upfront. The process has changed from the earlier focus on collateral based lending to quality business appraisal based assistance.



Setting up New Project Appraising Hubs. Three project appraisal hubs were set up in each zonal office, with a team of well trained project officers, having wide exposure to various sectors, under the guidance of Zonal Managers, to ensure that proposals selected are cleared in time and necessary guidance and hand holding are given to entrepreneurs.

Setting up New Rating and Risk Management Department. The risks associated with proposals are assessed through a newly introduced scientific rating rationale for which a centralized Risk Management Department has been set up to monitor proposals. KYC Management, CERSAI, etc are also centralized under the Rating Dept.

Risk Management Department (RMD) constituted during the FY is engaged in the process of identification, analysis and mitigation of various risks involved in financial decisions. A centralized internal Credit Rating/Risk Assessment procedure has been implemented in KFC for various segments of borrowers. All borrowers irrespective of the loan amount have to undergo Internal credit rating and the interest rate of loan facility is based on the score obtained in credit rating process. Risk Management Committee has been constituted at the Head Office to analyse all loan proposals above Rs 500 lacs prior to placing before the appropriate HO Level sanction committee. Sector wise performance analysis is carried out and report is placed to the Top Management periodically.

Strengthening Audit and Inspection Wing. The basic purpose of the Audit & Inspection Wing is to ensure that the interest of the Corporation is well protected by taking timely coercive / rectification measures. The Internal Audit Department examines the procedural irregularities in the areas of operations such as processing of loan applications, Legal documentation, Loan disbursement, Loan recovery/Asset management, Staff Accountability, Administration procedures & Compliance of Concurrent Audit/AG audit/SIDBI audit/Internal Audit. In order to ensure objectivity and fairness, checks and balances through various internal control and audit procedures are being followed rigorously.

Strengthening Asset Management Department (AMD). An Asset Management Department has been set up at Ernakulam for follow up and speedy disposal of top NPA cases to improve collections. Sales of doubtful assets to Asset Reconstruction Company is also proposed to be done.

Business Continuity Management Policy. Business Continuity Management Policy of Kerala Financial Corporation is designed to ensure continuity of critical business operations during disasters. The intention is to ensure that the Corporation is able to minimize the disruption to critical operations at a level that is acceptable to Management by putting in place a robust and resilient business continuity strategy and framework.

Advisory Committee. An advisory committee has been nominated to advise and guide KFC in its future strategy and growth plans. It includes Prof Sushil Khanna, former Chairman of KFC and Professor (Economics & Finance) at Indian institute of Management (IIMC) Calcutta and Sri S B Nayar, former CMD of India infrastructure Finance Company Ltd (IIFCL) and former DMD of State Bank of India as members.

Introduced New Loan Schemes. Supporting first generation entrepreneurs and green field projects have been the mandate of the Corporation, for which new loan schemes were introduced for start-up entrepreneurs- Venture debt scheme and Bill receivable scheme and also for Govt Contractors- KFC Vikas Scheme and Bill Discounting Scheme, both which popularized the Corporation in a large way. The new startup schemes are new concepts in Kerala. Venture debt is a special form of debt financing for venture equity-backed start-ups that are not serviced by traditional banks or NBFCs and serves as a complement to equity financing. Govt of Kerala vide GO(Ms) 39/2019/Fin 2019 has given special permission to Corporation to fund contractors under Vikas scheme for taking up Government works upto a limit of Rs.20 Cr irrespective of the constitution of the entity. Contractors can also have a line of credit facility, so that a limit is sanctioned and the contractor can undertake many works within the limit. KFC will also extend the performance guarantee required for the contract work. Where the contractor has submitted the bills to concerned department, after completing the work, and the bill is accepted, such bills can be discounted at KFC.

Loans under "NORKA Department Project for Rehabilitation of Return Emigrants" (NDPREM) Scheme is a new scheme for rehabilitating the overseas returnees implemented in association NORKA Department. The programme intends to identify their strengths and skills and nurture them to be capable enough to get self employed or start small enterprises or get employed and thus integrate them into the society. The scheme provides need based credit facilities to beneficiaries identified by NORKA ROOTS for setting up and operating any Service Manufacturing activity coming under MSME.



The loan eligibility under this scheme is 75% of the project cost subject to a maximum loan of Rs 22.50 Lakhs per borrower. NORKA ROOTS shall deposit 15% of the project cost subject to a maximum of Rs 3 Lakhs with KFC as back end Subsidy. The subsidy will be appropriated to the borrower's loan account provided his business remained in operation for a period of 4 years from the date of sanction of subsidy amount or when due EMI equals the subsidy amount. NORKA ROOTS shall also provide 3% interest subvention on the loans extended by the Corporation to the beneficiaries of NDPREM.

Strengthening the Human Resource. The reforms could be taken forward only by qualified resources for which qualified professionals from banks were recruited in the cadre of General Manager, Deputy General Manager, Manager, Deputy Manager, etc in all areas, for quality appraisal, Risk Management, IT, strengthening the top management, etc and they were given quality induction training in association with SBI learning centre, to handle the reforms. The senior most GM was redesignated as Executive Director and higher responsibilities were delegated for strengthening the management and for the smooth and efficient conduct of the operations of the Corporation.

Introduced Performance Based Variable Incentive System. The present circumstances demand to motivate the employees of the Corporation and also to reward the employees based on their performance for which a performance based variable incentive system had been put in place, which is first of its kind in any Public Sector Undertaking of the State. Instead of handing out equal incentive to all employees irrespective of performance, now employees are given annual performance linked incentive. This rewards and recognizes hard working employees who contributes to KFC's performance and also serves to motivate excellence meritocracy and business growth.

Clean up Balance Sheet to Recover Maximum Bad Loans. The third strategy was to recover maximum amount from the NPA and written off accounts by providing liberal exit windows, thus clean up the balance sheet so as to cover the temporary income shortfall due to reduction in interest rate.

Settlement Adalaths. As an integral part of the recovery strategy, the Corporation has put in all its efforts for reducing gross NPAs and cleaning up balance sheet. A one-time liberalized settlement drive under the guidance of a Retired Judge was conducted in order to settle long pending defaulted accounts, in which settlement was given to 425 cases. Out of 425 cases, 239 cases were settled and in 103 cases partial remittances were made. The total amount received in the Adalath scheme as on 31.03.2019 amounts to Rs.79.95 crore.

National Pension Scheme: The Corporation has implemented NPS for its employees during this FY by appointing State Bank of India as the POP (Point of Presence) for rendering the services of NPS and the pension fund is managed by the SBI Pension fund House. NSDL is appointed as CRA (Central record keeping agency) under corporate sector.

IT Initiatives:

Online KFC Portal and Online Payment Gateway

Corporation is in the process of transforming itself to compete with the other new generation lending institutions by modernizing its digital environment. To facilitate this its dynamic website www.kfc.org, auction portal www.kfcauction. org, online loan application portal, social media platform etc were integrated to form a single platform, www.onlinekfc. org. This responsive web portal is fully compatible with all devices. In the portal, the Customers, Information seekers & employees can log in and access services offered such as KFC web portal, Online loan application, Link KYC, Customer Portal, Field Officer Diary, Social Media, KFC helpline etc. All these applications are integrated with KFC's Core System for real-time information and with M-Governance platform for instant updates. Customers can register online and log in to view their account details, transactions, dues, statements etc through the customer portal. They can also pay their monthly dues online through the online payment gateway facility supported by banks. The Online KFC portal was inagurated by Sri. Thomas Issac, Hon'ble Minister of Finance & Coir in April 2018.

Digitization of Disbursement and Collections

a) Virtual Account System(VAS): Corporation has introduced the system of Virtual Accounts for its customers, through Federal Bank, South Indian Bank and State bank of India. This facility is provided free of cost, by which customers



can make payment from any bank to their loan account directly. This will help the Corporation in simplifying its loan repayment system and many of the customers have started using the system. Corporation has also stopped accepting cash at branches from 01.04.2019 onwards.

b) Centralized Disbursements: KFC has decided to automate the disbursement process which will speed up the disbursement process. Once it is activated all disbursements will be automatically transferred to the parties account through NEFT/RTGS from KFC's central account at HO. Discussions are being done with banks to start the process.

Upgradation of Hardware /Software for Core Financial Solutions(CFS)

CFS is now integrated as a fully web-based single solution for all operations in KFC which includes Loan Management & Accounting, Financial Accounting, HRMS, Payroll, PF, Customer Portal & Payment gateway system, Online loan application portal, Field Officer Diary, Link KYC, Customer/Loan Diary, contractor loan etc. To improve the speed and to support the new initiatives it is proposed to upgrade the server hardware and to procure Oracle software licenses to support the upgradation.

Contractor Loan Automation & Monitoring System

A new inhouse centralised solution is being developed by the Corporation for handling the Contractor Loan schemes which will integrate Entities, Security, Limits, credit rating & facilities without any manual intervention. The same will also be integrated with VAS & Centralized Disbursement module. Blockchain technology will be used to validate contractors and their work with Government & work issuing authorities. Discussions with Kerala Development and Innovation Strategic Council (K-DISC) in this regard are in progress.

Operating Results:

Revenue from Operations:

Net Profit

The operating profit increased by 53.53% to Rs.31 crore and net profit grew by 113.25% to Rs.17.70 crore.

Sanctions and Disbursements

The Corporation sanctioned financial assistance of Rs.1644.95 Crore during the FY 2018-19 when compared to Rs.723.93 crore during the previous FY, a growth of 127.23%. The sanctions picked up considerably after the new Contractors Loan scheme was introduced where loans upto Rs.20 Cr are given to Contractors for executing Govt works. Contractors are sanctioned a line of credit facility by way of a limit and contractor can undertake many works within the limit.

(Rs. in crore)

Sanction		2018-19 2017-18		2017-18
Segment	No.	Amount	No.	Amount
Micro	872	1633.11	659	717.33
Small	11	8.65	9	5.6
Medium	2	3.25	1	1
Total	885	1645.01	669	723.93

An amount of Rs.815.79 crore was disbursed during FY 2018-19 as against Rs.600.23 crore during the previous financial year.

Recovery

The Corporation has a well-built monitoring mechanism for recovery and with persistent and continued efforts, recovery during the year touched Rs.900 crore despite the slowdown post demonetization & after effects of the flood that hit Kerala in Aug 2018. Out of the total recovery, an all time high amount of Rs.112.50. crore was by way of compromise settlement and recovery from written off loans. This could be achieved through the CS Adalath conducted as part of the Business conclave held in May 2018. On the recovery front, the interest income during the year was Rs.292.20 crore as compared to Rs.319.50 crore during the previous year. The decline in interest is mainly due to the shift of interest rate regime from Prime Lending rate (14.5%) to Base rate (9.5%), where in majority of the customers have been benefitted



with lower rate of interest. Some of the units which were badly affected in floods suffered liquidity crunch from second quarter onwards and this also resulted in drop in interest income.

Asset Quality:

The challenging economic situation affected by the demonetization announcement and implementation of GST was further aggravated by the floods and many of our assisted units were affected, which resulted in a difficult FY for the Corporation. However to contain NPAs, a comprehensive action plan was rolled out to eligible borrowers which involved relief measures like reduction in rate of interest, incentive for prompt repayment, compromise settlement etc.

The Gross NPA level of the Corporation as on 31st March, 2019 as percentage to Gross Advances stood at 5.77 % compared to 6.37 % as on 31st March, 2018. The Net NPA level as on 31st March, 2019 as a percentage to Net Advances was 1.82 % compared to 2.03 % as at the end of the previous year. The provision- coverage ratio is currently at a comfortable level of 70%.

Sector wise Classification of Loans & advances

As on 31.03.2019, the broad Sector wise Classification of Loans & advances is as below.

			As on 31.03.19 As on 31.03.18				
	Sector	No	Amt in Lakhs	%	No	Amt in Lakhs	%
1	Manufacturing	1,546	75,149.85	28.00	1559	69679.11	28.42
2	Services	2,420	150,128.87	55.93	2538	127800.13	52.12
3	CRE	265	43,122.28	16.07	342	47700.25	19.46
	Total	4,231	268,401.00		4439	245179.49	

Capital Adequacy Ratio:

The corporation maintains the regulatory capital for credit, market and operational risks as prescribed by the RBI under Basel III accord on an ongoing basis. The Capital to Risk- weighted assets ratio is computed as per the prudential guidelines issued by RBI under Master Circular DBOD.BP.BC.5/21.06.001/2014-15 dated July 1, 2014. The Capital to Risk-weighted Assets Ratio (CRAR) has improved to 19.24 % from 17.26 % as against the minimum of 9 % prescribed by RBI.

Dividend:

During this year the corporation has proposed a dividend @ 0.50% amounting to Rs.1.13 crore.

Asset Liability Management (ALM)

The Corporation's business operations, sources of funds and risk factors have widened necessitating appropriate steps to effectively deal with fund management and resources planning. The Asset Liability Management Committee (ALCO) continuously monitor, measure and manage the risks confronting the Corporation and establish a formal and effective Asset Liability Management (ALM) system. The Corporation's Asset Liability Management (ALM) is aimed at strategic planning, implementation, and control processes that affect the maturity, quality and liquidity of the Corporation's assets and liabilities, thereby ensuring that the returns are commensurate with the level of risk taken. ALCO met 23 times during the year.

ISO Certification:

The Quality Management Certificate was validated and changed over to new version IS/ISO 9001-2008 by Bureau of Indian Standards (BIS) after conducting surveillance/renewal audit. The current license has been renewed by BIS till 21st June, 2019. At present, all the offices of the Corporation continue to hold the Quality Management System Certificate.

Other Financial Service Activities:

IRDA has approved the Corporation for acting as Corporate Agent for procuring or soliciting insurance business (Licence No. NIA 9664897). The Corporation has now reregistered itself with IRDA as per IRDAI (Registration of Corporate Agents)



Regulations 2015 and the registration is valid till 13th July 2019. The Corporation mobilised substantial premium in general insurance activity by marketing the insurance products and earned a gross commission of Rs. 10.80 Lacs. A Board approved Policy on the manner of soliciting and servicing insurance products is in place. The Policy include the approach to be followed by the corporate agent in having single or multiple tie-ups, the partners in the tie-ups, the business mix, the type of products sold, grievance redressal mechanism and reporting requirements.

Share Capital:

The paid up share capital of the Corporation as on March 31st 2019 is at Rs.226.50 crore.

Networth:

The Corporation's net worth as of March 31, 2019 was Rs.457.41crore (comprising of paid-up equity capital of Rs.226.50 crore and reserves of Rs.230.91 crore) compared to Rs.441.08 crore as of March 31, 2018.

Shareholder information:

The composition of shareholders as on March 31, 2019 is furnished below:

Shareholders	Rs. in crore	% of Shareholding
Government of Kerala	2,202,693,700	97.25
SIDBI	61,332,700	2.71
LIC	710,300	0.03
SBI	209,900	0.01
Others	96,200	0.00
Total	2,265,042,800	100.00

Resource mobilisation

a) LOC from Commercial Banks

The Corporation availed Rs.609 crore as Term loan / Working Capital Demand Loan from various commercial banks / financial institutions at their MCLR linked rates during the FY 2018-19. The aggregate outstanding LOC from banks and other financial institutions at the year end was Rs.1413.99 crore at a weighted average cost of 8.68%. The Corporation got a rating upgrade for bank borrowings from BWR A- to BWR A during the year , signifying a stable outlook for the Corporation.

b) Non SLR Bonds:

The Corporation issued Secured, Rated , Listed, Redeemable, Taxable, Non Convertible Bonds of Rs.250 crore @ 8.69% with credit enhancement mechanism during the year with out government guarantee. The pay in date and allotment date of the issue was 4th April 2018. The bonds were rated AA(SO) by two RBI / SEBI approved rating agencies with stable outlook for investment. The Corporation remains the only PSU in the State, raising funds from the bond market, without Govt. guarantee. The Corporation fully redeemed the fourth lot of KFC 9.99% Non-SLR Bond Series 1/2011 (ISIN: INE 818FO8011) amounting to Rs. 50 crore on 28.12.2018 and redeemed the first lot of KFC 9.15% Non SLR Bond series 1/2014 (ISIN:INE818F08037) amounting to Rs. 50 Cr. on 30.10.2018 to reduce the cost of borrowing. The total outstanding bonds of KFC as on 31.03.2019 aggregate to Rs. 850 crore. The Bond details are given below.

SI No.	Issue Date	Coupon	Amount Issued Rs in Cr	Amount Outstanding Rs in Cr	Maturity Date
1	04-Apr-18	8.69%	250.00	250.00	04-Apr-25
2	09-May-16	8.90%	250.00	250.00	09-May-23
3	30-Oct-14	9.15%*	200.00**	150.00	30-Oct-24
4	06-Jun-13	8.72%*	200.00	200.00	06-Jun-23

^{*} Issued with Government guarantee

^{**} Call option exercised on 30.10.2018 and Rs.50 crore (25%) partially redeemed.



The Non-Convertible Debentures (NCD) backed with Government guarantee aggregating to Rs.400 Crore got upgraded from BWR A- (SO) to BWR A (SO) during the year signifying a stable outlook for the Corporation. The existing NCD issues without Government guarantee of another Rs.500 crore have been reaffirmed AA (SO) by the two RBI/ SEBI accredited rating agencies deriving strength of the credit enhancement from the structured payment mechanism available. An amount of Rs. 368.06 Lakhs was paid to the State Government as commission for guarantees extended for the Bonds.

Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

The Corporation is a Member Lending Institution of CGTMSE which provides guarantee cover to collateral free loans upto Rs.50 Lacs. As on 31st March, 2019, 247 accounts amounting to Rs.19.51 crore have been covered under the scheme.

Human Resources

Corporation recognizes that key resources for achieving high levels of excellence are its people who need to be motivated and developed. During FY 2018-19 training was imparted to 120 employees through different training programmes and promotion was given to 37 officers. As on 31.03.2019 the total staff strength was 204. During the FY 2018-19, 12 employees retired from service on attaining superannuation.

Corporate Governance:

The Corporation is committed to adopting best corporate governance practices and believes that effective corporate governance is not just a requirement for regulatory compliance, but also a facilitator for enhancement of stakeholders' value. The Corporation has been ensuring fairness, responsibility, accountability and transparency in all its dealings. Its Credit Policy, Loan Compromise Settlement guidelines (LCSG), Loan Monitoring Guidance Note (LMGN), Valuation Policy, Internal Audit policy and Concurrent Audit Manual, Interest rate policy, IT Policy, Staff welfare Policy, Staff Accountability Policy, Performance linked variable Incentive Policy, Business Continuity Policy , Investment Policy, Fixed Asset Policy etc. were all reviewed by the Board during the year and wherever required necessary amendments are made. ISO procedures are scrupulously complied with.

The Corporation has designated State Public information Officers, Assistant State Public Information Officers and Appellate Officers for the Head Office as well as the Branch Offices for providing reply under RTI. Prompt action is taken for replying the petitions received under RTI. 38 applications were received during the financial year. All applications have been disposed of within the time stipulated under RTI Act.

Internal Financial Controls

The Board of the Corporation is responsible for the implementation and maintenance of adequate internal financial controls and has adopted the necessary policies and procedures for ensuring the orderly and efficient conduct of its business, safeguarding of its assets, prevention and detection of frauds and errors, accuracy and completeness of the accounting records, and timely preparation of reliable financial information and disclosures , as required under the various statutes. The internal auditing, inspection and monitoring mechanisms were strengthened and employees are well trained so that presumptive corrective action is taken in time.

Corporate Social Responsibility (CSR)

Under Corporate Social Responsibility initiatives, the Corporation has conducted a wide range of social activities both in rural and urban areas to serve the community at large. The Corporation believes that contributing value back to the society is our responsibility and has started a number of initiatives by stepping out from the traditional operational area to the vast arena of Corporate Social Responsibility. The corporation is engaged in CSR activities through KFC CARE, a society formed by KFC with its employees, both existing and retired as the members. During FY 2018-19 an amount of Rs.1.25 Lakhs was spent for CSR activities.



Board of Directors:

The details of Board of directors and their attendance in meetings during the year 2018-19 are given below.

			No. of me	eetings
Name	Designation	Tenure	Held during their tenure	Attended
Shri. Sanjeev Kaushik IAS	Chairman and Managing Director	24.01.2018 to Till date	4	4
Smt. Sharmila Mary Joseph IAS	Secretary(Finance Expenditure)	28.09.2017 to 24.01.2019	3	2
Shri. KN Satheesh IAS	Director(Industries & Commerce)	28.09.2017 to 12.08.2018	1	Nil
Shri. K Biju IAS	Director(Industries & Commerce)	13.08.2018 to till date	3	2
Shri. Alok Kumar Sharma	General Manager, SBI	07.03.2018 to 15.07.2018	1	Nil
Shri. Partha Sarathi Patra	General Manager, SBI	15.07.2018 to till date	3	3
Shri. Allada Sreenivas	Chief General Manager, SIDBI	25.07.2016 to 06.05.2018	Nil	Nil
Shri. K Vatsakumar	Deputy General Manager, SIDBI	22.06.2015 to 06.05.2018	Nil	Nil
Shri. TS Ajith	Deputy General Manager, SIDBI	07.05.2018 to Till date	4	2
Smt. Santha Varkey	Senior Divisional Manager, LIC	25.06.2016 to till date	4	4
Shri. EK Harikumar	Chief General Manager(Rtd), SBT	11.09.2017 to till date	4	4
Shri. Anil Kumar Parameswaran	Chartered Accountant	11.09.2017 to till date	4	4

Apex Committees

The Board has five committees to oversee various functional aspects of business and operations. The committees are Executive Committee, Audit Committee of the Board, HR Sub-Committee, Remuneration & Nomination Committee and Advisory Committee.

The Board of the Corporation met 04 times during the year on 18.06.2018, 13.08.2018, 02.11.2018 and 24.01.2019. Executive Committee met 08 times during the year on 13.08.2018, 24.09.2018, 02.11.2018, 15.12.2018, 27.02.2019, 07.03.2019, 18.03.2019 and 30.03.2019. Audit Committee met 04 times during the year on 11.06.2018, 23.10.2018, 27.02.2019 and 30.03.2019. HR Sub-Committee met 04 times during the year on 10.04.2018, 30.06.2018, 24.09.2018 and 16.02.2019. Remuneration & Nomination Committee met 01 time during the year on 13.08.2018. Advisory Committee met 01 time during the year on 14.02.2019.

Participative Management:

The Corporation believes in participative management. The rich experience of its officers can be fully utilized by increasing their individual participation in the decision making process. Realising this, extensive delegation has been given at different levels across the state at the branch and zonal levels. At the head office also, the committee concept is widely used and decision making has been transparent and consultative.

Annual General Meeting:

The last Annual General Meeting was held on 18.07.2018. M/s. Krishnan Retna & Associates, Chartered Accountants, were appointed as Statutory Auditors of the Corporation for the financial year 2018-19 and they will hold the office till



the conclusion of the Annual General Meeting to be held in FY 2018-19. Financial Statements for the year 2017-18 were approved in the Annual General Meeting.

Audits

The accounts of the Corporation are audited on a quarterly basis by the Statutory Auditors. Concurrent Audit of branch operations is also now in place through reputed Chartered Accountants on a monthly basis. Further compromise settlement sanction of above Rs.25 lakhs are also carried out as a prudent control mechanism and risk mitigation measure. A pre-disbursement audit for disbursements above Rs.100 lakhs is also in place. The internal control and auditing procedure in KFC is at par with prescribed industry standards. The Comptroller & Auditor General of India has conducted audit of the accounts of the Corporation up to the F.Y 2017-18.

Future Plans:

It is our ambition to double the portfolio over the next 2 – 3 years and FY 18-19 has already given a strong lead start with the tremendous success of our new base rate structure and also helped by the the launch of new loan products. FY 2019-20 is set to see KFC 's portfolio crossing the Rs.3500 crore mark. Our strategic objective is to build a sustainable organization that remains relevant to the growth of industrialization and promotion of entrepreneurship in the state. The focus would be on consolidating its existing loan portfolio, giving thrust on building up quality assets and also becoming more and more competitive in the financial sector through necessary business development efforts. Our aim is to ensure that the profile of KFC reach the widest possible client base. Focus will be also given on IT infrastructure, technology upgradation and strengthening its Human resources. In addition to this, skill development and capacity building of its existing employees will be done to equip them to deal with challenges ahead in the evolving business scenario. The policies and systems are being constantly reviewed to focus on these endeavours. The Corporation expects an upgradation in the credit rating this year also, which would enhance its competitiveness to serve its clients better and remain a strong developmental partner in the economic development of Kerala.

Directors' Responsibility Statement:

The Directors have taken proper and sufficient care for the maintenance of adequate accounting records for safeguarding the assets of the Corporation and for preventing and detecting fraud and other irregularities; and the Directors have prepared the annual accounts on a going concern basis.

To the best of the knowledge of the Directors and belief and according to the information and explanations obtained by them, your Directors make the following statements that:

- a. in the preparation of the annual accounts for the financial year ended March 31, 2019, the applicable accounting standards had been followed along with proper explanation relating to material departures, if any;
- such accounting policies as mentioned in the Notes to the Financial Statements, have been selected and applied
 consistently and judgment and estimates have been made that are reasonable and prudent so as to give a true
 and fair view of the state of affairs of the Corporation as at March 31,2019 and of the profit of the Corporation
 for the period;
- the applicable guidelines prescribed for SFCs have been followed and there has been no material departure.
 Accrual method of accounting is followed for standard assets and cash basis for non-performing assets from 2005-06;
- d. proper and sufficient care had been taken for the maintenance of adequate accounting records in accordance with the provisions of the SFC Act, 1951, Companies Act, 2013, SIDBI Guidelines etc., for safeguarding the assets of the Corporation and for preventing and detecting fraud and other irregularities;
- e. the annual accounts for the financial year ended on March 31, 2019 have been prepared on a going concern basis;



- f. proper internal financial controls had been laid down and that such financial controls were adequate and were operating effectively;
- g. that proper systems to ensure compliance with the provisions of all applicable laws were in place and were adequate and operating effectively;

Acknowledgements

The Board of Directors is sincerely grateful to Government of Kerala, Other Governmental Agencies and Departments, SIDBI, Reserve Bank of India and all other statutory / regulatory authorities for the continued cooperation, guidance and support. The Board also acknowledges, with gratitude, the co-operation and support received from various banks/ financial institutions. The Board takes this opportunity to put on record its deep sense of gratitude to its shareholders, vendors and customers for their patronage and support extended during the year, and looks forward to their continued association in the years ahead. The Board appreciates the sincere and devoted services displayed by its entire staff and highly values their commitment towards the Corporation which enabled Corporation to record growth with quality year after year despite economic challenges and consolidate its position as one of the premier financial institutions in the country.

For and on behalf of the Board

Chairman & Managing Director

Thiruvananthapuram 23.05.2019



Independent Auditor's Report

To The Members Kerala Financial Corporation

Opinion

We have audited the financial statements of Kerala Financial Corporation, which comprise the Balance Sheet at March 31st 2019, and the Profit and Loss Account and Statement of Cash Flows for the year then ended, and Notes to the Financial Statements, including a summary of Significant Accounting Policies.

In our opinion, the accompanying Financial Statements give a true and fair view of the financial position of the entity as at March 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI).

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) issued by ICAI. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Attention is drawn to point No 2.13 of Note No 10 regarding asset acquired in satisfaction of a claim. The corporation recovered a Non Performing Asset by acquiring immovable property mortgaged by the borrower to the tune of Rs. 4 crore in the year 2008 - 09. However, the borrower filed a suit against the Corporation against acquiring the property. Hence the corporation is not able to sell the property. In this situation, we are not able to assess the extent of recoverability of this asset.

Emphasis of Matter

- 1. As regards the amount receivable from Government of Kerala (Rs. 18.84 crore) towards interest and expense borne by KFC on loans under KSEDM scheme there is no confirmation of balance.
- 2. We have come across instances where valuation of immovable property given as security have not been done every three years and property value is not updated in the system.
- 3. We have come across instances where Insurance Policy such as Insurance Declared Value, Expiry Date, Lien clause etc. is not updated in the system and hence not available for complete verification.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the Financial Statements in accordance with the aforesaid Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the entity's financial reporting process.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As per our report of even date For M/s. Krishnan Retna & Associates, Chartered Accountants Firm Reg No:001536S

Thiruvananthapuram 23.05.2019

A Retna Kumaran Nair, FCA

Partner, M No:024791



Balance Sheet as at 31st March, 2019

₹ in Lakhs

	Particulars	Note No.	As at 31.03.2019	As at 31.03.2018
Α	EQUITY AND LIABILITIES			
1	Shareholders' funds			
	(a) Share capital	1	22,650.43	22,186.43
	(b) Reserves and surplus	2	23,090.91	21,457.92
	(c) Money received against share capital		-	464.00
2	Non-current liabilities			
	(a) Long-term borrowings	3	1,76,399.00	1,75,860.38
	(b) Deferred tax liabilities (net)		280.84	778.79
	(c) Long-term provisions	4	13,770.93	13,352.30
3	Current liabilities			
	(a) Short-term borrowings	5	50,000.15	40,765.85
	(b) Other current liabilities	6	5,456.28	4,811.60
	(c) Short-term provisions	7	3,345.57	1,815.63
	TOTAL		2,94,994.11	2,81,492.90
В	ASSETS			
1	Non-current assets			
	(a) Tangible Assets	8	581.74	571.65
	(b) Non-current investments	9	49.50	49.50
	(c) Other non-current assets	10	2,05,543.79	1,99,120.31
2	Current assets			
	(a) Current investments	11	8,970.53	2,022.00
	(b) Cash and cash equivalents	12	489.70	16,505.99
	(c) Other current assets	13	79,358.85	63,223.45
3	Significant Accounting policies and Notes to Accounts	19		
	TOTAL		2,94,994.11	2,81,492.90

For and on behalf of the Board Directors

Soya K Financial Controller Premnath Ravindranath
Executive Director

Anil Kumar Parameswaran Director

Sanjeev Kaushik Chairman & Managing Director

As per our report of even date For M/s. Krishnan Retna & Associates, Chartered Accountants Firm Reg No:001536S

Thiruvananthapuram 23 . 05. 2019

A Retna Kumaran Nair, FCA Partner, M No:024791



Statement of Profit and Loss for the Year ended 31st March, 2019

₹ in Lakhs

No. ended 31.03.2018					\ III Lakiis
1 Revenue from operations		Particulars		For the year ended 31.03.2019	For the year ended 31.03.2018
2 Other income	Α	Continuing operations			
3 Total revenue	1	Revenue from operations	14	41,167.57	37,054.43
4 Operating Expenses 16 18,594.46 19,044.84 (a) Interest expenses 17 3,609.60 3,407.76 (c) Administrative Expenses 18 671.06 639.78 (d) Depreciation and amortisation expense 84.07 95.59 (e) Bad debts written off 16,767.38 12,481.27 Total expenses 39,726.57 35,669.24 5 Operating Profit before exceptional and extraordinary items and tax 3,099.75 2,019.13 6 Operating Profit After exceptional and extraordinary items and tax 3,099.75 2,019.13 7 Less: (a) Provision for Bad and Doubtful debts 418.63 515.34 (b) Provision for Diminuition in value of Fixed Assets 16.13 - 8 Profit before tax 2,664.99 1,503.79 9 Tax expense: 2,664.99 1,503.79 10 Net Profit ax expense - (a) Provision for Income Tax 1,393.41 430.45 8 Discontinuing operations 1 1,769.53 830.32 11 Earnings per share (Equity shares of Rs 100/- each): (a) Basic 7.81 2.54 (b) Diluted 7.81 2.54<	2	Other income	15	1,658.76	633.93
4 Operating Expenses 16 18,594.46 19,044.84 (a) Interest expenses 17 3,609.60 3,407.76 (c) Administrative Expenses 18 671.06 639.78 (d) Depreciation and amortisation expense 84.07 95.59 (e) Bad debts written off 16,767.38 12,481.27 Total expenses 39,726.57 35,669.24 5 Operating Profit before exceptional and extraordinary items and tax 3,099.75 2,019.13 6 Operating Profit After exceptional and extraordinary items and tax 3,099.75 2,019.13 7 Less: (a) Provision for Bad and Doubtful debts 418.63 515.34 (b) Provision for Diminuition in value of Fixed Assets 16.13 - 8 Profit before tax 2,664.99 1,503.79 9 Tax expense: 2,664.99 1,503.79 10 Net Profit ax expense - (a) Provision for Income Tax 1,393.41 430.45 8 Discontinuing operations 1 1,769.53 830.32 11 Earnings per share (Equity shares of Rs 100/- each): (a) Basic 7.81 2.54 (b) Diluted 7.81 2.54<	3	Total revenue		42 826 33	37 688 37
(a) Interest expenses	_			12,020.33	37,000.37
(b) Employee benefits expenses 17 3,609.60 3,407.76 (c) Administrative Expenses 18 671.06 639.78 (d) Depreciation and amortisation expense 84.07 95.59 (e) Bad debts written off 16,767.38 12,481.27 Total expenses 39,726.57 35,669.24 5 Operating Profit before exceptional and extraordinary items and tax 6 Operating Profit After exceptional and extraordinary items and tax 3,099.75 2,019.13 7 Less: (a) Provision for Bad and Doubtful debts 418.63 515.34 (b) Provision for Diminuition in value of Fixed Assets 16.13 -	•		16	18 594 46	19 044 84
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Less: Current tax expense - (a) Provision for Income Tax 1,393.41 430.45 (b) Provision for Deferred Tax (497.95) 243.02 B Discontinuing operations - - 10 Net Profit after tax for the period 1,769.53 830.32 11 Earnings per share (Equity shares of Rs 100/- each): - - (a) Basic 7.81 2.54 (b) Diluted 7.81 2.49 C Profit and loss appropriation - - Balance in Profit & Loss A/c b/f 9,856.68 9,343.50 Net Profit for the year 1,769.53 830.32 Total profit available for appropriation 11,626.20 10,173.82 Add: Prior Period Income - - Less: Income Tax Short Provision - 279.66 Add: Income Tax Refund - 13.16 Total 11,626.20 9,907.32 Less: Appropriations - - Proposed Dividend 113.25 - Provision for Dividend Distribution tax 23.28 - Transfer to Reserve u/s 36 (1) (viia) - - Transfer to Reserve u/s 36 (1) (vi				2,0055	2,000.70
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Net Profit for the year 1,769.53 830.32 Total profit available for appropriation 11,626.20 10,173.82 Add: Prior Period Income - - Less: Income Tax Short Provision - 279.66 Add: Income Tax Refund - 13.16 Total 11,626.20 9,907.32 Less:Appropriations - - Proposed Dividend 113.25 - Provision for Dividend Distribution tax 23.28 - Transfer to Reserve u/s 36 (1) (viia) - - Transfer to Reserve u/s 36 (1) (viii) 263.04 50.64 Balance Profit after appropriations 11,226.63 9,856.68				9.856.68	9.343.50
Total profit available for appropriation 11,626.20 10,173.82 Add: Prior Period Income - - Less: Income Tax Short Provision - 279.66 Add: Income Tax Refund - 13.16 Total 11,626.20 9,907.32 Less: Appropriations - - Proposed Dividend 113.25 - Provision for Dividend Distribution tax 23.28 - Transfer to Reserve u/s 36 (1) (viia) - - Transfer to Reserve u/s 36 (1) (viii) 263.04 50.64 Balance Profit after appropriations 11,226.63 9,856.68		, ,			
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Total 11,626.20 9,907.32 Less:Appropriations 113.25 - Proposed Dividend 113.25 - Provision for Dividend Distribution tax 23.28 - Transfer to Reserve u/s 36 (1) (viia) - - Transfer to Reserve u/s 36 (1) (viii) 263.04 50.64 Balance Profit after appropriations 11,226.63 9,856.68				-	
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Provision for Dividend Distribution tax 23.28 - Transfer to Reserve u/s 36 (1) (viia) - Transfer to Reserve u/s 36 (1) (viii) 263.04 50.64 Balance Profit after appropriations 11,226.63 9,856.68				113.25	-
Transfer to Reserve u/s 36 (1) (viia) - - Transfer to Reserve u/s 36 (1) (viii) 263.04 50.64 Balance Profit after appropriations 11,226.63 9,856.68					-
Transfer to Reserve u/s 36 (1) (viii) 263.04 50.64 Balance Profit after appropriations 11,226.63 9,856.68				-	-
Balance Profit after appropriations 11,226.63 9,856.68				263.04	50.64
LESS, FIIOI FEIIOU AUIUSUITEIUS		Less: Prior Period Adjustments			-
Balance Profit carried to Balance sheet 11,226.63 9,856.68		•		11.226.63	9.856.68

For and on behalf of the Board Directors

Financial Controller

Premnath Ravindranath **Executive Director**

Anil Kumar Parameswaran Director

Sanjeev Kaushik

Chairman & Managing Director

As per our report of even date For M/s. Krishnan Retna & Associates, Chartered Accountants Firm Reg No:001536S

Thiruvananthapuram 23.05.2019

A Retna Kumaran Wair, FCA Partner, M No:024791



Notes Forming Part of Balance Sheet as at 31st March, 2019

₹ in Lakhs

		₹ in Lakhs
	As at 31.03.2019	As at 31.03.2018
NOTE: 1		
SHARE CAPITAL		
AUTHORISED CAPITAL		
3,50,00,000 Equity shares of Rs.100/- each	35,000.00	35,000.00
Issued, Subscribed and Fully Paid up Capital		
Ordinary Shares		
21746678 Equity shares of Rs.100/- each	21,746.68	21,746.68
Issued during the year 464000 shares of Rs.100/- each	464.00	
Special Shares		
4,39,750 Equity shares of Rs.100/- each	439.75	439.75
TOTAL	22,650.43	22,186.43
NOTE: 2		
RESERVES AND SURPLUS		
(a) Spl. Reserve u/s 36(1)(viii) of IT Act, 1961		
As per last Balance Sheet	11,337.03	11,286.39
Added during the year	263.04	50.64
Total of (a)	11,600.07	11,337.03
(b) Spl. Reserve u/s 35(A) of SFCs Act, 1951	250.00	250.00
(c) Revaluation Reserve	14.21	14.21
(d) Profit & Loss Account	11,226.63	9,856.68
TOTAL $\{(a)+(b)+(c)+(d)\}$	23,090.91	21,457.92
NOTE: 3		
LONG TERM BORROWINGS		
SECURED (Hypothecation of receivables)		
Refinance from IIFCL	9,165.92	20,000.00
LoC from Federal Bank	-	1,458.33
LoC from South Indian Bank	-	6,875.00
LoC from Indian Bank	-	3,500.00
LoC from State Bank of India	16,250.00	14,256.30
LoC from Canara Bank	39,800.00	28,437.50
LoC from Andhra Bank	23,683.28	27,166.58
LoC from Vijaya Bank	7,499.80	9,166.67
Non-SLR Bond	50,000.00	25,000.00
UNSECURED		
Non-SLR Bond (Guaranteed by Government of Kerala)	30,000.00	40,000.00
TOTAL	1,76,399.00	1,75,860.38
NOTE:4		
LONG TERM PROVISIONS		
(a) Provision for Bad and Doubtful debts		
As per last Balance Sheet	13,352.30	12,836.96
Add: Provision made during the year	418.63	515.34
TOTAL	13,770.93	13,352.30



NOTE: 5		
SHORT TERM BORROWINGS		
SECURED BORROWINGS (Hypothecation of receivables)		
OD from Federal Bank	-	73.18
Short term loan from Federal Bank	10,000.00	5,000.00
Short term loan from South Indian Bank	-	10,000.00
LOC FROM BANKS (Current maturity)		
Loc from Andhra Bank	7,083.39	1,250.00
Loc from Federal Bank	-	1,145.83
Loc from Canara Bank	13,750.00	13,750.00
Loc from Indian Bank	-	500.00
Loc from State Bank of India	2,500.00	715.00
Loc from South Indian Bank	-	2,500.00
Loc from Vijaya Bank	1,666.68	831.84
Refinance from IIFCL	10,000.08	-
UNSECURED BORROWINGS	,	
Non-SLR Bond (Current maturity)	5,000.00	5,000.00
TOTAL	50,000.15	40,765.85
NOTE: 6	53,555.25	,
OTHER CURRENT LIABILITIES		
State Subsidy	3.49	6.54
Other Subsidy	20.00	-
Central Subsidy	11.00	
Coconut Devp. Board Subsidy	913.23	972.46
Earnest Money Deposit	7.70	11.50
Suspense Account	356.70	118.35
Tax Deducted at Source	29.57	3.12
Other Salary Deductions	0.73	1.36
Other Sundry Deposits	32.98	24.98
Gratuity Payable	3.46	3.46
Outstanding Expenses	709.90	1,026.04
Salary Payable	0.78	0.30
Accrued Interest on SLR Bonds & Non SLR Bonds	3,046.12	2,304.45
Accrued Interest on LOC from banks	· · · · · · · · · · · · · · · · · · ·	199.96
Audit Fee Payable	214.62	
·	2.50	2.50
Concurrent Audit Fee payable Staff Dues Retained	2.08	2.63
	64.70	98.39
Unclaimed Dividend	0.12	0.12
NPS Payable	0.17	- 47.40
CGST Payable	17.70	17.19
SGST Payable	18.53	18.25
CGST & SGST TDS Payable	0.05	-
IGST TDS Payable	0.15	-
TOTAL	5,456.28	4,811.60
NOTE: 7		
SHORT TERM PROVISIONS		
(a) Provision for Taxation:		
As per last Balance Sheet	1,815.63	7,904.92
Add: Provision made for Short Provision	-	279.66
Provision made for the current year	1,393.41	430.45
Less: Adjusted against the Advance IT during the year	-	6,799.40
Total of (a)	3,209.04	1,815.63
(b) Proposed dividend for the year	113.25	
(c) Provision for dividend distribution tax	23.28	-
TOTAL	3,345.57	1,815.63



₹ in Lakhs

NOTE:8 FIXED ASSETS										
Particulars	Rate	Gross value as on 31-03-2018	Additions During the Year	Deletions during the year	Gross value as on 31.03.2019	Depreciation upto 31-03-2018	Depreciation for the year	Depreciation upto 31-03.2019	WDV as on 31.03.2019	WDV as on 31-03-2018
1	2	3	4	5	9	7	∞	6	10	11
Land	%0	11.62	I	I	11.62	I	1	1	11.62	11.62
Building	10%	9	16.79	1	664.26	375.78	28.04	403.82	260.44	271.68
Motor Vehicle	15%		I	1.07	182.06	132.93	7.37	140.30	41.76	50.20
Electrical Fittings	10%		62.54	I	211.27	81.65	10.27	91.92	119.36	62.09
Air Conditioner	15%	41.53	5.36	I	46.90	32.85	1.99	34.84	12.05	8.69
Photocopier	15%		I	0.17	22.35	19.93	0.36	20.29	2.06	2.59
Computer	40%	549.65	17.75	0.63	566.77	504.27	21.48	525.75	41.02	45.38
Other office Equipments	15%	74.99	13.85	21.24	67.61	44.00	3.50	47.49	20.11	30.99
Lift	15%	9.75	I	0.05	9.73	7.49	0.34	7.83	1.91	2.26
Furniture	10%	15	7.01	6.05	194.26	121.34	7.03	128.38	65.88	71.94
Solar Power Generator	40%	76.85	1	1	76.85	67.63	3.69	71.32	5.53	9.22
Total		1,959.52	123.30	29.15	2,053.68	1,387.87	84.07	1,471.94	581.74	571.65
Total (Previous year)		1,729.14	230.37	ı	1,959.52	1,292.28	95.59	1,387.87	571.65	436.87



NOTE: 9		
NON CURRENT INVESTMENTS		
Keltron Counters Ltd.	1.47	1.47
Kerala Spinners Ltd.	2.00	2.00
Vanjinad Leathers Ltd.	4.91	4.91
KITCO	14.50	14.50
India SME Asset Reconstruction Co.	35.00	35.00
Kerala Venture Capital Fund	66.00	66.00
Sub Total	123.88	123.88
Less : Provision for diminution in value of investments	74.38	74.38
TOTAL	49.50	49.50
NOTE: 10		
OTHER NON CURRENT ASSETS		
Property Acquired in Satisfaction of Claims	400.34	400.34
House Loans to Employees	1,107.94	972.27
Conveyance Loan to Employees	88.59	89.55
Computer Loan to Employees	3.77	4.25
Personal Loan to Employees	41.71	52.89
Advance to Employees	19.44	10.62
Deposit with P&T	0.09	0.09
Other Deposits	31.33	67.35
Deposit with KSEB	7.02	12.97
Deposit against Staff Dues Retained	64.70	98.39
Interest Accrued on Staff Loans	607.93	577.62
GTI Advance	2.25	2.14
Other Advances	82.52	0.56
Advance for Fixed Assets	4.38	53.05
Term Deposit with Banks and NCD	6,080.00	5,000.00
Loans and Advances (Principal due above one year)	1,97,001.78	1,91,778.22
TOTAL	2,05,543.79	1,99,120.31
NOTE: 11		
CURRENT INVESTMENTS		
Short Term Deposits with Banks	8,970.53	2,022.00
TOTAL	8,970.53	2,022.00
NOTE: 12		
CASH AND CASH EQUIVALENTS		
Cash in hand	15.65	26.44
Bank Accounts	474.05	16,479.55
TOTAL	489.70	16,505.99



OTHER CURRENT ASSETS		
Advance Income Tax	3,514.31	3,633.66
Input Tax Credit	0.01	10.11
Income Tax Deducted at source	97.67	45.50
Stock of Stationery	-	-
Library	-	-
Rent Receivable	5.05	3.92
Prepaid Expenses	12.93	1.78
KSEDM Interest Receivable	1,524.25	2,820.08
KSEDM Expenses Receivable	-	299.19
Interest Accrued on Loans & Advances	2,613.74	2,727.97
Interest Accrued on STD with Banks	191.65	279.97
Loans & Advances (Principal Due within one year)	71,399.23	53,401.27
TOTAL	79,358.84	63,223.45
NOTE : 14		
REVENUE FROM OPERATIONS		
Interest Received On Loans & Advances	31,872.08	34,942.56
Less : Interest rebate allowed on Loans	2,652.36	2,992.50
Net Interest Received On Loans & Advances	29,219.72	31,950.06
Loan Processing Fees	587.94	389.03
Recovery from written off loans	11,255.40	4,607.08
Switch over interest	41.25	-
Premium on pre-closure	63.26	108.27
TOTAL	41,167.57	37,054.44
NOTE: 15		
OTHER INCOME		
Interest on Staff Loans	95.91	92.11
Interest on Bank Deposits	1,266.16	410.05
Dividend from Shares	2.18	2.18
Other Income	165.09	6.86
Other Income Rent Received	165.09 69.90	6.86 90.81
Rent Received	69.90	90.81
Rent Received Income from Insurance Agency	69.90 10.80	90.81 13.16
Rent Received Income from Insurance Agency RTI Application Fee Received	69.90 10.80 0.01	90.81 13.16 0.02
Rent Received Income from Insurance Agency RTI Application Fee Received Consultancy Service Division Receipts	69.90 10.80 0.01 0.04	90.81 13.16 0.02 0.36
Rent Received Income from Insurance Agency RTI Application Fee Received Consultancy Service Division Receipts Commision exchange and brokerage	69.90 10.80 0.01 0.04 48.67	90.81 13.16 0.02 0.36 18.38
Rent Received Income from Insurance Agency RTI Application Fee Received Consultancy Service Division Receipts Commision exchange and brokerage TOTAL	69.90 10.80 0.01 0.04 48.67	90.81 13.16 0.02 0.36 18.38
Rent Received Income from Insurance Agency RTI Application Fee Received Consultancy Service Division Receipts Commision exchange and brokerage TOTAL NOTE: 16	69.90 10.80 0.01 0.04 48.67	90.81 13.16 0.02 0.36 18.38
Rent Received Income from Insurance Agency RTI Application Fee Received Consultancy Service Division Receipts Commision exchange and brokerage TOTAL NOTE: 16 INTEREST AND FUND EXPENSES	69.90 10.80 0.01 0.04 48.67 1,658.76	90.81 13.16 0.02 0.36 18.38 633.93
Rent Received Income from Insurance Agency RTI Application Fee Received Consultancy Service Division Receipts Commision exchange and brokerage TOTAL NOTE: 16 INTEREST AND FUND EXPENSES Interest on Bonds	69.90 10.80 0.01 0.04 48.67 1,658.76	90.81 13.16 0.02 0.36 18.38 633.93 6,676.83 103.41
Rent Received Income from Insurance Agency RTI Application Fee Received Consultancy Service Division Receipts Commision exchange and brokerage TOTAL NOTE: 16 INTEREST AND FUND EXPENSES Interest on Bonds Interest on Coconut Dev Board Subsidy	69.90 10.80 0.01 0.04 48.67 1,658.76	90.81 13.16 0.02 0.36 18.38 633.93 6,676.83 103.41
Rent Received Income from Insurance Agency RTI Application Fee Received Consultancy Service Division Receipts Commision exchange and brokerage TOTAL NOTE: 16 INTEREST AND FUND EXPENSES Interest on Bonds Interest on Coconut Dev Board Subsidy Interest on Refinance from SIDBI	69.90 10.80 0.01 0.04 48.67 1,658.76 8,129.40 77.29	90.81 13.16 0.02 0.36 18.38 633.93 6,676.83 103.41 157.65
Rent Received Income from Insurance Agency RTI Application Fee Received Consultancy Service Division Receipts Commision exchange and brokerage TOTAL NOTE: 16 INTEREST AND FUND EXPENSES Interest on Bonds Interest on Coconut Dev Board Subsidy Interest on Refinance from SIDBI Interest on Line Of Credit from Banks	69.90 10.80 0.01 0.04 48.67 1,658.76 8,129.40 77.29 - 9,936.76	90.81 13.16 0.02 0.36 18.38 633.93 6,676.83 103.41 157.65 11,585.47 459.87
Rent Received Income from Insurance Agency RTI Application Fee Received Consultancy Service Division Receipts Commision exchange and brokerage TOTAL NOTE: 16 INTEREST AND FUND EXPENSES Interest on Bonds Interest on Coconut Dev Board Subsidy Interest on Refinance from SIDBI Interest on Line Of Credit from Banks Guarantee Commission	69.90 10.80 0.01 0.04 48.67 1,658.76 8,129.40 77.29 - 9,936.76 401.18	90.81 13.16 0.02 0.36 18.38 633.93 6,676.83 103.41 157.65 11,585.47



NOTE: 17		
EMPLOYEE BENEFITS AND EXPENSES		
Pay & Allowances	2,815.26	2,295.70
Contribution to Employees' P.F	267.49	225.47
Contribution to NPS	9.53	-
Group E/L Encashment Insurance	187.93	185.71
Group Gratuity Insurance	237.46	633.93
Group Term Insurance	2.36	2.91
Other Staff Expenses	89.57	64.04
TOTAL	3,609.60	3,407.76
NOTE: 18		
ADMINISTRATIVE EXPENSES		
Rent, Rates, Taxes & Insurance	121.41	93.50
Postage, courier and Telephone	14.43	25.72
Printing & Stationery	18.35	11.81
Vehicle Running & Maintenance	40.29	37.50
Repairs & Maintenance	48.96	99.75
Revenue Recovery expenses	159.49	176.99
Bank Charges and Commission	0.54	0.54
Audit Fees	2.50	2.50
Consultancy Charges	12.35	4.81
Legal Expenses	5.94	5.44
Books & Periodicals	1.82	2.23
Other Expenses	131.77	120.78
Travelling Expenses	18.45	15.77
Board / E.C. Meeting Expenses	1.08	1.20
Other Meeting expenses	7.57	2.47
Concurrent Audit Fee	22.42	23.38
Advertisement and publicity	47.21	14.25
Business Development Expenses	16.48	1.14
TOTAL	671.06	639.78

For and on behalf of the Board Directors

Soya K Financial Controller Premnath Ravindranath
Executive Director

Anil Kumar Parameswaran
Director

Sanjeev Kaushik Chairman & Managing Director

As per our report of even date For M/s. Krishnan Retna & Associates, Chartered Accountants Firm Reg No:001536S

Thiruvananthapuram 23 . 05. 2019

A Retna Kumaran Wair, FCA Partner, M No:024791



NOTE: 19

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

Corporate Information

The Kerala Financial Corporation is a State Financial Corporation having its area of operations in the state of Kerala and incorporated under the provisions of the State Financial Corporation Act, 1951 for providing medium and long term credit to industrial undertakings. It was established as the Travancore Cochin Financial Corporation on 01.12.1953. Consequent to the reorganization of states on linguistic basis in November 1956, Kerala State was formed and the Travancore Cochin Financial Corporation was renamed as Kerala Financial Corporation. The Corporation is engaged in extending financial assistance to Micro, Small and Medium Enterprises in manufacturing and service sector in the state.

Basis of Preparation

The Financial Statements of the Corporation have been prepared and presented under the historical cost convention and on the accrual basis of accounting in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP) to comply with the statutory requirements prescribed under the State Financial Corporation Act, 1951, the circulars and guidelines issued by the SIDBI and Reserve Bank of India ('RBI') from time to time and the Accounting Standards notified under Section 133 of the Companies Act, 2013 read together with paragraph 7 of the Companies (Accounts) Rules, 2014 to the extent applicable and practices generally prevalent in the banking and finance industry in India. The Corporation has adopted the format of Schedule III to the Companies Act and Accounting standards issued by the Institute of Chartered Accountants of India, for better presentation of the financial statements.

The accounting policies adopted in the preparation of financial statements are in consistence with those of previous year except for the change in accounting policy, explained hereunder.

SIGNIFICANT ACCOUNTING POLICIES

1.1. Uses of Estimates

The preparation of the Financial Statements, in conformity with Indian GAAP requires Management to make Judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosures relating to contingent assets and 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 material or immaterial adjustments to the carrying amounts of assets or liabilities in future periods. Actual results could differ from those estimates. The Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Any revisions to the accounting estimates are recognised prospectively in the current and future periods.

1.2. Revenue Recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. Income is recognised on accrual basis on performing assets and on realisation basis in respect of non-performing assets as per the prudential norms on income recognition, asset classification and provisioning prescribed by RBI/SIDBI. The Corporation debits the monthly interest in all the loan accounts on the first day of the subsequent month. The corporation is following the method of upfront collection of commission on performance guarantee provided for the full tenure of guarantee period. In case of completion/closure of facility before the specified tenure, corporation will reimburse the commission for the balance period, provided the commission for a minimum period of one year will be retained.

Recovery of loans and advances is appropriated first towards recovery of expenses, then towards interest and the



balance, if any, towards principal. However, in the case of Compromise Settlement and sale of units taken over under the SFCs Act, 1951 and Revenue Recovery proceedings, the proceeds are apportioned first towards recovery of expenses and then towards principal amount and lastly towards interest, on satisfaction of the stipulated conditions. Recoveries from bad debts written-off are recognised in the Statement of Profit and Loss as revenue on receipt basis.

The Corporation gives rebate to customers for prompt payment. The customers are eligible for rebate if the dues are paid within the prescribed period subject to their rating and other factors determining the rate of rebate. The interest due is calculated and charged to the party on gross basis and the eligible rebate is credited to the party on payment of dues in time. The rebate for prompt payment is deducted from interest income for reporting in the financial statements.

1.3. Cash flow Statement

Cash flow statement is prepared using indirect method. The Corporation is into financing as its core business activity and hence the changes in loans and advances are treated as changes in operating assets and considered for arriving cash flows from operating activities. The Non-SLR Bonds issued by the Corporation are considered as cash flow from financing activity.

1.4. Earnings per share

The Corporation presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the net income attributable to shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the net income attributable to shareholders and the weighted average number of common shares outstanding adjusted for the effect of all dilutive potential common shares.

1.5. Provision

A provision is recognised when the Corporation has a present obligation as a result of past event where it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates.

Being into financing business, the corporation has made provisions for bad and doubtful debts in the financial statements. Specific bad debt provisions in respect of non-performing advances are made based on management's assessment of the degree of impairment of loans, subject to the minimum provisioning level prescribed by the RBI / SIDBI guidelines.

The corporation has provided 1% for all the standard advances and thus provision made is above the minimum prescribed by the RBI / SIDBI guidelines for standard advances. A judicious provision of 70% (70% in FY 2017-18) is made for all Substandard advances including CGTMSE loans. For CGTMSE loans, 100% provision is made for the unsecured portion. During this FY, all the doubtful advances are technically written off and charged to revenue to maintain asset quality.

1.6. Employee Payments and Retirement Benefits

Short-term employee benefits are recognized as an expense at the undiscounted amount in the profit and loss account of the year in which the related service is rendered.

Defined contribution plan: The Corporation contributes to the Provident Fund which is administered by duly constituted and approved independent trust by name KFC Employees Provident Fund Trust. Retirement benefit in the form of provident fund is a defined contribution plan wherein the contributions are charged to the Profit and Loss Account of the year when the contributions to the fund are due and when services are rendered by the employees. Each employee contributes a certain percentage of his or her basic salary and DA and the Corporation contributes an equal amount for eligible employees. The employees will be paid the balance outstanding on their PF account along with interest accumulated thereon at the date of superannuation. The Corporation has no obligation other than the contribution payable to the provident fund in this regard.

Defined Benefit Plan: The Corporation contributes towards gratuity fund (defined benefit retirement plan) administered



by Life Insurance Corporation of India (LIC) for eligible employees and is covered under Group Gratuity scheme. Under this scheme, the settlement obligations remain with the Corporation, although LIC administers the scheme and determine the contribution premium required to be paid by the Corporation. The plan provides a lump sum payment to vested employees at retirement or termination of employment based on the respective employee's salary and the years of employment with the Corporation. Liability with regard to gratuity fund is accrued based on actuarial valuation conducted and demand raised by LIC. The gratuity ceiling was increased from Rs.10 Lakhs to Rs.20 Lakhs w.e.f 29.03.2018 as per the notification dated 29th March 2018 in Payment of Gratuity Act, 1972. The liability for terminal encashment of earned leave to the employees is also covered under the Group Leave Encashment Scheme of LIC and the contributions are paid as per the valuation done by LIC. The amounts so paid are reckoned as expenditure for the concerned period. The Corporation is following this practice consistently during the past years and LIC has always met the liability in this regard. All the claims for the FY 2018-19 have been settled by LIC.

National Pension Scheme: The Corporation has implemented NPS for its employees during this FY by appointing State Bank of India as the POP (Point of Presence) for rendering the services of NPS and the pension fund is managed by the SBI Pension fund House. NSDL is appointed as CRA (Central record keeping agency) under corporate sector.

1.7. Advances

Advances are classified as performing and non-performing based on the RBI / SIDBI guidelines and are stated net of bad debts write-off. The provisions for possible losses on such advances are made at estimated rates which is equal to or more than the rates prescribed in the prudential norms, circulars and directives issued by RBI/SIDBI. The total loans and advances after technical write off amount to Rs.2684.01 crore. Advances amounting to Rs. 167.04 crore under Doubtful category have been written off as Bad Debts during this year. The recoveries from written off cases are shown as Recovery from written off cases and are included in the Operating Income.

1.8. Fixed Assets

Fixed assets are stated at cost less accumulated depreciation as adjusted for impairment, if any. Cost includes cost of purchase and all expenditure like site preparation, installation costs, professional fees, borrowing costs etc., if capitalization criteria are met and are directly attributable to the cost of bringing the asset to its working condition for the intended use. Subsequent expenditure incurred on assets put to use is capitalised only when it increases the future benefit / functioning capability from / of such assets. Any subsidy/ reimbursement/ contribution received for installation and acquisition of any fixed assets is shown as deduction in the year of receipt. Advance for fixed assets includes cost of fixed assets that are not ready for their intended use and also includes advances paid to acquire fixed assets.

Fixed Assets are carried at cost of acquisition less depreciation. Depreciation on fixed assets has been provided for on written down value (WDV) method and at the rates prescribed under the IT Act, 1961. As per the IT Act, 1961 Computer includes computer software for reporting under the block Plant & machinery. Hence we have not shown Computer software separately under Intangible assets. Depreciation on fixed assets added/disposed of during the year/period is provided on pro-rata basis (that is full depreciation for assets used for more than six months and half depreciation for others) with reference to the date of addition/disposal. Based on Board approved policy, individual assets costing up to Rs. 5000 are charged to revenue in full in the year of purchase. Further the WDV of assets in the nature of electronic items up to the value of Rs. 10,000 and other assets up to the value of Rs. 5000 as on 31.03.2019 have been written off.

During the year, Corporation has done a physical verification of fixed assets of all Branch Offices, Zonal Offices and Head Office and a Fixed Assets Register has been prepared. A full fledged Fixed Asset Policy is implemented from 01.04.2019, centralizing all fixed asset purchases, asset maintenance. Control measures like tagging and numbering, disposal etc will be monitored and updated in the Fixed asset module in CFS.

1.9. Investments

Investments, which are readily realizable and intended to be held for not more than one year from the date on which such investments are made, are classified as current investments. All other investments are classified as Non-current investments.



On initial recognition, all investments are measured at cost. The cost comprises of purchase price and directly attributable acquisition charges such as brokerage, fees and duties. Non-current investments are carried at cost. However provision for diminution is made to recognise a decline, other than temporary, in the value of investments determined for each investment individually. Reduction in the carrying amount and reversals of such reductions are charged or credited to the profit and loss statement. On disposal of an investment, the difference between carrying amount and net disposal proceeds are charged or credited to the profit and loss statement. Any amount received in future in respect of these investments will be credited to profit and loss statement.

1.10. Taxes on Income

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. The tax rates and tax Laws used to compute the amounts are those that are enacted, at the reporting date.

Deferred Taxes reflect the impact of timing differences between taxable income and accounting income originating during the current year and reversal of timing differences for the earlier years. Deferred tax is measured using the tax rates and the tax laws enacted at the reporting date.

Deferred tax liabilities are recognized for all taxable timing differences. The Corporation has not made provision for Deferred Tax Liabilities on Special Reserve created as per Section 36(1) (viii) of the Income Tax Act, 1961 since the reserve created is of having no reasonable certainty that the same would be adjusted / withdrawn in foreseeable future years and the period of time the difference to be evened out is also not ascertainable. Deferred tax assets including the unrecognized deferred tax assets, if any, at each reporting date, are recognized for deductible timing differences only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which deferred tax assets can be realized.

1.11 Contingent Liability

A disclosure of contingent liability on Balance sheet date is made when there is:

- a possible obligation arising from a past event, the existence of which will be confirmed by occurrence or non-occurrence of one or more uncertain future events not within the control of the Corporation; or
- a present obligation arising from a past event which is not recognised as it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made.

NOTES FORMING PART OF ACCOUNTS

2.1 Share Capital

The paid up share capital of the Corporation as on March 31st 2019 is at Rs.226.50 crore. Rs.4.64 crore received from government for implementation of Interest Subvention scheme which was shown as advance towards share capital as on 31.03.2018 has been transferred to share capital with the concurrence of SIDBI and government during the year. The details of shareholders holding more than 5% shares as on 31.03.2019 are as under:

Name of the Charachelders	As at 31.03.2019		As at 31.03.2018	
Name of the Shareholders	No. of shares	% to total shares	No. of shares	% to total shares
Government of Kerala	22026937	97.25	21562937	97.19

Earnings per share

Calculation of EPS	2018-19	2017-18
a. Net profit including prior period items and extraordinary items after deducting current tax expenses (in Rupees)	176952709.73	56381515.67
b. Number of Equity Shares outstanding (face value of Rs.100/- each)	22650428	22186428
Basic earnings per share (a) / (b)	7.81	2.54
c. Average number of weighted equity shares (22650428 (face value of Rs.100/- each)	22650428	22650428
Diluted Earnings per share (a) / (c)	7.81	2.49



2.2 Asset Classification and provisioning

1) Provisioning

The corporation has provided 1% for all the standard advances and thus provision made is above the minimum prescribed by the RBI / SIDBI guidelines for standard advances. For non performing assets , a judicious provision of 70% (70% in FY 2017-18) is made for all Substandard advances . For CGTMSE loans, 70% provision (15% in FY 2017-18) is made for the secured portion and 100% provision (100% in FY 2017-18) for the unsecured portion. If the same provision as made during the FY 2017-18 is made, the Net NPA will be Rs.46.57 crore (1.83%) and Net profit will increase by Rs.0.12 crore to Rs.17.82 crore.

If the minimum provision required as per the RBI norms is made, the provision needed is only Rs.36.62 crore, where as the Corporation has provided an additional provision of Rs.101.08 crore over and above the minimum RBI stipulated norms. The corporation has provided Rs.25.29 crore for all standard advances which is above the minimum provision prescribed by the RBI / SIDBI guidelines. The Corporation has prudently made additional provision of 5% (minimum norms) amounting to Rs.3.96 crore in respect of 55 loans which are restructured as per RBI guidelines and classified under Standard category. The provision made in respect of Sub standard category advances is Rs.108.46 crore. During FY 2017-18, the whole of Doubtful category was technically written off. During this FY also, all the doubtful advances are technically written off and charged to revenue to maintain asset quality.

In accordance with the guidelines of RBI/SIDBI on asset classification, all loans and advances have been classified into Standard, Sub Standard and Doubtful Assets and provisioning is made as under.

			inimum provision uired (%) as per RBI	Pro	ovision actual amo	ly mad ount	de (%) and
SI No.	Category of Assets		norms	Duri	ng FY 17-18	Dur	ing FY 18-19
NO.		%	Amount ₹ in crore	%	Amount ₹ in crore	%	Amount ₹ in crore
	Standard Assets- Micro & Small	0.25	5.20	1	17.79	1	20.81
	Standard Assets- Medium	0.40	0.21	1	0.45	1	0.53
	Standard Assets- CRE	1	3.95	1	4.72	1	3.95
	Additional provision for loans rescheduled on account of extension of DCCO - If revised DCCO is within 2 / 1 year from original DCCO for infrastructure/ non infrastructure projects	0.40					
1	- If revised DCCO is beyond 2 years and upto 4 or 3 years from original DCCO for infrastructure projects	5	2.90	5	1.54	5	2.90
	- If revised DCCO is beyond 1 years and upto 2 years from original DCCO for non infrastructure projects	5					
	Additional provision for loans not downgraded to Sub standard in compliance with RBI Circulars No. DBR.No.BP.BC.18/21.04.048/2018-19 dt01.01.2019, DBR.No.BP. C.108/21.04.048/2017-18 06.2018 and DBR. No.BP.BC.100/21.04.048/2017-18 dt 07.02.2018	5	1.06	NA	Nil	5	1.06
	Sub Standard Assets	15	23.20	70	108.75	70	108.23
2	Sub Standard Assets – CGTMSE (Secured portion)	15	0.03	15	0.09	70	0.16
	Sub Standard Assets–CGTMSE (Un Secured portion)	100	0.07	100	0.19	100	0.07
3	Doubtful Assets (up to 1 year)	25%	NA	NA	NA	NA	NA
	Total Provision made		36.62		133.52		137.71



The total provision available during the FY was Rs.133.52 Crore and the provision needed during the FY is Rs.137.71 Crore. Hence additional provision of Rs.4.19 crore is made during this FY. Loans & Advances under Doubtful category have been written off (technical write off) to the tune of Rs.167.04 crore as bad debts. The Operating profit before technical write off is Rs.198.03 crore (Rs.144.63crore during PY). The Operating profit after write off will be Rs.31 crore (Rs.20.19 crore during PY) and Net profit will be Rs.17.70crore (Rs.8.30 crore during PY). The Gross NPA accordingly will be 5.77% as against 6.37% as on 31.03.2018 and Net NPA will be 1.82% as against 2.03% as on 31.03.2018.

2. Divergence in Asset Classification and Provisioning for NPAs

With reference to RBI circular DBR.BP.BC.No.63/21.04.018/2016-17 dated April 18, 2017, the divergence in asset classification and provisioning for NPA s for FY 2017-18 is given below.

(₹ in crore)

Sr.	Particulars	Amount
1.	Gross NPAs as on March 31, 2018 as reported by the Corporation	156.11
2.	Gross NPAs as on March 31, 2018 as assessed by RBI/ SIDBI	156.11
3.	Divergence in Gross NPAs (2-1)	Nil
4.	Net NPAs as on March 31, 2018 as reported by the Corporation	47.09
5.	Net NPAs as on March 31, 2018 as assessed by RBI/ SIDBI	47.09
6.	Divergence in Net NPAs (5-4)	Nil
7.	Provisions for NPAs as on March 31, 2018 as reported by Corporation	133.52
8.	Provisions for NPAs as on March 31, 2018 as assessed by RBI/ SIDBI	133.52
9.	Divergence in provisioning (8-7)	Nil
10.	Reported Net Profit after Tax (PAT) for the year ended March 31, 2018	8.30
11.	Adjusted (notional) Net Profit after Tax (PAT) for the year ended March 31, 2018 after taking into account the divergence in provisioning	8.30

3. Loans and Advances restructured

The general recessionary trends coupled with Government policy changes and flood affected the business of the Corporation considerably. As a result the Corporation as a measure to contain NPA have extended relief measures like rehabilitation / reschedulement/ restructuring to eligible borrowers. Other than loans restructured on account of extension of DCCO, the corporation has restructured 25 loan accounts amounting to Rs.9.25 crore and are classified under Sub standard category. Provisioning has been made @70% amounting to Rs.6.48 crore. During the year the Corporation has not noticed any diminution in the fair value of restructured advances.

4. Bad debts Written Off

During the year the corporation has written off 203 loan accounts amounting to Rs.167.04crore as Bad Debts (technical write off to maintain asset quality) (220 D1&D2 accounts amounting to Rs.124.44 crore written off during FY 2017-18). Constructive steps have been initiated for the recovery of these accounts and the amounts will be included in revenue as and when recovered. Rs.112.55 crore have been received as recovery from loans technically written off in earlier years (Rs.46.07 crore during FY 2017-18).

5. Assets taken over under Section 29

During the year, 10 units having principal outstanding of Rs.3667.69Lakhs were taken over u/S 29. Subsequently 3 units were released to the promoters.

6. Recovery Adalath

As an integral part of the recovery strategy, the Corporation has put in all its efforts for reducing gross NPAs and cleaning up balance sheet. A one-time liberalized settlement drive under the guidance of a Retired Judge was conducted in order to settle long pending defaulted accounts, in which settlement was given to 425 cases for an amount of Rs.243.64 Lakhs. Out of 425 cases, 239 cases were settled and in 103 cases partial remittances were made. The total amount received in the Adalath scheme as on 31.03.2019 amounts to Rs.79.95 crore. Other than through Adalath scheme, CS was sanctioned to 27 units for an amount of Rs. 64.76 crore having principal outstanding of Rs. 50.19 crore.



7. Classification of Loans and Advances & Long Term Borrowings

The Current maturity of Loans & advances is classified under Other Current Assets (Note No.13) under Current Assets and the non current portion is classified under Other Non-current Assets (Note No.10) under Non Current Assets. The Current maturity of Long term borrowings is classified under Short term borrowings (Note No.5) under Current Liabilities and the non current portion is classified under Long term borrowings (Note No.3) under Non Current Liabilities .

The bifurcation of Loans & Advances and Long term Borrowings due within 1 year and above 1 year is given below.

₹ In crore

	Due within 1 year	Above 1 year	Total
Loans & Advances	71,399.23	197,001.78	268401.01
Long term borrowings	50000.15	176399.00	226399.15

The asset category wise classification of loans and advances and provisioning is as below.

₹ in crore

		2018-19			2017-18	
Asset category	No	Loan Outstanding	Provision	No	Loan Outstanding	Provision
Standard	3,904	2,529.10	29.25	4,145	2,295.68	24.50
Sub Standard	327	154.91	108.46	294	156.11	109.02
Total	4,231	2,684.01	137.71	4439	2451.79	133.52
Gross NPA		154.91	5.77%		156.11	6.37%
Net NPA		46.45	1.82%		47.09	2.03%

2.3 Advances towards Share capital and KSEDM project

KFC had implemented an interest subvention scheme for manufacturing sector to encourage innovative projects with the support of State Government. Rs.10.14 crore is earmarked as share capital contribution by Govt of Kerala under this scheme and Rs. 4.64 Crore was released towards share capital contribution to the Corporation and was shown as share capital advance till 31.03.2018. Shares for the same were issued to Government on 11.05.2018 with the approval of SIDBI.

KSEDM scheme was launched by Government of Kerala with KFC as the nodal agency to support young entrepreneurs in setting up new enterprises. The maximum eligible loan amount under this scheme is Rs.20 lakhs without any interest with a repayment period of 5years. The scheme was in operation from 2011 till 2017. The Corporation had received Rs.38.91 crore from Govt. of Kerala for meeting the interest / expenses in connection with KSEDM till FY18-19. Rs.57.75 Crore has been spent till 31.03.2019 for the KSEDM project. As on 31.03.2019, Rs.15.24 crore is receivable from the government and is shown as KSEDM Interest & Expenses receivable under Other Current assets. Further an amount of Rs.3.60 crore on account of guarantee commission paid to Government on guarantee issued for raising funds for KSEDM loans also is to be received from government. As a matter of prudence, this is not accounted in the books. Hence the total amount receivable from government is Rs.18.84 crore as on 31.03.2019. The corporation has taken up with Government for providing the funds to meet the interest commitment. The Corporation has further commitments to pay interest amounting Rs.21 Crore based on the loans sanctioned under KSEDM. As per the audited report for the year 18-19, the estimated Interest commitment includes interest on NPA accounts amounting to Rs.6.80 crore.

2.4 Investments.

The Corporation originally invested in 29 shares (FV Rs.1000/-) of KITCO Ltd and received 1421 bonus shares (FV Rs.1000/-) in the year 2013. Investment with KITCO has been revalued at its face value of shares and disclosed under Revaluation reserve for an amount of Rs.1421000/- The total investment in KITCO stands at 1450 shares (FV Rs.1000/-).



The Corporation has received an amount of Rs. 217500/- as dividend during the year.

Out of the total investments of Rs. 123.88 Lakhs, provision for diminution in value of investments of Rs. 74.38 Lakhs have been provided for investments other than KITCO and India SME Asset Reconstruction Co., being the value of investment in respect of companies under liquidation. For KITCO and India SME Asset Reconstruction Co., we have valued the shares on the basis of latest available financial statements and found that the values are above book value.

2.5 Income Tax Assessments

Income tax return has been filed up to Assessment year 2018-19. Assessments have been completed up to Assessment year 2016-17. Appeals filed by the Corporation are pending before Commissioner (Appeals) for the Assessment years 2009-10, 2012-13, 2013-14, 2014-15 & 2016-17. Appeals filed by the Department for the Assessment years 1999-2000 and 2002-03 before Income tax Appellate Tribunal has been remanded to Commissioner (Appeals).

2.6 Deferred Tax Liabilities

The break-up of deferred Tax Liabilities / Assets in to major components of the respective balances is as given below:-

₹ in Lakhs

Particulars	As on 31.03.2018	For 2018-19	As on 31.03.2019
On Depreciation	-52.32	-5.84	-58.16
On income not received	2054.81	-339.79	1715.02
On outstanding expenses	-1223.7	-152.32	-1376.02
Total	778.79		280.84

2.7. Goods and Service Tax

Service tax

Service Tax was replaced by GST wef 01.07.2017. The Appeals filed by the Corporation, in respect of Order in Appeal 392 to 394-14-15 dated 19.02.2015 in respect of Ernakulam Branch Office and 27&28-16-17 dated 06.05.2016 in respect of Kollam Branch Office is pending for hearing before the Central Excise and Service Tax Appellate Tribunal, Bangalore. Order in Appeal No.95&96-2019 dated 13.03.2019 is received on 16.03.2019 from Comm (A) in respect of Order in Original No.26&27/2016-17 in respect of reverse charge on guarantee commission paid by the Corporation for the years FY 2012-13 to 2014-15 on which appeal is preferred. For the year 2015-16, Order in Original No.03/2018-19 is received for which appeal is filed before Commissioner (Appeals). Further orders are awaited from the Tribunal and Department in respect of above.

Goods and Service Tax

Goods and Service Tax – GST was implemented all over the country w.e.f 01.07.2017. All the indirect tax registrations of Branch offices and Head Office were brought under one common registration under GST and is managed centrally from Head Office. Corporation has appointed M/s.Karvy Management Services Limited as our GST Suvidha Provider, who is one of the GSPs authorized by the Government of India. As of 31st March 2019, three monthly returns GSTR 3B and GSTR 1 and GSTR 7 are notified by the Government to be uploaded in GST Network, which have all been duly filed by the Corporation on a monthly basis.

2.8. Related Party Disclosures as per AS 18

A. List of Related Parties

- Holding Company NIL
- Subsidiary Companies NIL
- Key Management Personnel Sri. Sanjeev Kaushik IAS, Chairman and Managing Director (from 24.01.2018)



B. Related party Transactions

The total remuneration paid to Sri Sanjeev Kaushik IAS during the financial year 2018-19 is Rs.32.32 Lakhs (Rs.5.73 Lakhs during FY 2017-18). Rs.0.83 Lakhs has been paid to him towards leave encashment benefits.

2.9 Impairment of Assets

The fixed assets are carried at written down value (WDV) consistently using appropriate depreciation rates. All other operating assets are carried at current / transaction value. During the year, Corporation has done a physical verification of fixed assets of all Branch Offices, Zonal Offices and Head Office and a Fixed Assets Register has been prepared. As part of this exercise, Rs.16.13 Lakhs is written off being difference in written down value of assets as on 31.03.2018 and value of assets as per the Fixed Assets Register.

In accordance with AS 28 – Impairment of Assets, an annual assessment was made on 31.03.2019, as to whether there is any indication that an asset or a class of assets is 'impaired' and since there were no incidences of such impairment indicators, no provision has been made.

2.10 Segment Reporting

The Corporation operates as a single unit with a single profit center and has concentrated its activity on term lending only as a single product.

A. Primary Segment (The Business Segment)

The Corporation operates mainly in the business segment of providing financial assistance to MSME and other sectors. All other activities revolve around the main business. Further, all activities are carried out within Kerala. As such, there are no separate reportable segments as per the provisions of AS 17 on 'Segment Reporting' issued by the Institute of Chartered Accountants of India.

B. Secondary Segment (The Geographical Segment)

The area of operation of the Corporation is confined within the state of Kerala. As a result separate segment information for different geographical segments is not required.

2.11. Contingent liabilities

The contingent liabilities as on 31.03.2019 are estimated as under

- On account of Income Tax Rs.1879.63 Lakhs
- On account of suits filed against the Corporation Rs. 72.29 Lakhs
- On account of Service Tax Rs. 106.41 Lakhs
- On account of guarantees issued on behalf of Government contractors in Kerala- Rs.1237.42 Lakhs

Head Office and Branch Office Thiruvananthapuram are functioning on the land measuring 29.44 Ares (73 cents) in Sy. No. 3647 of Kowdiar Village leased from Government of Kerala for a period of 30 years from April 2008. The lease rent to be paid by the Corporation as per GO (MS) No.401/2008/RD dated 25.11.2008 is Rs.1 Lakh per year and according to our calculation, Rs.6.82 Lakhs is paid in excess while revenue authorities have raised a demand of Rs.83.50 lakhs considering the lease rent proposal at 2% of market value of land based on GO(P) No.64/2016/RD dated 28.01.2016. Hence the demand of Rs.83.50 Lakhs was shown as contingent liability which pertain to demand from FY 2013-14 onwards till last year. However, Finance Department, GoK has clarified vide letter PU-A1/122/2018/Fin dt 20.03.2019 that the GO dated 25.11.2018 is still valid as the revised demand has not been made by another executive order. In the light of the above developments, there is no Contingent liability on account of Lease rent payable to GoK during this year.

2.12 Accounting for Leases

Financial Leases:

Leases in which the company transfers substantially all the risks and benefits of ownership of the asset are classified as finance leases. The Corporation has not undertaken any contracts under this category during the reporting period.



Operating Leases:

Where the Corporation is lessee

Operating leases, where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item, are classified as operating leases. The Corporation has taken buildings in various districts for the functioning of its branch offices, under this category and all the contracts are for a period of more than one year with fixed provision for periodical increase in rent amount. Operating lease rent payments are recognized as an expense in the statement of profit and loss every month as and when accrued or paid. During the current reporting period Rs.64.06Lakhs (Rs.56.99Lakhs during FY 2017-18) has been charged to profit and loss account in this regard. The total value of unexpired portion of contracted lease is quantified as per AS-19 and the same is less than actual rent paid. Further there is no contingent element involved in the lease agreements. Hence no additional provision is required in this regard.

Where the Corporation is lessor

Leases in which the Corporation does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. A portion of the Corporation's own building let out for rent is reportable in this category. The assets subject to operating lease are included in the fixed assets and charged depreciation as per AS-10 (Revised). The total amount of Lease income on an operating lease received during the year is Rs.69.90 Lakhs (Rs.90.82 Lakhs during FY 2017-18) and the same is recognised in the statement of profit and loss in line with the existing revenue recognition policy. The total value of unexpired portion of contracted lease is quantified as per AS-19 and the same is higher than actual rent received during the year. Further there is no contingent element involved in the lease agreements. As a matter of prudence provision for additional revenue is not made in the financial statements.

2.13 Assets acquired in satisfaction of claims

Assets acquired in satisfaction of claims amounting to Rs. 400.34 Lakhs relates to M/s. Jayalakshmi Builders, Thiruvananthapuram and is retained as such .The acquisition was done in the financial year 2008-09 and accounted as NPA recovery in that financial year. This amount will not affect the current or previous year profits reported in the current financial statements. This asset is tested for impairment and found that the present realizable value as per latest valuation is Rs.6.92 crore which is more than its book value. The Corporation has retained the amount in non-current assets expecting settlement and as an additional support to the claims. Hon'ble High Court in WP(C) 19571/2019 directed the Company to pay Rs.414.50 Lakhs for settling the account before 11.10.2018 and if the amount is not remitted by them, then the right of the auction purchaser would stand revived. Now since both the parties have not remitted the amount with in the stipulated time, Corporation proposes to auction the property in FY 2019-20.

2.14 Suspense Account.

The amount outstanding in Suspense Account amounting to Rs.356.70 Lakhs comprises of amount kept in suspense as unidentified credits received in loan accounts during year end, court orders, and amount received from LIC towards maturity amount of policies of the employees. The balance amount lying in Suspense account is being rectified.

2.15 Secured / Un-secured Loans.

Loans from Banks and other financial institutions are secured by creating hypothecation on receivables as primary security for the loan. There are no other charges created on any of the assets of the Corporation on account of borrowings.

2.16 Non SLR Bonds

The Corporation issued Secured, Rated , Listed, Redeemable, Taxable, Non Convertible Bonds of Rs.250 crore @ 8.69% with credit enhancement mechanism during the year with out government guarantee. The pay in date and allotment date of the issue is 4th April 2018. The Corporation fully redeemed the fourth lot of KFC 9.99% Non-SLR Bond Series 1/2011 (ISIN: INE 818FO8011) amounting to Rs. 50 crores on 28.12.2018 to reduce the cost of borrowing. The total bond outstanding as on 31.03.19 is Rs.850 crore.

40



The Bond details are given below.

SI No	Issue Date	Coupon	Amount Issued Rs in Cr	Amount Outstanding Rs in Cr	Maturity Date
1	04-Apr-18	8.69%	250.00	250.00	04-Apr-25
2	09-May-16	8.90%	250.00	250.00	09-May-23
3	30-Oct-14	9.15%*	200.00**	150.00	30-Oct-24
4	06-Jun-13	8.72%*	200.00	200.00	06-Jun-23

^{*} Issued with Government guarantee

An amount of Rs. 368.06 Lakhs was paid to the State Government as commission for guarantees extended for the Bonds.

2.17 Employee Expenses

The total Employee benefits and expenses for the year amount to Rs.36.10crore (Rs.34.08 crore during FY 17-18). This includes Employee Pay & Allowances for the year of Rs.28.15 crore (Rs.22.96 crore during FY 17-18) out of which Rs.3.42 crore is the Pay revision arrears from 01.07.2016 till 31.03.2018 paid to the permanent employees of the Corporation.

2.18 RR charges payable

The Corporation reimburses the remuneration paid by Government to Revenue Recovery staff who are officiating in the Corporation. The amounts have been paid for till FY 2013-14. Provision of Rs.539.75 Lakhs has been made for the payment due from FY 2014-15 to FY 2017-18 as on 31.03.18. The demand for FY 2018-19 was received from the department for Rs.159.49 Lakhs and we have provided it this year. Hence as on 31.03.19, the total amount provided is Rs.699.24 Lakhs, break up is as below.

FY 2014-15-Rs.99.98 Lakhs FY2015-16- Rs.110.47 Lakhs FY 2016-17-Rs.162.80 Lakhs FY 2017-18-Rs.166.50 Lakhs FY 2018-19-Rs.159.40 Lakhs

The establishment charges have not been paid as the calculations made by the Corporation is only Rs.384.05 Lakhs as against the demand of Rs.699.24 Lakhs provided by the Revenue Department.

2.19 Provision for Income Tax

The income tax comprises of current and deferred tax. The provision for income tax is made as per the income tax rules and previous income tax assessments. The tax is calculated on income on receipt basis which is consistently followed by the corporation for the past years and the Income tax department also accepted the same for assessment purpose. The deferred tax assets and liabilities are recognised, for the expected tax consequences of temporary / timing differences between the depreciation, accrued income and expenditure. Current year provision for tax is calculated as below.

Taxable income calculated as per IT Act - Rs.42,41,27,240/Income tax thereon - Rs.14,82,07,023/MAT credit available for set off - Rs. 88,66,051/Tax Charged to Profit & Loss A/c - Rs. 13,93,40,972/Balance available as MAT Credit - Rs. NIL

2.20 Commission on Performance guarantees issued

During the FY, total commission collected upfront from Performance guarantees issued during the year amounts to Rs.48.66 Lakhs, out of which Rs.35.13 Lakhs pertains to future financial years.

^{**} Call option exercised on 30.10.2018 and Rs.50 crore (25%) partially redeemed .



2.21 Grants and Subsidies

The receipts in the nature of grants and subsidies received are utilized for the purpose for which the same is granted. The undisposed portion of subsidies to loanees (State subsidy, Development board subsidies etc.) are kept as other current liabilities and will be disposed subject to the satisfaction of terms and conditions thereof by the beneficiaries.

2.22 Interest Income and rebate

The rebate to customers for prompt payment is deducted from interest income for reporting in the financial statements during the year. The interest received on loans and advances and Interest rebate extended on loans during 2018-19 are Rs.318.72 crore and Rs.26.52 crore and during 2017-18 are Rs.349.43 crore and Rs.29.93 crore respectively.

2.23 Prior period items

There are no prior period adjustment made during this year.

2.24 Previous Year's Figures

Previous year's figures have been regrouped and reclassified wherever found necessary.

Soya K Financial Controller

Premnath Ravindranath Executive Director

Anil Kumar Parameswaran

Sanjeev Kaushik Chairman & Managing Director

As per our report of even date For M/s. Krishnan Retna & Associates, Chartered Accountants Firm Reg No:001536S

Thiruvananthapuram 23 . 05. 2019

A Retna Kumaran Wair, FCA Partner, M No:024791



Note: 20			₹ in Lakhs)
DISCLOSURE REQUIREMENTS:			
A. Capital	2018-19		2017-18
a) CRAR (%)	19.24		17.26
b) Risk Weighted Assets			
1) On Balance Sheet items	2,22,942.76		2,52,935.04
c) Share holding pattern as Balance Sheet date			
	Amount	%	%
1. Government of Kerala	22,026.94	97.25	97.25
2. SIDBI	613.33	2.71	2.71
3. Commercial Banks, Insurance Cos. Pvt. Shareholders etc.	10.17	0.04	0.04
TOTAL	22650.44	100	100
d) Net worth	45,741.34		44,108.34
B. Asset Quality and Credit Concentration:	Amount	%	%
a) Gross NPA under the prescribed assets classification categories	15,490.88	5.77	6.37
b) Net NPAs under the prescribed asset classification categories	4,645.08	1.82	2.03
c) Provisions:			
	2018-19		2017-18
1. Provision for Standard Assets	2,925.13		2,295.68
2. Provision for NPA	10,845.80		11,056.62
3. Provision for Investments	74.38		74.38
4. Provision for Income Tax	1,393.41		430.45
5. Provision for Deferred Tax Liability	(497.95)		243.03
6. Provision for Diminuition in value of Assets	16.13		-
7. Proposed Dividend	113.25		-
8. Provision for Dividend Distribution Tax	23.28		-
d) Movement in Net NPA (%)			
	2018-19	2017-18	Variance
Sub Standard	1.82	2.03	-0.21
TOTAL	1.82	2.03	-0.21



C. Liquidity:						
a) Maturity patter	rn of Rupee assets	5.				(₹ in lakhs)
Items	Less than or equal to 1 year	More than 1 year up to 3 years	More than 3 years up to 5 years	More than 5 years up to 7 years	More than 7 years up to 10 years	Total
Total assets	71,399.23	98,268.01	63,310.56	29,363.01	6,060.19	2,68,401.00
Total Liabilities	50,000.15	93,890.97	61,258.34	19,999.69	1,250.00	2,26,399.15
					2018-19	2017-18
D. Operating Resu	ults:					
a) Interest income	e as a percentage t	to average worki	ing funds-		10.97	12.58
Interest Inco	ome				29,219.72	31,950.06
Average Wo	rking Funds				2,66,437.54	2,54,029.26
b) Non-interest ir	ncome as a percen	tage to Average	Working Funds	-	5.11	2.26
Non-interest	income				13,606.61	5,738.31
Average Wor	king Funds				2,66,437.54	2,54,029.26
c) Operating Profi	t (+) / Loss (-) as a	% to Average W	orking Funds-		1.16	0.79
Operating P	Profit (+) / Loss (-)				3,099.75	2,019.13
Average Wo	orking Funds				2,66,437.54	2,54,029.26
d) Return on Aver	age Assets-				1.10	0.76
Returns (operatir	ng profit + depreci	ation)			3,183.82	2,114.72
Average Ass	sets				2,88,243.51	2,77,355.00
e) Net profit (+) /	Loss (-) per emplo	oyee			8.67	4.09
No. of emp	loyees				204.00	203.00
Net profit (+) / Loss (-)				1,769.53	830.32

For and on behalf of the Board Directors

Financial Controller

Premnath Ravindranath **Executive Director**

Anil Kumar Parameswaran Director

Sanjeev Kaushik Chairman & Managing Director

As per our report of even date For M/s. Krishnan Retna & Associates, Chartered Accountants

Firm Reg No:001536S

Thiruvananthapuram 23.05.2019

A Retna Kumaran Wair, FCA Partner, M No:024791



CASH FLOW STATEMENT

(₹ in lakhs)

FOR THE PERIOD	For the year ended	For the Year ended
TON THE LEMOD	31.03.2019	31.03.2018
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit before taxes	2,664.99	1,503.79
Prior Period Income	-	(266.50)
Dividend Received	(2.18)	(2.18)
Interest received on Fixed Deposits	(1,266.16)	(410.05)
Depreciation on fixed assets	84.07	95.59
Provision for Non Performing Assets	418.63	515.34
Provision for Diminuition in Value of Assets	16.13	-
Interest and other costs of Non-SLR Bond	8,580.41	7,198.31
Increase in Loans and advances	(23,221.52)	2,231.95
Increase in borrowings from banks and SIDBI	(14,461.38)	19,714.28
Increase in other non-current assets	4,880.08	154.77
Decrease in other current assets	(1,805.43)	5,541.83
Increase in current liabilities	9,878.97	(8,191.11)
Less: Income tax paid	(1,332.00)	(725.00)
Net cash from operating activities	(15,565.40)	27,361.01
CASH FLOW FROM INVESTING ACTIVITIES		-
Purchase of fixed assets	(110.29)	(230.37)
Dividend Received	2.18	2.18
Net cash used in investing activities	(108.12)	(228.19)
CASH FLOW FROM FINANCING ACTIVITIES		-
Issue of Non SLR Bond	25,000.00	-
Redemption of Non-SLR Bond	(10,000.00)	(5,000.00)
Interest and other costs of Non-SLR Bond	(8,580.40)	(7,198.31)
Interest Received on Fixed Deposits	1,266.16	410.05
Purchase of NCD	(6,080.00)	-
Depoist with Banks	(1,948.53)	(5.50)
Net cash used in financing activities	(342.77)	(11,793.76)
Net increase in cash and cash equivalents	(16,016.29)	15,339.08
Cash and cash equivalents at the beginning of the year	16,505.99	1,166.91
Cash and cash equivalents at the end of the year	489.70	16,505.99

For and on behalf of the Board Directors

Financial Controller

Premnath Ravindranath **Executive Director**

Anil Kumar Parameswaran Director

Chairman & Managing Director

As per our report of even date For M/s. Krishnan Retna & Associates, Chartered Accountants

Firm Reg No:001536S

Thiruvananthapuram 23.05.2019

A Retna Kumaran Wair, FCA Partner, M No:024791



PROFORMA-I

SECTOR WISE LOANS OUTSTANDING AS ON 31.03.2019

(₹ in lakhs)

PARTICULARS	NUMBER	STANDARD	NUMBER	SUB-STANDARD	NUMBER	TOTAL
CRE	241	39542.07	24	3580.22	592	43122.29
MANUFACTURING	1418	71045.64	128	4104.21	1546	75149.85
SERVICE	2245	142322.42	175	7806.45	2420	150128.87
TOTAL	3904	252910.13	327	15490.88	4231	268401.01

PROFORMA-II

SUMMARY OF LOAN OPERATIONS FOR FY 2018-19

(₹ in lakhs)

SI no	SI no Particulars	Micro		Small		Medium		Total	
		No	Amount	No	Amount	No	Amount	No	Amount
П	Applications pending as on 01.04.2018	8	828	3	296	3	325	14	1449
2	Applications received during 2018-19	906	169285	29	3374	22	1395	957	174054
3	Total application for consideration	914	170113	32	3670	25	1720	971	175503
4	Application withdrawn/rejected or otherwise	36	6630	15	2235	20	1290	71	10155
2	Application sanctioned(Gross)	874	163339	12	935	2	325	888	164599
9	A. Application cancelled/reduced out of Current year's sanction	2	28	1	70	0	0	3	98
	B. Application cancelled/reduced out of Previous year's sanction	101	3358	25	896	9	1707	132	5961
	C. Total cancellation/reduction(6A+6B)	103	3386	26	996	9	1707	135	6909
7	Application sanctioned effectively(5-6A)	872	163311	11	865	2	325	885	164501
∞	Amount disbursed along with number of newly assisted units	1183	79428	29	1206	14	945	1226	81579
6	Application pending sanction as at the end of the period	4	830	5	3566	3	3800	12	8196

(₹ in lakhs)

PROFORMA-III

BRANCH WISE BREAKUP OF LOAN OPERATION DURING THE YEAR 2018-19

				Applications received	receiv	/ed						Gross sanction	tion			
Branch Name	2	Micro	S	Small	Me	Medium	12	Total	Micro	ro	S	Small	Ĭ	Medium		Total
	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount	8	Amount	No	Amount	8	Amount
Thiruvananthapuram	90	28257	7	969	3	300	100	29253	83	27357	П	96	1	125	85	27578
Kollam	75	18991	2	310	4	332	81	19633	69	18141	Η	110	0	0	70	18251
Pathanamthitta	34	3586	0	0	0	0	34	3586	35	3586	0	0	0	0	35	3586
Alappuzha	38	4228	0	0	0	0	38	4228	39	4228	0	0	0	0	39	4228
Kottayam	25	2780	3	289	0	0	28	3069	28	2780	2	88	0	0	30	2869
Kattappana	24	2789	0	0	0	0	24	2789	24	2789	0	0	0	0	24	2789
Thodupuzha	21	1586	0	0	0	0	21	1586	22	1586	0	0	0	0	22	1586
Ernakulam	81	18356	2	578	∞	128	91	19062	74	17806	2	78	0	0	9/	17884
Perumbavoor	52	5529	2	59	0	0	54	5588	58	5529	\vdash	59	0	0	29	5588
Thrissur	72	10583	0	0	0	0	72	10583	89	10133	0	0	0	0	89	10133
Palakkad	54	7988	0	0	0	0	54	7988	48	7588	0	0	0	0	48	7588
Malappuram	9/	11438	2	380	2	135	80	11953	72	10438	2	80	0	0	74	10518
Kozhikode	82	16046	0	0	0	0	82	16046	77	15446	0	0	0	0	77	15446
Wayanad	48	6829	χ	452	0	0	51	7311	48	6829	\leftarrow	52	0	0	49	6911
Kannur	48	6862	0	0	0	0	48	6862	53	9999	0	0	0	0	53	9999
Kasaragode	98	23407	∞	610	2	500	66	24517	9/	22407	2	371	1	200	79	22978
Grand Total	906	169285	29	3374	22	1395	957	174054	874	163339	12	935	2	325	888	164599



PROFORMA-IV

BRANCH WISE BREAKUP OF LOAN OPERATION DURING THE YEAR 2018-19

(₹ in lakhs)

Branch Name				Effective	ve Sanction	LC						Loan Di	Loan Disbursed			
		Micro	0,	Small	Σ	Medium		Total	2	Micro	σ,	Small	M	Medium	•	Total
	No	Amount	No	Amount	N _o	Amount	N _o	Amount	8	Amount	8 8	Amount	No	Amount	No	Amount
Thiruvananthapuram	83	27357	1	96	1	125	85	27578	137	11969	4	125	5	195	146	12289
Kollam	69	18141	Т	110	0	0	70	18251	120	8204	7	180	4	180	126	8564
Pathanamthitta	35	3586	0	0	0	0	35	3586	42	1580	7	75	0	0	44	1655
Alappuzha	39	4228	0	0	0	0	39	4228	48	1699	0	0	0	0	48	1699
Kottayam	28	2780	2	89	0	0	30	2869	47	1894	3	85	0	0	50	1979
Kattappana	24	2789	0	0	0	0	24	2789	52	2157	0	0	0	0	52	2157
Thodupuzha	22	1586	0	0	0	0	22	1586	38	296	33	110	0	0	41	1077
Ernakulam	74	17806	2	78	0	0	16	17884	92	8204	2	130	2	150	102	8484
Perumbavoor	58	5529	\vdash	59	0	0	59	5588	52	2540	\vdash	59	0	0	26	2599
Thrissur	89	10133	0	0	0	0	99	10133	73	5423	4	75	П	25	78	5523
Palakkad	48	7588	0	0	0	0	48	7588	54	2617	0	0	0	0	54	2617
Malappuram	72	10438	2	80	0	0	74	10518	69	4614	Τ	35	1	195	71	4844
Kozhikode	77	15446	0	0	0	0	77	15446	71	4272	0	0	0	0	71	4272
Wayanad	48	6829	1	52	0	0	49	6911	54	3069	П	52	0	0	52	3121
Kannur	53	9999	0	0	0	0	53	9999	9/	4429	0	0	0	0	9/	4429
Kasaragode	74	22379.3	Τ	301	⊢	200	16	22880.3	152	15790	3	280	1	200	156	16270
Grand Total	872	872 163311.3	11	865	2	325	885	164501.3	1183	79428	29	1206	14	945	1226	81579



S OF PERFORMANCE	
HIGHLIGHTS OF	

(₹ in lakhs)

	0T-6007	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	\Box	2	æ	4	5	9	7	∞	б	10
Applications Received No	855	702	694	721	1147	1364	1383	689	749	957
Applications Received Amount	79,947	29699	64294	77271	98962	148269	112049	50424	78491	174054
Applications Sanctioned No	759	742	634	639	1111	1311	1328	634	699	885
Applications Sanctioned Amount	61,593	50706	53901	66139	101173	94745	102599	38531	72393	164495
Disbursement Amount	41,953	44344	46457	47594	75473	62209	83836	65527	60023	81579
Recovery Amount	29954	35473	46717	54022	56513	68427	75820	87428	94467	00006
Number of Loan accounts	5949	6049	2862	6114	4196	4498	5264	5497	4439	4231
Balance Outstanding Amount	88839	112481	123984	140143	180037	203818	240019	247411.4	245179	268401
Authorised Capital	35000	35000	35000	35000	35000	35000	35000	35000	35000	35000
PAID UP CAPITAL										
State Government	19783	20574	20574	20574	20574	21563	21563	21563	21563	22027
SIDBI	613	613	613	613	613	613	613	613	613	613
Others	10	10	10	10	10	10	10	10	10	10
Total	20406	21197	21197	21197	21197	22186	22186	22186	22186	22650
INCOME										
Interest on Loans	9196	12064	15730	25294	26312	30915	29976	35195	36557	40475
Other Income	629	4534	2692	476	307	167	871.9	1277.29	1131	2351
Total	15795	16598	21425	25770	26619	31082	30847	36473	37688	42826
EXPENDITURE										
Interest on Bonds	096	759	1043	2111	3419	4675	5453.96	6917.15	2299	8129
Interest on Refinance & other borrowings	3779	5071	7166	6590	7078	9278	10921.24	12599.04	11847	10014
Fund Raising expenses	174	1166	244	241	370	417	525.63	557.72	521	451
Employee benefit expenses	1978	2463	1792	2317	2355	2595	2701.37	2863.48	3408	3610
Administrative Expenses	138	410	402	438	574	527	522.82	502.8	640	671
TOTAL	7029	6986	10647	11697	13797	17492	20125	23440	23092	22875

(₹ in lakhs)

							-	-		(2
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Profit/Loss before depreciation	8766	6729	10778	14073	12822	13590	10722	13032	14596	19951
Write off/Provisions										
Depreciation	36	64	58	57	65	53	129	184.37	96	84
Bad debts Written off	3773	495	3078	2566	4139	4280	2867	12061.13	12481	16767
Provision for Bad & Doubtful debts	88	1419	482	1626	1311	3811	2692	0	515	419
Net Profit/Loss	2114	3640	4565	683	4134	1437	533	787	1504	2665
Net Worth	26996	29736	32585	38376	41484	42392	42917	43545	44108	45741
Gross NPA(%)	9.04	8.2	3.6	3.51	3.45	7.85	10.57	8.51	6.37	5.77
Net NPA(%)	2.41	1.88	1.3	0.36	0.35	3.71	5.93	4.25	2.03	1.82
Share Capital issued	0	791	0	0	214	686	0	0	0	464
Bonds issued	0	0	20000	0	20000	20000	0	25000	0	25000
Borrowings from Banks & Fls	20989	42200	19400	25900	30210	32799	56201	35000	67000	00609
Repayment of Bonds	977	3641	3655	2453	0	0	2000	2000	2000	10000
Repayment of Borrowings from Banks & FIs	16386	19241	18020	28274	22211	24751	23216.7	28753	48037	66054
									ON	Amount
Cumulative Sanction up to 31.03.2019									48438	1140284
Cumulative Disbursement up to 31.03.2019									50627	896671

KERALA FINANCIAL CORPORATION

(INCORPORATED UNDER THE STATE FINANCIAL CORPORATIONS ACT No. LXIII OF 1951 H.O: ASWATHY, VELLAYAMBALAM, THIRUVANANTHAPURAM- 695 033. Phone: 0471-2737500 (30 lines) Fax: 2311750,2318541, 2313813, 2722090 Email: kfc@kfc.org Website: www.kfc.org

PROXY

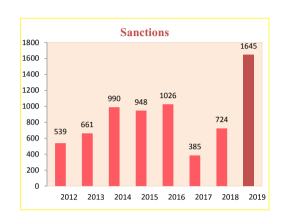
I/We	(folio No.)	
of	being a share holder of the Kerala Financial Corporation h	olding
shares Nos	hereby appoint Shri/Smt	
of (or failing him		
Shri/Smt	of) as my/our proxy to vo	ote for
me/us and on my/our behalf at the meeting	of the shareholders of the Corporation to be held at	
on theday of	and at any adjournment thereof.	
Signed this theday of		

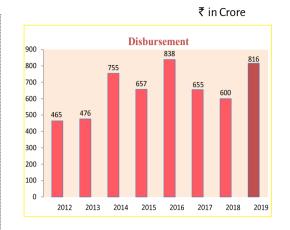
Signature of share holder on Re.1 /-Revenue Stamp

Notes

- 1. The proxy need not be a member of the Corporation.
- 2. The proxy form signed across Re.1/- Revenue Stamp should reach the Corporation's Registered office at least 48 hours before the meeting.

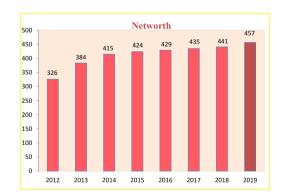
FINANCIAL HIGHLIGHTS













Memorable events...

























