

# BSR & Co. LLP

Chartered Accountants

14th Floor, Central B Wing and North C Wing  
Nesco IT Park 4, Nesco Center  
Western Express Highway  
Goregaon (East), Mumbai – 400 063, India  
Telephone: +91 (22) 6257 1000  
Fax: +91 (22) 6257 1010

## STATEMENT OF POSSIBLE SPECIAL TAX BENEFITS

**The Board of Directors**  
**Fedbank Financial Services Limited**  
**A-Wing, Unit No: 511**  
**Kanakia Wall Street**  
**Andheri - Kurla Rd, Andheri East**  
**Mumbai, Maharashtra 400093**

16 November 2023

**Subject: Statement of possible special tax benefits (“the Statement”) available to Fedbank Financial Services Limited (“the Company”) and its shareholders prepared in accordance with the requirement under Schedule VI – Part A - Clause (9) (L) of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended (“the ICDR Regulations”)**

This report is issued in accordance with the Engagement Letter dated 11 August 2023.

We hereby report that the enclosed Annexure I and Annexure II prepared by the Company, initialed by us for identification purpose, states the possible special-tax benefits available to the Company and its shareholders, under direct and indirect taxes (together “the Tax Laws”), presently in force in India as on the signing date, which are defined in Annexure I. These possible special tax benefits are dependent on the Company and its shareholders fulfilling the conditions prescribed under the relevant provisions of the Tax Laws. Hence, the ability of the Company and its shareholders to derive these possible special tax benefits is dependent upon their fulfilling such conditions, which is based on business imperatives the Company may face in the future and accordingly, the Company and its shareholders may or may not choose to fulfill.

Registered office:

BSR & Co. (a partnership firm with Registration No. BA61223) converted into BSR & Co. LLP  
(a Limited Liability Partnership with LLP Registration No. AAB-8181) with effect from October 14, 2013.

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Center, Western Express Highway, Goregaon (East), Mumbai-400063

The benefits discussed in the enclosed Annexure II cover the possible special tax benefits available to the Company and its shareholders and do not cover any general tax benefits available to the Company and its shareholders. Further, the preparation of the enclosed Annexure II and its contents is the responsibility of the Management of the Company. We were informed that the Statement is only intended to provide general information to the investors and is neither designed nor intended to be a substitute for professional tax advice. In view of the individual nature of the tax consequences and the changing tax laws, each investor is advised to consult his or her own tax consultant with respect to the specific tax implications arising out of their participation in the proposed initial public offering of equity shares of the Company (the "**Proposed Offer**") particularly in view of the fact that certain recently enacted legislation may not have a direct legal precedent or may have a different interpretation on the possible special tax benefits, which an investor can avail. Neither we are suggesting nor advising the investors to invest money based on the Statement.

We conducted our examination in accordance with the "Guidance Note on Reports or Certificates for Special Purposes (Revised 2016)" (the "**Guidance Note**") issued by the Institute of Chartered Accountants of India. The Guidance Note requires that we comply with ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.

We have complied with the relevant applicable requirements of the Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

We do not express any opinion or provide any assurance as to whether:

- i) the Company and its shareholders will continue to obtain these possible special tax benefits in future; or
- ii) the conditions prescribed for availing the possible special tax benefits where applicable, have been/would be met with.

The contents of the enclosed Annexures are based on the information, explanation and representations obtained from the Company, and on the basis of our understanding of the business activities and operations of the Company.

Our views expressed herein are based on the facts and assumptions indicated to us. No assurance is given that the revenue authorities/ courts will concur with the views expressed herein. Our views are based on the existing provisions of the Tax Laws and its interpretation, which are subject to change from time to time. We do not assume responsibility to update the views consequent to such changes. We shall not be liable to the Company for any claims, liabilities or expenses relating to this assignment except to the extent of fees relating to this assignment, as finally judicially determined to have resulted primarily from bad faith or intentional misconduct. We will not be liable to the Company and any other person in respect of this Statement, except as per applicable law.

**B S R & Co. LLP**

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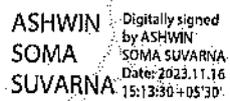
We hereby give consent to include this Statement in the Red Herring Prospectus and Prospectus and in any other material used in connection with the Proposed Offer, and it is not to be used, referred to or distributed for any other purpose without our prior written consent.

For **B S R & Co. LLP**

Chartered Accountants

Firm's Registration No: 101248W/W-100022

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SUVARNA

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**Ashwin Suvarna**

Partner

Membership No: 109503

UDIN: 23109503BGXUQY4437

Mumbai

16 November 2023



**ANNEXURE I**

**LIST OF DIRECT AND INDIRECT TAX LAWS ('TAX LAWS')**

<b>Sr. No.</b>	<b>Details of tax laws</b>
1.	Income-tax Act, 1961 and Income-tax Rules, 1962
2.	Central Goods and Services Tax Act, 2017
3.	Integrated Goods and Services Tax Act, 2017
4.	State Goods and Services Tax Act, 2017
5.	Goods and Services Tax legislations as promulgated by various states



## ANNEXURE II

### STATEMENT OF POSSIBLE SPECIAL TAX BENEFITS AVAILABLE TO FEDBANK FINANCIAL SERVICES LIMITED ("THE COMPANY") AND ITS SHAREHOLDERS UNDER THE APPLICABLE DIRECT AND INDIRECT TAXES ("TAX LAWS")

Outlined below are the Possible Special Tax Benefits available to the Company and its shareholders under the Tax Laws in force in India (i.e. applicable for the Financial Year 2023-24 relevant to the Assessment Year 2024-25 till the signing date of this annexure). These Possible Special Tax Benefits are dependent on the Company and its shareholders fulfilling the conditions prescribed under the Tax Laws. Hence, the ability of the Company and its shareholders to derive the Possible Special Tax Benefits is dependent upon fulfilling such conditions, which are based on business imperatives it faces in the future, it may or may not choose to fulfill.

#### A. Special tax benefits available to the Company

##### Under the Income Tax Act, 1961 ('the Act')

###### **Deduction under section 36(1)(viia) of the Act**

The Company is entitled to accelerated deduction in respect of bad and doubtful debts up to the limit specified under section 36(1)(viia) of the Act while computing its income under the head "Profits and gains of business or profession", to the extent of five per cent (5%) of the gross total income, and subject to satisfaction of prescribed conditions. Further, gross total income considered for the said deduction shall be before considering any deduction under the aforesaid section and Chapter VI-A of the Act.

As per first proviso to section 36(1)(vii) of the IT Act, where the Company has claimed deduction under section 36(1)(viia) of the Act, then subsequent claim of deduction of actual bad debts under section 36(1)(vii) of the Act would be reduced to the extent of deduction already claimed under section 36(1)(viia) of the Act.

It must be noted that as per CBDT instruction 17-2008 dated 26 November 2008 amount of deduction claimed by assessee in respect of bad debts under section 36(1)(vii) of the IT Act is required to be reduced by opening balance of provision for bad and doubtful debts created under section 36(1)(viia) of the Act.

As per section 41(4) of the Act, where any deduction has been claimed by the Company in respect of a bad debt under Section 36(1)(vii) of the Act, then any amount subsequently recovered on any such debt is greater than the difference between such debt and the amount so allowed as a deduction under section 36(1)(vii) of the Act, the excess shall be deemed to be business income of the year in which it is recovered.

As per Section 43D(a) of the Act, interest income in relation to certain categories of bad or doubtful debts, shall be chargeable to tax in the previous year in which it is credited to its profit and loss account for that year or actually received, whichever is earlier. This provision is an exception to



the accrual system of accounting which is regularly followed by such assessee's for computation of total income. Until FY 2022-23, a systemically important non-deposit taking non-banking financial company could claim benefit of this section by virtue of Explanation (h) to Section 43D of the Act. As per the amendment made vide Finance Act 2023, the said provisions shall be applicable to such class of NBFCs as may be notified by the Central Government in the Official Gazette.

Recently, CBDT vide circular no. 79/2023 dated 22 September 2023 has notified the following classes of NBFCs for the purposes of section 43D, namely:-

- (a) all NBFCs classified in the Top Layer;
- (b) all NBFCs classified in the Upper Layer;
- (c) all NBFCs classified in the Middle Layer.

Explanation – The classification of NBFCs in the Top Layer, Upper Layer and Middle Layer shall be according to the Reserve Bank of India's guidelines contained in Circular DOR.CRE.REC.No.60/03.10.001/2021-22 dated October 22, 2021.

#### **Lower corporate tax rate under Section 115BAA of the Act**

Section 115BAA of the Act provides an option to domestic companies to compute its corporate tax at a reduced rate of 25.168% [i.e. 22% Basic Tax (+) 10% Surcharge (+) 4% cess]. Companies availing this option will not be governed by the provisions of Minimum Alternate Tax (MAT) i.e. tax on book profits under Section 115JB of the Act. The company has opted to be governed by the provisions of Section 115BAA of the Act.

#### **Under the Central Goods and Services Tax Act 2017 (CGST Act)**

The Company is into a Non-Banking Finance Company Financial Services. In the purview of Sub-Section (4) of Section 17 of CGST Act, the NBFC have been given an option for 50% reversal of ITC instead of proportionate reversal on account of exempt income earned by Non-Banking Financial Companies will benefit credit of tax paid regarding services & inputs.

#### **B. Special tax benefits available to the Shareholders**

There are no special tax benefits available to the Shareholders for investing in the shares of the Company under the Tax Laws identified in Annexure I above. However, such shareholders shall be liable to concessional tax rates on certain incomes under the extant provisions of the Act.

As per Section 112A of the IT Act, long-term capital gains arising from transfer of an equity share, or a unit of an equity-oriented fund or a unit of a business trust shall be taxed at 10% (without indexation) of such capital gains subject to fulfillment of prescribed conditions under the Act as well as per Notification No. 60/2018/F, No.370142/9/2017-TPL dated 1 October 2018. It is worthwhile to note that tax shall be levied where such capital gains exceed INR 1,00,000.



As per Section 111A of the IT Act, short term capital gains arising from transfer of an equity share, or a unit of an equity-oriented fund or a unit of a business trust shall be taxed at 15% subject to fulfillment of prescribed conditions under the IT Act.

In respect of non-resident shareholders, the tax rates and the consequent taxation shall be further subject to any benefits available under the applicable Double Taxation Avoidance Agreement (DTAA), if any, between India and the country in which the non-resident has fiscal domicile, subject to satisfying the relevant conditions, including but not limited to:

- conditions (if any) present in the said DTAA read with the relevant provisions of the Multilateral Instrument ("MLI") as ratified by India with the respective country of which the said shareholder is a tax resident;
- non-applicability of General Anti-Avoidance Rule ("GAAR"); and
- providing and maintaining necessary information and documents as prescribed under the IT Act read with applicable rules, circulars and/or notifications..

**NOTES:**

1. The above is as per the current Tax Laws.
2. The above Statement of possible special tax benefits sets out the provisions of Tax Laws in a summary manner only and is not a complete analysis or listing of all the existing and potential tax consequences of the purchase, ownership and disposal of equity shares of the Company.
3. This Statement does not discuss any tax consequences in any country outside India of an investment in the equity shares of the Company. The shareholders / investors in any country outside India are advised to consult their own professional advisors regarding possible income tax consequences that apply to them under the laws of such jurisdiction.

**For Fedbank Financial Services Limited**

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Authorised Signatory

Mumbai

16 November 2023