Independent Auditors' Report

To the Members of
Magma Fincorp Limited

Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the standalone financial statements of Magma Fincorp Limited ("the Company"), which comprise the standalone balance sheet as at 31 March 2021, and the standalone statement of profit and loss (including other comprehensive income), standalone statement of changes in equity and standalone statement of cash flows for the year then ended, and notes to the standalone financial statements, including a summary of the significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Companies Act, 2013 ("Act") in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31 March 2021, and loss and other comprehensive income, changes in equity and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Act. Our responsibilities under those SAs are further described in the *Auditor's Responsibilities for the Audit of the Standalone Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India (the 'ICAI') and relevant provisions of the Act, together with the ethical requirements that are relevant to our audit of the standalone financial statements under the provisions of the Act and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the standalone financial statements.

Emphasis of matter

We draw attention to Note 43(ii) to the Standalone financial statements, relating to remuneration paid to the Whole Time Director (upto 7 November 2020) and the Vice Chairman and Managing Director of the Company for the financial year ended 31 March 2021, being in excess of the limits prescribed under Section 197 read with Schedule V of the Companies Act, 2013 by ₹ NIL and ₹ 49.93 lacs for Whole Time Director and Vice Chairman and Managing Director respectively and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 by ₹ 112.71 lacs and ₹ 224.40 lacs for Whole Time Director and Vice Chairman and Managing Director respectively, which is subject to the approval of the shareholders. Further, the Company is reasonably certain of getting the required approval.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the standalone financial statements of the current period. These matters were addressed in the context of our audit of the standalone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditors' Report *(contd.)*

Key Audit Matters *(contd.)*

Loss allowance for Expected Credit Loss (ECL) on loans and advances

Refer to the accounting policies in Note 2(e) - Significant areas of estimation uncertainty, critical judgements and assumptions in applying accounting policies, Note 2(h) (vi) – Financial Instruments – Impairment of financial assets, Note 47 to the Financial Statements: Financial risk management,

Charge to the standalone Statement of Profit and Loss: Rs. 131,862.63 Lakhs [Refer Note 34 to the standalone financial statements]

Provision as at 31 March 2021: Rs. 107,058.35 Lakhs [Refer Note 6 to the standalone financial statements]

Key audit matter

Subjective estimate

Loans represent a significant portion of the Company's assets.

Recognition and measurement of loss allowance on ECL on loans and advances involve significant management judgement.

Under Ind AS 109, Financial Instruments, loss allowance on loans are determined using ECL model. Computation of loss allowance on loans basis ECL model involves significant judgments and estimates. The Company's loss allowance is derived from estimates including the historical default, loss ratios and forward looking risk variables. The Company exercises judgements in determining the quantum of loss based on a range of factors.

The most significant factors are:

- Segmentation of loan book
- Determination of expos ure at default
- Loans taging criteria
- Calculation of probability of default / loss given default
- Consideration of probability weighted scenarios and forward looking macro-economic factors
- Past experience and forecas t data on customer behaviour on repayments, captured in the form of roll forwards and roll backs of monthly instalments

The application of ECL model requires several data inputs including estimation of 12 month ECL for a pool of loans and life time ECL for other pool of loans. This increases the risk of completeness and accuracy of the data that has been used for ECL calculation in the model.

Impact of COVID-19

The Company has identified the impact of, and uncertainty related to the COVID-19 pandemic as a key element and cons ideration for recognition and meas urement of loss allowance for expected credit loss on loans, in particular the level of estimation, on account of:

- short and long term macro economic effect on businesses in the country and globally and its consequential first order and cascading negative impact on revenue and employment generation opportunities ;
- impact of the pandemic on the Company's customers and their ability to repay dues ; and
- application of regulatory package announced by the Reserve Bank of India (RBI) and its consequential impact on as set classification and provisioning.

How the matter was addressed in our audit

In view of the significance of the matter we applied the following audit procedures in this area, among others, to obtain sufficient appropriate audit evidence-

Design / controls

- Performed walkthroughs and assessed the design and implementation of controls in respect of the Company's loss allowance process such as the timely recognition of impairment loss, the completeness and accuracy of reports used in the impairment allowance process and management review processes over the measurement of loss allowance and the related disclosures on credit risk management.
- Evaluation of the impairment principles used by management based on the requirements of Ind AS 109, our business understanding and industry practice.
- Understanding and testing continuing and enhanced processes, systems and controls implemented in relation to impairment allowance process, particularly in view of COVID-19 regulatory package.
- Evaluating key controls over collation of relevant information used for determining estimates for management overlays on account of COVID-19.
- Testing the controls over 'Governance Framework' in line with the RBI guidance and with Company's laid down policy
- Assessing the design and implementation of key internal financial controls over identification and measurement of impairment charge.
- Testing of key review controls over measurement of loss allowances and disclosures in financial statements.
- Assessed sufficiency of the disclosures on key judgements, assumptions and quantitative data with respect to loss allowance in the financial statements.

Involvement of specialists

We involved financial risk modelling specialists for the following:

- Test of details over of calculation of loss for assessing the completeness, accuracy and relevance of data. inancial risk modelling specialists for the following:
- Evaluating the appropriateness of the Company's Ind AS 109 impairment methodologies and reasonableness of assumptions used (including those used for management overlays); and
- The reasonableness of the Company's considerations of the impact of the current economic environment due to COVID-19 on the loss allowance determination.

Substantive tests

- Assessing management's rationale for determination of criteria for SICR considering both: adverse effects of COVID-19 and mitigants in the form of the RBI / Government financial relief package.

Independent Auditors' Report *(contd.)*

Key Audit Matters *(contd.)*

Loss allowance for Expected Credit Loss (ECL) on loans and advances *(contd.)*

Key audit matter

The Company has conducted a qualitative assessment of significant increase in credit risk (SICR) of the loan portfolio considering the moratorium benefit to borrowers prescribed by the RBI and considered updated macroeconomics cenarios and the use of management overlays to reflect potential impact of COVID-19 on loss allowance on its loan portfolio.

On account of COVID – wave 2, the challenges relating to collections, both on account of operations and customer ability, have compounded. Hence, management's outlook on credit default has changed from the past and it is expected that probability of default would accelerate beyond the projections made through the ECL model. Accordingly, management has adopted a methodology to project future roll forwards and roll backs of ins talments to capture the likely defaults in as tressed scenario, by using assumptions on collection trends. This is a subject matter of significant estimate.

Accordingly, given the significant level of estimates and judgements involved in determining loss allowance for ECL on Loans, we have considered measurement of this to be a key audit matter

How the matter was addressed in our audit

- Assessing changes made in macroeconomic factors and management overlays to calibrate the risks that are not yet fully captured by the existing model.
- Tested through independent check, Company's assessment of COVID-19 impact on segments of its loan portfolio and the resultant loss allowance
- Verifying application of accounting principles, validating completeness and accuracy of thedata and reasonableness of assumptions used in the model.
- Test of details over of calculation of loss for assessing the completeness, accuracy and relevance of data.
- For model derived outputs, verifying the calculations through re-computation where practicable.
- Challenged managements judgments made in respect of calculation methodologies, segmentation, economic factors, the period of historical loss rates used and the valuation of recovery assets and collateral
- Assessing the factual accuracy of the additional financial statements disclosures made by the Company regarding impact of COVID-19.

Information technology

Key audit matter

The Company's key financial accounting and reporting processes are highly dependent on information systems including automated controls, such that there exists a risk that gaps in the IT control environment could result in the financial accounting and reporting records being misstated. The Company uses multiple systems for its overall financial reporting process.

Further, the prevailing COVID-19 situation, has caused the required IT applications to be made accessible on a remote basis.

We have identified 'Information Technology systems' as key audit matter because of the significant level of automation, the various layers and elements of the IT architecture and the risks associated with remote access of key applications by staff during the year.

How the matter was addressed in our audit

Our response

Our audit procedures to assess the IT system management included the following:

We involved our IT Specialist to:

- Understand General IT Controls (GITC) i.e. Access Controls, Program/ System Change, Program Development, Computer Operations (i.e. Job Processing, Data/System Backup) over key financial accounting and reporting systems and supporting control systems (referred to as in-scope systems).
- Understand IT infrastructure i.e. operating systems and databases supporting the in-scope systems.
- Test the General IT Controls for design and operating effectiveness for the audit period over the in-scope systems.
- Understand IT application controls covering:
  - user access and roles, segregation of duties; and
  - key interfaces, reports, reconciliations and system processing.
- Test the IT application controls for design and operating effectiveness for the audit period.
- Test the automated controls supporting financial reporting process to determine whether these controls remained unchanged during the audit period or were changed following the standard change management process.
- Test the controls over the IT infrastructure covering user access (including privilege users), and system changes; and
- Enquiry on data security controls in the context of staff working from remote location at the year end.

Independent Auditors' Report *(contd.)*

Information Other than the Standalone Financial Statements and Auditor's Report Thereon

The Company's management and Board of Directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the standalone financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the standalone financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the standalone financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Management's and Board of Directors' Responsibility for the Standalone Financial Statements

The Company's Management and Board of Directors are responsible for the matters stated in section 134(5) of the Act with respect to the preparation of these standalone financial statements that give a true and fair view of the state of affairs, profit/loss and other comprehensive income, changes in equity and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards ('Ind AS') specified under section 133 of the Act. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring accuracy and completeness of the accounting records, relevant to the preparation and presentation of the standalone financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the standalone financial statements, the Management and Board of Directors are responsible for assessing the Company'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 the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is also responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Standalone Financial Statements

Our objectives are to obtain reasonable assurance about whether the standalone 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 standalone financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the standalone financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Act, we are also responsible for expressing our opinion on whether the company has adequate internal financial controls with reference to financial statements in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures in the standalone financial statements made by the Management and Board of Directors.
- Conclude on the appropriateness of the Management's and Board of Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the standalone financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies

Independent Auditors' Report *(contd.)*

in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the standalone financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditors' Report) Order, 2016 ("the Order") issued by the Central Government in terms of section 143 (11) of the Act, we give in the "Annexure A" a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.

2. (A) As required by Section 143(3) of the Act, we report that:

   a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

   b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books

   c) The standalone balance sheet, the standalone statement of profit and loss (including other comprehensive income), the standalone statement of changes in equity and the standalone statement of cash flows dealt with by this Report are in agreement with the books of account

   d) In our opinion, the aforesaid standalone financial statements comply with the Ind AS specified under section 133 of the Act.

   e) On the basis of the written representations received from the directors as on 31 March 2021 taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2021 from being appointed as a director in terms of Section 164(2) of the Act.

   f) With respect to the adequacy of the internal financial controls with reference to financial statements of the Company and the operating effectiveness of such controls, refer to our separate Report in "Annexure B".

   (B) With respect to the other matters to be included in the Auditors' Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:

   i. The Company has disclosed the impact of pending litigations as at 31 March 2021 on its financial position in its standalone financial statements - Refer Note 44 to the standalone financial statements;

   ii. The Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses – Refer note 44 to the standalone financial statements;

   iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company.

   iv. The disclosures in the standalone financial statements regarding holdings as well as dealings in specified bank notes during the period from 8 November 2016 to 30 December 2016 have not been made in these financial statements since they do not pertain to the financial year ended 31 March 2021.

   (C) With respect to the matter to be included in the Auditors' Report under section 197(16):

   We draw attention to Note 43(ii) to the standalone financial statements for the year ended 31 March 2021 according to which the remuneration paid to the Whole Time Director (upto 7 November 2020) and the Vice Chairman and Managing Director of the Company for the financial year ended 31 March 2021, amounting to ₹ 112.71 lacs and ₹ 224.40 lacs respectively and consequently the total managerial remuneration for the financial year ended 31 March 2021 (amounting to Rs. 337.11 lacs) exceeds the prescribed limits under Section 197 read with Schedule V of the Companies Act, 2013 by ₹ NIL and ₹ 49.93 lacs for Whole Time Director (upto 7 November 2020) and the Vice Chairman and Managing Director respectively. As per provisions of the Act, the excess remuneration is subject to the approval of the shareholders which the Company proposes to obtain in the forthcoming Annual General Meeting.

   The Ministry of Corporate Affairs has not prescribed other details under Section 197(16) which are required to be commented upon by us.

For B S R & Co. LLP
Chartered Accountants
Firm's Registration No. 101248W /W-100022

Ashwin Suvarna
Partner
Membership No. 109503
UDIN: 21109503AAAABS9617

Place: Mumbai
Date: 31 May 2021

Annexure A to the Independent Auditor's Report

Annexure A to the Independent Auditor's Report on the Standalone Financial Statements of Magma Fincorp Limited for the year ended 31 March 2021

(Referred to in our report of even date)

(i) a) According to the information and explanations given to us, the Company has maintained proper records showing full particulars, including quantitative details and situation of property, plant and equipment;

b) The Company has a regular programme of physical verification of its property, plant and equipment by which property, plant and equipment are verified in a phased manner over a period of three years. In our opinion, the periodicity of the physical verification is reasonable having regards to the size of the Company and the nature of its assets. Pursuant to the programme, certain fixed assets were verified during the year and no material discrepancies were noticed on such verification;

c) In our opinion and according to the information and explanations given to us and on the basis of our examination of the records of the Company, the title deeds of immovable properties included in property, plant and equipment, as disclosed in Note 11 to the standalone financial statements are held in the name of the Company, except for the following:

(₹ in Lakhs)

Particulars (Buildings)	Amount
Total number of cases	4
Gross block as at 31 March 2021	1,262.35
Net block as at 31 March 2021	1,133.26

(ii) The Company is a Non-Banking Finance Company ('NBFC'), primarily engaged in the business of financing. Accordingly, it does not hold any physical inventories. Thus, paragraph 3(ii) of the Order is not applicable to the Company;

(iii) According to the information and explanations given to us, the Company has not granted any loans, secured or unsecured to companies, firms, limited liability partnerships or other parties covered in the register maintained under Section 189 of the Act. Thus, paragraph 3(iii) of the Order is not applicable to the Company.

(iv) According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company has not undertaken any transaction in respect of loans, guarantees and securities covered under section 185 of the Act. The Company has complied with section 186(1) of the Act in relation to investments made by the Company. The remaining provisions related to section 186 of the Act do not apply to the Company as it is an NBFC registered with the Reserve Bank of India ('RBI').

(v) The Company is an NBFC and consequently is exempt from provisions of section 73 to section 76 of the Act. Thus, paragraph 3(v) of the Order is not applicable to the Company.

(vi) We have broadly reviewed the books of account maintained by the Company pursuant to the rules made by the Central Government for maintenance of cost records under section 148(1) of the Act, in respect of power generated from windmills and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the records. The Central Government has not prescribed the maintenance of cost records under section 148 (1) of the Companies Act, 2013, for any of the other services rendered by the Company.

(vii) a) According to the information and explanations given to us and on the basis of our examination of the books of account of the Company, amounts deducted / accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Employees' State Insurance, Income tax, Goods and service tax, cess and any other material statutory dues have generally been regularly deposited during the year by the Company with the appropriate authorities except for professional tax which is deposited with appropriate authorities with few delays. As explained to us, the Company did not have any dues on account of Sales-tax, duty of customs and duty of excise.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income -tax, Goods and service tax, cess and other material statutory dues were in arrears, as at 31 March 2021, for a period of more than six months from the date they became payable. As explained to us, the Company did not have any dues on account of Sales- tax, duty of customs and duty of excise.

b) According to the information and explanations given to us there are no material dues of cess and other material statutory dues which have not been deposited by the Company with the appropriate authorities on account of any dispute. However, according to the information and explanations given to us, the following dues of income tax, service tax and value added tax, have not been deposited by the Company on account of disputes:

Annexure A to the Independent Auditor's Report *(contd.)*

Name of the Statute	Nature of Dues	Amount (INR Lakhs)	Paid under Protest Amount (INR Lakhs)	Period to which amount relates	Forum where dispute is pending
Income Tax Act, 1961	Income Tax	0.63	0.63	2009-10	Commissioner of Income Tax (Appeals)
Income Tax Act, 1961	Income Tax	81.06	81.06	2011-12 and 2013-14	Commissioner of Income Tax (Appeals)
Income Tax Act, 1961	Income Tax	2.25	0.34	2012-13	Commissioner of Income Tax (Appeals)
Income Tax Act, 1961	Income Tax	123.96	123.96	2014-15 to 2016-17	Commissioner of Income Tax (Appeals)
Income Tax Act, 1961	Income Tax	20.64	20.64	2017-18	Commissioner of Income Tax (Appeals)
Finance Act , 1994	Service Tax	1002.03	404.00	2002-2003 to 2006-07	High Court, Kolkata
Finance Act , 1994	Service Tax	107.99	8.09	2008-09 to 2011-12	Customs Excise and Service Tax" Appellate Tribunal (CESTAT), Kolkata
Finance Act , 1994	Service Tax	184.52	-	2010-11 to 2013-14	High Court, Kolkata
West Bengal Value Added Tax Act, 2003	VAT	13.72	6.86	2008-09	West Bengal Taxation Tribunal, Kolkata
West Bengal Value Added Tax Act, 2003	VAT	1.08	-	2013-14	Joint Commissioner, Kolkata
Rajasthan Value Added Tax Act, 2003	VAT	44.60	1.10	2013-14 to 2016-17	Appellate Authority, Rajasthan
The Rajasthan Tax on Entry of Goods into Local Areas Act, 1999	Entry Tax	1.43	-	2015-16	Jurisdictional Authority
Jharkhand Value Added Tax Act, 2005	VAT	21.57	4.30	2006-2007 to 2009-2010	Sales Tax Tribunal, Jharkhand, Ranchi
Madhya Pradesh Value Added Tax Act, 2002	VAT	133.75	-	2008-2009 to 2009-2010	Madhya Pradesh High Court, Jabalpur
Orissa Value Added Tax, 2004	VAT	68.89	11.48	2007-08 to 30 September 2012	Sales Tax Tribunal, Orissa
Delhi Value Added Tax Act, 2004	VAT	16.26	-	2012-13	Delhi Commissioner of Tax
Delhi Value Added Tax Act, 2004	VAT	33.11	2.59	2013-14	Sales Tax Tribunal, Delhi

(viii) In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of loans or borrowing to financial institutions, banks or to debenture holders during the year. During the year, the Company did not have any loans or borrowings from the government.

(ix) In our opinion and according to the information and explanations given to us, term loans were applied for the purpose for which they were raised, though idle / surplus funds which were not required for immediate utilisation were invested in liquid assets. The Company has not raised any money by way of initial public offer or further public offer (including debt instruments) during the year.

(x) During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, except for 7 cases aggregating to Rs. 6.73 Lakhs, we have neither come across

Annexure A to the Independent Auditor's Report *(contd.)*

any instance of fraud by the Company or on the Company by its officers or employees noticed or reported during the year, nor have we been informed of such case by the Management.

(xi) According to the information and explanations given to us and based on our examination of the records of the Company, due to inadequate profits during the current year, the managerial remuneration paid to the directors of the Company is in excess of the limits specified under Section 197 of the Act read with Schedule V to the Act and limit prescribed under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The Company is in the process of obtaining approval from shareholders for such excess remuneration paid and the Company is reasonably certain of getting the required approval.

(xii) In our opinion and according to the information and explanations given to us, the Company is not a Nidhi company. Thus, paragraph 3(xii) of the Order is not applicable to the Company.

(xiii) According to the information and explanations given to us and based on our examination of the records of the Company, transactions entered into by the Company with the related parties are in compliance with section 177 and 188 of the Act, where applicable and details of such related party transactions have been disclosed in the standalone financial statements, as required by the applicable accounting standards.

(xiv) According to the information and explanations given to us by the Management and based on our examination of the records, the Company has commenced process of preferential allotment of shares during year ended 31 March 2021, for which allotment were done and funds were received post 31 March 2021. Hence, for the purpose of this report, we have neither checked compliance with section 42 of the Act nor examined whether funds so raised from private placement of shares were applied for the purpose for which these securities were issued.

The Company has not made preferential allotment of fully or partly convertible debentures or any private placement of shares or fully or partly convertible debentures during the year ended 31 March 2021.

(xv) According to the information and explanations given to us and based on our examination of the records of the Company, the Company has not entered into any non-cash transactions with the director or persons connected with him. Thus, paragraph 3(xv) of the Order is not applicable to the Company.

(xvi) According to the information and explanations given to us and based on our examination of the records of the Company, the Company is required to be registered under Section 45-IA of the Reserve Bank of India Act, 1934 and holds a valid certificate of registration (Registration no. B-05.02795 and dated 19-Nov-2007) under the same.

For B S R & Co. LLP
Chartered Accountants
Firm's Registration No. 101248W /W-100022

Ashwin Suvarna
Partner
Membership No. 109503
UDIN: 21109503AAAABS9617

Place: Mumbai
Date: 31 May 2021

Annexure B to the Independent Auditor's Report

Annexure B to the Independent Auditors' report on the standalone financial statements of Magma Fincorp Limited for the year ended 31 March 2021

(Referred to in our report of even date)

Report on the internal financial controls with reference to the aforesaid standalone financial statements under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013

Referred to in paragraph 2(A)(f) under 'Report on Other Legal and Regulatory Requirements' section of our report of even date

Opinion

We have audited the internal financial controls with reference to the standalone financial statements of Magma Fincorp Limited ("the Company") as of 31 March 2021 in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date.

In our opinion, the Company has, in all material respects, adequate internal financial controls with reference to financial statements and such internal financial controls were operating effectively as at 31 March 2021, based on the internal financial controls with reference to financial statements criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India (the "Guidance Note").

Management's Responsibility for Internal Financial Controls

The Company's management and the Board of Directors are responsible for establishing and maintaining internal financial controls based on the internal financial controls with reference to financial statements criteria established by the Company considering the essential components of internal control stated in the Guidance Note. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013 (hereinafter referred to as "the Act").

Auditors' Responsibility

Our responsibility is to express an opinion on the Company's internal financial controls with reference to the standalone financial statements based on our audit. We conducted our audit in accordance with the Guidance Note and the Standards on Auditing, prescribed under section 143(10) of the Act, to the extent applicable to an audit of internal financial controls with reference to financial statements. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls with reference to financial statements were established and maintained and whether such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls with reference to financial statements and their operating effectiveness. Our audit of internal financial controls with reference to financial statements included obtaining an understanding of such internal financial controls, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the standalone financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company's internal financial controls with reference to the standalone financial statements.

Meaning of Internal Financial controls with Reference to Financial Statements

A company's internal financial controls with reference to financial statements is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial controls with reference to financial statements include those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in

Annexure B to the Independent Auditor's Report *(contd.)*

accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial controls with Reference to Financial Statements

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

For B S R & Co. LLP
Chartered Accountants
Firm's Registration No. 101248W /W-100022

Ashwin Suvarna
Partner
Membership No. 109503
UDIN: 21109503AAAABS9617

Place: Mumbai
Date: 31 May 2021