ANNUAL REPORT
2012-2013

SKS MICROFINANCE

Turnaround

Three consecutive quarters of profit -- PAT of Rs. 5 crore in Q1-FY14, Rs. 2.7 crore in Q4-FY13 and Rs. 1.2 crore in Q3-FY13

Contents

Message from the Non-Executive Chairman-Interim

The year ended March 31, 2013 has been a year of consolidation for your Company. Several difficult decisions had to be taken and implemented including rationalization of operations and headcount, cleansing of the balance sheet, etc.

I am happy to inform you that the stakeholders – customers and banks in particular – have responded positively to these initiatives and gradual growth of business across the non-Andhra Pradesh states has been taking place.

Your Company recognises that this confidence reposed in it by banks and the customers in the background of the developments in the sector over last two and a half years places a great deal of responsibility on your Company in fostering an orderly growth and ensuring that the customers have their requirements met on empathetic basis.

Certain key policy and legal decisions are yet to be put in place. In this regard, particular mention must be made of the Central MFI Bill which is pending before the Honourable Standing Committee on Finance. While no specific time-frame regarding the passage of the Bill is available, the direction is clear.

The overall macro-economic slowdown has not affected the opportunity that is available to your Company. If anything, it has brought into sharp relief the fact that the size of the opportunity continues to be enormous.

I have no doubt that the hard decisions taken during 2012-2013 will help your Company to sustain profitability over the course of next two years. The expected changes in the legal and regulatory structure for the sector, whenever they happen, will only help the sector and your Company to reach out in a stronger manner to their clientele.

I thank you for the trust reposed in the Management and the Board, and look forward to your continued support.

P.H. Ravikumar
Non-Executive Chairman-Interim and Independent Director

Message from the Managing Director and CEO

The unambiguous message emanating from your Company's turnaround is the robustness of the operating model. Your Company had to reduce the non-Andhra Pradesh portfolio outstanding from a high of Rs. 3,942 crore in Q2-FY11 to Rs. 1,185 crore in Q3-FY12 to combat the supply-side shock. But the non-Andhra Pradesh portfolio during this contraction mode had a collection efficiency of 97%. This validated the operating model pursued by your Company and dispelled all the myths about ever-greening.

Of course, following the turnaround, growth momentum continues and the non-Andhra Pradesh portfolio was at Rs. 2,016 crore in Q4-FY13 and collection efficiency of the non-Andhra Pradesh portfolio is back at 99.8%.

In view of the new paradigm, your Company has been reinventing and revitalizing its operations through its three Cs approach - 1. Aligning Client Protection Practices (CPP) with global best practices; 2. Continuous improvement in Cost Efficiencies, and 3. 100% reliance on Credit Bureaus in processing loan applications. The three Cs approach serves to address the concerns of key stakeholders regarding the alleged harassment of economically weaker sections, high interest rates charged from them, and their over-indebtedness.

Your Company continued its pioneering CPP initiatives, as revealed by the following highlights:

- Completion of CPP training for employees and Sangam Members
- Increasing the working hours of toll-free Customer Service Helpline, serving Sangam Members in seven Indian languages following its launch in July 2009, by five-and-a-half hours, now available in 2 shifts from 7:30 am to 9:00 pm
- Creation of a separate toll-free Customer Service Helpline for the Ombudsman

In order to improve Cost Efficiencies, your Company has achieved the following:

- Consolidated the number of branches from 2,403 in Q3-FY11 to 1,261 in Q4-FY13
- Rationalized headcount from 25,735 in Q3-FY11 to 10,809 in Q4-FY13
- Gross loan portfolio grew to more than Rs. 34 lakh per Sangam Manager
- Cost of borrowing came down significantly to 12% in Q4-FY13 from 13.2% in Q3-FY13

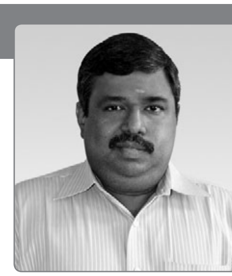
Quality initiatives too have played a key role in improving efficiencies besides ensuring higher employee satisfaction and superior controls. In this regard, '5S', a methodology detailing the organization of a workplace for higher efficiency and effectiveness, has been adopted by all non-Andhra Pradesh branches of your Company by March 31, 2013. Also, your Company successfully conducted a Lean Six Sigma Enterprise pilot focusing on the twin objectives of efficiency improvement and operational risk reduction. The project involves reduction in travel time for field officers through efficiency route mapping, resulting in substantial savings in fuel cost. Additionally, operational control has been enhanced in the branches of your Company through the introduction of branch compliance role by retraining employees. The Six Sigma project will be implemented in all the branches of your Company in FY14.

Credit Information Bureaus like Equifax Credit Information Services Private Limited and High Mark Credit Information Services Private Limited have been functional with 30 million records, enabling 92% of MFIs to use reports from Credit Bureau for disbursements.

Your Company's turnaround underscores its relevance and that of the microfinance industry to the financial inclusion goals of India. This has been summed up very well by Mr. K.C. Chakrabarty, Deputy Governor, Reserve Bank of India. He had said, "MFIs will remain relevant at least for the next 10 years till banks become efficient in providing financial services to remotest parts of the country."

M.R. Rao
Managing Director and CEO

Message from the CFO



SKS Microfinance Limited has turned around, and the Andhra Pradesh microfinance crisis is behind your Company.

Fully providing for the Andhra Pradesh exposure, managing the supply-side shock, optimizing the cost structure, insulating the non-Andhra Pradesh portfolio from contagion, recapitalization and finally return to profitability are the key building blocks of the well-executed turnaround strategy of your Company.

Few perhaps took your Company seriously when it had committed that it would return to profitability by Q3-FY13 but your Company kept its promise with a PAT of Rs. 1.2 crore in Q3-FY13 and followed it with Rs. 2.7 crore in Q4-FY13 and Rs. 5 crore in Q1-FY14. With this, the turnaround has been completed and sustained. Economic history will record this as one of the fastest turnarounds in the Indian financial services sector.

As of date, your Company's residual toxic exposure on Andhra Pradesh is zero and your Company is equipped to reap the fruits of consolidation in the sector with strong solvency and sufficient liquidity evidenced by a Capital Adequacy Ratio of 33.9% and cash and bank balance of Rs. 895 crore as of March 31, 2013.

What merits mention is that your Company had made the difficult choice of not joining the CDR and repaid Rs. 5,800 crore to the banking system without any rescheduling or deferral or haircut. Meeting financial obligations in a timely manner is not just a strategy but second nature for your Company. This has been deeply appreciated by the credit-granting community, and they have started funding your Company to the full extent of its Business Plan requirement. Your Company accessed incremental debt drawdowns of Rs. 2,875 crore in FY13 as compared to Rs. 1,484 crore in FY12, a significant 94% increase.

Sector fundamentals look stronger now with a comprehensive regulatory framework from the Reserve Bank of India with enhanced supervisory standards and institutional infrastructure (like Credit Bureaus and Self-Regulating Organization). Having weathered the storm, your Company is making meaningful investments in initiatives like client protection, compliance, governance, risk management and audit rigour. Scale, growth, competition centricity have given way to the new paradigms of efficiency, sustainability and, of course, customer centricity.

The demand-supply gap has further widened with the consolidation in the MFI sector and, most importantly, the rural buoyancy triggered by an increase in Minimum Support Price (MSP) and Government spending among other things has enhanced the business prospects of your Company's rural customers.

In sum, if your Company can get its act together, it can emerge stronger than what it was and add shareholder value. Your Company has given a guidance of Gross Loan Portfolio of Rs. 2,800 crore and PAT of Rs. 60 crore for FY14 and the traction Year To Date indicates that your Company is on course to meet the guidance as of now.

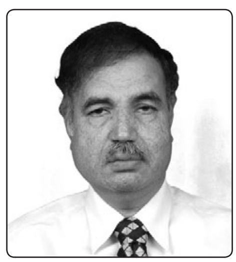
S. Dilli Raj
CFO

Board of Directors *

P.H. Ravikumar
Non-Executive Chairman-Interim and Independent Director

M.R. Rao
Managing Director and CEO

Geoffrey Tanner Woolley
Independent Director



P. Krishnamurthy
Nominee Director - SIDBI
Independent Director

Tarun Khanna
Independent Director

Paresh Patel
Non-Independent and Non-Executive Director

Sumir Chadha
Non-Independent and Non-Executive Director

* As on September 30, 2013

Directors' Report

Dear Members,

Your Directors have pleasure in presenting the Tenth Annual Report of your Company together with the audited statement of accounts for the year ended March 31, 2013.

REVIVAL OF THE MFI SECTOR

FY13 has been a momentous year for the MFI industry in India, particularly so for your Company due to the following significant changes:

1. Investors are beginning to return to the microfinance sector. Ten investors, domestic as well as foreign, have invested approximately Rs. 869 crore in the sector in FY13, according to The Economic Times
2. The pan-India Gross Loan Portfolio (GLP) for the MFI industry grew by 23% to Rs. 21,245 crore in FY13 as compared to Rs. 17,264 core in FY12, when there was a 14% degrowth (Rs. 20,000 crore in FY10-11). Loan disbursals during FY13 increased by 13% to Rs. 23,209 crore from Rs. 20,613 crore in FY12, when there was a degrowth of 36% (Rs. 32,418 in FY11)
3. Total debt funding to the MFI industry increased by 79% to Rs. 10,203 crore in FY13 from Rs. 5,713 crore in FY12
4. Average loan amount disbursed on a pan-India basis remained below Rs. 15,000
5. The productivity ratios in the industry continued to improve in FY13

   (Source - Points 2 to 5: MFIN Micrometer 2013)

MORE CONDUCIVE REGULATORY ENVIRONMENT

The Reserve Bank of India (RBI) has further strengthened the regulatory framework for Non-Banking Finance Companies-Microfinance Institutions (NBFC-MFIs) vide notifications dated August 3, 2012 and May 31, 2013 when the following dispensations were announced:

a. In December 2011, the RBI announced the creation of a separate category of Non-Banking Financial Companies, namely Non-Banking Financial Company-Micro Finance Institutions (NBFC-MFIs). RBI has issued guidelines for the classification of existing NBFC as an NBFC-MFI. Your Company has adopted several aspects of the new regulatory framework and has applied for its re-classification as an NBFC-MFI. The application is currently under consideration of the RBI
b. NBFC-MFIs are required to maintain not less than 85% (earlier 90%) of their net assets as Qualifying Assets and, in this regard, only the assets originating on or after January 1, 2012 will have to comply with the Qualifying Assets criteria
c. NBFC-MFIs are also required to ensure that the aggregate amount of loans given for income generation activities should constitute at least 70% of an MFI's total loans, which prior to the notification was at 75%. Members of an SHG (Self Help Group) or a JLG (Joint Liability Group) as well as new clients can borrow from NBFC-MFIs. However, a member of an SHG or a JLG cannot borrow from more than two MFIs at a time
d. 100% of the provisions made towards the Andhra Pradesh portfolio as on March 31, 2013 is to be notionally reckoned as part of Net Owned Fund (NOF) for calculating the Capital to Risk (weighted) Assets Ratio (CRAR) and is to be progressively reduced, equally over a period of 5 years, that is, 20% each year upto March 2018
e. All NBFCs, irrespective of their size, are subjected to a margin cap of 12% till March 31, 2014. However, with effect from April 1, 2014 margin caps may not exceed 10% for large MFIs (that is, loan portfolios exceeding Rs. 100 crore) and 12% for others. With this requirement, your Company has been effectively given a transition period of two years to comply with the margin cap of 10%

The MFI Bill 2012

In July 2011, the Central Government released a Draft of the Micro Finance Institutions (Development and Regulation) Bill ("MFI Bill") for public comments. Subsequently, on May 22, 2012 the Micro Finance Institutions (Development and Regulation) Bill, 2012 was tabled in Parliament. The MFI Bill 2012 will require the approval of the Indian Parliament as well as the assent of the President of India and publication in the Official Gazette before becoming a law. The MFI Bill 2012 states that its provisions shall be effective notwithstanding anything inconsistent contained in any other law. The MFI Bill, once passed, will provide for the development and regulation of microfinance institutions in facilitating access to credit, thrift and other microfinance services to the rural and urban economically weaker sections and promote financial inclusion. The Parliament of India has referred the MFI Bill to the Standing Committee for Finance, headed by former Union Finance Minister, Mr. Yashwant Sinha, for its recommendations. The Committee is yet to submit its report.

CONSOLIDATION IN THE SECTOR AND YOUR COMPANY

Consolidation in the MFI sector has been caused by the following:

- Large Andhra Pradesh MFIs have opted for Corporate Debt Restructuring (CDR)
- Many small and medium sized MFIs are under pressure on account of reduced credit availability
- Small and medium MFIs are not in a position to comply with enhanced supervisory standards

By deciding not to take the CDR route and by sustaining your Company's turnaround with a higher profit of Rs. 2.7 crore in Q4-FY13 as compared to a profit of Rs. 1.2 crore in Q3-FY13, when your Company turned around after seven consecutive quarters of losses, your Company is poised to reap the fruits of consolidation.

YOUR COMPANY

Your Company continues to be one of the largest microfinance institutions (MFIs) in India in terms of the total value of loans outstanding and the number of borrowers, as of March 31, 2013 and the only listed MFI in India.

FINANCIAL HIGHLIGHTS

The financial performance of your Company for the fiscal year ended March 31, 2013 is summarized in the following table:

(Rs. in crore)

Year ended March 31	2013	2012
Total revenue	352.6	472.3
Less: Total expenditure	649.7	1,796.1
Profit (Loss) Before Tax	(297.1)	(1,323.7)
Profit (Loss) After Tax	(297.1)	(1,360.6)
Surplus brought forward	(1,051.3)	309.3
Amount available for appropriation	-	-
Appropriation has been made as under:		
Transfer to Statutory Reserve	-	-
Surplus carried to Balance Sheet	(1,348.4)	(1,051.3)
Earnings Per Share (EPS)	(30.55)	(188.06)
Diluted EPS	(30.55)	(188.06)

- Your Company's total revenue for the year ended March 31, 2013 has recorded a reduction of 25.4% from Rs. 472.3 crore in FY12 to Rs. 352.6 crore in FY13
- Net loss declined from Rs. 1,360.6 crore in the previous year to Rs. 297.1 crore in FY13

The increasing growth momentum in non-Andhra Pradesh states has helped your Company in reporting a lower operating loss (excluding Andhra Pradesh provisioning) of Rs. 297 crore in FY13 as compared to a loss of Rs. 1,360.6 crore in FY12. In FY13, your Company's Andhra Pradesh portfolio reduced to a nil from a high of Rs. 1,491 crore at the start of the Andhra Pradesh microfinance situation in October 2010. With this last and final provisioning towards the Andhra Pradesh exposure, your Company looks beyond the Andhra Pradesh microfinance situation.

OPERATIONAL HIGHLIGHTS

The following table summarizes the operational performance of your Company for the year ended March 31, 2013:

Year ended March 31	2013	2012	Percentage change
Number of branches	1,261	1,461	(13.7)
Number of members (in lakh)	50.2	53.5	(6.1)
Number of employees	10,809	16,194	(33.3)
Amount disbursed (Rs. in crore)	3,320	2,737	21.3
Portfolio outstanding (Rs. in crore)	2,359	1,669	41.3

During the period under review, your Company's member base decreased by 6.1% to 50.2 lakh (5.02 million) as compared to 53.5 lakh (5.35 million) for the previous year, which was primarily due to the consolidation of branches and closure of non-profitable branches.

However, loan disbursement increased by 21.3% from Rs. 2,737 crore to Rs. 3,320 crore. Your Company has closed or merged 200 branches as part of its business rationalization policy.

TURNAROUND IN FY13

Your Company sustained its turnaround with a higher profit of Rs. 2.7 crore in Q4-FY13 as compared to a profit of Rs. 1.2 crore in Q3-FY13, when it turned around after seven consecutive quarters of losses caused by the external event, namely the Andhra Pradesh microfinance situation.

Your Company could improve profitability on account of robust growth in assets with the core interest income in non-Andhra Pradesh states increasing by 15% to Rs. 90 crore in Q4-FY13 from Rs. 78 crore in Q3-FY13. Your Company's loan disbursements rose by 65% to Rs. 1,295 crore in Q4-FY13 from Rs. 784 crore in Q3-FY13 while incremental drawdowns registered a 201% jump to Rs. 1,704 crore in Q4-FY13 from Rs. 566 crore in Q3-FY13 (year-on-year increase of 94% to Rs. 2,875 crore in FY13 from Rs. 1,484 crore in FY12). The non-Andhra Pradesh loan portfolio outstanding increased by 35% to Rs. 2,016 crore in Q4-FY13 from Rs. 1,496 crore in Q3-FY13.

Your Company's cost of interest-bearing liabilities has come down significantly to 12.5% in FY13 from 13.4% in FY12 while collection efficiency in non-AP states has further improved to 99.1% in FY13 as compared to 95.4% in FY12.

Your Company's turnaround strategy had four building blocks -- fully providing for the Andhra Pradesh exposure, managing the supply-side shock, cost structure optimization and recapitalization. The strategy helped your Company return to profitability in Q3-FY13, and improve the same in Q4-FY13. With this, your Company's financial turnaround has been completed and sustained.

Strong capital base, robust liquidity, improved productivity and cost efficiencies should further accelerate these gains. The debt-equity leveraging improved to 4.1 times in Q4-FY13 from 2.7 times in Q3-FY13 (2.3 in FY12).

UNIQUE STRENGTHS

Your Company continues to be recognized as one of the largest MFIs in India with its unique achievements and strengths. Among these are:

- Your Company has repaid more than Rs. 8,320 crore to the banking system without a single day's delay since the Andhra Pradesh microfinance situation, that is, from October 2010 to March 2013
- Incremental drawdowns in FY13 were Rs. 2,875 crore compared to Rs. 1,484 crore in FY12 (growth of 94% YoY)
- Your Company has grown its non-Andhra Pradesh Portfolio Loan Disbursements by 21.3% (YoY) to Rs. 3,320 crore
- Your Company's collection efficiency in non-AP states continues to be robust at 99.1%
- Your Company has a healthy cash and bank balance of Rs. 895 crore with a networth of Rs. 390 crore and a strong capital adequacy of 33.9% * (as against the 15% stipulated by the RBI) as of March 31, 2013
- Your Company's un-availed deferred tax benefit stands at Rs. 555 crore which will be available to offset tax on future taxable income. Deferred tax assets will be recognized on the books upon virtual certainty of future taxable profits supported by convincing evidence as per AS-22. For Q4-FY13, your Company has posted a net profit of Rs. 2.7 crore and, given the carried forward tax loss, no current tax provision is required
- In order to protect members from over-indebtedness, your Company has been playing a leading role in pioneering industry-wide efforts on creating and sharing credit-related information with Credit Bureaus
- Your Company's policies and processes along with documentation have been modified to comply with: 1. RBI guidelines of December 2, 2011; 2. RBI Fair Practice Code guidelines of July 2, 2012; 3. Guidelines and codes of industry bodies like Sa-Dhan and MFIN
- Mr. Verghese Jacob, a seasoned corporate and social sector expert with three decades of experience, is your Company's Ombudsman
- Your Company has commissioned EDA Rural Systems, a reputed development sector consultancy, to develop a training programme encompassing the seven principles of CPP (avoidance of over-indebtedness, transparency, responsible pricing, appropriate collection practices, ethical staff behaviour, privacy of client data and grievance redressal mechanism) and certify several staff members after imparting train-the-trainer coaching to them

(*) Capital adequacy without RBI dispensation on Andhra Pradesh provisioning is 20.6%

On account of such distinctions, your Company has been appreciated by key stakeholders including banks and financial institutions. Your Company has completed 12 securitization transactions and one asset assignment transaction with eight funding partners aggregating to Rs. 1,195 crore in FY13. In addition, your Company has raised incremental drawdowns from banks and financial and other institutions of Rs. 2,875 crore in FY13 and raised fresh equity of Rs. 263.5 crore taking the total incremental funding inflow for FY13 to Rs. 3,139 crore, which is more than double the Rs. 1,484 crore raised in FY12.

NEW INITIATIVES

1. **Mobile Phone Loans**

   Your Company had conducted a pilot programme for financing the purchase of mobile phones to its members in eight branches of four states. After the success of this pilot with Universal Digital Connect Limited (UDCL), a subsidiary of Videocon Industries Limited, this intiative was extended to seven states in India during FY13. The following are the features of the mobile business:

   - The annual effective interest rate of the Mobile Phone Loans programme is 25.51%, the loan processing fee is 0.99% and the tenure of the loan is 25 weeks
   - Your Company is paid a processing fee by UDCL
   - The price of the mobile phones financed by your Company ranges from Rs. 1,800 to Rs. 2,500 (V1544 Model - MRP is Rs. 2,490 while SKS member price is Rs. 2,250)

   As of March 31, 2012 and March 31, 2013, Mobile Phone Loans constituted 1.3% and 1.2% respectively, of your Company's total loan outstanding portfolio.

2. **Sangam Store Loans**

   The Sangam Store business was not commercially viable and hence the same has not been pursued further.

3. **Gold Loans**

   India is one of the largest consumers of gold in the world due to a strong preference for gold jewellery among Indian households and its widespread use as a savings instrument. In FY11, your Company launched a gold loan pilot under the name of "Swarnapushpam" which provided personal or business loans to members in order to meet their short-term liquidity requirements. These loans are secured by gold jewellery. The pilot was extended to 40 branches, primarily across the states of Karnataka, Maharashtra and Uttar Pradesh. As of March 31, 2013, your Company had 198 employees servicing these 40 branches. Loan amounts range from Rs. 2,000 to Rs. 1,00,000 which can be repaid in full at maturity or as bullet payments, or equated monthly/ quarterly instalments with a maximum tenure of 12 months, at the option of the borrower. There are no penal or pre-closure charges and borrowers can choose to make partial prepayments. The annual effective interest rate for gold loans typically varies between 18.5% and 25%, and is determined by the loan-to-value ratio, tenure of the loan and repayment frequency. As such, gold loan products do not qualify as micro credit products.

   As of March 31, 2013 your Company's gold loan portfolio stood at Rs. 55.9 crore, which constituted 3.8% of your Company's total outstanding loan portfolio. The gold loan business has seen encouraging results and makes our diversification foray into secure lending. The gold loan business may be operated in future through a subsidiary, based on successful results from the pilot project and receipt of the required regulatory approvals.

RESOURCES AND LIQUIDITY

During the year under review, your Company completed 12 securitization transactions and one asset assignment transaction with eight funding partners aggregating Rs. 1,195 crore. Additionally, your Company raised incremental drawdowns from banks and financial and other institutions of Rs. 2,875 crore and fresh equity of Rs. 263.5 crore taking the total incremental funding inflow to Rs. 3,139 crore during the financial year ended March 31, 2013 which is more than double the Rs. 1,484 crore raised during the financial year ended March 31, 2012.

During the year, various instruments used by your Company to raise funds received ratings, a summary of which is presented in the following table:

Agency	Item	Rating
CARE Rating	MFI Grading	MFI 1
CARE Rating	Securitization	CARE A1+ (SO) *
CARE Rating	Securitization	CARE A+ (SO) #

* Rating for 10 transactions
\# Rating for 2 transactions

"MFI 1" Grading is the highest obtainable MFI Grading on an eight point scale, "MFI 1" being the highest and "MFI 5" being the lowest. MFI Grading is a measure of overall performance on parameters of transparency, operational setup, scale of operations and sustainability.

A Securitization rating of "A1+ (SO)" is considered to indicate a very strong degree of safety regarding timely payment of short-term debt obligations and carries the lowest credit risk while a rating of "A+ (SO)" is considered to indicate a high degree of safety regarding timely servicing of long-term debt obligations and carries a low credit risk.

QUALIFIED INSTITUTIONAL PLACEMENT AND PREFERENTIAL ALLOTMENT

During the year under review, your Company successfully completed a Qualified Institutional Placement (QIP) of Rs. 230 crore in July 2012 and a Preferential Issue of Rs. 33.5 crore in August 2012.

Key highlights of the QIP and Preferential Allotments are:

- The first QIP in the financial services sector in FY13
- The QIP and the Preferential Allotment enabled your Company to raise the largest amount of capital in the microfinance sector post your Company's IPO in August 2010
- The QIP, which was launched with an issue size of Rs. 165 crore (approximate), was oversubscribed with your Company receiving applications/ bids for Rs. 230 crore (approximate)
- Floor price of Rs. 75.4

The overwhelming response to the QIP validated the important role of microfinance in achieving financial inclusion in India. The proceeds from the QIP and the Preferential Allotment (Rs. 230 crore and Rs. 33.50 crore respectively) aggregating Rs. 263.50 crore, brought in the much-needed growth capital for your Company.

The Joint Global Coordinators and Book Runners to the QIP, which was launched on July 12, 2012 and closed on July 17, 2012, were: Credit Suisse Securities (India) Private Limited and Yes Bank Limited.

The QIP helped your Company to strengthen its leadership position and improved the prospects of the MFI sector as a whole. Most importantly, the QIP enabled your Company to meet the credit requirements of 4 million rural borrowers who were directly affected by the MFI situation.

INCREASE IN SHARE CAPITAL

During the year under review, 9,07,734 equity shares were issued under your Company's ESOP plans. Additionally, your Company concluded a QIP of 3,04,98,069 Equity Shares to Qualified Institutional Buyers at a price of Rs. 75.40 per Equity Share and a Preferential Allotment of 44,50,000 Equity Shares to Kumaon Investment Holdings, a wholly owned subsidiary of one of the Promoters, WestBridge Ventures II LLC, at a price of Rs. 75.40 per Equity Share – both, in accordance with the provisions of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009. Thus, the issued, subscribed and paid-up equity share capital increased from Rs. 72.36 crore to Rs. 108.21 crore as on March 31, 2013.

Details of allotments during FY13 are hereunder:

- 9,06,734 Equity Shares were issued under ESOP 2007 on May 4, 2012
- 3,04,98,069 Equity Shares were issued through a Qualified Institutional Placement (QIP) on July 19, 2012 under Chapter VIII of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009
- 44,50,000 Equity Shares were issued to Kumaon Investment Holdings, a wholly owned subsidiary of WestBridge Ventures II, LLC, one of the promoters of your Company, through a Preferential Issue on August 23, 2012 under Chapter VII of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009
- 1,000 Equity Shares were issued under ESOP (ID) 2008 on December 27, 2012

DIVIDEND

Your Directors have not recommended any dividend as your Company reported losses during the year under review.

SHIFTING OF THE REGISTERED OFFICE FROM ANDHRA PRADESH TO MAHARASHTRA

The Shareholders vide special resolution dated August 27, 2012, passed through postal ballot, approved the shifting of the Registered Office from Andhra Pradesh to Maharashtra, by amendment to the Situation Clause of the Memorandum of Association of your Company.

Your Company is in the process of obtaining the necessary statutory approvals for shifting the Registered Office of your Company to Maharashtra.

MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis Report for the year under review is presented in a separate section on Page 36 in this Annual Report.

CORPORATE GOVERNANCE

Your Company has adopted best corporate practices and is committed to conducting its business in accordance with the applicable laws, rules and regulations. Your Company follows the highest standards of business ethics. A report on Corporate Governance is provided on Page 50 in this Annual Report.

FIXED DEPOSITS

Your Company has not accepted any fixed deposits and, as such, no amount of principal or interest was outstanding as on the date of the Balance Sheet.

REGULATORY UPDATE

1. Capital Adequacy Requirements

Your Company, being a Systemically Important Non-Deposit Accepting NBFC, is subject to capital adequacy requirements prescribed by the RBI. Your Company has to maintain a minimum ratio of 15% as prescribed under the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 (as amended from time to time) based on the total Capital to Risk (weighted) Assets Ratio (CRAR).

Your Company maintained a CRAR of 33.9% and 35.4% respectively as on March 31, 2013 and March 31, 2012 which is higher than the statutory 15% requirement.

The modifications to the NBFC-MFI directives issued by the RBI vide its Circular No. RBI/2012-13/161 DNBS (PD) CC.No.300 /03.10.038/2012-13, dated August 3, 2012 have specified that provision made towards portfolio in Andhra Pradesh should be in accordance with extant NBFC prudential norms and such provision could be added back notionally to the Net Owned Fund (NOF) for the purpose of calculation of the CRAR and would be progressively reduced by 20% each year, over 5 years, that is, from March 31, 2013 to March 31, 2017. Accordingly, the CRAR as at March 31, 2013 was 33.9%, after adding back the provision towards the portfolio in Andhra Pradesh of Rs. 257.63 crore to the NOF. Had the amount of provision, mentioned above, not been added back to the NOF, the CRAR as at March 31, 2013 would have been 20.65%. Your Company has taken cognizance of the specific dispensation granted by the RBI.

2. NBFC-MFI Classification

The RBI vide its circular DNBS.CC.PD.No. 312 /03.10.01/2012-13, dated December 07, 2012 issued a checklist of documents to be submitted along with the application for seeking a Certificate of Registration from the RBI with regard to the re-classification of existing NBFCs as NBFC-MFIs.

Your Company has accordingly submitted its application along with the supporting documents as per the aforesaid circular to the RBI in support of its application seeking its re-classification as an NBFC-MFI. The application is currently being processed by the Hyderabad Regional Office of the RBI.

3. Monitoring of Frauds

The RBI, vide its circular DNBS.PD.CC. No. 256 /03.10.042 / 2011-12, dated March 2, 2012 has extended the monitoring of frauds in deposit-taking NBFCs to include all NBFCs-ND-SI with effect from March 2, 2012.

Accordingly, your Company has reported cases of fraud in compliance with the said circular.

4. Fair Practices Code

The RBI on February 18, 2013 amended the Fair Practices Code for all NBFCs including MFIs and Gold Loan companies, requiring NBFCs to lay down an appropriate grievance redressal mechanism within their organization to resolve disputes between the company and its customers. The mechanism is to ensure that all disputes arising out of the decisions of lending institutions' functionaries are heard and disposed of at least at the next higher level.

At the operational level, all NBFCs are required to display prominently details of their company's grievance redressal officer, including details of the local office of the RBI at their branches and other places of business, for the benefit of their customers.

Your Company has revised the Code of Conduct along with relevant policies in line with the RBI's amended Fair Practices Code for NBFCs and the details of its grievance redressal officer and the local office of the RBI, have been displayed at its branches.

CREDIT INFORMATION BUREAU FOR MFIs

In order to address the issue of multiple lending or over-indebtedness, a number of NBFC-MFIs have been submitting information to Credit Information Bureaus (CIBs) approved by the RBI viz., High Mark Credit Information Services Private Limited and Equifax Credit Information Services Private Limited. Your Company is a member of both these CIBs and has been regularly submitting information to them and utilizing their reports in lending decisions. As the number of MFIs submitting information with CIBs increases, the trend is helping build awareness about the perils of over-indebtedness amongst borrowers who are increasingly accepting the usage of Credit Bureaus in the lending process.

CUSTOMER GRIEVANCE REDRESSAL

Your Company's toll-free Customer Service Helpline (1800 300 10000) has been operational since July 6, 2009. Since then, the Helpline has been expanded gradually, offering services in seven Indian languages, namely Bengali, Hindi, Kannada, Malayalam, Marathi, Odiya and Telugu.

In October 2012, your Company's Customer Grievance Redressal (CGR) system was revamped. It now features a three-level mechanism in tune with RBI guidelines and SKS Microfinance Limited's policy of providing all possible services including grievance redressal at the grassroots level in a transparent manner. The three levels are: 1. Reporting grievance to the Sangam Manager at the Centre Meeting; 2. A toll-free Customer Service Helpline in seven Indian languages from 7:30 am to 9:00 pm for reporting grievances directly to the Head Office; 3. A toll-free Ombudsman line (1800 300 60000) for reporting grievance to an independent Ombudsman.

The highlights of the CGR are:

- The field staff received special CGR training for the implementation of the three-step process from July 16 to July 31, 2012
- 95.3% of the Sangam Member base were given special CGR training on the three-step process
- Policy aimed at protecting client data privacy has been implemented
- Customer grievance resolution of 99% within the promised turnaround time

INFORMATION TECHNOLOGY

Technology combined with innovation and business process change brings in the greatest return. Pursuing this line, your Company is focused on advanced technology solutions that drive it to exponential growth through the following:

- Building a secured private cloud to connect all SKS branches
- Developed a robust system to extract daily incremental data from branches and provide extensive reporting capability
- Provided enhanced communication to branches via e-mail and corporate intranet
- Developed several add-on products to support new business initiatives such as an enterprise application for the Gold Loan business and an in-house satellite doorstep product
- Leveraged virtualization technologies to optimize infrastructure

HUMAN RESOURCE MANAGEMENT

Human Resource Development is focused on and aligned to business imperatives with an emphasis on organizational performance improvement and culture-building through a three-year rolling HR roadmap. The key components of the roadmap are – employee engagement, resourcing, performance management, IT enablement, virtual delivery of services, people capability building, business continuity through succession planning and organization building.

Your Company continues to strengthen its internal Human Resources processes by investing in standardization, optimization, automation and periodic audit of its core processes. Pursuing this, an enterprise-wide Human Resource Management System (HRMS) ERP has been rolled out during the year. It was named "SPARK - System for People Actions, Rewards and Knowledge" enabling the function to achieve operational efficiency and build scalability. This is an important milestone as this is one of the steps in achieving consistent and real-time delivery of all HR processes across the country. The performance management system has been streamlined across levels and efforts are underway in providing periodic dashboards for every level.

In order to achieve capability, maturity and benchmarking of the processes, the function has embarked on the journey of People Capability Maturity Model (PCMM) alignment and carved out a roadmap for certification. Learning & Development (L&D) was leveraged fully for the functional competencies for all roles in the field. Competency assessment and development through various training programmes have improved the delivery capability of field staff. Talent review framework was further strengthened during the year as part of the talent management process, improving the rigour in identifying potential and providing individual development plans.

Even during the difficult periods of transition, your Company has been successful in retaining its key talent ensuring business continuity. Your Company continues to leverage its unique practices in individual care, nurturing, capability building and growth – as key levers of retention.

As on March 31, 2013 your Company had 10,809 employees on its rolls.

EMPLOYEE STOCK OPTION PLAN (ESOP) AND EMPLOYEE SHARE PURCHASE SCHEME (ESPS)

Presently, employee stock options have been granted or shares have been issued under the following schemes:

A. SKS Microfinance Employee Share Purchase Scheme 2007 ("ESPS 2007")
B. SKS Microfinance Employee Stock Option Plan 2007 ("ESOP 2007")
C. SKS Microfinance Employee Stock Option Plan 2008 (Independent Directors) ("ESOP 2008 (ID)")
D. SKS Microfinance Employee Stock Option Plan 2008 ("ESOP 2008")
E. SKS Microfinance Employee Stock Option Plan 2009 ("ESOP 2009")
F. SKS Microfinance Employee Stock Option Plan 2010 ("ESOP 2010")
G. SKS Microfinance Employee Stock Option Plan 2011 ("ESOP 2011")

The disclosures with respect to each of the above-mentioned Employee Share Purchase Schemes (ESPS) and Employee Stock Option Plans (ESOP), as required by the Securities and Exchange Board of India (SEBI) (Employee Stock Option Scheme and Employee Stock Purchase Scheme), Guidelines, 1999, are appended as Annexure - 1 and form part of this report.

PARTICULARS OF EMPLOYEES

Pursuant to the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended, the names and other particulars of employees are set out in Annexure - 2 to the Directors' Report.

DIRECTORS

The following are the changes that have taken place in your Company's directorship, during the year under review:

1. Mr. P. Krishnamurthy has been appointed as "Nominee Director" on the Board of your Company with effect from July 25, 2012 by Small Industries Development Bank of India (SIDBI) replacing Mr. V. Chandrasekaran as its nominee. Mr. Krishnamurthy has served as the Chief General Manager of the RBI
2. Mrs. Ranjana Kumar has been appointed as an "Independent Director" on the Board of your Company with effect from March 8, 2013 to hold office upto the date of the ensuing Annual General Meeting. Mrs. Kumar has served as the Chairperson and Managing Director of Indian Bank and Chairperson of National Bank for Agriculture and Rural Development (NABARD). She has also held a constitutional post of Vigilance Commissioner in the Central Vigilance Commission

Mrs. Ranjana Kumar, being Additional Director, appointed under Section 260 of the Companies Act, 1956 holds the office upto the date of the ensuing Annual General Meeting. Your Company has received a notice from a member along with a deposit as required under Section 257 of the Companies Act, 1956 proposing the candidature of Mrs. Ranjana Kumar for the office of a Director of your Company.

Dr. Tarun Khanna and Mr. Geoffrey Tanner Woolley are due to retire by rotation and are eligible to offer themselves for re-appointment in the ensuing Tenth Annual General Meeting.

A brief profile of the Directors proposed to be appointed/ re-appointed would be given in the Notice of the Tenth Annual General Meeting.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217 (2AA) of the Companies Act, 1956, your Directors' confirm as under:

i) In the preparation of the annual accounts, the applicable accounting standards read with requirements set out under Schedule VI to the Companies Act, 1956 have been followed and there are no material departures from the same

ii) Your Company has selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of your Company at the end of the financial year and of the profit of your Company for that year

iii) Your Company has taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities

iv) Your Company has prepared the annual accounts of your Company on a 'going concern' basis

AUDITORS

The Statutory Auditors of your Company, M/s. S.R. Batliboi & Co., Chartered Accountants vide their letter dated April 4, 2013 have informed your Company about the conversion of S.R. Batliboi & Co. into a limited liability partnership under the name S.R. Batliboi & Co. LLP, pursuant to the Limited Liability Partnership Act, 2008 with effect from April 1, 2013. The details of conversion and change in name have been taken on record by the Board of Directors of your Company at its Board Meeting held on May 8, 2013.

The Statutory Auditors of your Company, M/s. S.R. Batliboi & Co. LLP, Chartered Accountants, Mumbai, retire at the ensuing Tenth Annual General Meeting and have confirmed their eligibility and willingness to accept the office of the Auditors, if re-appointed. The Audit Committee and the Board of Directors have recommended re-appointment of M/s. S.R. Batliboi & Co. LLP, Chartered Accountants as the Statutory Auditors of your Company for FY14 for your approval.

RESPONSE OF THE BOARD TO THE AUDITORS' COMMENTS

In terms of the provisions of Section 217(3) of the Companies Act, 1956 the Board would like to place on record an explanation to the Auditors' comments in their Audit Report dated May 8, 2013:

S. No.	Auditors' Comments	Response
1.	The Company's accumulated losses at the end of the financial year are more than fifty percent of its net worth and it has incurred cash losses in the current financial and immediately preceding financial year.	During FY13, your Company had incurred a net loss of Rs. 297.1 crore compared to Rs. 1,360.6 crore in FY12, largely due to write-offs and provisioning on the Andhra Pradesh portfolio. However, your Company has reported profits for the quarters ended December 31, 2012 and March 31, 2013 after seven consecutive quarters of losses, due to the impact of the Andhra Pradesh microfinance situation, on the field operations in Andhra Pradesh. Your Company has fully written off/ provided for loans outstanding in the state during FY12 and FY13. With this, your Company has fully provided for its exposure in Andhra Pradesh. The total provisions and write-offs of Rs. 1,238.2 crore on the AP portfolio during FY12 and FY13 have contributed primarily to the losses reported by your Company in the current and immediately preceding financial year. Notably, the total provisions and write-offs of Rs. 1,417.9 crore made during FY12 and FY13 exceed the accumulated losses of Rs. 1,348.4 crore at the end of the financial year. Your Company has a strong net worth of Rs. 390.4 crore even after adjusting the accumulated losses and its capital adequacy is 33.9% (capital adequacy without RBI dispensation on AP provisioning is 20.6%) as on March 31, 2013. With regulatory clarity and resumption of bank lending to the MFI sector albeit selectively, your Company obtained incremental drawdowns (including securitizations and assignments) of Rs. 2,874.7 crore in FY13 which is nearly double of Rs. 1,484.5 crore obtained in FY12. This aided higher disbursements and your Company registered a growth of 52.7% in the loan portfolio in states other than AP during FY13 from Rs. 1,320 crore as on March 31, 2012 to Rs. 2,015.5 crore as on March 31, 2013. However, there was a reduction in average non-AP gross portfolio outstanding for FY13 which resulted in lower revenue and cash losses in FY13. Cost control measures like consolidation of branches and headcount rationalization, initiated by your Company in FY13, resulted in a decline of 35% in operating expenses. Your Company expects that robust growth in the loan portfolio in states other than AP, aided by higher levels of funding and cost optimization initiatives undertaken by your Company, will drive future earnings and profitability.

2.	We have been informed that during the year there were instances of cash embezzlements by the employees of the Company aggregating Rs. 1,27,62,403; loans given to non-existent borrowers on the basis of fictitious documentation created by the employees of the Company aggregating Rs. 83,32,870; and misappropriation of cash by an external party amounting to Rs. 4,55,000. As informed, investigations are in progress and the services of such employees involved have been terminated and the Company is in the process of taking legal action. The outstanding balance (net of recovery) aggregating Rs. 1,84,03,555 has been written off.	Fraud is an inherent risk in the business your Company operates in, since all the transactions are cash-based in the last mile. In case of cash embezzlements, your Company has recovered an amount of Rs. 17,43,054 including the insurance cover. Cash embezzlement is 0.04% of disbursement during the year. To mitigate this risk to a large extent, the management has put in place several preventive control measures as under: - Procuring indemnity bond from every field staff, with personal guarantee of a third person - Every bank transaction (deposit/ withdrawal) is to be executed by a minimum of two employees, comprising a bank signatory and a confirmed staff - The strongbox at every branch is controlled by two keys held by two different employees in the branch - Managerial staff conduct surprise visits at hours when employees are engaged in cash/ bank transactions - Minimizing the cash balances at various branches to the lowest level possible (Rs. 20,000 + cash required for next day disbursement) There are also several detective controls, as follows: - Daily employee-wise reconciliations of cash balances by managerial employees at each branch - Frequent surprise visits by accountants and internal auditors, including verification of physical cash and bank balances The following is the action taken in cases pertaining to fraud: - Termination of service of all employees involved in cash embezzlements - Appropriate legal action pursued against errant employees - Recovering embezzled money from fraudulent employees - Fidelity insurance to minimize the losses against cash embezzlements In the case of loans given to non-existent/ fictitious borrowers, your Company has recovered an amount of Rs. 9,48,664 in such cases including the insurance cover. These cases constitute 0.03% of disbursement during the year. The following are the various preventive/ control measures included in the loan process to mitigate the risk of loans to non-existent borrowers/ fictitious borrowers: - All the loans disbursed pass through a checker control system, wherein loans processed by a sangam manager are first approved by a branch manager or an assistant branch manager - In order to prevent collusion with the locals, sangam managers are deployed away from their home towns - Half yearly employee rotation ensures that sangam managers manage different centres at the end of every six months - Sangam managers are regularly transferred in a span of nine months - Development of internal processes to restrict loan disbursements to inactive members The following are further details of preventive detective controls at your Company: - Managerial employees at the branch perform a Loan Utilization Check (LUC) for every loan disbursed - The internal audit staff, on a test basis, verifies loan documents and performs random LUCs for loans disbursed The net impact of frauds comes to around 0.06% (vis-à-vis 0.51%) of the total amount disbursed by your Company during FY13. Your Company is working towards further reducing this percentage by making process improvements, obtaining adequate insurance cover and by increasing engagements and opportunities for direct contact with members. During the year under review, your Company has recovered an amount of Rs. 1.4 crore against a fraud amount written off in previous years.

ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS & OUTGO

The particulars required to be furnished under sub section (1) (e) of Section 217 of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are set out in the Annexure – 3 to this report.

GREEN INITIATIVES

During the preceding financial year, your Company started a sustainability initiative with the aim of going green and minimizing the environmental impact of our work. This year too, your Company has published an e-Version of the Annual Report, prepared in compliance with the provisions of the Companies Act, 1956 and the Listing Agreement.

INTELLECTUAL PROPERTY

Your Company has 11 trademarks registered in its name, including the trademark registrations for "SKS Microfinance", the composite trademark for "SKS" in English and eight other Indian languages besides the "Swarnapushpam" logo in English. Our trademark registration application for the "Swarnapushpam" logo in Telugu language as well as our application for registration of a composite trademark for "SKS Microfinance" in the Bengali language are currently pending.

Your Company also has a copyright certification of its anthem song titled "Udhte Jaayen Badte Jaayen".

ACKNOWLEDGEMENTS

Your Directors express their sincere appreciation for the cooperation and assistance received from sangam members, shareholders, bankers and other stakeholders during the year under review. Your Directors also wish to place on record their appreciation for the contribution made by the employees at all levels during the Andhra Pradesh microfinance situation and in recording a positive turnaround and growth during FY13.

For and on behalf of the Board of Directors

Place: Hyderabad	SD/-	SD/-
Date: July 25, 2013	**P.H. Ravikumar**	**M.R. Rao**
	Non-Executive Chairman-Interim	Managing Director and CEO

Annexure – 1 to the Directors' Report

Employee Share Purchase Scheme (ESPS) and Employee Stock Option Plan (ESOP)

The disclosures with respect to your Company's Employee Share Purchase Scheme (ESPS) and Employee Stock Option Plan (ESOP) are set out hereunder:

A. SKS Microfinance Employee Share Purchase Scheme 2007 (ESPS 2007)

Your Company instituted ESPS 2007 pursuant to a special resolution dated February 9, 2007 passed at an EGM of the Company. The ESPS 2007 was implemented by the Compensation Committee and the SKS Microfinance Employee Welfare Trust (EWT). The EWT was constituted on March 28, 2007 pursuant to a resolution passed by the Board of Directors dated March 5, 2007. The effective date of the ESPS 2007 was March 31, 2007 and it shall be in effect till March 31, 2020.

Under ESPS 2007, 18,49,750 Equity Shares were issued for the benefit of the eligible employees and, in the event an employee is terminated or has resigned from the service of your Company, then the unreleased Equity Shares to the said employee stand transferred to the EWT. The same is used for the other eligible employees of your Company.

The following table sets forth the particulars of the Equity Shares granted under the ESPS 2007 as of date:

Particulars	Details of Tranche I	Details of Tranche II	Details of Tranche III
Shares issued	8,18,000	5,14,250	5,17,500
Date of issue	March 31, 2007	November 20, 2007	August 25, 2008
Allotment price of share (Rs.)	10.00	49.77	70.67
Person-wise details of shares granted to			
i) Directors and key managerial employees	Refer below		
ii) Any other employee who was allotted Equity Shares amounting to 5% or more of the Equity Shares allotted during the year	Not Applicable	Not Applicable	Not Applicable
iii) Identified employees who were allotted Equity Shares during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of your Company at the time of allotment	Not Applicable	Not Applicable	Not Applicable
Fully diluted EPS	Rs. (30.55) as on March 31, 2013		

Particulars	Details of Tranche I	Details of Tranche II	Details of Tranche III
Difference between the employee compensation cost using the intrinsic value method and the employee compensation cost that shall have been recognized if your Company has used fair value and impact of this difference on profits and EPS of your Company	Not Applicable	Not Applicable	Not Applicable

Details of Equity Shares allotted/ transferred to Directors and key managerial employees are set forth below:

Name of Director/ Key Managerial Personnel	Number of Equity Shares	Date of Allotment/ Transfer
Mr. M.R. Rao *	4,56,666	2,00,000 Equity Shares allotted on March 31, 2007. 1,63,750 Equity Shares allotted on August 25, 2008. 86,250 Equity Shares have been transferred from EWT on August 25, 2008. 6,666 Equity Shares transferred from EWT on July 29, 2009.
Mr. S. Dilli Raj **	1,02,666	1,00,000 Equity Shares have been transferred from EWT on February 1, 2008. 2,666 Equity Shares transferred from EWT on July 29, 2009.

* Mr. M.R. Rao holds 2,94,166 equity shares as on March 31, 2013.
** Mr. S. Dilli Raj holds 1,27,666 equity shares as on March 31, 2013.

B. SKS Microfinance Employee Stock Option Plan 2007 (ESOP 2007)

Your Company instituted ESOP 2007 pursuant to a special resolution dated September 8, 2007 passed at an AGM of your Company and it was further amended pursuant to the resolutions passed through Postal Ballot on December 7, 2011.

The total number of shares (which mean Equity Shares of your Company and securities convertible into Equity Shares) that may be issued under ESOP 2007 is 18,52,158 Equity Shares. The ESOP 2007 came into effect on September 8, 2007 and is valid upto September 7, 2011 or such other date as may be decided by the Board of Directors. The ESOP 2007 was implemented by the Board of Directors and the Compensation Committee. Unless otherwise specified, the vested options were to be exercised prior to the expiry of 48 months from the date of vesting.

Your Company has granted 18,52,158 options convertible into 18,52,158 Equity Shares of face value of Rs. 10 each on various dates as tabulated below and the following table sets forth the particulars of the options granted under ESOP 2007 as on March 31, 2013:

Particulars	**Details**
Options granted	18,52,158
Pricing formula	The Exercise Price for the Shares to be issued pursuant to the Exercise of an Option shall be such price as is determined by the Compensation Committee (and set forth in the SKS Microfinance Stock Option Agreement) based on the Fair Market Value per Share on the date of Grant of the Option but it shall not be lower than the face value of the Equity Shares to be issued.
Date of grant	October 15, 2007
Exercise price of options (in Rs.)	49.77
Total options vested	18,52,158
Options exercised *	18,52,158
Total number of Equity Shares that would arise as a result of full exercise of options already granted	18,52,158
Options forfeited/ lapsed/ cancelled	-
Variation in terms of options	-
Money realized by exercise of options (in Rs.)	9,21,81,904
Options outstanding (in force)	-
Person-wise details of options granted to	
i) Directors and key managerial employees	18,52,158
ii) Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during the year	-
iii) Identified employees who are granted options during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of your Company at the time of grant	-

Particulars	**Details**
Diluted EPS on issue of shares on exercise calculated as per AS 20	Rs. (30.55) as on March 31, 2013
Method of calculation of employee compensation cost	Fair Value Method
Weighted average exercise price of options	49.77
Weighted average fair value of options	7.28

The details of **ESOP 2007 as on March 31, 2013** have been summarized below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	-	-	9,06,734	49.77
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year *	-	-	9,06,734	49.77
Expired during the year	-	-	-	-
Outstanding at the end of the year	-	-	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	-	-	-	-
Weighted average fair value of options granted	-	-	-	7.28

* Notice of exercise received for 9,06,734 options; however, the allotment was pending as on March 31, 2012. These shares were subsequently allotted on May 4, 2012. The weighted average share price on the date of receipt of such notice for exercise was Rs. 214.66.

Details of options granted to Directors and key managerial employees are set forth below:

Name of Director/ key managerial personnel	Total No. of options granted	No. of options exercised	Total No. of options outstanding	No. of Equity Shares held
Dr. Vikram Akula	18,52,158	18,52,158	-	9,06,734

C. SKS Microfinance Employee Stock Option Plan 2008 (Independent Directors) (ESOP 2008 (ID))

The Company instituted ESOP 2008 (ID) pursuant to a special resolution dated January 16, 2008 passed at an EGM of the Company. The ESOP 2008 (ID) was amended pursuant to the resolutions passed at EGM held on January 8, 2010 and was further amended pursuant to the resolutions passed through Postal Ballot on December 7, 2011.

The total number of Equity Shares that may be issued under ESOP 2008 (ID) are 1,95,000 Equity Shares (as amended, pursuant to a resolution of the shareholders dated January 8, 2010). The ESOP 2008 (ID) came into effect on January 16, 2008 and is valid up to January 15, 2015 or such other date as may be decided by the Board of Directors. The ESOP 2008 (ID) was implemented by the Board of Directors. Unless otherwise specified, the vested options were to be exercised prior to the expiry of 60 months from the date of vesting.

The following table sets forth the particulars of the options granted under the ESOP 2008 (ID) as on March 31, 2013:

Particulars	Tranche I	Tranche II	Tranche III	Tranche IV	Tranche V
Options granted	30,000	15,000	6,000	18,000	90,000
Pricing formula	The Exercise Price for the Shares to be issued pursuant to the Exercise of an Option shall be such price as is determined by the Compensation Committee (and set forth in the SKS Microfinance Stock Option Agreement) based on the Fair Market Value per Share on the date of Grant of the Option				
Date of Grant	February 1, 2008	February 1, 2008	November 10, 2008	July 29, 2009	February 1, 2010
Exercise price of options (in Rs.)	70.67	70.67	70.67	300.00	300.00
Total options vested	30,000	15,000	6,000	18,000	40,500
Options exercised	30,000	-	3,000	-	4,500
Total number of Equity Shares that would arise as a result of full exercise of options already granted	30,000	15,000	6,000	18,000	90,000

Options forfeited/ lapsed/ cancelled	-	-	-	-	36,000
Variation in terms of options	-	-	-	-	-
Money realized by exercise of options (in Rs.)	21,20,100	-	2,12,010	-	13,50,000
Options outstanding (in force)	-	15,000	3,000	18,000	49,500
Person-wise details of options granted to					
i) Directors and key managerial employees	30,000	15,000	6,000	18,000	90,000
ii) Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during the year	-	-	-	-	-
iii) Identified employees who are granted options during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of your Company at the time of grant	-	-	-	-	-
Diluted EPS on issue of shares on exercise calculated as per AS 20	Rs. (30.55) as on March 31, 2013				
Method of calculation of employee compensation cost	Fair Value Method				
Weighted average exercise price of options	Rs. 70.67	Rs. 70.67	Rs. 70.67	Rs. 300.00	Rs. 300.00
Weighted average fair value of options	Rs. 15.28	Rs. 17.72	Rs. 52.14	Rs. 21.57	Rs. 72.53

The details of **Tranche II** have been summarized below:

Particulars	**As at March 31, 2013**		**As at March 31, 2012**	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	15,000	70.67	15,000	70.67
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	15,000	70.67	15,000	70.67
Exercisable at the end of the year	15,000	70.67	15,000	70.67

Weighted average remaining contractual life (years) *	2.8	-	0.8	-
Weighted average fair value of options granted	-	17.72	-	17.72

* Exercise period ending on February 1, 2013 extended upto February 1, 2016.

The details of **Tranche III** have been summarized below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	4,000	70.67	4,000	70.67
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	1,000	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,000	70.67	4,000	70.67
Exercisable at the end of the year	3,000	70.67	4,000	70.67
Weighted average remaining contractual life (years) *	2.8	-	0.8	-
Weighted average fair value of options granted	-	52.14	-	52.14

* Exercise period ending on February 1, 2013 extended upto February 1, 2016.
The weighted average share price on the date of exercise of 1,000 stock options was Rs. 154.55.

The details of **Tranche IV** have been summarized below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	18,000	300.00	18,000	300.00
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	18,000	300.00	18,000	300.00
Exercisable at the end of the year	18,000	300.00	18,000	300.00
Weighted average remaining contractual life (in years) *	1.3	-	0.3	-
Weighted average fair value of options granted	-	21.57	-	21.57

* Original exercise period ending on July 29, 2012 extended upto July 29, 2014.

The details of **Tranche V** have been summarized below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	49,500	300.00	85,500	300.00
Granted during the year	-	-	-	-
Forfeited during the year	-	-	36,000	300.00
Exercised during the year	-	-	-	-

Expired during the year	-	-	-	-
Outstanding at the end of the year	49,500	300.00	49,500	300.00
Exercisable at the end of the year	36,000	300.00	22,500	300.00
Weighted average remaining contractual life (in years)	1.8	-	2.8	-
Weighted average fair value of options granted	-	72.53	-	72.53

Details of options granted to Independent Directors are set forth below:

Name of Director	Plan	Total No. of options granted	No. of options exercised	Total No. of options outstanding	No. of Equity Shares held
Mr. Geoffrey Tanner Woolley	Tranche IV	18,000	-	18,000	-
	Tranche V	18,000	-	18,000	
Mr. Gurcharan Das *	Tranche I	15,000	15,000	-	5,500
Mr. P.H. Ravikumar	Tranche I	15,000	15,000	-	15,400
	Tranche III	3,000	3,000	-	
	Tranche V	18,000	4,500	13,500	
Mr. Pramod Bhasin **	Tranche V	36,000	-	-	-
Dr. Tarun Khanna	Tranche II	15,000	-	15,000	-
	Tranche III	3,000	-	3,000	
	Tranche V	18,000	-	18,000	

* Resigned with effect from January 5, 2010
** Resigned with effect from August 12, 2011 and options granted to him have lapsed

D. SKS Microfinance Employee Stock Option Plan 2008 (ESOP 2008)

Your Company instituted ESOP 2008 pursuant to a special resolution dated November 8, 2008 passed at an EGM of your Company. The ESOP 2008 was amended pursuant to the resolutions passed through Postal Ballot on December 7, 2011.

The total number of shares (which mean Equity Shares of your Company and securities convertible into Equity Shares) that may be issued under ESOP 2008 is 26,69,537 Equity Shares. The ESOP 2008 came into effect on November 10, 2008 and is valid upto November 9, 2014 or such other date as may be decided by the Board of Directors. The ESOP 2008 was implemented by the Board of Directors and the Compensation Committee. Unless otherwise specified, the vested options were to be exercised prior to the expiry of 60 months from the date of vesting.

The following table sets forth the particulars of the options granted under ESOP 2008 as on March 31, 2013:

Particulars	Tranche I	Tranche II	Tranche III
Options granted	17,69,537	9,00,000	4,49,897
Pricing formula	The Exercise Price for the Shares to be issued pursuant to the Exercise of an Option shall be such price as is determined by the Compensation Committee (and set forth in the SKS Microfinance Stock Option Agreement) based on the Fair Market Value per Share on the date of Grant of the Option but it shall not be lower than the face value of the Equity Shares to be issued.		

Particulars	Tranche I	Tranche II	Tranche III
Date of grant	November 10, 2008	December 8, 2008	September 7, 2011
Exercise price of options (in Rs.)	300.00	300.00	229.40
Total options vested	17,69,537	2,25,000	1,28,642
Options exercised	-	2,25,000	-
Total number of Equity Shares that would arise as a result of full exercise of options already granted	17,69,537	9,00,000	4,49,897
Options forfeited/ lapsed/ cancelled/ surrendered	-	6,75,000	1,92,614
Variation in terms of options	-	-	-
Money realized by exercise of options (in Rs.)	-	6,75,00,000	-

Options outstanding (in force)	17,69,537	-	2,57,283
Person-wise details of options granted to			
i) Directors and key managerial employees	17,69,537	9,00,000	-
ii) Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during the year	-	-	-
iii) Identified employees who are granted options during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of your Company at the time of grant	-	-	-
Diluted EPS on issue of shares on exercise calculated as per AS 20	Rs. (30.55) as on March 31, 2013		
Method of calculation of employee compensation cost	Fair Value Method		
Weighted average exercise price of options	300.00	300.00	229.40
Weighted average fair value of options	2.92	1.81	146.37

The details of **Tranche I** have been summarized below:

Particulars	**As at March 31, 2013**		**As at March 31, 2012**	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	17,69,537	300.00	17,69,537	300.00
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	17,69,537	300.00	17,69,537	300.00
Exercisable at the end of the year	17,69,537	300.00	17,69,537	300.00
Weighted average remaining contractual life (in years)	0.6	-	1.6	-
Weighted average fair value of options granted	-	2.92	-	2.92

The details of **Tranche II** have been summarized below:

Particulars	**As at March 31, 2013**		**As at March 31, 2012**	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	2,25,000	300.00	6,75,000	300.00
Granted during the year	-	-	-	-
Forfeited during the year	2,25,000	300.00	4,50,000	300.00
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	-	-	2,25,000	300.00
Exercisable at the end of the year	-	-	2,25,000	300.00
Weighted average remaining contractual life (in years)	-	-	0.2	-
Weighted average fair value of options granted	-	-	-	1.81

The details of **Tranche III** have been summarized below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	3,78,669	229.40	-	-
Granted during the year	-	-	4,49,897	229.40
Forfeited during the year	1,21,386	229.40	71,228	229.40
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	2,57,283	229.40	3,78,669	229.40
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	3.4	-	4.4	-
Weighted average fair value of options granted	-	146.37	-	146.37

Details of options granted to Directors and key managerial personnel are set forth below:

Tranche	Name of Director / key managerial personnel	Total No. of options granted	No. of options exercised	Total No. of options outstanding	No. of Equity Shares held
I	Dr. Vikram Akula	17,69,537	-	17,69,537	-
II	Mr. Suresh Gurumani *	9,00,000	2,25,000	-	-

* Mr. Suresh Gurumani resigned as Director with effect from May 27, 2011 consequent to which 4,50,000 unvested options were forfeited during the financial year ended March 31, 2012 and 2,25,000 vested options lapsed as on May 25, 2012.

E. SKS Microfinance Employee Stock Option Plan 2009 (ESOP 2009)

The Company instituted ESOP 2009 pursuant to a special resolution dated September 30, 2009 and, as amended pursuant to a special resolution dated December 10, 2009 passed at an EGM of your Company. This was further amended pursuant to the resolutions passed through Postal Ballot on December 7, 2011.

The total number of Equity Shares that may be issued under ESOP 2009 (as amended, pursuant to a resolution of shareholders dated December 10, 2009) is 24,99,490 Equity Shares. The ESOP 2009 came into effect on September 30, 2009 and is valid upto November 30, 2014 or such other date as may be decided by the Board of Directors. The ESOP 2009 was implemented by the Board of Directors and the Compensation Committee. The vested options were to be exercised prior to the expiry of six years from the date of grant of the options as may be determined by the Board/ Compensation Committee.

The following table sets forth the particulars of the options granted under ESOP 2009 as on March 31, 2013:

Particulars	Tranche I	Tranche II	Tranche III	Tranche IV
Options granted	5,14,750	18,81,160	10,340	4,70,332
Pricing formula	The Exercise Price for the Shares to be issued pursuant to the Exercise of an Option shall be such price as is determined by the Compensation Committee (and set forth in the SKS Microfinance Stock Option Agreement) based on the Fair Market Value per Share on the date of Grant of the Option.			
Date of grant	November 3, 2009	December 16, 2009	May 4, 2010	September 7, 2011
Exercise price of options	Rs. 300.00	(a) 13,13,160 at Rs. 150.00 per option; and (b) 5,68,000 at Rs. 300.00 per option	(a) 4,340 at Rs. 150 per option; and (b) 6,000 at Rs. 300 per option	Rs. 229.40
Total options vested	3,09,780	(a) 4,13,588 at Rs. 150.00 per option; and (b) 1,73,940 at Rs. 300.00 per option	(a) 1,237 at Rs. 150 per option; and (b) 1,200 at Rs. 300 per option	1,19,937

Options exercised	1,47,110	(a) 1,32,995 at Rs. 150.00 per option; (b) 67,360 at Rs. 300.00 per option	(a) 388 at Rs. 150 per option; and (b) Nil at Rs. 300 per option	Nil
Total number of Equity Shares that would arise as a result of full exercise of options already granted	5,14,750	18,81,160	10,340	4,70,332
Options forfeited/ lapsed/ cancelled/ surrendered	1,75,450	(a) 6,23,846 at Rs. 150.00 per option; and (b) 3,47,100 at Rs. 300.00 per option	(a) 1,248 at Rs. 150.00 per option (b) 3,000 at Rs. 300.00 per option	2,30,458
Variation in terms of options	Nil	Nil	Nil	Nil
Money realised by exercise of options	4,41,33,000	4,01,57,250	58,200	Nil
Options outstanding (in force)	1,92,190	(a) 5,56,319 at Rs. 150.00 per option; and (b) 1,53,540 at Rs. 300.00 per option	(a) 2,704 at Rs. 150.00 per option; and (b) 3,000 at Rs. 300.00 per option	2,39,874
Person-wise details of options granted to				
i) Directors and key managerial employees	Nil	Nil	Nil	Nil
ii) Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during the year	Nil	Nil	Nil	Nil
iii) Identified employees who are granted options during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of your Company at the time of grant	Nil	Nil	Nil	Nil
Diluted EPS on issue of shares on exercise calculated as per AS 20	Rs. (30.55) as on March 31, 2013			
Method of calculation of employee compensation cost	Fair Value Method			
Weighted average exercise price of options	Rs. 300.00	a. Rs. 300.00 b. Rs. 150.00	a. Rs. 300.00 b. Rs. 150.00	Rs. 229.40
Weighted average fair value of options	Rs. 41.18	a. Rs. 115.30 b. Rs. 69.29	a. Rs. 233.75 b. Rs. 152.53	Rs. 146.37

The details of **Tranche I** have been summarized below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	2,60,640	300.00	3,19,840	300.00
Granted during the year	-	-	-	-
Forfeited/ surrendered during the year	68,450	300.00	57,000	300.00
Exercised during the year	-	-	2,200	300.00
Expired during the year	-	-	-	-
Outstanding at the end of the year	1,92,190	300.00	2,60,640	300.00
Exercisable at the end of the year	1,59,170	300.00	1,17,928	300.00
Weighted average remaining contractual life (in years)	1.6	-	2.6	-
Weighted average fair value of options granted	-	41.18	-	41.18

The weighted average share price for the period during which stock options were exercised on a regular basis in financial year 2011-12 was Rs. 394.87.

The details of **Tranche II** have been summarized below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	7,88,363	150.00	9,75,792	150.00
Granted during the year	-	-	-	-
Forfeited during the year	2,32,044	150.00	1,67,892	150.00
Exercised during the year	-	-	19,537	150.00
Expired during the year	-	-	-	-
Outstanding at the end of the year	5,56,319	150.00	7,88,363	150.00
Exercisable at the end of the year	2,80,593	150.00	2,35,548	150.00
Weighted average remaining contractual life (in years)	2.6	-	3.6	-
Weighted average fair value of options granted	-	115.30	-	115.30

The weighted average share price for the period during which stock options were exercised on a regular basis in financial year 2011-12 was Rs. 325.79.

The details of **Tranche II** have been summarized below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	2,84,540	300.00	4,01,000	300.00
Granted during the year	-	-	-	-
Forfeited/ surrendered during the year	1,31,000	300.00	1,16,100	300.00
Exercised during the year	-	-	360	300.00
Expired during the year	-	-	-	-
Outstanding at the end of the year	1,53,540	300.00	2,84,540	300.00
Exercisable at the end of the year	83,580	300.00	73,400	300.00

Weighted average remaining contractual life (in years)	2.6	-	3.6	-
Weighted average fair value of options granted	-	69.29	-	69.29

The weighted average share price for the period during which stock options were exercised on a regular basis in financial year 2011-12 was Rs. 374.27.

The details of **Tranche III** have been summarized below:

Particulars	**As at March 31, 2013**		**As at March 31, 2012**	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	2,704	150	3,990	150
Granted during the year	-	-	-	-
Forfeited during the year	-	-	898	150
Exercised during the year	-	-	388	150
Expired during the year	-	-	-	-
Outstanding at the end of the year	2,704	150	2,704	150
Exercisable at the end of the year	849	150	230	150
Weighted average remaining contractual life (in years)	3.1	-	4.1	-
Weighted average fair value of options granted	-	233.75	-	233.75

The weighted average share price for the period during which stock options were exercised on a regular basis in financial year 2011-12 was Rs. 399.32.

The details of **Tranche III** have been summarized below:

Particulars	**As at March 31, 2013**		**As at March 31, 2012**	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	3,000	300	3,000	300
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,000	300	3,000	300
Exercisable at the end of the year	1200	300	600	300
Weighted average remaining contractual life (in years)	3.1	-	4.1	-
Weighted average fair value of options granted	-	152.53	-	152.53

The details of **Tranche IV** have been summarized below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	3,74,522	229.40	4,70,332	229.40
Granted during the year	-	-	95,810	229.40
Forfeited during the year	1,34,648	229.40	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	2,39,874	229.40	3,74,522	229.40
Exercisable at the end of the year	3.4	-	4.4	-
Weighted average remaining contractual life (in years)	-	146.37	-	146.37
Weighted average fair value of options granted	-	-	-	-

F. SKS Microfinance Employee Stock Option Plan 2010 (ESOP 2010)

Your Company instituted ESOP 2010 pursuant to a special resolution dated July 16, 2010 passed at an AGM of your Company. The ESOP 2010 was amended pursuant to the resolutions passed through Postal Ballot on December 7, 2011.

The total number of shares (which mean Equity Shares of your Company and securities convertible into Equity Shares) that may be issued under ESOP 2010 is 12,00,000 Equity Shares. The ESOP 2010 came into effect on July 16, 2010 and is valid upto July 15, 2016 or such other date as may be decided by the Board of Directors. The ESOP 2010 was implemented by the Board of Directors and the Compensation Committee. Unless otherwise specified, all grants made to any employee would vest not earlier than one year but not later than five years from the date of grant of options.

Your Company has granted 8,66,100 options convertible into 8,66,100 Equity Shares of face value of Rs. 10 each on various dates as tabulated below and the following table sets forth the particulars of the options granted under ESOP 2010 as on March 31, 2013:

Particulars	**Tranche I**	**Tranche II**
Options granted	5,66,100	3,00,000
Pricing formula	The Exercise Price for the Shares to be issued pursuant to the Exercise of an Option shall be such price as is determined by the Compensation Committee (and set forth in the SKS Microfinance Stock Option Agreement) based on the Fair Market Value per Share on the date of Grant of the Option but it shall not be lower than the face value of the Equity Shares to be issued.	
Date of grant	September 7, 2011	November 23, 2011
Exercise price of options (in Rs.)	229.40	109.95
Total options vested	1,54,471	1,98,000
Options exercised	-	-
Total number of Equity Shares that would arise as a result of full exercise of options already granted	5,66,100	3,00,000
Options forfeited/ lapsed/ cancelled/ surrendered	2,57,158	-
Variation in terms of options	Nil	Nil
Money realized by exercise of options (in Rs.)	-	-
Options outstanding (in force)	3,08,942	3,00,000
Person-wise details of options granted to		
i) Directors and key managerial employees	Nil	Nil

ii) Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during the year	Nil	Nil
iii) Identified employees who are granted options during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of your Company at the time of grant	Nil	Nil
Diluted EPS on issue of shares on exercise calculated as per AS 20	Rs. (30.55) as on March 31, 2013	
Method of calculation of employee compensation cost	Fair Value Method	
Weighted average exercise price of options	Rs. 229.40	Rs. 109.95
Weighted average fair value of options	Rs. 146.37	Rs. 77.23

The details of **Tranche I** have been summarized below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	4,62,944	229.40	-	-
Granted during the year	-	-	5,66,100	229.40
Forfeited/ surrendered during the year	1,54,002	229.40	1,03,156	229.40
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,08,942	229.40	4,62,944	229.40
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	3.4	-	4.4	-
Weighted average fair value of options granted	-	146.37	-	146.37

The details of **Tranche II** have been summarized below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	3,00,000	109.95	-	-
Granted during the year	-	-	3,00,000	109.95
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,00,000	109.95	3,00,000	109.95
Exercisable at the end of the year	1,00,000	109.95	-	-
Weighted average remaining contractual life (in years)	4.7	-	5.7	-
Weighted average fair value of options granted	-	77.23	-	77.23

Details of options granted to Directors and key managerial personnel are set forth below:

Tranche	Name of Director/ key managerial personnel	Total No. of options granted	No. of options exercised	Total No. of options outstanding	No. of Equity Shares held
II	Mr. P.H. Ravikumar	1,00,000	-	1,00,000	-
II	Dr. Tarun Khanna	1,00,000	-	1,00,000	-
II	Mr. Geoffrey Tanner Woolley	1,00,000	-	1,00,000	-

G. SKS Microfinance Employee Stock Option Plan 2011 (ESOP 2011)

The Company instituted ESOP 2011 pursuant to a special resolution dated December 7, 2011 passed through Postal Ballot as per Section 192A of The Companies Act, 1956.

The total number of shares (which mean Equity Shares of your Company and securities convertible into Equity Shares) that may be issued under ESOP 2011 is 13,50,000 Equity Shares. The ESOP 2011 came into effect on December 7, 2011 and shall remain in effect until all options granted under the ESOP 2011 have been exercised or have expired or such other date as may be decided by the Board of Directors. No options have been granted under ESOP 2011.

Your Company has granted 5,19,112 options convertible into 5,19,112 Equity Shares of face value of Rs. 10 each on various dates as tabulated below and the following table sets forth the particulars of the options granted under ESOP 2011 as on March 31, 2013:

Particulars	**Tranche I ***	**Tranche II ****
Options granted	4,00,000	1,19,112
Pricing formula	The Exercise Price for the Shares to be issued pursuant to the Exercise of an Option shall be such price as is determined by the Compensation Committee (and set forth in the SKS Microfinance Stock Option Agreement) based on the Fair Market Value per Share on the date of Grant of the Option but it shall not be lower than the face value of the Equity Shares to be issued.	
Date of grant	March 12, 2013	March 22, 2013
Exercise price of options (in Rs.)	150.00	150.00
Total options vested	-	-
Options exercised	-	-
Total number of Equity Shares that would arise as a result of full exercise of options already granted	4,00,000	1,19,112
Total number of Equity Shares that would arise as a result of full exercise of options already granted	4,00,000	1,19,112
Options forfeited/ lapsed/ cancelled	-	-
Variation in terms of options	Nil	Nil
Money realized by exercise of options (in Rs.)	-	-
Options outstanding (in force)	4,00,000	1,19,112
Person-wise details of options granted to		
i) Directors and key managerial employees	Nil	Nil
ii) Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during the year	Nil	Nil
iii) Identified employees who are granted options during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of your Company at the time of grant	Nil	Nil
Diluted EPS on issue of shares on exercise calculated as per AS 20	Rs. (30.55) as on March 31, 2013	

Method of calculation of employee compensation cost	Fair Value Method	
Weighted average exercise price of options	Rs. 150	Rs. 150
Weighted average fair value of options	71.81	57.43

* The weighted average fair value of stock options granted during the year was Rs. 71.81. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

Particulars	Tranche vesting in FY14	Tranche vesting in FY15	Tranche vesting in FY16
Share price on the date of grant (Rs.)	142.75	142.75	142.75
Exercise price (Rs.)	150.00	150.00	150.00
Expected volatility (%)	62.46	62.46	62.46
Life of the options granted (years)	5	5	5
Risk-free interest rate (%)	7.84%	7.85%	7.86%
Expected dividend rate (%)	0%	0%	0%
Fair value of the option	66.56	71.92	76.79

** The weighted average fair value of stock options granted during the year was Rs. 57.43. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

Particulars	Tranche vesting in FY14	Tranche vesting in FY15	Tranche vesting in FY16
Share price on the date of grant (Rs.)	124.00	124.00	124.00
Exercise price (Rs.)	150.00	150.00	150.00
Expected volatility (%)	62.30	62.30	62.30
Life of the options granted (years)	5	5	5
Risk-free interest rate (%)	7.89%	7.88%	7.88%
Expected dividend rate (%)	0%	0%	0%
Fair value of the option	52.60	57.52	62.02

Volatility of the share price of the Company has been calculated as the standard deviation of the closing prices for a period of one year ending on the date of grant.

The details of **Tranche I** have been summarized below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	4,00,000	150.00	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	4,00,000	150.00	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	4.9	-	-	-
Weighted average fair value of options granted	-	71.81	-	-

The details of **Tranche II** have been summarized below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	1,19,112	150.00	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	1,19,112	150.00	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	5.0	-	-	-
Weighted average fair value of options granted	-	57.43	-	-

Details of options granted to Directors and key managerial personnel are set forth below:

Tranche	Name of Director/ key managerial personnel	Total No. of options granted	No. of options exercised	Total No. of options outstanding	No. of Equity Shares held
II	Mr. P.H. Ravikumar	1,00,000	-	1,00,000	-
II	Dr. Tarun Khanna	1,00,000	-	1,00,000	-
II	Mr. Geoffrey Tanner Woolley	1,00,000	-	1,00,000	-
II	Mrs. Ranjana Kumar	1,00,000	-	1,00,000	-

Apart from the options granted under the ESOP 2008, ESOP 2008 (ID), ESOP 2009, ESOP 2010 and ESOP 2011, there are no outstanding financial instruments or any other rights which would entitle the existing promoters or shareholders or any other person any option to acquire your Company's Equity Shares.

For and on behalf of the Board of Directors

Place: Hyderabad
Date: July 25, 2013

SD/-
P.H. Ravikumar
Non-Executive Chairman-Interim

SD/-
M.R. Rao
Managing Director and CEO

Annexure – 2 to the Directors' Report

Information under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the Financial Year ended March 31, 2013.

A. Employed throughout the year and in receipt of remuneration of Rs. 60,00,000/- and above:

S No.	Employee Name	Designation	Qualification	Age	Exp. (Years)	Joining Date	Gross Remuneration (Rs.)	Designation & Previous Employment
1	Mr. M.R. Rao	Managing Director and CEO	MMS	49	27	Oct. 24, '06	* 1,62,26,936	Head, Alternate Channels, ING Vysya Life
2	Mr. S. Dilli Raj	CFO	B.Com, MBA	45	23	Jan. 28, '08	69,22,122	SVP - Treasury/ CFO, FLCI Ltd.
3	Mr. Srinivasa Reddy Vudumula	Sr. EVP – Human Resources	BE, PGD PM & IR (XLRI)	45	21	Jun. 7, '10	67,03,636	Head, HR, Maytas Infra Ltd.
4	Mr. A.V. Sateesh Kumar	EVP – Member Services	PGDM (IIM)	47	22	Jul. 8, '10	62,59,169	President (Life Insurance), IIFL

* Salary, incentives and perquisites for Mr. M.R. Rao for FY13 include an amount of Rs. 73,84,276 representing arrears for FY12.

B. Employed partly during the year and in receipt of remuneration of Rs. 5,00,000/- per month and above:

S No.	Employee Name	Designation	Qualification	Age	Exp. (Years)	Joining Date	Gross Remuneration (Rs.)	Designation & Previous Employment
None								

Notes:
1. All appointments are contractual
2. No Director is related to any other Director or employee of your Company listed above
3. Remuneration received/ receivable includes Gross Salary (Fixed), Employer's Contribution to PF, actual bonus and special incentive paid
4. None of the employees listed above, individually or along with his/ her spouse and dependent children, holds 2% or more of the Equity Shares of your Company

Annexure – 3 to the Directors' Report

Particulars pursuant to Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988:

A.	**Conservation of energy:**	
(a)	Energy conservation measures taken	Your Company has been maintaining 50 roof-top solar photovoltaic panels as an alternate source of electricity for its branches at different locations across India
(b)	Additional investments and proposals, if any, being implemented for reduction of consumption of energy	Your Company plans to distribute 1306 solar lanterns during FY14 amongst sangam managers across the Regional Offices
(c)	Impact of the measures at (a) and (b) above on reduction of energy consumption and consequent impact on the cost of production of goods	Your Company may help in conserving 120.8 MW of energy per annum with the initiatives mentioned in (a) and (b)
(d)	Total energy consumption and energy consumption per unit of production as per Form A of the Annexure in respect of industries specified in the Schedule thereto	- Not applicable -
B.	**Technology absorption:**	
(e)	Efforts made in technology absorption as per Form B of the Annexure	**Refer Form B**
C.	**Foreign exchange earnings and outgo:**	

(f)	Activities relating to exports; initiatives taken to increase exports; development of new export markets for products and services; and export plans	**- Not applicable -**	
		2012-13	2011-12
(g)	Earning	**Rs. Nil**	Rs. Nil
(h)	Outgo	**Rs. 2,70,87,814**	Rs. 24,50,519

FORM B

1. Efforts, in brief, made towards technology absorption, adaptation and innovation	Your Company has designed specific tools, rules and discipline for the organization, helping it in improving efficiency and productivity with low-cost solutions Key areas of improvement are: 1) Developing an enterprise core application and business reporting and intelligence system for managing applications for different products 2) Developing an advanced data centre and business continuity solutions for the organization and designing hybrid connectivity, connecting SKS branches across India
2. Benefits derived as a result of the above efforts, e.g., product improvement, cost reduction, product development, import substitution, etc.	Cost and time reduction in the operations of your Company.
3. In case of imported technology (imported during the last five years reckoned from the beginning of the financial year), following information may be furnished: a) Technology imported. b) Year of import. c) Has technology been fully absorbed? d) If not fully absorbed, areas where this has not taken place, reasons thereof and future plans of action.	**- Not applicable -**

Management Discussion and Analysis

MICROFINANCE INDUSTRY

Revival and growth in FY13

The microfinance industry in India has shown strong signs of revival and growth in FY13 as it emerged out of the Andhra Pradesh microfinance situation.

The pan-India Gross Loan Portfolio (GLP) for the microfinance industry grew by 23% to Rs. 21,245 crore in FY13 as compared to Rs. 17,264 core in FY12, when there was a 14% degrowth (Rs. 20,000 crore in FY11). Loan disbursals during FY13 increased by 13% to Rs. 23,209 crore from Rs. 20,613 crore in FY12, when there was a degrowth of 36% (Rs. 32,418 crore in FY11). Non-Andhra Pradesh MFIs' GLP grew by 39% in FY13 to Rs. 12,031 crore from Rs. 8,648 crore in FY12 while their loan amount disbursed increased by 18% to Rs. 15,770 crore in FY13 from Rs. 13,356 crore in FY12. AP MFIs have witnessed a 3% growth in the loan amount disbursed to Rs. 7,439 crore in FY13 from Rs. 7,257 crore in FY12.

Total funding for MFIs jumped by 79% to Rs. 10,203 crore in FY13 from Rs. 5,713 crore in FY12. Funding for non-AP MFIs increased by 66% to Rs. 8,482 crore in FY13 from Rs. 5,095 crore in FY12. As for AP MFIs, funding increased by 179% to Rs. 1,722 crore in FY13 from Rs. 618 crore in FY12, largely driven by SKS Microfinance Limited, according to industry body Micro Finance Institutions Network's report MFIN Micrometer.

MFIs with GLP between Rs. 100 crore and Rs. 500 crore had the highest growth rates of 34% in FY13 as compared to FY12 while MFIs less than Rs. 100 crore in size grew by 17% and MFIs over Rs. 500 crore by 22% during the period.

Your Company turned around during FY13 with a profit of Rs. 1.2 crore for the quarter ended December 31, 2012 after seven consecutive quarters of losses which were mainly due to provisions and write-offs on non-performing loans in Andhra Pradesh. For the quarter ended March 31, 2013, your Company reported a profit of Rs. 2.7 crore. Incremental drawdowns (including securitization and assignments) in FY13 nearly doubled to Rs. 2,874.7 crore and the non-AP gross loan portfolio increased by 53% to Rs. 2,016 crore as at March 31, 2013.

Regulatory developments since the AP microfinance situation

Both the Reserve Bank of India and the Government of India have taken significant steps to address issues in the microfinance industry, following the Andhra Pradesh microfinance situation and have provided much-needed regulatory clarity.

Malegam Committee and NBFC-MFI directions

In October 2010, the Reserve Bank of India set up a sub-committee of its Central Board of Directors headed by Mr. Y.H. Malegam (Malegam Committee) to study issues and concerns relating to the microfinance industry. The Committee submitted its report in January 2011. The report recommended the creation of a new category of Non Banking Financial Companies (NBFCs) engaged in microfinance activities (Non Banking Financial Company – Micro Finance Institutions or NBFC-MFIs) and emphasized that the RBI should be the sole regulator for NBFC-MFIs. It also laid emphasis on maintaining priority sector status for bank loans to MFIs and recommended key operating guidelines including those related to capital adequacy, asset classification, provisioning for NPAs, definition of qualifying assets and pricing of loans and other services. In early 2011, the RBI accepted the recommendations of the Malegam Committee and, in May 2011, the RBI decided to maintain the eligibility of MFIs to receive PSL funds, subject to certain conditions. In December 2011, the RBI issued the NBFC-MFI directions creating a new category of NBFCs engaged in microfinance activities called NBFC-MFIs, bringing for-profit MFIs and their operations directly under its purview and regulation. The NBFC-MFI directions are detailed later in this section.

In July 2011, the Central Government released the Draft Microfinance Institutions (Regulation and Development) Bill 2011 inviting comments from the public. The Draft MFI Bill was subsequently replaced by the Microfinance Institutions (Regulation and Development) Bill 2012. The MFI Bill 2012 will require the approval of the Indian Parliament as well as the assent of the President of India and publication in the Official Gazette before becoming a law. The MFI Bill 2012, which was presented before the Indian Parliament on May 22, 2012, states that its provisions shall be effective notwithstanding anything inconsistent contained in any other law. Parliament has referred the Bill to the Standing Committee on Finance for its recommendations.

MFI sector developments after the AP microfinance situation

Funding and industry growth

MFIs had continued with their businesses in non-Andhra Pradesh states post the Andhra Pradesh microfinance situation with the levels of liquidity they had and to the extent banks allowed them to draw from the already sanctioned limits. Disbursements by MFIs in the first half of FY11 were consistent with prior periods and that might explain the growth even with a lacklustre second half. However, MFIs had to scale down their operations and reduce both the number of customers and loans outstanding in a bid to contain risks and maintain repayments to banks. FY12 witnessed contraction in loan portfolios both on account of liquidity constraints and compliance issues arising from regulatory guidelines of the RBI for NFBC-MFIs (Source: Access' State of the Sector 2011 & 2012 reports).

Banks had restricted their lending to MFIs and had stopped fresh disbursements immediately after the situation. Rating agencies scaled down their ratings across the sector. The impact of re-rating of risk and denial of credit to MFIs has been felt in FY12 though bank lending restarted slowly and selectively towards the end of FY12 (Source: Access' State of the Sector 2011 & 2012 reports).

The momentum in funding for the sector improved significantly in FY13 resulting in the total funding for MFIs increasing by 79% during the year. Non-Andhra Pradesh MFI's Gross Loan Portfolio grew by 39% in FY13 as loan disbursements by MFIs increased by 13% to Rs. 23,209 crore (Source: MFIN Micrometer, as on March 31, 2013).

Demand-supply scenario

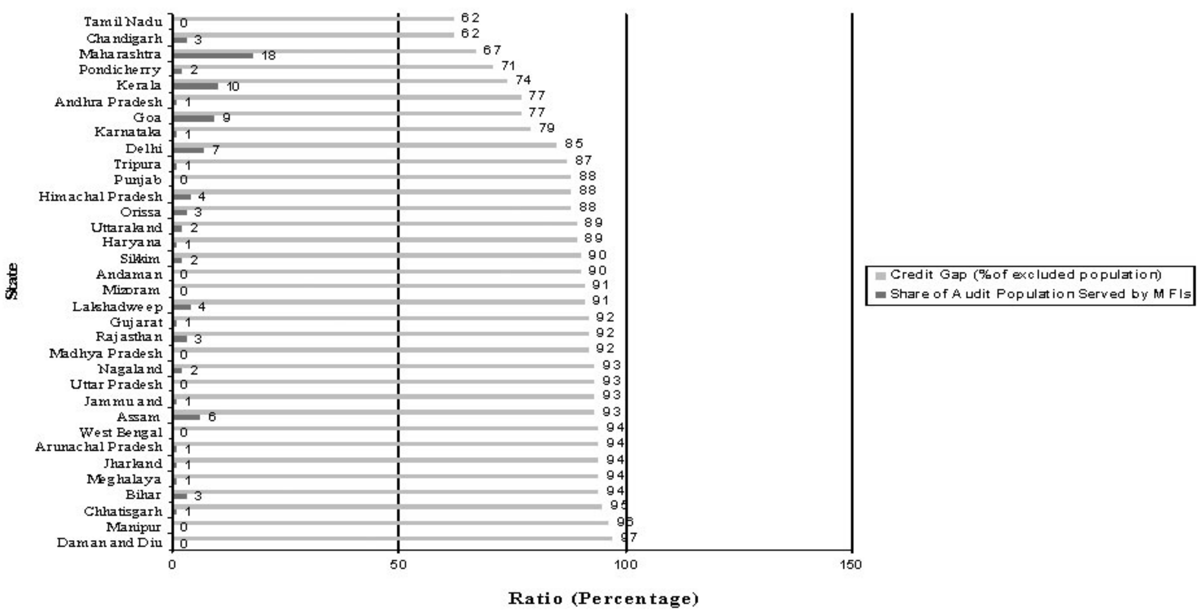
The third edition of 'Inverting the Pyramid' report, published in 2009 by Intellecap, an independent industry research firm, estimates the total demand for micro credit to be approximately Rs. 3,30,050 crore. As of 2009, MFIs met only 3.6% of this demand.

The credit demand-supply gap has further widened in Andhra Pradesh as MFI disbursements in the second half of FY11 were only Rs. 8.5 crore as against disbursements of Rs. 5,035 crore in the first half of FY11. A large part of this gap is currently being met by informal sources including moneylenders (Source: Sa-Dhan State of the Sector 2011 & 2012 reports).

However, this reduction does not reflect the fact that the demand for credit from poor households remains strong. NABARD estimates in its 2010 Annual Report that the Andhra Pradesh microfinance situation has created a credit gap of Rs. 4,000 crore in the State, which, if not fulfilled immediately, would have a serious impact on the productivity and financial strength of individuals.

As for other states in India, MFIs have collectively disbursed loans of Rs. 33,730 crore to clients and collected principal repayments of Rs. 27,320 crore during FY11, with the top nine MFIs disbursing Rs. 26,920 crore during this period (source: Sa-Dhan 2011 report). MFIs disbursed loans of Rs. 20,613 crore during FY12 and this increased by 13% to Rs. 23,209 crore during FY13 (Source: MFIN Micrometer, as on March 31, 2013).

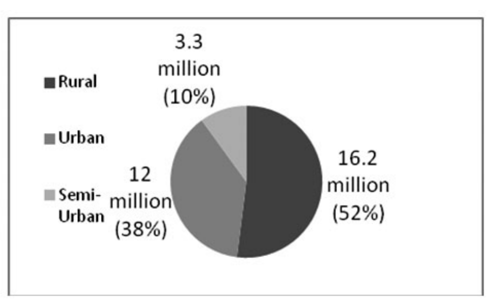
The credit gaps in each state, provided in the Sa-Dhan 2011 report, on the basis of 2010 data, are as set forth below:



Rural client outreach

Rural development is a key priority for the Government of India. As a result, MFIs have been focussing on rural clients (Source: Sa-Dhan 2011 report).

According to the Sa-Dhan 2011 report, of the MFIs' 31.8 million clients (26.8 million in 2012), rural clients constitute 52%. Rural client outreach is critical as financial exclusion in rural areas is a formidable challenge.



(Source: Sa-Dhan 2011 report, based on 2010-11 data)

Demand for credit in rural India

The demand drivers in rural India continue to be buoyant, primarily due to following factors:

Higher Government expenditure on rural projects: The Government of India has stepped up its focus on rural development in the last few years and this has been a boon to the rural economy. The Central Government's various schemes have resulted in significantly higher disposable incomes for the rural population. These schemes have set a floor for wages of rural unskilled workers, leading to enhanced income and food demand in the rural economy. Set out below are details of allocation of Government resources under various rural schemes:

Union Budget/ Schemes (Outlays)	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**
	Revised estimates	**Revised estimates**	**Revised estimates**	**Revised estimates**	**Budgeted estimates**	**Budgeted estimates**
	(Rs. in crore)	*(Rs. in crore)*	*(Rs. in crore)*	*(Rs. in crore)*	*(Rs. in crore)*	*(Rs. in crore)*
National Rural Livelihood Mission (NRLM)	2,350	2,350	2,980	2,681	3,915	4,000
National Rural Employment Guarantee Schemes	30,000	39,100	40,100	31,000	33,000	33,000
Rural Housing Schemes	8,800	8,800	10,340	10,000	11,075	15,184
Pradhan Mantri Gram Sadak Yojana (PMGSY)	7,780	11,340	22,000	19,981	24,000	21,700

(Source: Planning Commission and Ministry of Rural Development, Government of India)

Increase in minimum support prices (MSP): The Government has been raising the MSP for food grains consistently which has resulted in an increase in agricultural income and spending. MSP per quintal for items such as arhar, wheat and common paddy has seen a substantial rise at CAGRs of 18.2%, 10.3% and 13.7% respectively, during the six-year period between crop year 2007 and crop year 2013 (on an advanced estimates basis). In comparison, the increase in MSP per quintal from crop year 2001 to crop year 2007 was 2.7%, 3.5% and 2.2% respectively (Source: RBI and Department of Agriculture).

Record food production: The highest ever production of all food grains (including rice, wheat, coarse cereals and pulses) of around 257.4 million tonnes was recorded in FY12 (based on advance estimates) surpassing the record production in 2011, made possible due to a good monsoon spread uniformly across the country (Source: 'Agricultural Statistics At a Glance 2012', Ministry of Agriculture).

Increase in food inflation supported by agricultural growth: Rural population contributes 75% to India's total population and about the same proportion to the low-income groups in India. Approximately 70% of rural India's workforce remains primarily involved in agriculture and allied activities. Agriculture and allied activities contributed approximately 17.2% to India's GDP in FY12 at 2004-05 prices. Government data shows that the food inflation for FY12 was 7.3% and the Commodity Price Index increased by around 8.3% during FY12. High food prices imply a considerable rise in disposable rural incomes (Source: Himanshu et al, 'Non-Farm Diversification and Rural Poverty Decline: A Perspective from Indian Sample Survey and Village Study Data', India Observatory, UK Department of International Development, Asia Research Centre, London School of Economics and Political Science; key economic indicators prepared by the Ministry of Commerce and Industry, Government of India, and the Planning Commission).

NBFC-MFI directions

Anticipating that pursuant to the Andhra Pradesh microfinance situation, other State Governments could start enacting their own legislations to regulate MFIs creating plurality of regulation which may leave scope for regulatory arbitrage, the Reserve Bank of India exercised its power to regulate NBFCs (Source: RBI Report on 'Trend and Progress of Banking in India 2010-11'). The RBI, pursuant to its decision to accept the recommendations of the Malegam Committee, brought NBFC-MFIs under a separate regulatory framework, through NBFC-MFI directions. Many aspects of the NBFC-MFI directions are similar to the conditions introduced earlier on May 3, 2011 when the RBI decided to maintain the eligibility of MFIs for Priority Sector Lending (PSL).

Definition of NBFC-MFIs and qualifying assets

NBFCs are not allowed under the NBFC-MFI directions to extend microfinance loans in excess of 10% of their total assets without qualifying as NBFC-MFIs. NBFC-MFIs are required to have minimum Net Owned Fund of Rs. 5 crore. Further, at least 85% of the net assets (that is, total assets other than cash and bank balances and money market instruments) of NBFC-MFIs should be 'qualifying assets'. Loans, which satisfy the following criteria, have been classified as 'qualifying assets' under the NBFC-MFI directions:

- Rural household annual income of borrowers should not exceed Rs. 60,000 or urban and semi-urban household income of borrowers should not exceed Rs. 1,20,000

- Loan amounts should not exceed Rs. 35,000 during the first cycle and Rs. 50,000 for the subsequent cycles, with total indebtedness of each borrower not exceeding Rs. 50,000
- Tenor of loans above Rs. 15,000 should not be less than 24 months with prepayment without penalty
- At least 70% of the total loans should be utilized by borrowers for the purpose of income generation
- Loan should be extended without collateral
- Loans to be repayable in weekly, fortnightly or monthly instalments, at the choice of the borrower

The RBI, in its circular of August 3, 2012 clarified that only the assets originated on or after January 1, 2012 will have to comply with the qualifying assets criteria. Existing assets as on January 1, 2012 will be reckoned towards meeting the qualifying assets criteria.

Asset classification and provisioning

With effect from April 1, 2013 assets for which payment of interest/ principal has remained overdue for a period of 90 days or more are required to be classified as NPAs. Further, with effect from April 1, 2013, the minimum aggregate loan provision to be maintained by NBFC-MFIs at any point in time shall not be less than the higher of:

(a) 1% of the outstanding loan portfolio; or
(b) 50% of the aggregate loan instalments overdue for more than 90 days and less than 180 days; and
(c) 100% of the aggregate loan instalments overdue for 180 days or more.

Fair Practices in lending and multiple lending

NBFC-MFIs are not allowed to collect any security deposit or margin. Further, more than two NBFC-MFIs are not allowed to lend to the same borrower or to borrowers who are members of a Joint Liability Group (JLG) or a Self Help Group (SHG). NBFC-MFIs are also required to comply with the guidelines on Fair Practices Code prescribed by the RBI through its circular dated March 26, 2012.

The RBI's policy measures have resulted in MFIs becoming more selective in client acquisition in order to lend only to low-income borrowers, lend within reasonable limits of their customer's ability to service the loans, set up prudent practices in relation to recoveries and introduce grievance redressal mechanisms (Source: Access' State of the Sector 2011 report).

Compliance with conditions

NBFC-MFIs should be members of at least one Credit Information Company (CIC) and use the data available with them to ensure compliance with lending conditions. As CICs would require time to develop the quality and coverage of data, NBFC-MFIs may rely on self-certification from the borrowers and their own local enquiries to meet the conditions.

Pricing of credit

Pricing of loans must consist only of interest charges, processing charges and insurance premium. NBFC-MFIs with loan portfolios exceeding Rs. 100 crore are required to maintain a ceiling of 12% on their aggregate margin till March 2014 (10% thereafter. MFIs with loan portfolios not exceeding Rs. 100 crore to maintain 12% margin). Further, processing charges have been capped at 1% of the gross loan amount. The maximum variance in interest rate between the maximum and minimum rates for individual loans cannot exceed 4%.

Capital adequacy

The RBI, in its circular dated August 3, 2012, clarified that provisioning made towards portfolio in Andhra Pradesh should be in accordance with extant NBFC prudential norms and such a provision should be added back notionally to the Net Owned Fund (NOF) for the purpose of calculation of the Capital to Risk (weighted) Assets Ratio (CRAR) and would be progressively reduced by 20% each year, over five years, that is, from March 31, 2013 to March 31, 2017.

Sources of funding

Lending by banks

The major form of funding remains loans from banks. Events in Andhra Pradesh have demonstrated the close relationship between the asset quality of MFIs and the asset quality of banks. In effect, the bank loans to MFIs have turned out to be pass-through funding, with the intervening institutional structure of MFIs with a balance sheet of their own becoming irrelevant. The defaults at the level of MFI customers turned into potential (and, in some cases, real) defaults to banks (Source: Access' State of the Sector 2011 report).

Following the Andhra Pradesh microfinance situation, banks did not sanction fresh loans, and stopped withdrawals from sanctioned loan accounts. Some banks recalled loans that were not due, ahead of the maturity date. Compared to FY10, loan disbursements by banks to MFIs in FY11 were markedly less by 30%. Only private sector banks increased their disbursements in FY11 by about 32% over FY10 (Source: Access' State of the Sector 2011 report). The adverse impact on bank loans continued in FY12 as the amount of loans received by MFIs fell from Rs. 9,410 crore in FY11 to Rs. 6,778 crore in FY12. Bank loans accounted for over 70% of financing for MFI loan portfolio (Source: Sa-Dhan 2012 report).

The trend for bank funds turned positive in FY13 as the total funding received by MFIs jumped 79% to Rs. 10,203 crore. Of this, funding from banks was Rs. 8,366 crore representing a 78% increase over FY12. Specifically, your Company's incremental drawdowns (including securitization and assignments) nearly doubled to Rs. 2,874.7 crore during FY13.

PSL funds

Historically, the microfinance industry has relied on Priority Sector Lending (PSL) funds as a significant source of funds as compared to other bank funds. In early 2011, the RBI accepted the recommendations of the Malegam Committee and, in May 2011, the RBI decided to maintain the eligibility of MFIs for PSL funds, subject to the fulfilment of certain conditions by MFIs. However, the RBI withdrew the eligibility of certain other categories of NBFCs to obtain PSL funds from banks. In July 2012, the RBI issued revised guidelines on PSL, based on the recommendations of the Committee headed by Mr. M.V. Nair and public comments on the recommendations. The revised guidelines confirmed the PSL classification of loans to MFIs subject to certain conditions.

The conditions specified for access to PSL funds by MFIs related to qualifying assets and pricing guidelines and were similar to those covered under the NBFC-MFI directions.

External commercial borrowings

NBFC-MFIs are allowed to draw ECBs upto US $10 million (or its equivalent amount) in a financial year.

Credit bureaus

The RBI regulations for NBFC-MFIs requiring them to register with credit bureaus and the need for information on indebtedness and credit discipline of the borrowers set the stage for microfinance credit bureau infrastructure in India. High Mark Credit Information Services, Equifax Credit Information Services Private Limited and Credit Information Bureau (India) Limited (CIBIL) are active in the microfinance space. Sa-Dhan 2012 report indicates that 30 MFIs are active users of credit bureaus. The credit bureaus have been making steady progress in registering more members and strengthening the database and quality of credit checks.

Your Company is registered with High Mark and Equifax, and regularly provides them with information on all its borrowers. Most importantly, your Company runs checks on each of the loan applications it receives from borrowers with credit bureaus.

OVERVIEW OF YOUR COMPANY'S BUSINESS

Your Company is one of the largest MFIs in India in terms of the total value of loans outstanding and the number of borrowers, as of March 31, 2012 and the only such Company to be publicly listed in India (Source: Access' State of the Sector 2011 & 2012 report). Your Company is primarily engaged in providing microfinance services to low-income individuals in India.

Your Company's core business is providing small value loans and certain other basic financial services to its Members. Your Company classifies Members with outstanding loans as its Borrowers. Your Company's Members are predominantly located in rural areas in India and they are extended loans mainly for use in small businesses or for other income-generating activities and not for personal consumption. These individuals often have no, or very limited, access to loans from other sources, which your Company believes, typically charge very high rates of interest.

Your Company utilizes a village-centred, group lending model to provide unsecured loans to its Members. This model relies on a form of 'social collateral' and ensures credit discipline through peer support within the group. Your Company believes this model makes its Members prudent in conducting their financial affairs and prompt in repaying their loans. Failure by an individual Borrower to make timely loan payments will prevent other Members in the group from being able to borrow from your Company in future; therefore, the group will typically make the payment on behalf of a defaulting Borrower and the group will use peer support to encourage the delinquent Borrower to make timely payments, effectively providing an informal joint guarantee on the Borrower's loan.

In addition to your Company's core business of providing micro credit, it uses its distribution channel to provide certain other financial products and services that its Members may need. Since FY10, your Company has operated certain pilot programmes involving fee-based services and secured lending. These pilot programmes primarily relate to providing loans to its Members for the purchase of certain productivity-enhancing products such as mobile handsets and loans against gold as collateral. In addition, your Company has been administering a group endowment life insurance policy for its Members. Your Company intends to expand its involvement in these other financial products and services to the extent consistent with its mission, client-centricity and commercial viability. Your Company intends to operate some of these businesses, once the pilots are proven successful, through one or more subsidiaries in order to distinguish these businesses from your Company's core business of providing micro credit.

As of March 31, 2013 your Company had approximately 50 lakh Members, including 43 lakh Borrowers across 1,261 branches in 15 states in India, with a Gross Loan Portfolio of Rs. 2,359 crore.

Competitive strengths

Your Company believes it has the following competitive strengths:

Strong position to benefit from changes in the competitive landscape

Of the larger MFIs in Andhra Pradesh, your Company was the only MFI that did not participate in the CDR package for MFIs following the Andhra Pradesh microfinance situation. Initially, five large MFIs – Spandana, SHARE, Asmitha, Trident and Future Financial Services – participated in the CDR package amounting to more than Rs. 7,000 crore (Source: Access' State of the Sector 2011 report). Subsequently, BASIX also opted for CDR. The debt composition of the five major MFIs that participated in the CDR package is set forth below:

Name of MFI	Total CDR exposure (Rs. in crore)	Non-CDR exposure (Rs. in crore)	Total debt (Rs. in crore)
Asmitha	1,234.0	140.5	1,374.5
Future Financial	98.9	60.6	159.5
SHARE	2,160.3	241.5	2,401.8
Spandana Sphoorthy	2,854.0	471.9	3,325.9
Trident	125.7	23.5	149.2
Total	**6,473.0**	**938.0**	**7,411.0**

(Source: Access' State of the Sector 2011 report)

The restructured loans are required to be repaid by the MFIs listed above over seven years after a one-year moratorium. The restructured loans carry a rate of interest of 12% (Source: Access' State of the Sector 2011 report). Some of the small and mid-sized MFIs, which are ineligible for the CDR package, are now facing bankruptcy and some have wound up their operations (Source: Sa-Dhan 2011 report and State of Sector 2011 report).

The large AP MFIs under the CDR programme had 40% market share outside AP and this is vulnerable to competition. MFIs such as your Company who are outside the CDR mechanism are well positioned to benefit from this and increase market share in non-AP states. Some of the small and mid-sized non-AP MFIs have also been significantly disadvantaged by the supply-side shock following the AP microfinance situation and find it difficult to meet the enhanced supervisory standards. Your Company, having managed the AP microfinance situation, is fully equipped to take advantage of the change in the competitive landscape.

Market share

According to the Access' State of the Sector 2012 report, your Company is one of the largest MFIs in India in terms of client outreach and the total value of loans outstanding, as of March 31, 2012. In FY13, your Company was among the top three MFIs in terms of client outreach, total value of loans disbursed, Gross Loan Portfolio outstanding and number of branches (Source: MFIN Micrometer, as on March 31, 2013). As of March 31, 2013 your Company had approximately 50 lakh Members (31 lakh excluding Andhra Pradesh), of which 43 lakh (26 lakh excluding Andhra Pradesh) were our Borrowers. As of the same date, your Company had 1,261 branches with a presence in 15 states and Gross Loan Portfolio of Rs. 2,359 crore (Rs. 2,016 crore excluding Andhra Pradesh). The average loan size per active Borrower in non-AP states during FY13 and FY12 was Rs. 7,763 and Rs. 5,205 respectively. The average number of Members per field-level loan officer, or Sangam Manager, in non-Andhra Pradesh states during the same periods was 530 and 422 respectively. The Gross Loan Portfolio (which includes assigned/ securitized loans and over-collateral towards assigned/ securitized loans) per Sangam Manager in non-Andhra Pradesh states, as of March 31, 2013 and March 31, 2012, was Rs. 34.4 lakh and Rs. 16.2 lakh, respectively.

Your Company believes that its consistent position among the top MFIs in the microfinance sector enhances its reputation and credibility with its Members and lenders. This enhanced reputation and credibility has numerous benefits, including the ability to secure capital at lower costs, recruit and retain skilled employees, optimize staff productivity, retain its existing Borrowers and add new Members, and expand into new regions and product areas.

Expertise in microfinance and ability to adapt to the changing regulatory environment

Your Company believes that its long-standing experience in the microfinance industry has given it a specialized understanding of the needs and behaviour of the individuals in this segment across India, the complexities of lending to these individuals and issues specific to the microfinance industry in India and its processes. Your Company believes its expertise gives it a competitive advantage in this sector.

As a result of its experience, your Company has developed skills in training its Members. Your Company uses its knowledge of its Members, including their culture, habits and education, to design customized financial products and pricing plans. Development of certain loan products is a result of its analysis of the capital requirements and cash flow of its Members' businesses. Your Company believes this approach to developing the terms and components of its financial products gives it a competitive advantage.

Further, consultation and dialogue with regulators and policy-makers in the recent past has provided it with an opportunity to understand their concerns.

Your Company has already adopted several aspects of the new regulatory framework under the NBFC-MFI directions within its operations and has applied to the RBI for classification as an NBFC-MFI. For instance, the ticket size of its income generating and mid-term loan products is less than Rs. 15,000, which helps it mitigate risks related to increased exposure to a particular Borrower over an extended period. In addition, your Company provides its Borrowers with an option to repay their loans in weekly, fortnightly or monthly instalments, subject to compliance with any applicable local laws. Your Company discontinued the collection of group insurance administrative charges from its Borrowers in January 2011. Further, your Company presently charges an effective interest rate of 24.6% in relation to its micro credit products. In addition to interest, your Company charges its Borrowers a loan processing fee of 1% of the loan amount disbursed and insurance premium at actuals. Your Company also submits data to credit bureaus on a regular basis and processes each loan application based on credit bureau checks.

Well-capitalized balance sheet, low leverage and emphasis on asset and liability management

Although your Company's financial condition deteriorated in the aftermath of events in Andhra Pradesh and it has incurred losses during FY12 and during FY13, your Company believes that it has maintained sufficient financial discipline as well as a relative degree of financial strength during these periods. As of March 31, 2012 and March 31, 2013 your Company's net worth was Rs. 429.3 crore and Rs. 390.4 crore, respectively. Your Company's capital adequacy ratio was 33.85% (20.65% excluding the add-back of provision on Andhra Pradesh portfolio) of risk-weighted assets as of March 31, 2013, which is well above the requirement of 15% of risk-weighted assets prescribed by the RBI under the NBFC-MFI directions. Further, your Company holds that it employs relatively lower levels of leverage in its operations. As of March 31, 2012 and March 31, 2013, your Company had a debt to equity ratio of 2.3 and 4.1 respectively. Your Company reckons that these factors provide it with a competitive advantage when borrowing funds for its operations. Further, your Company believes that its relatively higher net worth enhances its ability to absorb unforeseen stresses that may arise during times of financial difficulty. For instance, your Company believes that its higher net worth was the primary reason for it being able to withstand write-offs of a portion of its loan portfolio and creation of loan loss provisions for non-performing loans aggregating Rs. 1,173.5 crore in FY12 and Rs. 244.4 crore during FY13.

In addition to traditional cash flow management techniques, your Company manages its cash flow through active asset and liability management strategies. The proportion of its liquid assets (that is, cash and bank balances, including deposits, placed as security against its borrowings) to its total assets was 35.6% as of March 31, 2013. Further, your Company has structured its model to primarily borrow on a long-term basis while lending on short-term basis. Your Company is among the few NBFCs with a positive Asset Liability Management (ALM) structure. As on March 31, 2013 the average maturity of assets was 4.9 months while the average maturity of liabilities was 6.5 months. Your Company believes that this allows it to better manage liquidity and meet the growing loan demands of an increasing membership even if external borrowings and funding sources face temporary disruption.

Access to capital

Your Company strives constantly to diversify its sources of capital. During FY13, in the aftermath of the Andhra Pradesh situation, your Company successfully raised Rs. 264 crore through QIP and preferential allotment – the largest capital raise in the MFI sector in India since the IPO of your Company in FY11. The aggregate incremental drawdowns from banks and financial and other institutions was Rs. 2,874.7 crore for the same year. As of March 31, 2012 and March 31, 2013, your Company had outstanding loans of Rs. 1,021 crore and Rs. 1,618 crore respectively, from more than 10 banks, and financial and other institutions.

Historically, the MFI sector has significantly relied on Priority Sector Lending funds from commercial banks. Your Company believes that the cost of such funds is considerably lesser than the cost of other bank funds. In early 2011, the RBI accepted the recommendations of the Malegam Committee and, in May 2011, the RBI decided to maintain the eligibility of MFIs to receive PSL funds, subject to the fulfilment of certain conditions. Your Company complies with the conditions prescribed by the RBI and is, therefore, eligible for PSL bank funds. In addition, once your Company is registered as an NBFC-MFI, it will be eligible to access ECBs upto US $10 million (or its equivalent amount) in a financial year without requiring any prior approvals.

In addition to such funding, your Company has in the past demonstrated its ability to fund the growth of its operations and loan portfolio through issuances of equity, private and publicly traded debt securities such as redeemable non-convertible debentures, commercial paper, loans with various maturities raised from domestic and international banks, and the securitization of different components of its loan portfolio. During FY13, your Company received Rs. 1,194.7 crore from assignment/ securitization of loans and also recognized income of Rs. 58.3 crore in this period. Assigned/ securitized loans accounted for 33.9% of its total outstanding borrowed funds and funds from assignment/ securitization of loans as of March 31, 2013. Your Company also borrows from diverse lenders such as public and private sector domestic banks, foreign banks and other institutional investors.

CARE has assigned your Company with a grading of "MFI 1" or "MFI One" as an MFI, which is the highest grading on an eight-point scale with "MFI 1" being the highest and "MFI 5" being the lowest. Your Company has regularly obtained credit ratings for its debt securities to improve its access to and reduce its cost of capital. Several of its securitization transactions during FY13 were provisionally rated by CARE at 'A1+(SO)' and 'A+(SO)', which is considered to indicate a strong capacity for timely payment of short-term debt obligations and carries the lowest credit risk for such securitized pools.

Established and scalable operating model

Your Company recognizes that establishing and growing a successful rural microfinance business in India involves the significant challenge of addressing a borrower base that typically lives in remote locations. To address this problem, your Company believes that it has designed a scalable model and developed systems and solutions for the following three components that it believes are required to effectively scale up its business:

- Capital: Despite the challenges faced by the industry, your Company has been able to obtain the capital funds required to finance its lending operations in states outside Andhra Pradesh
- Capacity: With its pan-India presence and extensive distribution network, your Company believes it has the capacity to provide products and services to a large number of its Members
- Cost reduction: Your Company believes it has implemented technology and process-based systems that reduce the cost of conducting transactions across a widespread branch network and a substantial Member base

Further, your Company has standardized its recruitment and training programmes and materials so that they can easily be replicated across the entire organization. This standardized approach also allows employees to efficiently move from region to region based on demand and growth requirements. Your Company's business processes, from Member acquisition to cash collections, have been standardized and appropriately documented. Your Company's branch offices are similarly structured, allowing for the quick rollout of new branches. In addition, the terms and conditions of your Company's loan products are generally uniform throughout India.

Your Company has an Internal Audit Department that conducts an appraisal of operational and financial procedures across the organization with the aim to monitor and strengthen Internal Controls, and to determine the level of compliance with internal and external policies. These internal audit procedures have received an ISO 9001:2008 quality certification for quality management system of the audit processes. In addition, a leading accountancy firm conducts an internal audit every quarter of its operations based at your Company's head office in Hyderabad.

Your Company recognizes that conducting business through millions of transactions across thousands of rural locations involves substantial repeat interactions with its Members and its employees, thus increasing operating costs. Your Company has deployed a portfolio tracker platform and continually makes improvements to it. This allows your Company to improve field-level productivity by simplifying data entry, improving the accuracy and efficiency of collections and improving fraud detection. Your Company also gathers data on items related to its Members and loan portfolio, which is used for management decision-making.

Pan-India presence and rural distribution network

As of March 31, 2013 your Company had approximately 50 lakh Members, including 43 lakh Borrowers and 1,261 branches across 15 states in India, with approximately 1,156 branches and 31 lakh Members in states other than Andhra Pradesh. Further, as of March 31, 2013, your Company had 9,154 Branch Managers, Assistant Branch Managers and Sangam Managers who comprised 84.7% of its total workforce. During FY13, each of its Sangam Managers managed approximately 530 Members on an average in non-Andhra Pradesh states. Your Company believes that its presence throughout India and its distribution network in rural India results in significant competitive advantages, particularly in the following areas:

- **Distribution platform**: Your Company's pan-India presence allows it to lend across the country and enables it to mitigate its exposure to local economic factors and disruptions resulting from political circumstances or natural disasters. Furthermore, its well-developed distribution network in rural India gives it the capability to offer a variety of financial products nationally in areas that your Company believes most companies do not currently reach
- **Product pricing power**: Your Company believes that its national presence and the ability to access a large Member base give it the leverage to negotiate favourable terms with institutions that want to distribute their products through its network, which results in lower pricing for the products that are distributed to its Members. For example, your Company collaborated with Nokia and Videocon for financing of mobile phones for its Members across several states at a price lower than the maximum retail price of such phones

Experienced management team and Board

Your Company's Board comprises experienced investors, industry experts and management professionals. Out of a total of eight Directors on its Board, five are Independent Directors. Your Company believes that it has a strong senior management team to lead it, which includes its Managing Director and Chief Executive Officer, Mr. M. Ramachandra Rao as well as its Chief Financial Officer, Mr. S. Dilli Raj. Your Company's senior management team continues to have members who have significant experience in the microfinance and financial services industry. Substantially, all key managerial personnel of your Company have over 20 years of financial services sector experience. The team has developed the knowledge to identify and offer products and services that meet the needs of its Members, while maintaining effective risk management and competitive margins. Your Company's middle management personnel also have significant experience and in-depth industry knowledge and expertise.

Our business strategy

Strengthen Client Protection initiatives

Your Company has embraced Client Protection Principles and designed a tool kit for training of staff and Borrowers. The training kit for Borrowers has been made into a comic book with dozens of pictures portraying the various principles. It is a show-and-tell booklet with staff training the Borrowers in each of the seven Client Protection Principles. A total of 95,858 man-hours have been spent on CPP training. This has been appreciated by various independent agencies like SPTF, M-CRIL and Smart Campaign. Further, all the systems, processes and documentation have been aligned with CPP so that the staff and Borrowers imbibe and implement the same.

Your Company has adopted regulatory compliance audits by an independent agency into its process and regular audits are being conducted. The results are satisfactory with your Company's staff adhering to the regulatory guidelines and Borrowers being aware of all the rules and regulations.

Your Company has been actively participating in the Social Performance Management and has been modifying the processes and systems to comply with the Universal Standards of Social Performance Management (USSPM).

Significant increase in lending activity in non-AP states to meet the demand-supply gap

As a result of the adverse impact of the events in Andhra Pradesh, five other large MFIs, which together commanded a significant market share in the Southern State and other states, had entered into a CDR package amounting to over Rs. 7,000 crore (Source: Access' State of the Sector 2011 report). Banks and financial institutions do not, in the ordinary course, provide additional lending to entities undergoing such debt restructuring. As such, your Company believes that bank funding will be more readily available to MFIs that are not subject to any debt restructuring, such as your Company, and particularly for use and expansion in states other than Andhra Pradesh. Industry sources estimate the total demand for micro credit in India to be approximately Rs. 3,30,050 crore. As of 2009, MFIs met only 3.6% of this demand (Source: 'Inverting the Pyramid Report', third edition, published by Intellecap in 2009). The credit demand-supply gap has further widened in Andhra Pradesh as MFI disbursements in the second half of FY11 were only Rs. 8.5 crore as against disbursements of Rs. 5,040 crore in the first half of FY11 (Source: Access' State of the Sector 2011 report) and subsequently there have been virtually no loan disbursements in the State by MFIs. As for disbursements in all states in India, MFIs collectively disbursed loans of Rs. 33,730 crore to clients during FY11, with the top nine MFIs disbursing Rs. 26,920 crore during this period (Source: Sa-Dhan 2011 report). In FY12, the total disbursements by MFIs fell to Rs. 22,635 crore, a three-year low for MFI disbursements (Source: Sa-Dhan 2012 report). A large part of this gap is currently being met by informal sources, including moneylenders. Your Company believes this represents an attractive business opportunity for MFIs such as your Company. This is validated by the 13% increase in loan amount disbursed by MFIs (MFIN members) in FY13 to Rs. 23,209 crore from Rs. 20,613 crore in FY12. Your Company's loan disbursements in FY13 increased by 21.3% to Rs. 3,320 crore from Rs. 2,737 crore in FY12.

Your Company primarily intends to provide loans to its existing 31 lakh Members in states other than Andhra Pradesh and believes that it already has the network that it requires to distribute loans in these 14 states that it has been operating in for the last five years, in order to meet a portion of this credit demand-supply gap. As of March 31, 2013 your Company had 1,156 branches and a Gross Loan Portfolio of Rs. 2,016 crore in states other than Andhra Pradesh (growth of 53% over March 31, 2012), which constituted 85% of its total Gross Loan Portfolio. As of that date, future receivables (that is, principal amounts falling due after March 31, 2013) from its Gross Loan Portfolio were Rs. 1,969.6 crore of which approximately 99.7% was attributable to its non-Andhra Pradesh future receivables.

Diversification of revenue streams and cross selling of products and services

Your Company has built a large distribution network in rural India. As of March 31, 2013 your Company had 9,154 Branch Managers, Assistant Branch Managers and Sangam Managers who comprised 84.7% of its total workforce, across 1,261 branches in 15 states. Your Company believes it can leverage this network to distribute financial and non-financial products of other institutions to its Members at a cost lower than that which its competitors can provide. Your Company's network also allows such distributors to access a segment of the market to which many do not otherwise have access.

While your Company continues to focus on its core business of providing micro credit services, it intends to diversify into other businesses by scaling up certain pilot projects involving fee-based services and secured lending, gradually converting them into separate business verticals. Your Company's objective in these other businesses is to focus on lending that will allow it to sustain high repayment rates, increase Member loyalty and also provide economic benefits to its Members and their families. Your Company believes that such other products and services offer higher operating margins as compared to micro credit under the new regulatory framework and may help it increase its overall ROA. The approach is to have 10% of assets from such cross-sell initiatives that contribute 15% to revenue and 25% to earnings.

Your Company's current initiatives in relation to financial products and services other than micro credit include providing:

- Loans to its Members for the purchase of mobile handsets in association with Nokia. During FY12 and FY13, mobile loans constituted 1.3% and 1.2% respectively of the total outstanding loans. Your Company has scaled the pilot into a business vertical

- Secured loans to its Members against gold as collateral. For this purpose, your Company had started a pilot gold loan project with five branches, which was subsequently increased to 41 branches with a portfolio of Rs. 56 crore as of March 31, 2013 primarily across Karnataka, Maharashtra and Uttar Pradesh. Loans against gold constituted 3.8% of your Company's total outstanding loan portfolio as of March 31, 2013. Your Company intends to further expand this business to other states in India and intends to pursue this business through a subsidiary, subject to successful results from the pilot projects and receipt of the required regulatory approvals, if any

Enhance operating and financial leverage

Your Company provides collateral-free credit to a majority of its Members at their doorstep and its Sangam Managers assist with the processes related to credit verification. While this helps its Borrowers save on travel costs, it results in high operating expenses for your Company, particularly personnel and administrative costs. Personnel costs accounted for 61.9% and 65.8% of your Company's operating expenses during FY12 and FY13 respectively.

Your Company had embarked on a cost optimization initiative by improving its ratio of Members per Sangam Manager, while realizing the benefits of economies of scale. Further, it merged branches, both in Andhra Pradesh and states other than Andhra Pradesh. In addition, your Company intends to implement its growth objectives without adding a significant number of new branches or incurring substantial capital expenditure. There was a net reduction of approximately 918 branches during FY12 and 200 branches during FY13. Approximately 462 branches in Andhra Pradesh were closed over the last two fiscal years. Total headcount was reduced from 22,733 as at March 31, 2011 to 16,194 as at March 31, 2012 and further reduced to 10,809 as at March 31, 2013. Other factors that your Company intends to focus on to optimize its cost structure include enhancing the productivity of its employees, introducing technology for expedient reporting and re-engineering its internal processes. The results of cost optimization are evidenced by a 38% reduction in operating expenses during FY13.

With return to profitability, growth in portfolio outside Andhra Pradesh and higher bank funding, your Company aims to maximise financial leverage to improve profitability and returns. The debt/ equity ratio increased from 2.3 as at March 31, 2012 to 4.1 as at March 31, 2013 as against the RBI allowed limit of 6.67.

Robust compliance, governance, risk management and audit framework

Your Company strives to achieve and maintain high standards of disclosure, compliance, corporate governance, risk management and audit quality. All related party transactions are dealt with and disclosed as per AS-18, managerial remuneration is in full compliance with the Companies Act and composition of Board of Directors is in compliance with clause 49 of the Listing Agreement and represents varied skill sets. Separation of ownership and management is ensured with professionals in charge of management. Also, your Company has adopted conservative and prudent accounting policies.

The risk-mitigating geographic diversification strategy has been further bolstered with the adoption of specific geographical concentration norms during FY13. The concentration norms detail disbursement and portfolio exposure caps at state, district and branch levels, with identified tolerance limits. Your Company will continue to strengthen the risk management framework to identify and address enterprise risks.

FY13 update

Operational and financial highlights

During FY13, your Company had incurred a net loss of Rs. 297.1 crore compared to a loss of Rs. 1,360.6 crore in FY12, largely due to write-offs and provisioning on the Andhra Pradesh portfolio. However, your Company has reported profits for the quarters ended December 31, 2013 and March 31, 2013 after seven consecutive quarters of losses.

With regulatory clarity and resumption of bank lending to the MFI sector, albeit selectively, your Company obtained incremental drawdowns (including securitization and assignments) of Rs. 2,874.7 crore in FY13, which is nearly twice the sum of Rs. 1,484.5 crore obtained in FY12. This aided higher disbursements and the Company registered quarter-on-quarter growth in the loan portfolio in non-Andhra Pradesh states during FY13. Gross Loan Portfolio in non-Andhra Pradesh states increased by 52.7% from Rs. 1,320 crore as on March 31, 2012 to Rs. 2,015.5 crore as on March 31, 2013. Further, average loan recovery rates in non-Andhra Pradesh states were robust at 99.1% for FY13.

Operational highlights	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13
No. of branches	1,353	2,029	2,379	1,461	1,261
No. of districts	307	341	378	329	298
No. of employees	12,814	21,154	22,733	16,194	10,809
No. of members (in lakh)	39.5	67.8	73.1	53.5	50.2
Disbursements for the year (Rs. in crore)	4,485	7,618	7,831	2,737	3,320
Gross Loan Portfolio (Rs. in crore) *	2,456	4,321	4,111	1,669	2,359

* Includes assigned/ securitized loan portfolio

Financial highlights	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13
Incremental borrowings * (Rs. in crore)	3,762	5,132	5,338	1,873	3,149
Total revenue (Rs. in crore)	554	959	1,270	472	353
Profit after tax (Rs. in crore)	80	174	112	(1,361)	(297)
Total assets (Rs. in crore)	3,039	4,047	4,326	1,681	2,511
Return on average asset	3.9%	4.9%	2.3%	(46.7%)	(15.8%)
Return on average equity	18.3%	21.5%	7.5%	(118.9%)	(74.4%)

* Amount of sanctions received from banks and financial institutions

Financial performance in FY13

Particulars	FY13		FY12		
	Rs. in crore	Per cent to Revenue	Rs. in crore	Per cent to Revenue	Increase/ Decrease
Income from operations	332.2	94.2%	435.7	92.3%	-23.8%
Other income	20.4	5.8%	36.6	7.7%	-44.4%
Gross revenue	352.6	100.0%	472.3	100.0%	-25.4%
Employee benefit expenses	172.7	49.0%	261.1	55.3%	-33.9%
Finance costs	142.7	40.5%	200.5	42.4%	-28.8%
Other expenses	83.5	23.7%	151.0	32.0%	-44.7%
Depreciation and amortization	6.4	1.8%	10.0	2.1%	-35.8%
Provisions and write-offs	244.4	69.3%	1,173.5	248.5%	-79.2%
Total expenditure	649.7	184.3%	1,796.1	380.3%	-63.8%
Profit before tax	-297.1	-84.3%	-1,323.7	-280.3%	-77.6%
Tax expense	-	-	36.9	7.8%	-100.0%
Profit after tax	-297.1	-84.3%	-1,360.6	-288.1%	-

Income from operations: Income from operations decreased by 23.8% to Rs. 332.2 crore in FY13 from Rs. 435.7 crore in FY12. This is primarily due to a decrease in average Gross Loan Portfolio by 33% from Rs. 2,734.8 crore in FY12 to Rs. 1,832.4 crore in FY13. The opening and closing Gross Loan Portfolio in FY13 was Rs. 1,668.9 crore (March 2012) and Rs. 2,359.0 crore (March 2013).

Other income: Other income decreased by 44.4% to Rs. 20.4 crore in FY13 from Rs. 36.6 crore in FY12. The fall in other income was due to the discontinuation of the collection of group insurance administrative charges from your Company's Borrowers from January 2011.

Interest income from fixed deposits decreased by Rs. 1.3 crore in FY13 due to a decrease in fixed deposits from Rs. 282.6 crore in FY12 to Rs. 211.0 crore in FY13.

Other fee income increased by 70.6% from Rs. 5.7 crore in FY12 to Rs. 9.7 crore in FY13. Other fee income relates to the fee received from strategic alliance partners for financing their products, such as mobile phones and on the purchases made by the kirana stores owned by your Company's Borrowers.

Financial expenses: Your Company's financial expense represents 22% of the total expenses in FY13. Financial expenses decreased by 28.8% from Rs. 200.5 crore in FY12 to Rs. 142.7 crore in FY13 due to a decrease in average borrowings by 23.8% from Rs. 1,493.1 crore in FY12 to Rs. 1,138.0 crore in FY13. The opening and closing borrowings for FY13 were Rs. 1,021.3 crore (March 2012) and Rs. 1,618.4 crore (March 2013) respectively.

Employee benefit expenses: Employee benefit expenses consist of salaries and other employee benefits. Employee benefit expenses decreased by 33.9% from Rs. 261.1 crore in FY12 to Rs. 172.7 crore in FY13, which was due to the decrease in headcount from 16,194 at the end of FY12 to 10,809 at the end of FY13. Employee benefit expenses for FY13 included Rs. 5.8 crore paid towards termination benefits.

Other expenses: Other expenses decreased by 44.7% from Rs. 151.0 crore in FY12 to Rs. 83.5 crore in FY13. This decrease is primarily due to the merger of 208 branches and decrease in travelling and conveyance expenses, legal and professional fees, communication expenses and other provisions and write-offs.

Depreciation and amortization: Depreciation and amortization decreased by 35.8% to Rs. 6.4 crore in FY13 from Rs. 10 crore in FY12. The decrease was primarily due to the lower net addition of fixed and intangible assets such as computers, vehicles, software and furniture of Rs. 0.8 crore in FY13 as compared to Rs. 2.6 crore in FY12 and sale of certain assets in FY13.

Provisions and write-offs: Provisions and write-offs represented 37.6% of total expenses for FY13 and decreased by 79.2% from Rs. 1,173.5 crore in FY12 to Rs. 244.4 crore in FY13. The decrease was due to lower provisions and write-offs on loan portfolio as a large part of the Andhra Pradesh portfolio was written off in FY12.

Risk management

Risk is an integral part of your Company's business and sound risk management is critical to the success of the organization. As a financial intermediary, your Company is exposed to risks that are particular to its lending and the environment within which it operates. Your Company has identified and implemented comprehensive policies and procedures to assess, monitor and manage risk throughout your Company. The risk management process is continuously improved and adapted to the changing global risk scenario. The agility of the risk management process is monitored and reviewed for its appropriateness in the changing risk landscape. The process of continuous evaluation of risks includes taking stock of the risk landscape on an event-driven basis.

Your Company has an elaborate process for risk management. This rests on the three pillars of Business Risk Assessment, Operational Controls Assessment and Policy Compliance Processes. Major risks identified by the businesses and functions are systematically addressed through mitigating actions on a continuing basis. These are discussed with both the Management Committee and the Audit Committee. Some of the risks relate to competitive intensity and changing legal and regulatory environment.

The Audit Committee of the Board reviews the risk management policies in relation to various risks and regulatory compliance issues.

During FY13, your Company has adopted the following geographic concentration norms:

Disbursement-related caps			**Portfolio outstanding related caps**		
Metric	Concentration norms		Metric	Portfolio O/S limit as % of net worth	Exceptions
State	<15% (20% for Karnataka)		State	50%	75% for Karnataka and Orissa
District	<3% (4% for Karnataka)		District	5%	Only 5% of the total operating districts can go upto 10% of net worth
Branch	<1% (1.5% for Karnataka)		Branch	1%	Only 5% of total operating branches can go upto 2% of net worth
NPA	No disbursement to branch with NPA >1%				
Collection efficiency	No disbursement to branch with on-time collection efficiency <95%				
Tolerance limit - 10%					

Internal Audit and Internal Control

Your Company has a well-established Internal Audit Department in place, which looks at the adherence to systems, policies and procedures. The guidelines received on various issues of Control from the Reserve Bank of India, the Government of India, your Company's Board of Directors and the Audit Committee of the Board have become part of the Internal Control System for better compliance at all levels. The Internal Audit Department comprises 208 employees, headed by a senior management personnel with reporting lines to the Audit Committee of the Board and Chief Financial Officer. The Internal Audit Department carries out a regular independent appraisal of various activities undertaken by your Company through its branches and regional offices and also conducts various purpose-based audits as per the necessity/ periodicity as decided by the Audit Committee of the Board from time to time. The scope of various audits is modified suitably on a continuous basis to cope with the ever-changing scenario of the microfinance industry. The Internal Audit of the head office has been outsourced to KPMG with a view to having an external agency review the Internal Control process of your Company. The Audit Committee of the Board reviews the performance of the Internal Audit on a continuous basis, gives directions to its functionaries and reviews effectiveness of the Internal Control Systems. The Internal Audit function has been certified with ISO 9001:2008.

Your Company's Internal Control Systems are commensurate with the nature of its business and the size and complexity of its operations. These are routinely tested and cover all branches, regional offices and the head office. Significant audit observations and follow-up actions thereon are reported to the Audit Committee. The Audit Committee reviews the adequacy and effectiveness of your Company's Internal Control environment and monitors the implementation of audit recommendations including those related to strengthening of your Company's risk management policies and systems.

Human Resources

The focus of Human Resources during the year was on retaining talent, optimization and automation of processes, employee engagement, aligning with business imperatives such as organizational performance improvement, building scalability and culture building. HR continued to leverage its unique practices in individual care, nurturing, capability building and growth as key levers of retention.

- Initiated steps towards achieving capability maturity and benchmarking of processes. HR has embarked on the journey of PCMM model alignment and carved out a roadmap for certification
- The operational performance review system has been streamlined across the organization and efforts are underway in providing periodic dashboards for every level
- HR continued its efforts and maintained timely resolution of employee feedback by analyzing and addressing the same with appropriate action
- Your Company was able to attract talent to fill gaps in leadership roles
- Cumulative coverage of ESOPs to employees is 57% with primary focus on retention, productivity and co-creation of wealth as well as a sense of ownership in your Company
- Total learning hours during the year were 69,008 aimed at enhancing behavioural and managerial skills of employees leading to building an internal leadership pipeline
- Your Company received awards from external professional bodies for its distinctive HR practices. Awards received during the year are: Winner of NHRD Inspire Award 2012 - Non IT/ ITES for Talent Engagement and Retention and Winner of Genius HR Excellency Award 2012 for Best Training Initiatives
- Conducted personality development programmes for Field Assistants, created Development Assessment Centres for AAMs and organized two-day workshops, UDAAN (Unit Managers Development & Assessment to Next level) for UMs aimed at enhancing leadership skills across levels
- Your Company has successfully delivered 2,27,077 hours of technical training for the field force in seven major Indian languages through a dedicated team of 151 trainers. Training covers areas like processes, products and policies with a robust testing mechanism measuring the effectiveness of programmes
- In addition to the mandatory process trainings, your Company trained every employee on Customer Protection Practices defined by Smart Campaign. All active members of the organization have also been trained on customer rights and the grievance redressal mechanism. Members were also trained in Customer Protection Practices
- HR has ensured strict compliance with applicable acts and responded in a timely manner to various notices and visits of officials leading to successful closure of the same without any further potential risk
- SPARK (HRMS) was rolled out in FY13 in order to bring in operational efficiency
- HR has ably supported field staff enabling them to avail of benefits such as mediclaims and ESIC. Training of employees enabled them to claim benefits without any process gaps and, thereby, reduced rejection risk
- Overall employee strength of your Company was 10,809 across India as on March 31, 2013. The manpower distribution is: field staff including regional office employees – 10,551 (98%) and head office staff – 258 (2%)
- Voluntary attrition rate during FY13 was 24%

Information Technology

Technology combined with innovation and business process change brings in the greatest return. Pursuing this line, your Company has focused on advanced technology solutions that drive it to exponential growth through the following:

- Building a secured private cloud to connect all SKS branches
- Developed a robust system to extract daily incremental data from branches and provide extensive reporting capability
- Provided enhanced communication to branches via email and corporate intranet
- Developed several add-on products to support new business initiatives such as an enterprise application for the Gold Loan business and an in-house satellite door-step product
- Leveraged virtualization technologies to optimize infrastructure

Fund raising

In FY13, your Company received sanctions for Rs. 3,149 crore as compared to Rs. 1,873 crore during FY12. Your Company raised funds of Rs. 2,874.7 crore in FY13 as compared to Rs. 1,484.5 crore in FY12. Your Company has also raised funds of Rs. 1,194.7 crore through securitization/ assignment of portfolio loans. Your Company's debt funding sources are broad based and, as of March 31, 2012 its total outstanding borrowings and funds from assignment of loans from public sector banks, domestic private banks, foreign banks and financial and other institutions were 56.9%, 27.4%, 5.2% and 10.5% respectively. As of March 31, 2013 its total outstanding borrowings and funds from assignment of loans from public sector banks, domestic private banks, foreign banks and financial and other institutions were 36.7%, 53.2%, 1.9% and 8.3% respectively.

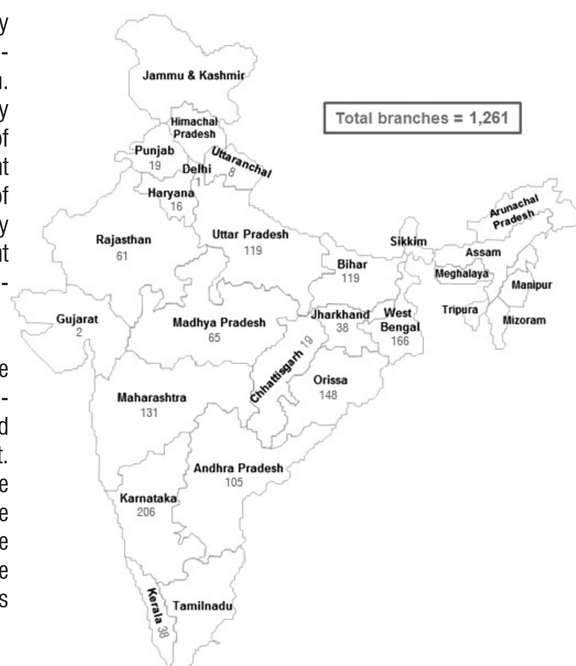
Furthermore, one of the key recommendations of the Malegam Committee was maintaining priority sector status for MFIs. In early 2011 the RBI accepted the recommendations of the Malegam Committee and, in May 2011 the RBI decided to maintain the eligibility of MFIs for PSL, subject to fulfilment of certain conditions in relation to qualifying assets and pricing by MFIs. The RBI withdrew the eligibility of certain other categories of NBFCs to obtain PSL funds. In July 2012, the RBI issued revised guidelines on PSL based on the recommendations of the Committee headed by Mr. M.V. Nair and public comments on the recommendations. The revised guidelines confirmed the PSL classification of loans to MFIs subject to certain conditions. In addition, in December 2011 the RBI has permitted NBFC-MFIs to access external commercial borrowings upto US $10 million (or its equivalent amount) in a financial year without requiring any prior approvals.

Cash management

All of your Company's disbursements and collections from Borrowers are done in cash, making cash management an important element of the business. To reduce the potential risks of theft, fraud and mismanagement, your Company implemented an integrated cash management system in July 2009 which is operational in approximately 1,151 of its branches as of March 31, 2013. The system utilizes an Internet banking software platform that interfaces with various banks to provide your Company with real-time cash information for these branches and the loan activity therein. Your Company believes this integrated system augments its management information systems and facilitates its bank reconciliations, audits and cash flow management. The system also reduces errors. Your Company has adopted a cash investment policy that limits cash investments to interest-bearing fixed deposit accounts. Your Company does not invest cash in any other instruments or securities.

Distribution network

Your Company's fund-based and fee-based products are distributed by its Branch Managers, Assistant Branch Managers and Sangam Managers, who use weekly Sangam meetings as a distribution platform. During FY13, each of its Sangam Managers managed approximately 530 Members on an average in non-Andhra Pradesh states. As of March 31, 2013 your Company had 9,154 Branch Managers, Assistant Branch Managers and Sangam Managers, who comprised 84.7% of your Company's total workforce. As of March 31, 2013 your Company had 1,261 branches. Administrative support staff and management personnel at your Company's area and regional offices provide support to its branches.



These personnel are typically locally hired and trained so that they have a strong understanding of the local areas in which they would eventually work. Your Company, however, ensures that they are not appointed in the same village or region of villages to avoid a conflict of interest. In many cases, your Company's Sangam Managers come from the same villages as its Members. Your Company believes this has the additional benefit of creating more employment in the villages where your Company has a presence. Your Company trains each employee through a two-month programme that covers both financing principles and field operations.

In addition, your Company maintains a direct customer contact programme ('Sangam Leader Meeting'). As part of this programme, Members in a Sangam elect a Sangam leader to serve as the key contact and relationship person for the Sangam with our organization. Your Company conducts Sangam Leaders' Meetings to inform them of its current and historical events, which allow them to better communicate the objectives of your Company to its Members and better understand their expectations of your Company's services.

Report on Corporate Governance as on March 31, 2013

I. Company philosophy

Your Company is committed to conducting its business in accordance with applicable laws, rules and regulations. Your Company follows the highest standards of business ethics and ethical conduct, and is known for adopting corporate best practices.

In line with this approach, your Company has been complying with Clause 49 of the Equity Listing Agreement on Corporate Governance framed by the Securities and Exchange Board of India (SEBI).

In addition, your Company complies with the Reserve Bank of India's Master Circular on Corporate Governance issued vide DNBS(PD) CC No. 342/ 03.10.001/ 2013-14, dated July 1, 2013, as it has been registered with the apex regulator of the banking sector as an NBFC Non-Deposit Accepting Systemically Important (NBFC-ND-SI) under Section 45-IA of the RBI Act, 1934.

Adherence to the highest standards of integrity, transparency, fair practice and ethical behaviour are fundamental to your Company's business model. Your Company's mission is to provide financial services to economically weaker sections, and your Company believes that this can best be achieved by following its core values:

- **Right focus - Customer first**: Your Company's products, processes and people are all focused on creating the highest value for the customer. This includes being respectful to customers, understanding the needs of customers and being transparent with customers

- **Right means - Ethics always**: Your Company will follow ethical practices in all its relationships at all times, including following the law both in letter and spirit. This includes not offering bribes, not paying or taking commissions, and not taking any other short-cuts

- **Right way - Consistent quality**: Your Company will have standardized processes which will enable it to reach out to most customers, cost effectively. Your Company will foster innovation but in a way that ensures consistent quality

II. Board of Directors

A. Composition of the Board

The Board of Directors has been implementing the principles of Corporate Governance as stipulated in Clause 49 of the Equity Listing Agreement and the RBI's Master Circular. Your Company's Corporate Governance framework is based on an effective, independent Board, separation of the supervisory role of the Board from the executive management team and proper constitution of Committees of the Board. The Board functions either as a full Board or through various Committees constituted to oversee specific operational areas. The Management provides the Board with detailed reports on the performance of your Company, periodically.

As the Chairman of your Company is a non-executive Independent Director of your Company, at least one-third of the Board of Directors should be independent directors, as required under the Corporate Governance norms provided in Clause 49 of the Equity Listing Agreement. Currently, the Board consists of eight members, of whom except for the Managing Director, all the other members are Non-Executive Directors including five Independent Directors.

B. Directorships held by the members of the Board as on March 31, 2013

Name of the Director	Indian Public Companies *	Committee Membership **	Chairperson of Committees **
Mr. P.H. Ravikumar Non-Executive Chairman-Interim – Independent Director	9	3	4
Mr. M.R. Rao Managing Director and CEO	1	1	-
Dr. Tarun Khanna Non-Executive – Independent Director	2	1	1
Mr. Geoffrey Tanner Woolley Non-Executive – Independent Director	1	2	-
Mr. P. Krishnamurthy # Nominee Director of SIDBI Non-Executive – Independent Director	1	1	-
Mrs. Ranjana Kumar ## Independent Director	5	2	2
Mr. Paresh Patel Non-Executive Director	1	1	-
Mr. Sumir Chadha Non-Executive Director	2	1	-

Note: There is no inter-se relationship amongst the Board members of your Company.

* Directorships in Indian public companies (listed and unlisted companies) including in SKS Microfinance Limited

** As required under Clause 49 of the Listing Agreement, the disclosure includes Membership/ Chairpersonship of the Audit Committee; the Shareholders'/ Investors' Grievance Committee and the Remuneration & Compensation Committee in Indian public companies (listed & unlisted) including SKS Microfinance Limited

\# SIDBI withdrew its nomination of Mr. Chandrasekaran w.e.f. June 8, 2012 and substituted him with Mr. P. Krishnamurthy

\## Mrs. Ranjana Kumar was appointed as an Independent Director w.e.f. March 8, 2013

C. The Board procedures

The Board is presented with relevant information on various matters relating to the working of your Company, especially those that require deliberation at a strategic level, ahead of each Board meeting. All statutory and material information is placed before the Board to enable it to make effective and efficient decision-making. Different functional heads provide presentations to the Board on various issues concerning the operations of your Company from time to time. The Board has separate and independent access to the Core Management Team all the time.

In addition to items which are required to be placed before the Board for their noting and/ or approval, the following information is also being provided to the Board:

1. Annual operating plans/ budgets and any updates
2. Capital budgets and any updates
3. Quarterly results of your Company and its operating divisions or business segments
4. Minutes of meetings of the Audit Committee and other Committees of the Board
5. The information on recruitment and remuneration of senior officers just below the Board level, including appointment/ removal of the Chief Financial Officer and the Company Secretary
6. Show-cause, demand, prosecution and penalty notices, which are materially important
7. Fatal or serious accidents, dangerous occurrences, etc.
8. Any material default in financial obligations to and by your Company
9. Any issue which involves possible public or product liability claims of substantial nature
10. Details of any joint venture or collaboration agreement
11. Any significant development in Human Resources
12. Details of foreign exchange exposures and the steps taken by the management to limit the risks of adverse exchange rate movement, if material
13. Non-compliance of any regulatory, statutory or listing requirements and shareholder services such as non-payment of dividend, delay in share transfer, etc.

During the financial year 2012-13, Six Board Meetings were held on May 7, 2012, July 12, 2012, August 3, 2012, October 29, 2012, November 1, 2012 and January 24, 2013. The gap between any two meetings has not been more than four months.

Attendance of each Director at the Board meetings during FY13:

Name	Meetings attended during 2012-13	Meetings participated through electronic means	Participation overall (including through electronic means)	Ninth AGM held on August 10, 2012
Mr. P.H. Ravikumar	5	1	100%	Yes
Mr. M.R. Rao	5	1	100%	Yes
Dr. Tarun Khanna	0	3	50%	No
Mr. V. Chandrasekaran *	1	-NA-	100%	-NA-
Mr. Geoffrey Tanner Woolley	5	0	83%	No
Mr. P. Krishnamurthy **	4	0	100%	No
Mrs. Ranjana Kumar ***	-NA-	-NA-	-NA-	-NA-
Mr. Paresh Patel	3	1	67%	No
Mr. Sumir Chadha	2	1	50%	No

* SIDBI withdrew its nomination of Mr. V. Chandrasekaran w.e.f. June 8, 2012

** Mr. P. Krishnamurthy was appointed as Independent Director by SIDBI in place of Mr. V. Chandrasekaran on July 25, 2012

*** Mrs. Ranjana Kumar was appointed as Independent Director on March 8, 2013

III. Board Committees

In terms of Clause 49 of the Listing Agreement and RBI guidelines on Corporate Governance, your Company has constituted Board-level committees, namely:

(i) The Audit Committee
(ii) The Shareholders'/ Investors' Grievance Committee
(iii) The Remuneration & Compensation Committee
(iv) The Nomination Committee
(v) The Asset Liability Management Committee and
(vi) The Risk Management Committee

In addition to the aforesaid mandatory Committees, the Board has constituted two other Committees to oversee specific operational activities, namely the ESOP Allotment Committee and the Finance Committee.

The Board is responsible for constituting, assigning, co-opting members of the committee(s), fixing their terms of reference and also delegating their powers from time to time. The minutes of the meetings are circulated to the Board for its information and confirmation.

1. THE AUDIT COMMITTEE

With a view to complying with the various requirements under the Companies Act, 1956 and also codes of Corporate Governance as framed by the SEBI and the RBI, the Audit Committee has been set up with a majority of the members being Independent Directors. The Committee is headed by an Independent Director as the Chairman.

A) Terms of reference of the Audit Committee are as follows:

1. **Duty of the Chairman** - The Chairman of the Audit Committee shall be present at the Annual General Meeting of your Company to provide any clarification on matters relating to audit.

2. **Invitation** - The Audit Committee may invite such of the executives, as it considers appropriate, to be present at the meetings of the Committee. However, on occasions, it may also meet without the presence of any executives of your Company. The Managing Director and Chief Executive Officer, the Chief Financial Officer, Head of Internal Audit and representatives of the Statutory Auditors may be present as invitees for the meetings of the Audit Committee.

3. **Role of the Company Secretary** - The Company Secretary shall act as the Secretary to the Committee.

4. **Meetings of the Audit Committee and Quorum** - The Audit Committee should meet at least four times in a year and not more than four months shall elapse between two meetings. The quorum shall be either two members or one-third of the members of the Audit Committee, whichever is greater, but there should be a minimum of two Independent members either present in person or through electronic means.

5. Powers of the Audit Committee - The Audit Committee shall have powers, which should include the following:

1. To investigate any activity within its terms of reference
2. To seek information from any employee
3. To obtain outside legal or other professional advice
4. To secure attendance of outsiders with relevant expertise, if it considers it necessary

6. Role of the Audit Committee - The role of the Audit Committee shall include the following:

1. To oversee your Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible
2. To recommend to the Board the appointment, re-appointment and, if required, the replacement or removal of the Statutory Auditor and the fixation of audit fees
3. To approve payments to the Statutory Auditors for any other services rendered by them
4. To review, with the management, the annual financial statements before submission to the Board for approval, with particular reference to:
    - i) Matters required to be included in the Director's Responsibility Statement which will be part of the Board's report in terms of Clause (2AA) of Section 217 of the Companies Act, 1956
    - ii) Changes, if any, in accounting policies as also practices and reasons for the same
    - iii) Major accounting entries involving estimates based on the exercise of judgment by the management
    - iv) Significant adjustments made in the financial statements arising out of audit findings
    - v) Compliance with listing and other legal requirements relating to the financial statements
    - vi) Disclosure of any related party transactions
    - vii) Qualifications in the draft audit report

5. To review, with the management, the quarterly financial statements before submission to the Board for approval

5A. To review, with the management, the statement of uses/ application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document/ prospectus/ notice and the report submitted by the monitoring agency verifying the utilization of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter

6. To review, with the management, the performance of statutory and internal auditors, and adequacy of the internal control systems
7. To review the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit
8. To discuss with internal auditors on any significant findings and follow-up thereon
9. To review the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board
10. To discuss with the Statutory Auditors, before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern
11. To look into the reasons for substantial defaults in the payment to depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors
12. To review the functioning of the whistle-blower mechanism
13. To carry out any other function as mentioned in the terms of reference of the Audit Committee

B. Composition and meetings during the year

The Audit Committee currently consists of the following members:

Name of Member	Designation	No. of Meetings attended during FY13
Mr. P.H. Ravikumar	Chairman	8 #
Mr. V. Chandrasekaran *	Member	2
Mr. P. Krishnamurthy **	Member	6
Mr. Paresh Patel	Member	4

Participated in Audit Committee meetings held on January 21, 2013 and January 24, 2013 through electronic means
* SIDBI withdrew its nomination of Mr. V. Chandrasekaran w.e.f. June 8, 2012
** Mr. P. Krishnamurthy was appointed as Member w.e.f. August 3, 2012

The Committee was reconstituted on August 3, 2012.

During the financial year 2012-13, Eight Audit Committee meetings were held on April 28, 2012, May 6, 2012, August 3, 2012, October 3, 2012, October 23, 2012, October 29, 2012, January 21, 2013 and January 24, 2013.

2. THE SHAREHOLDERS'/ INVESTORS' GRIEVANCE COMMITTEE

With a view to complying with various requirements under the Code of Corporate Governance framed by the SEBI, the Board has set up the Shareholders'/ Investors' Grievance Committee with an Independent Director as its Chairman.

A. Terms of reference of the Shareholders'/ Investors' Grievance Committee are as follows:

a. To review and redress shareholders' and investors' grievances like transfer of shares, debentures, non-receipt of balance sheet and declared dividend
b. To deal with all aspects relating to the issue and allotment of shares and debentures and/ or other securities of your Company
c. To consider and approve sub-division, consolidation, transfer and issue of duplicate share and debenture certificates
d. Authority to take a decision in any other matter in relation to the above functions/ powers
e. To delegate any of the powers mentioned above to your Company's executives
f. The Company Secretary of your Company shall act as Secretary to the Committee and shall keep the Board informed about the decisions of the Committee

B. Composition and meetings during the year

The Committee currently consists of the following members:

Name of Member	Designation	No. of Meetings attended during FY13
Mr. P.H. Ravikumar	Chairman	2
Dr. Tarun Khanna	Member	0
Mr. M.R. Rao	Member	2
Mr. V. Chandrasekaran *	Member	-NA-
Mr. Geoffrey Tanner Woolley **	Member	1

* Mr. V. Chandrasekaran was appointed as a member w.e.f. May 7, 2012. However, SIDBI withdrew its nomination of Mr. V. Chandrasekaran w.e.f. June 8, 2012
** Mr. Geoffrey Tanner Woolley was appointed as a member w.e.f. August 3, 2012

During financial year 2012-13, two meetings of the Shareholders'/ Investors' Grievance Committee were held on May 7, 2012 and October 29, 2012.

The Company Secretary is the Compliance Officer.

Details of Complaints redressed during FY13:

No. of Shareholders'/ Investors' complaints pending as on April 1, 2012	0
No. of Shareholders'/ Investors' complaints received in FY13	22
No. of Shareholders'/ Investors' complaints solved to the satisfaction of investors in FY13	22
No. of Shareholders'/ Investors' complaints pending as on March 31, 2013	0

The Committee was reconstituted on May 7, 2012 and August 3, 2012.

3. THE REMUNERATION & COMPENSATION COMMITTEE (RCC)

With a view to complying with various requirements under the Companies Act, 1956 and the Code of Corporate Governance as framed by the SEBI, the Remuneration & Compensation Committee (RCC) was set up with all Non-Executive Directors. It is headed by an Independent Director as its Chairman.

The RCC was constituted to discharge the Board's responsibilities relating to the compensation of your Company's Executive Directors and senior management. The RCC has the overall responsibility of evaluating and approving the compensation plans, policies and programmes for Executive Directors and senior management of your Company.

A. Terms of reference of the RCC

1. To determine on behalf of the Board and on behalf of the shareholders with agreed terms of reference, your Company's policy on specific remuneration packages for Executive Directors including pension rights and any compensation payment

2. To determine the revenue matrix, salary and bonus to be paid to Whole-Time-Director(s) or Managing Director of your Company
3. To determine the sitting fee to be paid to the members of the Board
4. To recommend to the Board the revenue matrix, salary and bonus to be paid to the Core Management Team of your Company
5. To identify, appoint and review the performance of key management personnel of your Company
6. To make recommendations to the Board of Directors with respect to the compensation to be paid to the Executive Directors and the Core Management Team of your Company
7. To determine the criteria for the grant of options or shares under the Stock Option or Stock Purchase Scheme
8. To consider any other matter as may be required under the Stock Option or Stock Purchase Scheme of your Company
9. To authorize to implement any matter in relation to the above functions/ powers
10. To delegate any of the powers mentioned above to your Company executives
11. Quorum of the Committee shall be three members of the Committee either present in person or through electronic means

B. Composition and meetings during the year

The RCC currently consists of the following members:

Name of Member	Designation
Dr. Tarun Khanna	Chairman
Mr. Geoffrey Tanner Woolley	Member
Mr. Sumir Chadha	Member

No meeting of the RCC was held during the FY13. However, certain matters which required the RCC's approval, were obtained through circular resolutions.

C. Remuneration policy

The RCC determines and recommends to the Board the compensation payable to the Directors. All Board-level compensation (except sitting fee) is approved by the Shareholders and separately disclosed in the Financial Statements.

D. Criteria for making payments to Independent Directors

The Independent Directors of your Company play a crucial role in the independent functioning of the Board. They bring an external perspective to decision-making and offer strategic guidance while maintaining objective judgments. They also oversee the Corporate Governance framework of your Company. Your Company did not pay any remuneration to the Independent Directors, other than sitting fees for attending the meetings of the Board, as approved by the Board within the permissible limits of the Companies Act, 1956 and ESOPs as per Schemes of your Company for FY13.

Sitting fees paid to Independent Directors:

Name of the Director #	Sitting fees (Rs.)
Mr. P.H. Ravikumar	2,80,000
Mr. V. Chandrasekaran	60,000
Dr. Tarun Khanna	30,000
Mr. Geoffrey Tanner Woolley	1,20,000
Mr. P. Krishnamurthy	2,20,000

No sitting fees have been paid to Directors for participation through electronic means.

E. Criteria for making payments to Executive Directors:

Payment of remuneration to Executive Directors is determined and recommended by the RCC to the Board for its approval, which is subsequently approved by the Shareholders of your Company.

Remuneration paid to Executive Director for FY13:

(Rs. in lakh)

Name	Salary & Incentives *	Value of Perquisites	Contribution to Provident Fund	ESOPs	Total *
Mr. M.R. Rao, Managing Director and CEO	148.84	4.13	9.30	-	162.27

* Salary, incentives and perquisites for Mr. M.R. Rao for FY13 include an amount of Rs. 73.84 lakh which represent arrears for FY12.

The details of the Equity Shares/ ESOPs held by the Directors as on March 31, 2013 are as follows:

Name of the Director	No. of Shares held	No. of ESOPs held and name of the Scheme
Mr. P.H. Ravikumar	16,400	2,13,500 stock options under ESOP 2008 (ID), ESOP 2010 and ESOP 2011.
Mr. M.R. Rao	2,94,166	Nil
Dr. Tarun Khanna	8,080	2,36,000 stock options under ESOP 2008 (ID), ESOP 2010 and ESOP 2011.
Mr. Geoffrey Tanner Woolley	Nil	2,36,000 stock options under ESOP 2008 (ID), ESOP 2010 and ESOP 2011.
Mrs. Ranjana Kumar	Nil	1,00,000 stock options under ESOP 2011.

4. THE NOMINATION COMMITTEE

With a view to complying with the requirements under the Code of Corporate Governance framed by the RBI, the Board has set up the Nomination Committee with all Non-Executive Directors to ensure that the general character of the management or the proposed management of your Company shall not be prejudicial to the interest of its present and future stakeholders and to ensure 'fit and proper' credentials/ status of proposed/ existing Directors of your Company. The Committee is headed by an Independent Director as its Chairman.

A. Terms of reference of the Nomination Committee are as follows:

1. To ensure fit and proper credentials of proposed/ existing Directors
2. Appointment and re-appointment of Directors on the Board
3. Filling a vacancy on the Board
4. Appointment of members to the Executive Committee of the Board

B. Composition and meetings during the year

Nomination Committee currently consists of the following members:

Name of Member	Designation
Dr. Tarun Khanna	Chairman
Mr. Geoffrey Tanner Woolley	Member
Mr. Sumir Chadha	Member

No meeting of the Nomination Committee was held during FY13. However, certain matters which required the Nomination Committee's approval, were obtained through circular resolutions.

5. THE ASSET LIABILITY MANAGEMENT COMMITTEE

With a view to complying with the requirements under the Code of Corporate Governance framed by the RBI, the Board has set up the Asset Liability Management Committee for monitoring the asset liability gap and to strategize action to mitigate risks associated with your Company.

A. Terms of reference of the Asset Liability Management Committee are as follows:

1. Addressing concerns regarding asset liability mismatches
2. Achieving optimal return on capital employed while maintaining acceptable levels of risk including and relating to liquidity, market and operational aspects and adhering to the relevant policies and regulations
3. Addressing concerns regarding interest rate risk exposure

B. Composition and meetings during the year

The Asset Liability Management/ Risk Management Committee consists of the following members and attendance is as follows:

Name of Member	Designation	No. of Meetings attended during FY13	
		Asset Liability Management/ Risk Management	Asset Liability Management
Mr. Paresh Patel	Chairman	2	1
Mr. M.R. Rao	Member	2	1
Mr. P.H. Ravikumar	Member	2	1 **
Mr. V. Chandrasekaran *	Member	-NA-	-NA-
Mr. P. Krishnamurthy	Member	1	1

* Mr. V. Chandrasekaran was appointed as a member w.e.f. May 7, 2012. However, SIDBI withdrew its nomination of Mr. V. Chandrasekaran w.e.f. June 8, 2012

** Mr. P.H. Ravikumar participated in the ALM meeting held on January 21, 2013 through electronic means

During financial year 2012-13, two meetings of the Asset Liability Management/ Risk Management Committee were held on August 1, 2012 and October 3, 2012.

The Asset Liability Management/ Risk Management Committee was split on October 29, 2012 into the Asset Liability Management Committee and the Risk Management Committee.

Thereafter, one meeting of the Asset Liability Management Committee was held on January 21, 2013.

6. THE RISK MANAGEMENT COMMITTEE

With a view to complying with the requirements under the Code of Corporate Governance framed by the RBI, the Board has set up the Risk Management Committee to manage the integrated risk.

A. Terms of reference of the Risk Management Committee are as follows:

1. Reviewing operational risk (including sub risk for operational risk), information technology risk and integrity risk
2. Taking strategic actions to mitigate the risk associated with the nature of the business
3. Appraising the Board of Directors at regular intervals regarding the process of putting in place a progressive risk management system, risk management policy and strategy

The Risk Management Committee consists of the following members:

Name of Member	Designation
Mr. Paresh Patel	Chairman
Mr. P.H. Ravikumar	Member
Mr. P. Krishnamurthy	Member
Mr. M.R. Rao	Member

No meeting of the Risk Management Committee was held during FY13.

IV. General Body Meetings

The Annual General Meeting (AGM) is the principal forum for interaction with shareholders, where the Board answers specific queries raised by the shareholders. The Board acknowledges its responsibility towards its shareholders and, therefore, encourages open and active dialogue with all its shareholders, be it individuals, domestic institutional investors or foreign investors.

Details of the last three Annual General Meetings are given below:

Year	Location	Date & Time	Whether any special resolutions were passed in the previous 3 AGMs
2009-10	'Ashoka Raghupati Chambers', 1-10-60 to 61, Opp. Shoppers Stop, Begumpet, Hyderabad - 500 016	July 16, 2010 at 4.30 pm	Yes (3 Special Resolutions)
2010-11	Sri Sathya Sai Nigamagamam, 8-3-987/2, Srinagar Colony, Hyderabad - 500 073	July 20, 2011 at 10.00 am	Yes (1 Special Resolution)
2011-12	Bhaskara Auditorium, B M Birla Science Centre, Adarsh Nagar, Hyderabad - 500 063	August 10, 2012 at 10.00 am	Yes (2 Special Resolutions)

V. Postal Ballot

During the year, your Company conducted voting through Postal Ballot in accordance with Section 192A of the Companies Act, 1956 read with the Companies (Passing of the Resolution by Postal Ballot) Rules, 2011 including any statutory modification or re-enactment thereof for the time being in force. Mr. K.V.S. Subramanyam, Practising Company Secretary, acted as the Scrutinizer for conducting the Postal Ballot process. The results were announced on August 27, 2012 and the voting pattern of the same is as under:

Item Nos. as given in Postal Ballot Notice	Votes cast in favour	Votes cast against	Invalid votes	Result
Item No. 1 "*RESOLVED* that pursuant to Section 17 and all other applicable provisions, if any, of the Companies Act, 1956 and rules and regulations made thereunder including any statutory modification or reenactment thereof for the time being in force and subject to confirmation of the Company Law Board delegated to Regional Director (vide notification issued by the Ministry of Corporate Affairs dated July 10, 2012), and such other approvals, consents, permissions and sanctions as may be necessary, the existing Clause II in the Memorandum of Association of the Company be substituted as under: ***The Registered Office of the Company will be situated in the State of Maharashtra"*** ***"RESOLVED FURTHER*** that on the confirmation by the Company Law Board delegated to Regional Director, the Registered Office of the Company be shifted from the State of Andhra Pradesh to the State of Maharashtra". ***"RESOLVED FURTHER*** that, for the purpose of giving effect to this resolution, the Board be and is hereby authorized to do all such acts, deeds, filings, matters and things and execute all such deeds, documents, instruments and writings as may be required, with powers on behalf of the Company to settle all questions, difficulties or doubts that may arise in this regard as the Board may in its sole and absolute discretion deems fit and delegate all or any of its powers herein conferred to any Director(s) and/ or officer(s) of the Company, if required, as it may in its absolute discretion deem it necessary or desirable."	2,41,82,617	4,475	6,027	Passed with the requisite majority

VI. Shareholders

Disclosures regarding the appointment or re-appointment of Directors

According to the Articles of Association, one-third of the Directors retire by rotation and, if eligible, seek re-appointment at the Annual General Meeting of shareholders. As per the provisions of Articles of Association, Dr. Tarun Khanna and Mr. Geoffrey Tanner Woolley will retire at the ensuing Annual General Meeting. The Board has recommended the re-appointment of the retiring Directors. The detailed profiles of these Directors would be provided in the Notice convening the Annual General Meeting.

Investor Grievances and Share Transfer System

The Board of Directors has constituted the Shareholders'/ Investors' Grievance Committee to examine and redress complaints received from the shareholders and investors.

Share Transfer System

About 95.31% of the Equity Shares of your Company are in electronic form. Transfer of these Shares is done through the depositories with no involvement of your Company. As regards transfer of Shares held in physical form, the transfer documents can be lodged with the Registrar & Share Transfer Agent, Karvy Computershare Private Limited, at the address given below. Transfer of shares in physical form is normally processed within 15 days from the date of receipt, if the documents are complete in all respects. The Company Secretary & Compliance Officer is empowered to approve transfers upto 500 number of shares and a single committee member of the Shareholders'/ Investors' Grievance Committee upto 2,000 number of shares. The above limits were approved by the Shareholders'/ Investors' Grievance Committee in its meeting held on July 16, 2010.

Registrar & Share Transfer Agent

Address for correspondence:

KARVY COMPUTERSHARE PRIVATE LIMITED
Registrars and Share Transfer Agents
Plot No. 17 to 24, Vittal Rao Nagar, Madhapur
Hyderabad 500 081, Andhra Pradesh (India)
Tel.: 91 40 2342 0818, Fax: 91 40 2342 0814
Email: einward.ris@karvy.com
Website: www.karvycomputershare.com

Outstanding GDRs/ ADRs/ Warrants or any Convertible instruments, conversion date and likely impact on equity

Your Company has not issued any GDRs/ ADRs, warrants or other instruments which are pending for conversion.

Distribution of Shareholding as on March 31, 2013:

Range of Equity Shares held	No. of Shareholders	Percentage to total No. of shareholders	No. of Shares	Amount (Rs.)	Percentage to total paid up capital
1 – 5,000	52,682	95.06	34,93,111	3,49,31,110.00	3.23
5,001 – 10,000	1,435	2.59	11,07,630	1,10,76,300.00	1.02
10,001 – 20,000	620	1.12	9,16,931	91,69,310.00	0.85
20,001 – 30,000	204	0.37	5,11,898	51,18,980.00	0.47
30,001 – 40,000	97	0.18	3,43,015	34,30,150.00	0.32
40,001 – 50,000	73	0.13	3,43,829	34,38,290.00	0.32
50,001 – 1,00,000	139	0.25	9,61,252	96,12,520.00	0.89
1,00,001 & Above	167	0.30	10,05,35,032	1,00,53,50,320.00	92.91
TOTAL	**55,417**	**100.00**	**10,82,12,698**	**1,08,21,26,980.00**	**100.00**

Shareholding pattern as on March 31, 2013:

Catego-ry Code (I)	Category of Shareholder (II)	No. of Shareholders (III)	Total No. of Shares (IV)	No. of Shares held in dematerialized form (V)	Total Shareholding as a percentage of total No. of Shares		Shares pledged or otherwise encumbered	
					As a percentage of (A+B) = (VI)	As a percentage of (A+B+C) = (VII)	No. of Shares (VIII)	As a percentage (IX)=(VIII)/ (IV)*100
(A)	Promoter and Promoter Group							
(1)	Indian							
(a)	Individuals/ Hindu Undivided Family	1	9,06,734	0.84	0.84	0.00	0	0.00
(b)	Central Government/ State Government(s)	0	0	0	0.00	0.00	0	0.00
(c)	Bodies Corporate	0	0	0	0.00	0.00	0	0.00
(d)	Financial institutions/ Banks	0	0	0	0.00	0.00	0	0.00
(e)	Any other							
	Trusts	5	83,54,649	83,54,649	7.72	7.72	0	0.00
Sub-Total (A)(1)		**6**	**92,61,383**	**92,61,383**	**8.56**	**8.56**	**0**	**0.00**
(2)	Foreign							
(a)	Individuals (non-resident individuals/ foreign individuals)	0	0	0	0.00	0.00	0	0.00
	Individuals	0	0	0	0.00	0.00	0	0.00
(b)	Bodies Corporate	4	1,44,51,247	1,44,51,247	13.35	13.35	0	0.00
(c)	Institutions	0	0	0	0.00	0.00	0	0.00
(d)	Qualified Foreign Investor	0	0	0	0.00	0.00	0	0.00
(e)	Others- FII Sub Account	1	44,50,000	44,50,000	4.11	4.11	0	0.00
Sub-Total (A) (2)		**5**	**1,89,01,247**	**1,89,01,247**	**17.47**	**17.47**	**0**	**0.00**
Total Shareholding of Promoter and Promoter Group (A) = (A)(1)+(A)(2)		11	2,81,62,630	2,81,62,630	26.03	26.03	0	0.00
(B)	Public Shareholding	0	0	0	0	0	N.A	N.A
(1)	Institutions	0	0	0	0	0	N.A	N.A
(a)	Mutual Funds/ UTI	6	37,84,001	37,84,001	3.50	3.50	-	-

Catego-ry Code (I)	Category of Shareholder (II)	No. of Shareholders (III)	Total No. of Shares (IV)	No. of Shares held in dematerialized form (V)	Total Shareholding as a percentage of total No. of Shares		Shares pledged or otherwise encumbered	
					As a percentage of (A+B) = (VI)	As a percentage of (A+B+C) = (VII)	No. of Shares (VIII)	As a percentage (IX)=(VIII)/ (IV)*100
(b)	Financial institutions/ Banks	2	16,32,011	16,32,011	1.51	1.51	-	-
(c)	Central Government/ State Government(s)	0	0	0	0.00	0.00	-	-
(d)	Venture Capital Funds	0	0	0	0.00	0.00	-	-
(e)	Insurance companies	1	10,85,205	10,85,205	1.00	1.00	-	-
(f)	Foreign Institutional Investors	39	3,88,91,153	3,88,91,153	35.94	35.94	-	-
(g)	Foreign venture capital investors	0	0	0	0.00	0.00	-	-
(h)	Qualified Foreign Investor	0	0	0	0.00	0.00	-	-
(i)	Any other (specify)	0	0	0	0.00	0.00	-	-
Sub-Total (B)(1)		**48**	**4,53,92,370**	**4,53,92,370**	**41.95**	**41.95**	**-**	**-**
(2)	Non-institutions						N.A	N.A
(a)	Bodies Corporate	781	49,43,357	49,43,357	4.57	4.57	-	-
(b)	i. Individuals/ Individual Shareholders holding nominal share capital up to Rs. 1 lakh.	53,827	65,17,683	64,48,391	6.02	6.02	-	-
	ii. Individual Shareholders holding nominal share capital in excess of Rs. 1 lakh.	54	17,89,979	16,84,813	1.65	1.65	-	-
(c)	Qualified Foreign Investor	0	0	0	0	0	-	-
(d)	Any other (specify)							
	Trusts	1	3,66,355	0	0.34	0.34	-	-
	Foreign Bodies Corporates	5	1,60,06,842	1,60,06,842	14.79	14.79	-	-
	Resident Directors	2	3,10,566	16,400	0.29	0.29	-	-
	Non-resident Directors	1	8,080	8,080	0.01	0.01	-	-
	Non-resident Indians	526	45,35,719	2,96,853	4.19	4.19		
	Clearing members	161	1,79,117	1,79,117	0.17	0.17		

Catego-ry Code (I)	Category of Shareholder (II)	No. of Shareholders (III)	Total No. of Shares (IV)	No. of Shares held in dematerialized form (V)	Total Shareholding as a percentage of total No. of Shares		Shares pledged or otherwise encumbered	
					As a percentage of (A+B) = (VI)	As a percentage of (A+B+C) = (VII)	No. of Shares (VIII)	As a percentage (IX)=(VIII)/ (IV)*100
Sub-Total (B)(2)		**55,358**	**3,46,57,698**	**2,95,83,853**	**32.03**	**32.03**	**-**	**-**
Total Public Shareholding (B)= (B)(1)+(B)(2)		**55,406**	**8,00,50,068**	**7,49,76,223**	**73.97**	**73.97**	**N.A**	**N.A**
TOTAL (A)+(B)		**55,417**	**10,82,12,698**	**10,31,38,853**	**100.00**	**100.00**	**0**	**0.00**
(C)	Shares held by custodians and against which depository receipts have been issued	-	-	-	N.A	N.A	N.A	N.A
GRAND TOTAL (A)+(B)+(C)		**55,417**	**10,82,12,698**	**10,31,38,853**	**100.00**	**100.00**	**0**	**0.00**

Dematerialization of shares and liquidity

Your Company's shares are tradable compulsorily in electronic form and, through Karvy Computershare Private Limited, Registrars & Share Transfer Agents, your Company has established connectivity with both the depositories, that is, National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). The International Securities Identification Number (ISIN) allotted to your Company's Shares under the Depository System is INE180K01011. As on March 31, 2013, 95.31% of your Company's shares are held in dematerialized form (demat) and the rest are in physical form.

Shares held in demat and physical forms as on March 31, 2013, are as follows:

Category	Number of Shareholders	Number of Shares	Percentage to total equity
Demat form: NSDL	37,239	9,89,47,234	91.44
Demat form: CDSL	18,098	41,91,619	3.87
Demat form: Total	**55,337**	**10,31,38,853**	**95.31**
Physical form	80	50,73,845	4.69
Grand Total	**55,417**	**10,82,12,698**	**100.00**

VII. Disclosures:

i. Disclosures on materially significant related party transactions that may have potential conflict with the interests of the Company at large

There are no materially significant related party transactions with your Company's promoters, Directors, key managerial personnel or their relatives, which may have potential conflict with the interest of your Company at large.

Disclosures on transactions with related parties, as required under the Indian Accounting Standard 18, have been incorporated in the Notes to the Accounts, being part of the Annual Report.

ii. Details of non-compliance by the Company, penalties, strictures imposed on the Company by Stock Exchange or SEBI or any statutory authority, on any matter relating to the capital market, during the last three years

There has been no instance of non-compliance with any legal requirements nor have there been any strictures imposed by any stock exchange, the SEBI or any statutory authority, on any matter relating to the capital market, during the last three years.

iii. Whistle-blower policy and affirmation that no personnel has been denied access to the Audit Committee

Your Company has adopted a whistle-blower policy and has established the necessary mechanism for the employees to report their concerns about unethical behaviour. No person has been denied access to the Audit Committee.

Your Company has established a mechanism for employees to report their concerns about unethical behaviour, actual or suspected fraud or violation of your Company's Code of Conduct or ethics policy. It also provides for adequate safeguards against victimization of employees who avail of the mechanism, and also allows direct access to the Chairperson of the Audit Committee in exceptional cases.

iv. Details of compliance with mandatory requirements and adoption of the non-mandatory requirements of this clause

Your Company has fulfilled the following non-mandatory requirements as prescribed in Annexure I D to Clause 49 of the Listing Agreements with the stock exchanges:

a. The requirement regarding the Non-Executive Chairman has been complied with by your Company
b. None of the Independent Directors on your Company's Board have served for a tenure exceeding nine years from the date when the new Clause 49 has come into effect
c. Your Company has set up a Remuneration & Compensation Committee, details of which have been given earlier in this report
d. There are a few comments in the Audit Report, which have suitably been addressed in the Directors' Report

VIII. Compliance with Code of Conduct for the Members of the Board and senior management personnel

Your Company has adopted a Code of Conduct (Code) for the Members of the Board and the senior management personnel as required under Clause 49 of the Equity Listing Agreement. All the Board Members and the senior management personnel have affirmed compliance of the Code. The Annual Report of your Company contains a declaration to this effect signed by the Managing Director.

As required under Clause 49 of the Equity Listing Agreement, the CEO certification is provided in the Annual Report.

IX. Corporate Governance Compliance Certificate

M/s. BS & Company, Company Secretaries, Hyderabad, has certified on the Corporate Governance requirement as per Clause 49 of the Listing Agreement, which is annexed to the Directors' Report section in the Annual Report.

X. Secretarial audit

A qualified Practising Company Secretary has carried out secretarial audit to reconcile the total admitted equity capital with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) as also the total issued and listed equity capital. The secretarial audit report confirms that the total issued/ paid-up capital is in agreement with the total number of Shares in physical form and the total number of dematerialized Shares held with the NSDL and the CDSL.

XI. Means of communication

The quarterly, half yearly and annual results of your Company are published in leading newspapers in India and in Andhra Pradesh viz., **'The Financial Express'** and **'Vaartha'**. The results are also displayed on your Company's website, www.sksindia.com. Your Company's press releases, issued from time to time, are displayed on the website. Presentations made to the institutional investors and analysts after the declaration of the quarterly, half yearly and annual results are also displayed on the website. A Management Discussion and Analysis statement is part of your Company's Annual Report.

XII. General Shareholder Information

(i) Annual General Meeting

Date	: December 3, 2013
Time	: 11.00 am
Venue	: Y.B. Chavan Auditorium, General Jagannath Bhosale Marg, Mumbai - 400 021

(ii) Financial Calendar

Year ending	: March 31, 2014
AGM in	: September, 2014

(iii) Date of Book Closure/ Record Date : November 29, 2013 to December 3, 2013 (both days inclusive)

(iv) Listed on

(1)	National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex Bandra (E), Mumbai 400 051	Stock Code	: SKS MICRO
(2)	BSE Limited Floor 25, P. J. Towers, Dalal Street Mumbai 400 001	Stock Code	: 533228

Listing Fees as applicable have been paid to the above stock exchanges.

(v) Corporate Identification Number (CIN) of the Company: L65999AP2003PLC041732

(vi) Market price data:

High, low (based on closing prices) and number of shares traded during each month in FY13 since its listing on National Stock Exchange of India Limited and BSE Limited:

Monthly High, Low (based on closing prices) at BSE *

Month	High Price	Low Price	Close Price	No. of Shares
Apr-12	129.80	103.00	104.35	17,83,817
May-12	106.00	54.40	57.25	52,25,412
Jun-12	72.20	54.40	68.95	72,30,955
Jul-12	99.80	68.00	86.80	3,45,09,224
Aug-12	130.40	86.40	104.30	3,93,57,927
Sep-12	136.00	97.25	129.80	1,10,18,572
Oct-12	133.00	108.55	112.70	33,73,910
Nov-12	165.95	111.00	165.95	32,91,353
Dec-12	198.90	144.40	160.70	1,04,51,949
Jan-13	190.40	154.15	155.45	81,10,095
Feb-13	156.75	127.10	131.30	48,87,907
Mar-13	153.90	107.50	121.55	58,89,653

* Source: www.bseindia.com

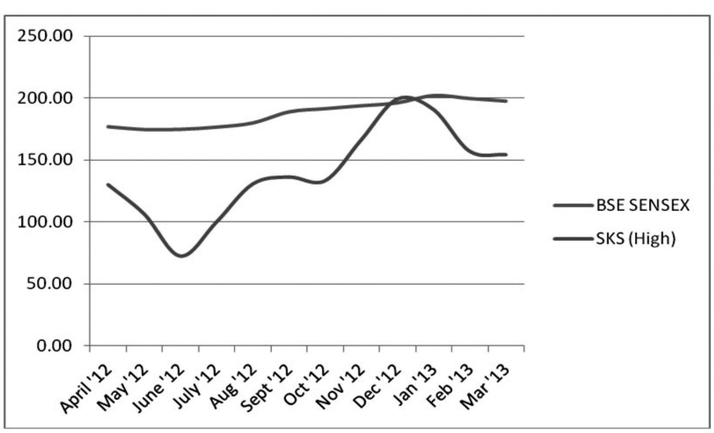
Monthly High, Low (based on closing prices) at NSE @

Month	High Price	Low Price	Close Price	No. of Shares
Apr-12	128.90	103.10	104.75	37,43,777
May-12	106.30	54.50	57.00	1,16,10,547
Jun-12	73.30	54.30	69.05	1,54,42,291
Jul-12	99.40	67.85	86.90	7,33,41,519
Aug-12	130.35	86.50	103.40	9,02,17,470
Sep-12	137.95	97.00	129.60	36,37,424
Oct-12	133.00	109.25	112.8	30,15,806
Nov-12	165.35	107.20	165.35	25,60,860
Dec-12	198.70	143.85	161.00	2,14,54,678
Jan-13	190.45	154.20	155.60	1,86,87,595
Feb-13	160.20	128.00	131.70	93,49,358
Mar-13	170.00	108.00	122.00	1,21,05,334

@ Source: www.nseindia.com

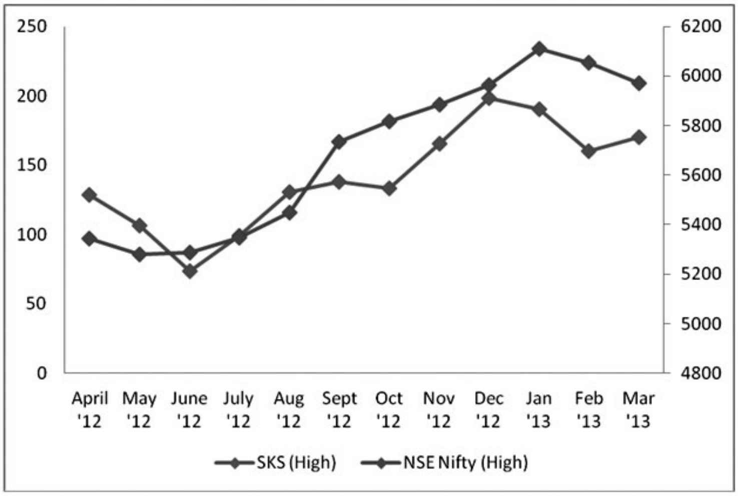
(vii) Performance of the Share Price of your Company in comparison to BSE Sensex and NSE Nifty:

BSE Sensex Vs. SKS



* BSE Sensex is divided by 100 to show the comparison

NSE Nifty Vs. SKS



XIII. Address for correspondence

Your Company has 1,261 branches, 26 regional offices, Head Office at Hyderabad and Registered Office at Mumbai.

Investors and shareholders can correspond with the Company Secretary of your Company at the following address:

SKS Microfinance Limited
3rd Floor, My Home Tycoon, Block A
6-3-1192, Kundanbagh, Begumpet
Hyderabad - 500 016 (India)
Email: skscomplianceofficer@sksindia.com

XIV. CEO/ CFO CERTIFICATION

In accordance with Clause 49 (V) of the Equity Listing Agreement, a certificate by CEO/ CFO has been submitted to the Board.

CEO CERTIFICATION ON CODE OF CONDUCT

I, M.R. Rao, Managing Director and CEO of SKS Microfinance Limited, hereby certify that all the Board Members and senior managerial personnel (Core Management Team) have affirmed compliance with the Code of Conduct of the Company laid down by the Board of Directors at its meeting held on May 4, 2010, for the year ended March 31, 2013

M.R. Rao
Managing Director and CEO

CORPORATE GOVERNANCE CERTIFICATE

To,
The Members
SKS Microfinance Limited
Hyderabad

We have examined all relevant records of **M/s. SKS Microfinance Limited** (the Company) for the purpose of certifying the compliance of the conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreements with BSE Limited (Formerly known as Bombay Stock Exchange Limited) and National Stock Exchange of India Limited for the financial year ended March 31, 2013 (i.e. from April 1, 2012 to March 31, 2013). We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of certification.

The compliance of the conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to the procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the company. This Certificate is neither an assurance as to the future viability of the Company nor of the efficacy or effectiveness with which the Management has conducted the affairs of the Company.

On the basis of our examination of the records produced, explanations and information furnished, we certify that the Company has complied with all the mandatory conditions of Clause 49 of the Listing Agreement.

For **BS & Company**
Company Secretaries

Sd/-
(Nithyakalyani M)
Associate Partner
C.P No: 10712

Place: Hyderabad
Date: 25th July, 2013

INDEPENDENT AUDITORS' REPORT

To the Members of SKS Microfinance Limited

Report on the Financial Statements

We have audited the accompanying financial statements of SKS Microfinance Limited ("the Company"), which comprise the Balance Sheet as at March 31, 2013, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with accounting principles generally accepted in India, including the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2013;

(b) in the case of the Statement of Profit and Loss, of the loss for the year ended on that date; and

(c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.

2. As required by section 227(3) of the Act, we report that:

   (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

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

   (c) The Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement dealt with by this Report are in agreement with the books of account;

(d) In our opinion, the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Act; and

(e) On the basis of written representations received from the directors as on March 31, 2013, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2013, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act.

For **S. R. Batliboi & Co. LLP**
Chartered Accountants
ICAI Firm's registration number: 301003E

SD/-
per Surekha Gracias
Partner
Membership No.: 105488

Mumbai
May 8, 2013

Annexure referred to in our report of even date

Re: SKS Microfinance Limited ('the Company')

(i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

(b) Fixed assets have been physically verified by the management during the year and no material discrepancies were identified on such verification.

(c) During the year, the Company has disposed off a substantial part of the fixed assets. Based on the information and explanations given by the management and on the basis of audit procedures performed by us, we are of the opinion that the sale of the said part of fixed assets has not affected the going concern status of the Company.

(ii) The Company's business does not involve inventories and, accordingly, the requirements under paragraph 4(ii) of the Order are not applicable to the Company.

(iii) (a) According to the information and explanations given to us, the Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Act. Accordingly, the provisions of clause 4(iii)(a) to (d) of the Order are not applicable to the Company and hence not commented upon.

(b) According to information and explanations given to us, the Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under section 301 of the Act. Accordingly, the provisions of clause 4(iii)(e) to (g) of the Order are not applicable to the Company and hence not commented upon.

(iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase of fixed assets and for rendering of services. The activities of the Company do not involve purchase of inventory and the sale of goods. During the course of our audit, we have not observed any major weakness or continuing failure to correct any major weakness in the internal control system of the Company in respect of these areas.

(v) In our opinion, there are no contracts or arrangements that need to be entered in the register maintained under Section 301 of the Act. Accordingly, the provisions of clause 4(v)(b) of the Order is not applicable to the Company and hence not commented upon.

(vi) The Company has not accepted any deposits from the public.

(vii) In our opinion, the Company has an internal audit system commensurate with the size of the Company and nature of its business.

(viii) To the best of our knowledge and as explained, the Central Government has not prescribed the maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Act, for the products of the Company.

(ix) (a) The Company is generally regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service tax, customs duty, excise duty, cess and other material statutory dues applicable to it.

(b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty, cess and other material statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable.

(c) According to the information and explanations given to us, there are no dues of income tax, sales-tax, wealth tax, service tax, customs duty, excise duty and cess which have not been deposited on account of any dispute.

(x) *The Company's accumulated losses at the end of the financial year are more than fifty percent of its net worth and it has incurred cash losses in the current and immediately preceding financial year.*

(xi) Based on our audit procedures and as per the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to financial institutions and banks. The Company did not have any outstanding dues in respect of debentures during the year.

(xii) According to the information and explanations given to us and based on the documents and records produced before us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) In our opinion, the Company is not a chit fund or a nidhi/ mutual benefit fund/ society. Therefore, the provisions of clause 4(xiii) of the Order are not applicable to the Company.

(xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable to the Company.

(xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.

(xvi) Based on information and explanations given to us by the management, term loans were applied for the purpose for which the loans were obtained, though idle/ surplus funds which were not required for immediate utilization have been gainfully invested in liquid assets payable on demand.

(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment.

(xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Act.

(xix) The Company did not have any outstanding debentures during the year.

(xx) The Company has not raised money by public issue of shares during the current year.

(xxi) We have been informed that during the year there were instances of *cash embezzlements by the employees of the Company aggregating Rs.12,762,403; loans given to non-existent borrowers on the basis of fictitious documentation created by the employees of the Company aggregating Rs.8,332,870; and misappropriation of cash by an external party amounting to Rs.455,000.* As informed, investigations are in progress and the services of such employees involved have been terminated and the Company is in the process of taking legal action. The outstanding balance (net of recovery) aggregating Rs.18,403,555 has been written off.

For **S.R. BATLIBOI & CO. LLP**
Chartered Accountants
ICAI Firm's Registration Number: 301003E

per Surekha Gracias
Partner
Membership Number: 105488

Mumbai
May 8, 2013

Balance Sheet as at March 31, 2013

	Notes	31-Mar-13 (Rupees)	31-Mar-12 (Rupees)
Equity and liabilities			
Shareholders' funds			
Share capital	3	1,082,126,980	723,568,950
Reserves and surplus	4	2,821,793,131	3,578,132,813
		3,903,920,111	**4,301,701,763**
Share application money pending allotment	5	-	45,128,151
Non-current liabilities			
Long-term borrowings	6	2,656,035,493	2,845,505,474
Long-term provisions	7	2,632,616,085	435,131,667
		5,288,651,578	**3,280,637,141**
Current liabilities			
Short-term borrowings	8	5,705,212,786	1,309,056,001
Other current liabilities	9	9,942,481,258	8,002,582,993
Short-term provisions	7	274,246,224	282,124,486
		15,921,940,268	**9,593,763,480**
TOTAL		**25,114,511,957**	**17,221,230,535**
Assets			
Non-current assets			
Fixed assets			
Tangible assets	10	84,702,691	161,925,600
Intangible assets	11	27,113,451	42,611,110
Intangible assets under development		1,308,000	1,560,000
Non-current investments	12	2,000,000	2,000,000
Deferred tax assets	13	-	-
Long-term loans and advances	14	2,825,744,991	3,021,318,765
Other non-current assets	15	364,262,574	220,167,425
		3,305,131,707	**3,449,582,900**
Current assets			
Trade receivables	16	1,574,201	2,103,602
Cash and bank balances	17	8,605,877,215	6,691,815,468
Short-term loans and advances	14	12,827,918,275	6,476,761,557
Other current assets	15	374,010,559	600,967,008
		21,809,380,250	**13,771,647,635**
TOTAL		**25,114,511,957**	**17,221,230,535**

Summary of significant accounting policies 2.1

The accompanying notes are an integral part of the financial statements

As per our report of even date

For S. R. BATLIBOI & CO. LLP
ICAI Firm registration number : 301003E
Chartered Accountants

per Surekha Gracias
Partner
Membership No. 105488

Place: Mumbai

Date: May 08, 2013

For and on behalf of the Board of Directors of
SKS Microfinance Limited

P.H. Ravikumar
Non-Executive Chairman
(Interim)

M.R. Rao
Managing Director and
Chief Executive Officer

S. Dilli Raj
Chief Financial Officer

Sudershan Pallap
Company Secretary

Place: Hyderabad

Date: May 08, 2013

Statement of profit and loss for the year ended March 31, 2013

	Notes	31-Mar-13 (Rupees)	31-Mar-12 (Rupees)
Income			
Revenue from operations	18	3,321,975,446	4,357,008,419
Other income	19	203,661,636	366,017,515
Total revenue (I)		**3,525,637,082**	**4,723,025,934**
Expenses			
Employee benefit expenses	20	1,726,704,285	2,611,188,394
Finance costs	21	1,427,192,088	2,004,579,600
Other expenses	22	834,543,903	1,509,597,976
Depreciation and amortization expense	23	64,354,721	100,197,104
Provisions and write-offs	24	2,444,228,726	11,734,916,312
Total expenses (II)		**6,497,023,723**	**17,960,479,386**
Loss before tax (III)=(I)-(II)		**(2,971,386,641)**	**(13,237,453,452)**
Tax expenses			
Current tax		-	-
Deferred tax		-	357,098,519
(Excess)/short provision of tax relating to earlier years		-	11,417,193
Total tax expense (IV)		**-**	**368,515,712**
Loss (III)-(IV)		**(2,971,386,641)**	**(13,605,969,164)**
Earnings per equity share [nominal value of share Rs.10 (March 31, 2012: Rs.10)]	25		
Basic (Computed on the basis of total loss for the year)		**(30.55)**	**(188.06)**
Diluted (Computed on the basis of total loss for the year)		**(30.55)**	**(188.06)**

Summary of significant accounting policies 2.1
The accompanying notes are an integral part of the financial statements

As per our report of even date

For S. R. BATLIBOI & CO. LLP
ICAI Firm registration number : 301003E
Chartered Accountants

per Surekha Gracias
Partner
Membership No. 105488

Place: Mumbai

Date: May 08, 2013

For and on behalf of the Board of Directors of
SKS Microfinance Limited

P.H. Ravikumar
Non-Executive Chairman (Interim)

M.R. Rao
Managing Director and Chief Executive Officer

S. Dilli Raj
Chief Financial Officer

Sudershan Pallap
Company Secretary

Place: Hyderabad

Date: May 08, 2013

Cashflow statement for the year ended March 31, 2013

	31-Mar-13 (Rupees)	31-Mar-12 (Rupees)
Cash flow from operating activities		
Loss before tax	**(2,971,386,641)**	**(13,237,453,452)**
Adjustments to reconcile loss before tax to net cash flows:		
Interest on shortfall in payment of advance income tax	13,452,511	14,681,565
Depreciation and amortization	64,354,721	100,197,104
Provision for employee benefits	1,104,422	(2,891,638)
Loss/ (profit) on sale of fixed assets	4,862,388	(1,042,300)
Employee stock compensation expense	28,610,744	96,925,414
Contingent provision against standard assets	(15,032,315)	(196,037,812)
Provision for non-performing assets	2,189,143,759	(12,283,881)
Portfolio loans and other balances written off	313,295,041	11,686,774,593
Loss from assignment of loans	(43,177,759)	256,463,412
Other provisions and write offs	37,710,273	336,847,910
Operating loss before working capital changes	**(377,062,856)**	**(957,819,085)**
Movements in working capital :		
Increase/ (decrease) in other current liabilities	159,211,226	(501,665,455)
Decrease/ (increase) in trade receivables	529,401	11,060,282
Decrease/ (increase) in loans and advances	(6,444,467,017)	15,067,792,061
Decrease/ (increase) in other current assets	226,956,449	(175,334,951)
Decrease/ (increase) in other non-current assets	(8,280,931)	5,445,661
Cash generated from/(used in) operations	**(6,443,113,728)**	**13,449,478,513**
Direct taxes paid (net of refunds)	7,805,189	(42,236,100)
Net cash flow (used in)/ from operating activities (A)	**(6,435,308,539)**	**13,407,242,413**
Cash flows from investing activities		
Purchase of fixed assets, including capital work in progress and capital advances	(7,911,298)	(26,865,489)
Proceeds from sale of fixed assets	22,421,879	2,972,256
Proceeds from sale of current investments	-	35,560,993
Margin money deposit (net)	12,021,456	(690,759,820)
Net cash flow from/ (used in) investing activities (B)	**26,532,037**	**(679,092,060)**
Cash flows from financing activities		
Proceeds from issuance of equity share capital (including share application money)	2,635,155,073	47,685,801
Share issue expenses	(135,288,978)	-
Long-term borrowings (net)	1,574,651,043	(9,043,699,678)
Short-term borrowings (net)	4,396,156,785	(3,102,250,402)
Net cash flow from/ (used in) in financing activities (C)	**8,470,673,923**	**(12,098,264,279)**
Net increase/ (decrease) in cash and cash equivalents (A + B + C)	**2,061,897,421**	**629,886,074**
Cash and cash equivalents at the beginning of the year	4,521,362,980	3,891,476,906
Cash and cash equivalents at the end of the year (refer note 17)	**6,583,260,401**	**4,521,362,980**

Summary of significant accounting policies 2
The accompanying notes are an integral part of the financial statements

As per our report of even date

For S. R. BATLIBOI & CO. LLP
ICAI Firm registration number : 301003E
Chartered Accountants

per Surekha Gracias
Partner
Membership No. 105488

Place: Mumbai

Date: May 08, 2013

For and on behalf of the Board of Directors of
SKS Microfinance Limited

P.H. Ravikumar
Non-Executive Chairman
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M.R. Rao
Managing Director and
Chief Executive Officer

S. Dilli Raj
Chief Financial Officer

Sudershan Pallap
Company Secretary

Place: Hyderabad

Date: May 08, 2013

1. Corporate information

SKS Microfinance Limited ('the Company') is a public company domiciled in India and incorporated under the provision of the Companies Act, 1956 ('the Act'). The Company is a non-deposit accepting non-banking financial company or NBFC-ND registered with the Reserve Bank of India ('RBI'). The Company has also applied for registration as NBFC-MFI with Reserve Bank of India ('RBI'). Its shares are listed on two stock exchanges in India.

The Company is engaged primarily in providing microfinance services to women in the rural areas of India who are enrolled as members and organized as Joint Liability Groups ('JLG'). The Company has its operation spread across 15 states.

In addition to the core business of providing micro-credit, the Company uses its distribution channel to provide certain other financial products and services to the members. Programs in this regard primarily relate to providing of loans to the members for the purchase of certain productivity-enhancing products such as mobile handsets and loans against gold as collateral.

2. Basis of preparation

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in India (Indian GAAP). The Company has prepared these financial statements to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended), the relevant provisions of the Companies Act, 1956 and the provisions of the RBI as applicable to a non banking financial company. The financial statements have been prepared on an accrual basis and under the historical cost convention except interest on loans which have been classified as non-performing assets and are accounted for on realisation basis.

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

2.1. Summary of significant accounting policies

a. Change in accounting policy

During the year ended March 31, 2013, the Company adopted the accounting policy for securitisation transactions, as notified by the RBI in its circular "Revisions to the Guidelines on Securitisation Transactions" issued on August 21, 2012. Accordingly, the income from securitisation transactions during the year ended March 31, 2013, is lower by Rs. 34,756,134, on account of change in the method of deferral of recognition of income, prescribed in the revised guidelines issued by the RBI.

b. Use of estimates

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

c. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

i. Interest income on loans given is recognised under the internal rate of return method. Income including interest or discount or any other charges on non-performing asset is recognised only when realised. Any such income recognised before the asset became non-performing and remaining unrealised shall be reversed.

ii. Interest income on deposits with banks is recognised on a time proportion accrual basis taking into account the amount outstanding and the rate applicable.

iii. Loan processing fees are amortised over the tenure of the loan on straight-line basis.

iv. In accordance with the RBI guidelines, the Company accounts for any loss arising from assignment/ securitisation immediately at the time of sale and the profit/ premium arising from securitisation is amortised over the life of the underlying portfolio loans/ securities. Income from interest strip is recognized in the statement of profit and loss account (net of any losses).

v. Commission income on insurance agency activities is recognised on accrual basis.

vi. Dividend income is recognised when the right to receive payment is established by the balance sheet date.

vii. All other income is recognised on an accrual basis.

d. Tangible fixed assets

All fixed assets are stated at historical cost less accumulated depreciation and impairment losses, if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use.

e. Intangible assets

Computer software costs are capitalised and amortised using the written down value method at a rate of 40% per annum.

f. Depreciation

i. Depreciation on tangible fixed assets is provided on the written down value method as per the rates prescribed under Schedule XIV of the Companies Act, 1956 which is also as per the useful life of the assets estimated by the management.

ii. Fixed assets costing upto Rs. 5,000 individually are fully depreciated in the year of purchase.

g. Impairment

The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/ external factors. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

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

h. Leases (where the Company is the lessee)

Finance leases, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the lower of the fair value of the leased property and present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability based on the implicit rate of return. Finance charges are recognised as finance costs in the statement of profit and loss. Lease management fees, legal charges and other initial direct costs are capitalised. A leased asset is depreciated on a straight-line basis over the useful life of the asset or the useful life envisaged in Schedule XIV to the Companies Act, 1956, whichever is lower.

Leases where the lessor effectively retains, substantially all the risks and benefits of ownership of the leased item, are classified as operating leases. Operating lease payments are recognised as an expense in the statement of profit and loss on a straight-line basis over the lease term.

i. Investments

Investments which are readily realisable and intended to be held for not more than a year from the date on which such investments are made, are classified as current investments. All other investments are classified as long-term investments. Current investments are carried in the financial statement at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments. On disposal of an investment, the difference between the carrying amount and disposal proceeds are charged or credited to the statement of profit and loss.

j. Borrowing costs

All borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

k. Foreign currency transactions

i. All transactions in foreign currency are recognised at the exchange rate prevailing on the date of the transaction.

ii. Foreign currency monetary items are reported using the exchange rate prevailing at the close of the financial year.

iii. Exchange differences arising on the settlement of monetary items or on the restatement of Company's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year in which they arise.

l. Retirement and other employee benefits

i. Retirement benefit in the form of provident fund is a defined contribution scheme. The Company has no obligation, other than the contribution payable to the provident fund. The Company recognizes contribution payable to the provident fund scheme as an expenditure, when an employee renders the related service.

ii. Gratuity liability is a defined benefit obligation and is provided for on the basis of an actuarial valuation on projected unit credit method made at the end of each financial year. Actuarial gains and losses for defined benefit plans are recognized in full in the period in which they occur in the statement of profit and loss.

iii. The Company treats accumulated leave expected to be carried forward beyond twelve months, as long-term employee benefit for measurement purposes. Such long-term compensated absences are provided for based on the actuarial valuation using the projected unit credit method at the year-end. Actuarial gains/ losses are immediately taken to the statement of profit and loss and are not deferred. The Company presents the leave as a current liability in the balance sheet, to the extent it does not have an unconditional right to defer its settlement for 12 months after the reporting date.

iv. Accumulated leave, which is expected to be utilised within the next 12 months, is treated as short-term employee benefit. The Company measures the expected cost of such absences as the additional amount that it expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

v. The Company recognizes termination benefit as a liability and an expense when the Company has a present obligation as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

m. Income taxes

i. Tax expense comprises current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Income Tax Act, 1961, enacted in India. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit and loss.

ii. Deferred income 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 or substantively enacted at the reporting date. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit and loss.

iii. Deferred tax assets are recognised for deductible timing differences only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. In situations where the Company has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that they can be realised against future taxable profits.

iv. The carrying amount of deferred tax assets are reviewed at each reporting date. The Company writes-down the carrying amount of deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which deferred tax asset can be realised. Any such write-down is reversed to the extent that it becomes reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available.

n. Earnings per share

Basic earnings per share is calculated by dividing the net profit or loss for the year attributable to equity shareholders (after deducting preference dividend and attributable taxes) by the weighted average number of equity shares outstanding during the year. Partly paid equity shares are treated as fraction of an equity share to the extent that they were entitled to participate in dividends related to a fully paid equity share during the reporting year.

For the purpose of calculating diluted earnings per share, the net profit or loss for the year attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares.

o. Provisions

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

p. Contingent liabilities

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

q. Cash and cash equivalents

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

r. Share based payments

In case of stock option plan, measurement and disclosure of the employee share-based payment plans is done in accordance with SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and the Guidance Note on Accounting for Employee Share-based Payments, issued by the Institute of Chartered Accountants of India. The Company measures compensation cost relating to employee stock options using the fair value method. Compensation expense is amortised over the vesting period of the option on the straight line basis.

s. Classification of loan portfolio

i. Loans under JLG are classified as follows:

Asset classification	**For the state of Andhra Pradesh**	**For states other than Andhra Pradesh**
	Arrear period	**Arrear period**
Standard assets	Less than 180 days	Less than 8 weeks
Non-performing assets		
Sub-standard assets	Overdue for 180 – 720 days	Overdue for 8 weeks – 25 weeks
Loss assets	Overdue over 720 days	Overdue for more than 25 weeks

"Overdue" refers to interest and/ or installment remaining unpaid from the day it became receivable.

ii. All other loans and advances are classified as standard, sub-standard, doubtful, and loss assets in accordance with the extant Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, as amended from time to time.

t. Provisioning policy for portfolio loans and loan assets under assignment/ securitisation

i. For the state of Andhra Pradesh:

The Government of Andhra Pradesh promulgated 'The Andhra Pradesh Micro Finance Institution (Regulation of Money Lending) Ordinance 2010' on October 15, 2010, subsequently enacted the same as 'The Andhra Pradesh Micro Finance Institution (Regulation of Money Lending) Act, 2011 (Act 1 of 2011)' ('AP MFI Act') on December 31, 2010. The AP MFI Act resulted in restriction of the Company's operations and reduction in the collection rates in the state of Andhra Pradesh. As a result, the Company reassessed the provisioning estimates for the non-performing portfolio in the state of Andhra Pradesh during the financial year ended March 31, 2011 and elected to apply the provisioning requirements as prescribed in the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 as follows:

Asset classification	Arrear period	Provision (%)
Standard assets	Less than 180 days	0.25%
Sub-standard assets	Overdue for 180 – 720 days	10%
Loss assets	Overdue over 720 days	100%

The Reserve Bank of India ('RBI') issued the 'Non Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) – Directions' on December 2, 2011 which provide the regulatory framework, including the prudential norms for asset classification and provisioning, applicable to NBFC-MFIs. The norms relating to asset classification and provisioning were to be applicable with effect from April 1, 2012 to all NBFC-MFIs. However, RBI deferred the implementation of these norms to April 1, 2013. Subsequently, RBI issued certain modifications to the NBFC-MFI directions on August 3, 2012. The modifications clarified that provisioning made towards portfolio in the state of Andhra Pradesh should be in accordance with extant NBFC prudential norms and such provision should be added back notionally to the net owned funds for the purpose of calculation of the capital to risk assets ratio ('CRAR') and would be progressively reduced by 20% each year, over 5 years i.e. from March 31, 2013 to March 31, 2017.

The Micro Finance Institutions (Development and Regulation) Bill, 2012, which lays down the foundation for a central regulation of the microfinance industry and consequently will override the AP MFI Act, is pending in the Parliament for its approval.

The Company provided entirely on the residual exposure in the state of Andhra Pradesh during the quarter ended September 30, 2012. The provisioning on AP portfolio is in compliance with the extant RBI prudential norms. With this, the Company has fully provided for its exposure in the state of Andhra Pradesh.

Further, an appeal filed by the Company challenging the judgement of the Andhra Pradesh High Court on the constitutional validity of the AP MFI Act came up for hearing before the Supreme Court of India on March 18, 2013. The Supreme Court, by its Order, directed that the interim orders issued by the High Court of Andhra Pradesh dated October 22, 2010 as modified by the Order dated October 29, 2010, shall continue pending further orders of the Supreme Court. The Supreme Court also made it clear that if the Company complies with the said orders of the High Court, no coercive steps can be taken against the Company. The interim order of the High Court dated October 22, 2010 permits the Company to carry on business by due adherence to Sections 9 and 16 of the AP MFI Act, which prescribes the ceiling on amount recoverable on loans in respect of interest and provides the penalty for any coercive actions.

ii. For states other than Andhra Pradesh

Loans are provided for as per the management's estimates, subject to the minimum provision required as per Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 as amended from time to time. The provisioning norms adopted by the Company for JLG loans are as follows:

Asset Classification	Arrear period	Estimated provisioning adopted by the Company
Standard assets	Less than 8 weeks	Note 1
Sub-standard assets	Over 8 weeks - 25weeks	50%
Loss assets	More than 25 weeks	Write Off

Note 1: Standard asset provision is linked to the Portfolio at Risk (PAR) as shown below:

Portfolio at risk	Estimated provisioning adopted by the Company (% of Standard Assets)
0 – 1%	0.25%
Above 1% to 1.5%	0.50%
Above 1.5% to 2%	0.75%
Above 2%	1.00%

iii. Provision for losses under assignment arrangements is made as higher of the incurred loss and provision as per the Company provisioning policy for JLG loans subject to the maximum guarantee given to respective assignee bank or financial institution.

iv. All other loans and advances are provided for in accordance with the extant Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, as amended from time to time.

v. All overdue loans where the tenure of the loan is completed and in the opinion of the management amount is not recoverable, are written off.

3. Share capital	31-Mar-13 (Rupees)	31-Mar-12 (Rupees)
Authorized shares		
122,000,000 (March 31, 2012: 122,000,000) equity shares of Rs.10/- each	1,220,000,000	1,220,000,000
13,000,000 (March 31, 2012: 13,000,000) preference shares of Rs.10/- each	130,000,000	130,000,000
Issued, subscribed and fully paid-up shares		
108,212,698 (March 31, 2012: 72,356,895) equity shares of Rs.10/- each fully paid up	1,082,126,980	723,568,950
Total issued, subscribed and fully paid-up share capital	**1,082,126,980**	**723,568,950**

(a) Reconciliation of the shares outstanding at the beginning and at the end of the reporting year
Equity shares

	31-Mar-13		31-Mar-12	
	No. of Shares	(Rupees)	No. of Shares	(Rupees)
At the beginning of the year	72,356,895	723,568,950	72,323,910	723,239,100
Issued during the year – Stock options	907,734	9,077,340	32,985	329,850
Issued during the year - Qualified Institutional Placement	30,498,069	304,980,690	-	-
Issued during the year - Preferential allotment	4,450,000	44,500,000	-	-
Outstanding at the end of the year	108,212,698	1,082,126,980	72,356,895	723,568,950

(b) Terms/ rights attached to equity shares

The Company has only one class of equity shares having par value of Rs.10 per share. Each holder of equity shares is entitled to one vote per share. Any dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting. Dividend declared and paid would be in Indian rupees.

In the event of liquidation of the Company, the holders of equity shares will be entitled to receive remaining assets of the Company, after distribution of all preferential amounts. The distribution will be in proportion to the number of equity shares held by the shareholders.

Share capital includes 21,453,217 (March 31, 2012: 16,096,483) equity shares that are locked-in.

(c) Aggregate number of shares issued for consideration other than cash during the period of five years immediately preceding the reporting date:

The Company has issued 2,462,511 shares (March 31, 2012: 1,554,777) during the period of five years immediately preceding the reporting date on exercise of options granted under stock option plans wherein part consideration was received in the form of services rendered to the Company.

(d) Details of shareholders holding more than 5% shares in the Company

Equity shares of Rs.10 each fully paid	As at March 31, 2013	
	No. of Shares	% holding in the class
CLSA (Mauritius) Limited	9,494,771	8.77%
Sandstone Investment Partners, I	8,341,792	7.71%
Kismet Microfinance	5,634,809	5.21%

Equity shares of Rs.10 each fully paid	As at March 31, 2012	
	No. of Shares	% holding in the class
Sandstone Investment Partners, I	8,341,792	11.53%
Kismet Microfinance	5,634,809	7.79%
Westbridge Ventures II,LLC (Formerly Sequoia Capital India II LLC)	5,105,847	7.06%
Sequoia Capital India Growth Investments I	4,951,474	6.85%
Vinod Khosla	4,238,866	5.86%
Kismet SKS II	3,660,500	5.06%

As per the records of the Company, including its register of shareholders/ members and other declarations received from shareholders regarding beneficial interest, the above shareholding represents both legal and beneficial ownerships of shares.

Further, SKS Trust Advisors Private Limited, sole trustee for five trusts mentioned below, holds equity shares in the Company on behalf of these five trusts as the registered shareholder. These trusts individually hold less than 5% equity shares in the Company:

Name of the Trust	31-Mar-13 No. of Shares	31-Mar-12 No. of Shares
SKS Mutual Benefit Trust, Narayankhed	1,705,585	1,705,585
SKS Mutual Benefit Trust, Medak	1,662,266	1,662,266
SKS Mutual Benefit Trust, Sadasivpet	1,662,266	1,662,266
SKS Mutual Benefit Trust, Jogipet	1,662,266	1,662,266
SKS Mutual Benefit Trust, Sangareddy	1,662,266	1,662,266

(e) For details of shares reserved for issue under the employee stock option (ESOP) plan of the Company, refer note 31.

4. Reserves and surplus	31-Mar-13 (Rupees)	31-Mar-12 (Rupees)
Securities premium account		
Balance as per the last financial statements	13,132,493,470	13,124,632,991
Add: additions on Qualified Institutional Placement	1,994,573,713	-
Add: additions on Preferential allotment	291,030,000	-
Add: additions on stock option exercised (cash premium)	36,121,481	5,200,920
Add: transferred from stock options outstanding (non-cash premium)	6,660,225	2,659,559
Less: share issue expenses	(135,288,978)	-
Closing Balance	**15,325,589,911**	**13,132,493,470**
Stock options outstanding		
Gross stock compensation for options granted in earlier years	342,766,256	178,832,237
Add: gross compensation for options granted/ modified during the year	35,918,473	241,256,584
Less: gross compensation for options lapsed/ forfeited/ surrendered during the year	(99,731,452)	(74,663,005)
Less: deferred employee stock compensation	(64,972,247)	(157,395,970)
Less: transferred to securities premium on exercise of stock options	(6,660,225)	(2,659,559)
Closing Balance	**207,320,805**	**185,370,287**
Statutory reserve		
Balance as per the last financial statements	773,239,958	773,239,958
Add: amount transferred from surplus balance in the statement of profit and loss	-	-
Closing Balance	**773,239,958**	**773,239,958**
Surplus/ (deficit) in the statement of profit and loss		
Balance as per last financial statements	(10,512,970,902)	3,092,998,262
Add: Profit/ (Loss) for the year	(2,971,386,641)	(13,605,969,164)
Less: Transferred to Statutory Reserve [@ 20% of profit after tax as required by section 45-IC of Reserve Bank of India Act, 1934]	-	-
Net surplus/ (deficit) in the statement of profit and loss	**(13,484,357,543)**	**(10,512,970,902)**
Total reserves and surplus	**2,821,793,131**	**3,578,132,813**

5. Share application money pending allotment	31-Mar-13 (Rupees)	31-Mar-12 (Rupees)
Share application money pending allotment on exercise of options	-	45,128,151
	-	**45,128,151**

	Non-current portion		Current maturities	
6. Long-term borrowings	**31-Mar-13 (Rupees)**	**31-Mar-12 (Rupees)**	**31-Mar-13 (Rupees)**	**31-Mar-12 (Rupees)**
Term loans				
Indian rupee loan from banks (secured)	1,994,260,033	2,162,889,450	6,718,497,286	5,016,477,846
Indian rupee loan from financial institutions (secured)	645,857,084	655,666,643	1,093,142,897	919,333,357
Indian rupee loan from non banking financial companies (secured)	15,918,376	24,251,308	8,332,843	114,732,114
Other loans and advances				
Finance lease obligation (secured)	-	2,698,073	2,608,149	7,916,834
	2,656,035,493	**2,845,505,474**	**7,822,581,175**	**6,058,460,151**
The above amount includes				
Secured borrowings	2,656,035,493	2,845,505,474	7,822,581,175	6,058,460,151
Amount disclosed under the head “other current liabilities” (note 9)	-	-	(7,822,581,175)	(6,058,460,151)
Net amount	**2,656,035,493**	**2,845,505,474**	**-**	**-**

Nature of security	**31-Mar-13**	**31-Mar-12**
a) Loans secured by hypothecation (exclusive charge) of portfolio loans	5,214,786,316	5,067,028,495
b) Loans secured by hypothecation (exclusive charge) of portfolio loans and margin money deposits	5,261,222,203	3,826,322,223
c) Financial lease obligation is secured by hypothecation of computers and laptops taken on lease.	2,608,149	10,614,907
Total outstanding	**10,478,616,668**	**8,903,965,625**

6. Long-term borrowings (Contd.)

Terms of repayment of long term borrowings (term loans) as on March 31, 2013

Original maturity of loan	Interest rate	Due within 1 year		Due between 1 to 2 Years		Due between 2 to 3 Years		Due between 3 to 4 Years		Due between 4 to 5 Years		Total
		No. of installments	Amount (in Rupees)	No. of install-ments	Amount (in Rupees)	No. of install-ments	Amount (in Rupees)	No. of install-ments	Amount (in Rupees)	No. of install-ments	Amount (in Rupees)	
Monthly repayment schedule												
1-3 Yrs	12% -12.50%	10	125,000,000	2	25,000,000	-	-	-	-	-	-	150,000,000
		12	2,000,000,000	-	-	-	-	-	-	-	-	2,000,000,000
	12.50% -13%	8	222,222,222	-	-	-	-	-	-	-	-	222,222,222
	13% -13.50%	10	208,333,333	2	41,666,667	-	-	-	-	-	-	250,000,000
		12	200,000,000	3	50,000,000	-	-	-	-	-	-	250,000,000
		10	357,142,857	11	392,857,143	-	-	-	-	-	-	750,000,000
	13.50% -14%	10	1,666,666,672	2	333,333,329	-	-	-	-	-	-	2,000,000,001
		12	500,000,000	4	166,666,671	-	-	-	-	-	-	666,666,671
		12	133,333,320	8	88,900,031	-	-	-	-	-	-	222,233,351
	14% - 15%	12	624,999,996	12	625,000,004	-	-	-	-	-	-	1,250,000,000
Above 3 Yrs	11% - 12%	12	200,000,040	5	83,333,270	-	-	-	-	-	-	283,333,310
	13% - 14%	12	36,000,000	1	3,000,000	-	-	-	-	-	-	39,000,000
	14% -15%	12	6,485,059	12	7,471,990	4	2,735,318	-	-	-	-	16,692,367
		12	1,847,784	12	2,128,990	12	2,452,991	5	1,129,089	-	-	7,558,854
Quarterly repayment schedule												
1-3 Yrs	9% -10%	3	124,999,985	-	-		-		-	-	-	124,999,985
	12% -13%	3	125,000,000	4	166,666,666	4	166,666,667	1	41,666,667	-	-	500,000,000
		1	20,836,200	-	-	-	-	-	-	-	-	20,836,200
	13% -14%	1	20,833,335	-	-	-	-	-	-	-	-	20,833,335
		3	31,249,998	-	-	-	-	-	-	-	-	31,249,998
		4	100,000,000	2	50,000,000	-	-	-	-	-	-	150,000,000
		1	83,333,336	-	-	-	-	-	-	-	-	83,333,336
		2	125,000,000	-	-	-	-	-	-	-	-	125,000,000
	14% -15%	4	166,800,000	2	83,000,000	-	-	-	-	-	-	249,800,000
		4	400,000,000	2	200,000,000	-	-	-	-	-	-	600,000,000
Above 3 Yrs	10% -11%	2	95,168,889	-	-	-	-	-	-	-	-	95,168,889
	12% -13%	4	244,720,000	2	122,360,000	-	-	-	-	-	-	367,080,000
Total			**7,819,973,026**		**2,441,384,761**		**171,854,976**		**42,795,756**		**-**	**10,476,008,519**

(Amount in Rupees unless otherwise stated)

6. Long-term borrowings (Contd.)

Terms of repayment of long term borrowings (term loans) as on March 31, 2012

Original maturity of loan	Interest rate	Due within 1 year		Due between 1 to 2 Years		Due between 2 to 3 Years		Due between 3 to 4 Years		Due between 4 to 5 Years		Total
		No. of installments	Amount (in Rupees)	No. of install-ments	Amount (in Rupees)	No. of install-ments	Amount (in Rupees)	No. of install-ments	Amount (in Rupees)	No. of install-ments	Amount (in Rupees)	
Monthly repayment schedule												
1-3 Yrs	12.50% - 13%	12	333,333,333	8	222,222,223	-	-	-	-	-	-	555,555,556
	13% - 13.50%	12	166,666,667	12	250,000,000	-	83,333,333	-	-	-	-	500,000,000
	13.50% - 14%	12	246,000,000	-	-	-	-	-	-	-	-	246,000,000
		12	133,200,000	12	133,200,000	8	89,166,670	-	-	-	-	355,566,670
		3	20,833,333	-	-	-	-	-	-	-	-	20,833,333
		8	166,666,667	-	-	-	-	-	-	-	-	166,666,667
Above 5 Yrs	10% - 11%	12	358,333,345	12	100,000,020	5	41,666,635	-	-	-	-	500,000,000
	11% - 12%	12	5,628,393	12	6,485,059	12	7,471,990	4	2,735,315	-	-	22,320,757
		12	1,603,721	12	1,847,784	12	2,128,990	12	2,452,991	5	1,129,180	9,162,665
		12	358,333,345	12	100,000,020	5	41,666,635	-	-	-	-	500,000,000
	12.50% - 13%	12	36,000,000	12	36,000,000	1	3,000,000	-	-	-	-	75,000,000

(Amount in Rupees unless otherwise stated)

Quarterly repayment schedule												
1-3 yrs	9% - 10%	4	166,666,667	3	125,000,007	-	-	-	-	-	-	291,666,674
	10% - 11%	4	83,333,333	-	-	-	-	-	-	-	-	83,333,333
	11% - 12%	2	8,333,309	-	-	-	-	-	-	-	-	8,333,309
	12.50% - 13%	3	300,000,003	-	-	-	-	-	-	-	-	300,000,003
		4	171,428,571	-	-	-	-	-	-	-	-	171,428,571
		4	200,000,000	-	-	-	-	-	-	-	-	200,000,000
		4	400,000,000	4	400,000,000	2	200,000,000	-	-	-	-	1,000,000,000
		4	83,333,333	-	-	-	-	-	-	-	-	83,333,333
		4	166,666,933	1	41,668,335	-	-	-	-	-	-	208,335,269
	13% -13.50%	4	41,666,668	3	31,249,994	-	-	-	-	-	-	72,916,662
		4	166,800,000	4	166,800,000	2	83,000,000	-	-	-	-	416,600,000
		2	107,500,000	-	-	-	-	-	-	-	-	107,500,000
		2	200,000,000	-	-	-	-	-	-	-	-	200,000,000
	13.50% - 14%	1	42,200,000	-	-	-	-	-	-	-	-	42,200,000
		3	450,000,000	-	-	-	-	-	-	-	-	450,000,000
		3	62,800,000	-	-	-	-	-	-	-	-	62,800,000
		4	165,835,351	-	-	-	-	-	-	-	-	165,835,351
		4	333,333,333	1	83,333,333	-	-	-	-	-	-	416,666,667
		4	250,000,000	2	125,000,000	-	-	-	-	-	-	375,000,000
		1	40,000,000	-	-	-	-	-	-	-	-	40,000,000
	14% -14.50%	3	124,700,000	-	-	-	-	-	-	-	-	124,700,000
		2	41,666,667	-	-	-	-	-	-	-	-	41,666,667
	14.50% -15%	3	87,200,000	-	-	-	-	-	-	-	-	87,200,000
		1	41,666,664	-	-	-	-	-	-	-	-	41,666,664
		3	18,755,901	-	-	-	-	-	-	-	-	18,755,901
		1	10,000,000	-	-	-	-	-	-	-	-	10,000,000
3-5 yrs	8 - 9%	4	190,337,779	2	95,168,888	-	-	-	-	-	-	285,506,667
	9 - 10%	4	244,720,000	4	244,720,000	2	122,360,000	-	-	-	-	611,800,000
	14.50% -15%	2	25,000,000	-	-	-	-	-	-	-	-	25,000,000
Total			**6,050,543,317**		**2,162,695,662**		**673,794,253**		**5,188,306**		**1,129,180**	**8,893,350,718**

	Long-term		Short-term	
7. Provisions	**31-Mar-13 (Rupees)**	**31-Mar-12 (Rupees)**	**31-Mar-13 (Rupees)**	**31-Mar-12 (Rupees)**
Provision for employee benefits				
Provision for gratuity (refer note 32)	50,269,944	41,846,383	-	-
Provision for leave benefits	-	-	29,471,510	36,790,649
	50,269,944	**41,846,383**	**29,471,510**	**36,790,649**
Other provisions				
Provision for taxation (Net of advance tax)	-	-	195,438,195	121,304,131
Contingent provision against standard assets (refer note 34)	-	82,902	30,678,178	45,627,591
Provision for non-performing assets (refer note 34)	2,582,346,141	393,202,382	-	-
Provision for loss on assigned loans (refer note 2t (iii))	-	-	18,658,341	78,402,115
	2,582,346,141	**393,285,284**	**244,774,714**	**245,333,837**
	2,632,616,085	**435,131,667**	**274,246,224**	**282,124,486**

8. Short-term borrowings	**31-Mar-13 (Rupees)**	**31-Mar-12 (Rupees)**
Loan repayable on demand		
Cash credit from banks (secured)	1,646,879,453	1,259,056,001
Other loans and advances		
Indian rupee loan from banks (secured)	4,058,333,333	50,000,000
	5,705,212,786	**1,309,056,001**
The above amount includes		
Secured borrowings	5,705,212,786	1,309,056,001

Cash credit from banks is secured by hypothecation of portfolio loans and margin money deposit and is repayable on demand Indian rupee loan from banks are term loans secured by hypothecation of portfolio loans.

9. Other current liabilities	**31-Mar-13 (Rupees)**	**31-Mar-12 (Rupees)**
Trade payables (including acceptances) (refer note 38 for details of dues to micro and small enterprises)	-	720,376
Employee benefit payable	45,418,193	214,659,305
Expenses and other payable	125,543,486	266,273,179
Payable towards asset assignment/ securitisation transactions	1,409,033,824	873,167,060
Other liabilities		
Current maturities of long-term borrowings (refer note 6)	7,819,973,026	6,050,543,317
Current maturities of finance lease obligation (refer note 6)	2,608,149	7,916,834
Interest accrued but not due on borrowings	74,770,631	44,110,802
Interest accrued and due on borrowings	16,993,232	6,564,577
Statutory dues payable	23,615,285	25,305,690
Unrealised gain on securitisation transactions	269,649,511	413,872,003
Unamortized income		
Unamortized loan processing fees	154,875,921	99,449,850
	9,942,481,258	**8,002,582,993**

10. Tangible assets	Furniture and fixtures	Computers	Office equipments	Vehicles	Assets on lease (Computers)	Total
	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)
Cost						
At April 1, 2011	163,679,147	306,526,494	64,938,403	2,791,150	22,581,051	560,516,245
Additions	12,823,920	793,297	6,839,730	-	-	20,456,947
Disposals	(11,599,763)	(5,282,622)	(5,947,600)	-	-	(22,829,985)
At March 31, 2012	**164,903,304**	**302,037,169**	**65,830,533**	**2,791,150**	**22,581,051**	**558,143,207**
Additions	749,238	128,515	2,018,362	261,551	-	3,157,666
Disposals	(41,619,287)	(108,386,356)	(14,358,048)	(2,748,325)	-	(167,112,016)
At March 31, 2013	**124,033,255**	**193,779,328**	**53,490,847**	**304,376**	**22,581,051**	**394,188,857**
Depreciation						
At April 1, 2011	132,564,147	185,859,828	17,218,304	1,119,764	5,105,611	341,867,654
Charge for the year	8,802,591	48,627,857	7,386,710	433,908	7,527,017	72,778,083
Disposals	(11,157,546)	(4,678,792)	(2,591,792)	-	-	(18,428,130)
At March 31, 2012	**130,209,192**	**229,808,893**	**22,013,222**	**1,553,672**	**12,632,628**	**396,217,607**
Charge for the year	5,389,705	24,195,771	6,663,150	75,840	7,527,018	43,851,484
Disposals	(33,234,909)	(92,093,351)	(6,492,596)	(1,562,069)	-	(133,382,925)
At March 31, 2013	**102,363,988**	**161,911,313**	**22,183,776**	**67,443**	**20,159,646**	**306,686,166**
Impairment loss						
At April 1, 2011	-	-	-	-	-	-
Charge for the year	-	-	-	-	-	-
At March 31, 2012	-	-	-	-	-	-
Charge for the year	200,453	916,562	1,682,985	-	-	2,800,000
At March 31, 2013	**200,453**	**916,562**	**1,682,985**	**-**	**-**	**2,800,000**
Net Block						
At March 31, 2012	**34,694,112**	**72,228,276**	**43,817,311**	**1,237,478**	**9,948,423**	**161,925,600**
At March 31, 2013	**21,468,814**	**30,951,453**	**29,624,086**	**236,933**	**2,421,405**	**84,702,691**

The Company does not have any other assets on lease except as disclosed above.

All assets have been recognized at cost

11. Intangible assets	Computer software	Total
Gross block		
At April 1, 2011	156,469,533	156,469,533
Addition	5,688,550	5,688,550
At March 31, 2012	**162,158,083**	**162,158,083**
Addition	5,005,578	5,005,578
At March 31, 2013	**167,163,661**	**167,163,661**
Amortization		
At April 1, 2011	92,127,951	92,127,951
Charge for the year	27,419,022	27,419,022
At March 31, 2012	**119,546,973**	**119,546,973**
Charge for the year	20,503,237	20,503,237
At March 31, 2013	**140,050,210**	**140,050,210**
Net block		
At March 31, 2012	**42,611,110**	**42,611,110**
At March 31, 2013	**27,113,451**	**27,113,451**

12. Non-current investments	31-Mar-13 (Rupees)	31-Mar-12 (Rupees)
Non-trade investments (valued at cost)		
Investment in equity instruments (unquoted)		
200,000 (March 31, 2012 : 200,000) Equity shares of Rs.10/- each fully paid-up in Alpha Micro Finance Consultants Private Limited	2,000,000	2,000,000
	2,000,000	**2,000,000**
Aggregate amount of unquoted investments	2,000,000	2,000,000

13. Deferred tax asset	31-Mar-13 (Rupees)	31-Mar-12 (Rupees)
Deferred tax asset		
Impact of expenditure charged to the statement of profit and loss in the current year but allowed for tax purposes on payment basis	9,562,031	11,936,726
Impact of difference between tax depreciation and depreciation/ amortization charged for the financial reporting	16,186,013	7,956,800
Impact of accumulated tax losses and unabsorbed depreciation	4,608,875,567	4,311,130,378
Impact of amortisation of share issue expenses	51,134,484	76,701,726
Impact of provision for standard and non performing assets	866,514,770	195,690,811
Others	192,076	216,241
Deferred tax asset	**5,552,464,941**	**4,603,632,682**
Deferred tax asset recognised	-	-

The deferred tax asset amounting to Rs. 5,552,464,941 as at March 31, 2013 has not been recognized (refer note 2 (m)). The said sum of Rs. 5,552,464,941 will be available to offset tax on future taxable income.

	Non-current		Current	
14. Loans and advances	**31-Mar-13 (Rupees)**	**31-Mar-12 (Rupees)**	**31-Mar-13 (Rupees)**	**31-Mar-12 (Rupees)**
A. Portfolio Loans				
Joint liability group loans				
Unsecured, considered good*	-	-	11,767,367,028	4,495,337,719
Unsecured, considered doubtful**	2,491,753,859	2,795,320,317	-	-
	2,491,753,859	**2,795,320,317**	**11,767,367,028**	**4,495,337,719**
Individual loans				
Unsecured, considered good*	-	-	-	2,401,279
Secured, considered good*	-	33,160,853	503,903,969	269,001,081
Secured, considered doubtful**	140,850,564	52,429,654	-	-
	140,850,564	**85,590,507**	**503,903,969**	**271,402,360**
	2,632,604,423	**2,880,910,824**	**12,271,270,997**	**4,766,740,079**
Joint liability group loans placed as collateral towards asset assignment/ securitisation transaction (refer note 26)				
Unsecured, considered good	-	-	404,892,002	1,374,051,292
	-	**-**	**404,892,002**	**1,374,051,292**
(A)	**2,632,604,423**	**2,880,910,824**	**12,676,162,999**	**6,140,791,371**

* Represents standard assets in accordance with classification of assets as per RBI Prudential norms for NBFCs (refer note 34)
** Represents non-performing assets in accordance with classification of assets as per RBI Prudential norms for NBFCs (refer note 34)

	Non-current		Current	
B. Security deposits				
Unsecured, considered good	36,887,513	34,510,915	-	21,542,337
(B)	**36,887,513**	**34,510,915**	**-**	**21,542,337**
C. Advances recoverable in cash or kind				
Unsecured, considered good	6,638,785	9,159,120	122,659,850	267,787,320
Unsecured, considered doubtful	36,236,310	65,402,387	-	-
	42,875,095	**74,561,507**	**122,659,850**	**267,787,320**
Provision for doubtful advances	(36,236,310)	(65,402,387)	-	-
(C)	**6,638,785**	**9,159,120**	**122,659,850**	**267,787,320**
D. Other loans and advances (unsecured, considered good)				
Loans to SKS Microfinance Employees Benefit Trust (refer note 36)	54,168,606	54,168,606	-	-
Advance fringe benefit tax (net of provision)	937,183	937,183	-	-
Advance income tax (net of provision)	94,508,481	41,632,117	-	-
Prepaid expenses	-	-	29,095,426	46,640,529
(D)	**149,614,270**	**96,737,906**	**29,095,426**	**46,640,529**
Total (A+B+C+D)	**2,825,744,991**	**3,021,318,765**	**12,827,918,275**	**6,476,761,557**

	Non-current		Current	
15. Other assets	**31-Mar-13 (Rupees)**	**31-Mar-12 (Rupees)**	**31-Mar-13 (Rupees)**	**31-Mar-12 (Rupees)**
Non-current bank balances (refer note17)	343,764,218	207,950,000	-	-
Interest accrued but not due on portfolio loans	-	-	60,258,448	16,315,407
Interest accrued and due on portfolio loans	-	-	3,738,490	11,925,236
Income accrued but not due on asset assignment/ securitisation transactions	-	-	-	81,998,455
Interest accrued but not due on deposits placed with banks	20,498,356	12,217,425	40,364,110	65,853,805
Interest strip on securitisation transactions	-	-	269,649,511	413,872,003
Others-unsecured, considered good	-	-	-	11,002,102
Others-unsecured, considered doubtful	-	14,374,012	-	-
	364,262,574	**234,541,437**	**374,010,559**	**600,967,008**
Provision for others, considered doubtful	-	(14,374,012)	-	-
	364,262,574	**220,167,425**	**374,010,559**	**600,967,008**

	Current	
16. Trade receivables	**31-Mar-13 (Rupees)**	**31-Mar-12 (Rupees)**
Outstanding for a period less than six months from the date they are due for payment		
Unsecured, considered good	1,574,201	2,103,602
Doubtful	-	6,054,893
	1,574,201	**8,158,495**
Provision for doubtful trade receivables	-	(6,054,893)
	1,574,201	**2,103,602**

The Company does not have any trade receivables outstanding for a period exceeding six months from the date they are due for payment

	Non-current		Current	
17. Cash and bank balances	**31-Mar-13 (Rupees)**	**31-Mar-12 (Rupees)**	**31-Mar-13 (Rupees)**	**31-Mar-12 (Rupees)**
Cash and cash equivalents				
Balances with banks				
On current accounts	-	-	4,366,489,403	1,681,936,086
Deposits with original maturity of less than three months	-	-	2,110,000,000	2,825,665,753
Cash on hand	-	-	106,770,998	13,761,141
	-	**-**	**6,583,260,401**	**4,521,362,980**
Other bank balances				
Margin money deposit (refer note (a) below)	343,764,218	207,950,000	2,022,616,814	2,170,452,488
	343,764,218	**207,950,000**	**2,022,616,814**	**2,170,452,488**
Amount disclosed under non-current assets (refer note 15)	**(343,764,218)**	**(207,950,000)**		
	-	**-**	**8,605,877,215**	**6,691,815,468**

Note (a): Represent margin money deposits placed to avail term loans from banks, financial institutions and as cash collateral in connection with asset assignments/ securitisation transactions.

18. Revenue from operations	**31-Mar-13 (Rupees)**	**31-Mar-12 (Rupees)**
Interest income		
Interest income on portfolio loans	2,199,496,606	3,588,690,549
Income from assignment/ securitisation of loans (refer note 2c (iv) & 26)	583,050,865	346,033,271
Other operating revenue		
Loan processing fees	229,585,028	89,659,729
Recovery against loans written off	161,486,889	224,822,026
Interest on margin money deposits*	148,356,058	107,802,844
	3,321,975,446	**4,357,008,419**

* Represents interest on margin money deposits placed to avail term loans from banks, financial institutions and on deposits placed as cash collateral in connection with asset assignments/ securitisation.

19. Other income	**31-Mar-13 (Rupees)**	**31-Mar-12 (Rupees)**
Interest on fixed deposits	96,120,041	108,636,938
Insurance commission	-	23,777,405
Other fee income	96,504,058	56,583,650
Group insurance administration charges	-	169,988,146
Profit on sale of assets	-	1,042,300
Miscellaneous income	11,037,537	5,989,076
	203,661,636	**366,017,515**

20. Employee benefit expenses	**31-Mar-13 (Rupees)**	**31-Mar-12 (Rupees)**
Salaries and bonus/ incentives	1,517,530,958	2,249,405,840
Leave benefits	12,804,004	24,540,280
Contribution to provident fund	57,931,578	82,965,293
Contribution to Employee State Insurance Corporation	29,835,904	41,781,519
Gratuity expenses (refer note 32)	9,041,272	14,222,296
Staff welfare expenses	84,019,456	105,961,298
Stock option expenditure	15,541,113	92,311,868
	1,726,704,285	**2,611,188,394**

Employee benefit expenses include termination benefits of Rs. 57,878,423 for the period ended March 31, 2013 (March 31, 2012: Rs.Nil)

21. Finance costs	31-Mar-13 (Rupees)	31-Mar-12 (Rupees)
Interest		
On term loans from banks	958,087,512	1,390,902,135
On term loans from financial institutions	161,069,844	247,701,971
On term loans from non banking financial companies	7,290,764	37,127,705
On other loans	-	13,611,172
On bank overdraft facility	130,460,325	139,013,833
On shortfall in payment of advance income tax	13,452,511	14,681,565
Finance charges for leased assets	1,003,526	1,965,099
Other finance costs	153,436,610	150,112,010
Bank charges	2,390,996	9,464,110
	1,427,192,088	**2,004,579,600**

22. Other expenses	31-Mar-13 (Rupees)	31-Mar-12 (Rupees)
Rent	141,234,225	203,480,583
Rates and taxes	3,089,041	7,048,771
Insurance	25,867,029	96,984,397
Repairs and maintenance		
Plant and machinery	8,574,145	7,244,317
Others	76,639,189	86,055,454
Electricity charges	26,403,222	31,380,694
Travelling and conveyance	291,320,165	443,314,796
Communication expenses	46,852,545	70,548,134
Printing and stationery	37,392,451	35,513,880
Legal and professional fees	91,250,682	161,852,133
Directors sitting fees	710,000	183,416
Directors stock option expenditure	13,069,631	4,613,546
Auditors' remuneration (refer details below)	8,612,820	7,531,416
Other provisions and write off	37,710,273	336,847,910
Loss on sale of fixed assets	4,862,388	-
Miscellaneous expenses	20,956,097	16,998,529
	834,543,903	**1,509,597,976**

Payment to auditors	31-Mar-13 (Rupees)	31-Mar-12 (Rupees)
As auditor:		
Audit fee	4,550,000	4,200,000
Limited review	2,550,000	2,250,000
In other capacity:		
Other services (certification fees)	400,000	200,000
Reimbursement of expenses	1,112,820	881,416
	8,612,820	**7,531,416**

23. Depreciation and amortization expense	31-Mar-13 (Rupees)	31-Mar-12 (Rupees)
Depreciation of tangible assets	43,851,484	72,778,082
Amortization of intangible assets	20,503,237	27,419,022
	64,354,721	**100,197,104**

24. Provisions and write-offs	31-Mar-13 (Rupees)	31-Mar-12 (Rupees)
Contingent provision against standard assets (refer note 34)	(15,032,315)	(196,037,812)
Provision for non-performing assets (refer note 34)	2,189,143,759	(12,283,881)
Portfolio loans and other balances written off	313,295,041	11,686,774,593
Loss from assigned loans (refer note 2c (iv))	(43,177,759)	256,463,412
	2,444,228,726	**11,734,916,312**

25. Earnings per share (EPS)

The following reflects the (loss)/ profit and share data used in the basic and diluted EPS computations:

	31-Mar-13 (Rupees)	31-Mar-12 (Rupees)
Net loss for calculation of basic EPS	(2,971,386,641)	(13,605,969,164)
Net loss for calculation of diluted EPS	(2,971,386,641)	(13,605,969,164)

	No. of shares	No. of shares
Weighted average number of equity shares in calculating basic EPS	**97,266,721**	**72,349,449**
Effect of dilution:		
Stock options granted under ESOP*	Nil	Nil
Weighted average number of equity shares in calculating diluted EPS	**97,266,721**	**72,349,449**

**For the years ended March 31, 2013 and March 31, 2012, since the impact of conversion of potential equity shares is anti-dilutive in nature, the same have not been considered in calculation of diluted EPS.*

26. Assignment/ securitisation of loans

During the year the Company has sold loans through direct assignment/ securitisation. The information on direct assignment/ securitisation activity of the Company as an originator is as shown below:

Particulars	**For the year ended March 31, 2013**	**For the year ended March 31, 2012**
Total number of loans assigned/ securitised	1,632,773	1,049,285
Total book value of loans assigned/ securitised	11,946,724,765	8,664,779,356
Sale consideration received for loans assigned/ securitised	11,946,724,765	8,664,779,356
Income recognised in the statement of profit and loss	583,050,865	346,033,272
Particulars	**As at March 31, 2013**	**As at March 31, 2012**
Credit enhancements provided and outstanding (Gross):		
Interest subordination*	21,611,770	81,998,455
Principal subordination	404,892,002	1,362,917,707
Cash collateral**	1,842,356,809	1,116,228,254
Corporate Guarantee	50,000,000	-

* Interest subordination as at March 31, 2013 represents interest collection of non-amortising interest strip. No income has been recognised in respect of this amount as per RBI circular DNBS.PD.No. 301/3.10.01/2012-13 dated August 21, 2012.

** As at March 31, 2012 cash collateral included collections amounting to Rs.72,027,445, received towards loans given as collateral which were to be placed as a margin money deposit subsequently, in accordance with assignment agreement.

Disclosure as per RBI circular DNBS.PD.No. 301/3.10.01/2012-13 dated August 21, 2012:

Particulars	Numbers	Amount
No. of SPVs sponsored by the NBFC for securitisation transactions during the year	12	11,446,732,730
Total amount of securitsed assets as per the books of the SPVs sponsored by the NBFC as on the date of balance sheet:		8,252,044,752
Total amount of exposures retained by the NBFC to comply with minimum retention requirement ('MRR') as on the date of balance sheet:		404,892,002
a) Off balance sheet exposures		
-First loss		-
-Others		-
b) On balance sheet exposures		-
-First loss		404,892,002
-Others		-
Amount of exposures to securtisation transactions other than MRR:		1,738,524,902
a) Off balance sheet exposures		
-First loss		-
-Others		-
b) On balance sheet exposures		-
-First loss		1,738,524,902
-Others		-

27. Segment information

The Company operates in a single reportable segment i.e. lending to members, which have similar risks and returns for the purpose of AS 17 on 'Segment Reporting' notified under the Companies (Accounting Standard) Rules, 2006 (as amended). The Company operates in a single geographical segment i.e. domestic.

28. Related parties

a. Names of the related parties with whom transactions have been entered

Key Management Personnel	Mr. M.R. Rao, Managing Director and Chief Executive Officer Mr. S. Dilli Raj, Chief Financial Officer Dr. Vikram Akula, Executive Chairman from April 1, 2011 to November 23, 2011

b. Related party transactions

Particulars	Key Management Personnel	
	31-Mar-13	**31-Mar-12**
Transactions during the year		
Salary, incentives & perquisites – Mr. M.R. Rao (refer note 1 & 2 below)	16,226,936	10,636,671
Salary, incentives & perquisites – Mr. S. Dilli Raj (refer note 2 below)	6,922,122	12,479,850
Salary – Dr. Vikram Akula	-	3,106,666
Receipt of share application money – Dr. Vikram Akula (refer note 3 below)	-	45,128,151
Balances as at year end		
Incentive payable – Mr. M.R. Rao (refer note 2 below)	-	5,400,000
Incentive payable – Mr. S. Dilli Raj (refer note 2 below)	-	3,750,000
Loans & advances – Dr. Vikram Akula	1,800,883	1,800,883
Share application money pending allotment – Dr. Vikram Akula (refer note 3 below)	-	45,128,151

Note 1: Salary, incentives and perquisites for Mr.M.R. Rao for financial year 2012-13 include amounts of Rs. 7,384,276 representing arrear payment for the financial year 2011-12.

Note 2: Salary, incentives and perquisites for Mr.M.R. Rao and Mr.S. Dilli Raj for financial year 2011-12 include amounts of Rs. 5,400,000 and Rs. 3,750,000 respectively representing variable pay for the financial year 2010-11.

Note 3: Represents share application money received by the Company from Dr. Vikram Akula towards 906,734 options out of 2,676,271 stock options held by him. The allotment of options exercised was pending as on March 31, 2012 and the same were subsequently allotted on May 4, 2012.

29. Capital and other commitments

Estimated amounts of contracts remaining to be executed on capital account (net of capital advances) and not provided:

Particulars	March 31, 2013	March 31, 2012
For purchase/ development of computer software	943,000	915,000

30. Contingent liabilities not provided for

Particulars	March 31, 2013	March 31, 2012
Credit enhancements provided by the Company towards asset assignment/ securitisation (including cash collaterals, principal and interest subordination)	2,050,236,250	2,479,983,502
Performance security provided by the Company pursuant to service provider agreement	20,000,000	-
Tax on items disallowed by the Income Tax department not acknowledged as debt by the Company*	42,346,628	30,302,298

* Based on the expert opinion obtained by the Company, crystallisation of liability on these items is not considered probable.

31. Stock option scheme

The Company has provided various share-based payment schemes to its Directors and Employees. The plans in operation are Plan I (Managing Director), Plan II (Other Independent Directors) and Plan III (Employees) while 'a', 'b', 'c', 'd', 'e', 'f', 'g' are the different grants made under these plans. During the year ended March 31, 2013, the following series were in operation:

Particulars	Plan I (a)	Plan I (b)	Plan I (c)	Plan II (b)	Plan II (c)	Plan II (d)	Plan II (e)	Plan II (f)	Plan II (g)
Date of grant	Oct 15, 2007	Nov 10, 2008	Dec 8, 2008	Feb 1, 2008	Nov 10, 2008	July 29, 2009	Feb 1, 2010	Nov 23, 2011	Mar 12, 2013
Date of Board approval	July 31, 2007	Oct 30, 2008	Oct 30, 2008	Oct 15, 2007	Oct 15, 2007	Oct 15, 2007	Jan 5, 2010	Nov 23, 2011	Mar 12, 2013
Date of shareholder's approval	Sept 8, 2007	Nov 8, 2008	Nov 8, 2008	Jan 16, 2008	Jan 16, 2008	Jan 16, 2008	Jan 8, 2010	Jan 8, 2010, July 16, 2010	Dec 07, 2011
Number of options granted	1,852,158	1,769,537	900,000	15,000	6,000	18,000	90,000	300,000	400,000
Exercise price	Rs.49.77	Rs.300	Rs.300	Rs.70.67	Rs.70.67	Rs.300	Rs.300	Rs.109.95	Rs. 150
Method of settlement	Equity	Equity	Equity	Equity	Equity	Equity	Equity	Equity	Equity
Vesting period	Immediate	Immediate	25% equally at the end of each year	**Immediate	*Immediate	*Immediate	25% equally at the end of each year	End of year 1 – 33% End of year 2 – 33% End of year 3 – 34%	End of year 1 – 33% End of year 2 – 33% End of year 3 – 34%
Exercise period	48 months from the date of vesting	60 months from the date of vesting	48 months from the date of grant	36 months from the date of vesting	36 months from the date of vesting	36 months from the date of vesting	60 months from the date of grant	36 months from the date of vesting	On or before Mar 11, 2018
Vesting conditions	Refer note 1	Refer note 1	Refer note 1	Refer note 1	Refer note 1	Refer note 1	Refer note 1	Refer note 1	Refer note 1
Name of the plan	ESOP 2007	ESOP 2008	ESOP 2008	ESOP 2008-ID	ESOP 2008-ID	ESOP 2008-ID	ESOP 2008-ID	ESOP 2008-ID ESOP 2010	ESOP 2011

Particulars	Plan III (a)	Plan III (b)	Plan III (c)	Plan III (d)	Plan III (e)	Plan III (f)	Plan III (g)
Date of grant	Nov 3, 2009	Dec 15, 2009	Dec 15, 2009	May 4, 2010	May 4, 2010	Sep 7, 2011	Mar 22, 2013
Date of Board approval	July 29, 2009	Nov 4, 2009	Nov 4, 2009	May 4, 2010	May 4, 2010	Sep 7, 2011	Mar 22, 2013
Date of shareholder's approval	Sep 30, 2009	Dec 10, 2009	Dec 10, 2009	Dec 10, 2009	Dec 10, 2009	Nov 8, 2008, Sep 30, 2009, July 16, 2010	Dec 07, 2011
Number of options granted	514,750	1,313,160	568,000	4,340	6,000	1,486,329	119,112
Exercise price	Rs.300	Rs.150	Rs.300	Rs.150	Rs.300	Rs.229.40	Rs. 150
Method of settlement	Equity	Equity	Equity	Equity	Equity	Equity	Equity
Vesting period	End of year 1 – 40% End of year 2 – 25% End of year 3 – 25% End of year 4 – 10%	20 % equally at the end of each year	20 % equally at the end of each year	20 % equally at the end of each year	20 % equally at the end of each year	50 % equally at the end of each year	End of year 1 – 33% End of year 2 – 33% End of year 3 – 34%
Exercise period	60 months from the date of grant	72 months from the date of grant	72 months from the date of grant	72 months from the date of grant	72 months from the date of grant	36 months from the date of vesting	On or before Mar 21, 2018
Vesting conditions	Refer note 1	Refer note 1	Refer note 1	Refer note 1	Refer note 1	Refer note 1	Refer note 1
Name of the plan	ESOP 2009	ESOP 2009	ESOP 2009	ESOP 2009	ESOP 2009	ESOP 2008 ESOP 2009 ESOP 2010	ESOP 2011

* 1/3rd of the options can be exercised within first twelve months from grant date; another 1/3rd of the options can be exercised within twenty four months from grant date and the rest being exercised within thirty six months from grant date.

** 1/2 of the options can be exercised within twenty four months from grant date; another 1/2 of the options can be exercised within thirty six months from grant date.

Note 1: Option holders are required to continue to hold the services being provided to the Company at the time of exercise of options.

The details of **Plan I (a)** have been summarised below:

Particulars	**As at March 31, 2013**		**As at March 31, 2012**	
	Number of options	**Weighted average exercise price (Rs.)**	**Number of options**	**Weighted average exercise price (Rs.)**
Outstanding at the beginning of the year	-	-	906,734	49.77
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year*	-	-	906,734	49.77
Expired during the year	-	-	-	-
Outstanding at the end of the year	-	-	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	-	-	-	-
Weighted average fair value of options granted	-	-	-	7.28

* Notice of exercise received for 906,734 options; however the allotment was pending as on March 31, 2012. These shares were subsequently allotted on May 4, 2012. The weighted average share price on the date of receipt of such notice for exercise was Rs. 214.66.

The details of **Plan I (b)** have been summarised below:

Particulars	**As at March 31, 2013**		**As at March 31, 2012**	
	Number of options	**Weighted average exercise price (Rs.)**	**Number of options**	**Weighted average exercise price (Rs.)**
Outstanding at the beginning of the year	1,769,537	300.00	1,769,537	300.00
Granted during the year				
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	1,769,537	300.00	1,769,537	300.00
Exercisable at the end of the year	1,769,537	300.00	1,769,537	300.00
Weighted average remaining contractual life (in years)	0.6	-	1.6	-
Weighted average fair value of options granted	-	2.92	-	2.92

The details of **Plan I (c)** have been summarised below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	225,000	300.00	675,000	300.00
Granted during the year	-	-	-	-
Forfeited during the year	225,000	300.00	450,000	300.00
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	-	-	225,000	300.00
Exercisable at the end of the year	-	-	225,000	300.00
Weighted average remaining contractual life (in years)	-	-	0.2	-
Weighted average fair value of options granted	-	-	-	1.81

The details of **Plan II (b)** have been summarised below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	15,000	70.67	15,000	70.67
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	15,000	70.67	15,000	70.67
Exercisable at the end of the year	15,000	70.67	15,000	70.67
Weighted average remaining contractual life (years)*	2.8	-	0.8	-
Weighted average fair value of options granted	-	17.72	-	17.72

* Exercise period ending on February 1, 2013, extended upto February 1, 2016.

The details of **Plan II (c)** have been summarised below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	4,000	70.67	4,000	70.67
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	1,000	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,000	70.67	4,000	70.67
Exercisable at the end of the year	3,000	70.67	4,000	70.67
Weighted average remaining contractual life (years)*	2.8	-	0.8	-
Weighted average fair value of options granted	-	52.14	-	52.14

* Exercise period ending on February 1, 2013, extended upto February 1, 2016.
The weighted average share price on the date of exercise of 1,000 stock options was Rs. 154.55.

The details of **Plan II (d)** have been summarised below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	18,000	300.00	18,000	300.00
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	18,000	300.00	18,000	300.00
Exercisable at the end of the year	18,000	300.00	18,000	300.00
Weighted average remaining contractual life (in years)*	1.3	-	0.3	-
Weighted average fair value of options granted	-	21.57	-	21.57

* Original exercise period ending on July 29, 2012, extended upto July 29, 2014

The details of **Plan II (e)** have been summarised below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	49,500	300.00	85,500	300.00
Granted during the year	-	-	-	-
Forfeited during the year	-	-	36,000	300.00
Exercised during the year*	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	49,500	300.00	49,500	300.00
Exercisable at the end of the year	36,000	300.00	22,500	300.00
Weighted average remaining contractual life (in years)	1.8	-	2.8	-
Weighted average fair value of options granted	-	72.53	-	72.53

The details of **Plan II (f)** have been summarised below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	300,000	109.95	300,000	109.95
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	300,000	109.95	300,000	109.95
Exercisable at the end of the year	100,000	-	-	-
Weighted average remaining contractual life (in years)	4.7	-	5.7	-
Weighted average fair value of options granted	-	77.23	-	77.23

The details of **Plan II (g)** have been summarised below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	400,000	150.00	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	400,000	150.00	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	4.9	-	-	-
Weighted average fair value of options granted	-	71.81	-	-

The details of **Plan III (a)** have been summarised below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	260,640	300.00	319,840	300.00
Granted during the year				
Forfeited/ surrendered during the year	68,450	300.00	57,000	300.00
Exercised during the year	-	-	2,200	300.00
Expired during the year	-	-	-	-
Outstanding at the end of the year	192,190	300.00	260,640	300.00
Exercisable at the end of the year	159,170	300.00	117,928	300.00
Weighted average remaining contractual life (in years)	1.6	-	2.6	-
Weighted average fair value of options granted	-	41.18	-	41.18

The weighted average share price for the period during which stock options were exercised on a regular basis in financial year 2011-12 was Rs. 394.87

The details of **Plan III (b)** have been summarised below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	788,363	150.00	975,792	150.00
Granted during the year	-	-	-	-
Forfeited during the year	232,044	150.00	167,892	150.00
Exercised during the year	-	-	19,537	150.00
Expired during the year	-	-	-	-
Outstanding at the end of the year	556,319	150.00	788,363	150.00
Exercisable at the end of the year	280,593	150.00	235,548	150.00
Weighted average remaining contractual life (in years)	2.6	-	3.6	-
Weighted average fair value of options granted	-	115.30	-	115.30

The weighted average share price for the period during which stock options were exercised on a regular basis in financial year 2011-12 was Rs.325.79.

The details of **Plan III (c)** have been summarised below:

Particulars	As at March 31, 2013		As at March 31, 2012	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	284,540	300.00	401,000	300.00
Granted during the year	-	-	-	-
Forfeited/ surrendered during the year	131,000	300.00	116,100	300.00
Exercised during the year	-	-	360	300.00
Expired during the year	-	-	-	-
Outstanding at the end of the year	153,540	300.00	284,540	300.00
Exercisable at the end of the year	83,580	300.00	73,400	300.00
Weighted average remaining contractual life (in years)	2.6	-	3.6	-
Weighted average fair value of options granted	-	69.29	-	69.29

The weighted average share price for the period during which stock options were exercised on a regular basis in financial year 2011-12 was Rs. 374.27.

The details of **Plan III (d)** have been summarised below:

Particulars	**As at March 31, 2013**		**As at March 31, 2012**	
	Number of options	**Weighted average exercise price (Rs.)**	**Number of options**	**Weighted average exercise price (Rs.)**
Outstanding at the beginning of the year	2,704	150	3,990	150
Granted during the year	-	-	-	-
Forfeited during the year	-	-	898	150
Exercised during the year	-	-	388	150
Expired during the year	-	-	-	-
Outstanding at the end of the year	2,704	150	2,704	150
Exercisable at the end of the year	849	150	230	150
Weighted average remaining contractual life (in years)	3.1	-	4.1	-
Weighted average fair value of options granted	-	233.75	-	233.75

The weighted average share price for the period during which stock options were exercised on a regular basis in financial year 2011-12 was Rs. 399.32.

The details of **Plan III (e)** have been summarised below:

Particulars	**As at March 31, 2013**		**As at March 31, 2012**	
	Number of options	**Weighted average exercise price (Rs.)**	**Number of options**	**Weighted average exercise price (Rs.)**
Outstanding at the beginning of the year	3,000	300	3,000	300
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,000	300	3,000	300
Exercisable at the end of the year	1200	300	600	300
Weighted average remaining contractual life (in years)	3.1	-	4.1	-
Weighted average fair value of options granted	-	152.53	-	152.53

The details of **Plan III (f)** have been summarised below:

Particulars	**As at March 31, 2013**		**As at March 31, 2012**	
	Number of options	**Weighted average exercise price (Rs.)**	**Number of options**	**Weighted average exercise price (Rs.)**
Outstanding at the beginning of the year	1,216,135	229.40	-	-
Granted during the year	-	-	1,486,329	229.40
Forfeited/ surrendered during the year	410,036	229.40	270,194	229.40
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	806,099	229.40	1,216,135	229.40
Exercisable at the end of the year	403,050	-	-	-
Weighted average remaining contractual life (in years)	3.4	-	4.4	-
Weighted average fair value of options granted	-	146.37	-	146.37

The details of **Plan III (g)** have been summarised below:

Particulars	**As at March 31, 2013**		**As at March 31, 2012**	
	Number of options	**Weighted average exercise price (Rs.)**	**Number of options**	**Weighted average exercise price (Rs.)**
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	119,112	229.40	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	119,112	229.40	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	5.0	-	-	-
Weighted average fair value of options granted	-	57.43	-	-

Details of exercise price for stock options outstanding as at March 31, 2013:

Series	**Range of exercise prices**	**Number of options outstanding (31-Mar-13)**	**Number of options outstanding (31-Mar-12)**	**Weighted average remaining contractual life of options (in years) (31-Mar-13)**	**Weighted average remaining contractual life of options (in years) (31-Mar-12)**	**Weighted average exercise price**
Options outstanding as on 31-Mar-12 and 31-Mar-13:						
Plan I (b)	300.00	1,769,537	1,769,537	0.6	1.6	300.00
Plan I (c)	300.00	-	225,000	-	0.2	300.00
Plan II(b)	70.67	15,000	15,000	2.8	0.8	70.67
Plan II (c)	70.67	3,000	4,000	2.8	0.8	70.67
Plan II (d)	300.00	18,000	18,000	1.3	0.3	300.00
Plan II (e)	300.00	49,500	49,500	1.8	2.8	300.00
Plan II (f)	109.95	300,000	300,000	4.7	5.7	109.95
Plan III (a)	300.00	192,190	260,640	1.6	2.6	300.00
Plan III (b)	150.00	556,319	788,363	2.6	3.6	150.00
Plan III (c)	300.00	153,540	284,540	2.6	3.6	300.00
Plan III (d)	150.00	2,704	2,704	3.1	4.1	150.00
Plan III (e)	300.00	3,000	3,000	3.1	4.1	300.00
Plan III (f)	229.40	806,099	1,216,135	3.4	4.4	229.40
Options granted during the year and outstanding as on 31-Mar-13:						
Plan II (g)	150.00	400,000	-	4.9	-	150.00
Plan III (g)	150.00	119,112	-	5.0	-	150.00

Stock options granted during the year:

Plan II (g): The weighted average fair value of stock options granted during the year was Rs. 71.81. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

Particulars	Tranche vesting in FY 2013-14	Tranche vesting in FY 2014-15	Tranche vesting in FY 2015-16
Share price on the date of grant (Rs.)	142.75	142.75	142.75
Exercise price (Rs.)	150.00	150.00	150.00
Expected volatility (%)	62.46	62.46	62.46
Life of the options granted (years)	5	5	5
Risk-free interest rate (%)	7.84%	7.85%	7.86%
Expected dividend rate (%)	0%	0%	0%
Fair value of the option	66.56	71.92	76.79

Plan III (g): The weighted average fair value of stock options granted during the year was Rs. 57.43. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

Particulars	Tranche vesting in FY 2013-14	Tranche vesting in FY 2014-15	Tranche vesting in FY 2015-16
Share price on the date of grant (Rs.)	124.00	124.00	124.00
Exercise price (Rs.)	150.00	150.00	150.00
Expected volatility (%)	62.30	62.30	62.30
Life of the options granted (years)	5	5	5
Risk-free interest rate (%)	7.89%	7.88%	7.88%
Expected dividend rate (%)	0%	0%	0%
Fair value of the option	52.60	57.52	62.02

Volatility of the share price of the Company has been calculated as the standard deviation of the closing prices for a period of one year ending on the date of grant.

Stock options modified during the year (incremental fair value calculated using the Black-Scholes Model):

Particulars	Before	After	Before	After
Details of plan	Plan II (b & c)*		Plan II (d)**	
Share price on the date of modification (Rs.)	172.65	172.65	88.25	88.25
Exercise price (Rs.)	70.67	70.67	300	300
Expected volatility (%)	63.59	63.59	66.23	66.23
Life of the options granted (years)	0.03	1.51	0.01	2
Risk-free interest rate (%)	7.93%	7.93%	7.92%	7.92%
Expected dividend rate (%)	0%	0%	0%	0%
Fair value of the option	102.12	113.51	-	8.36
Incremental fair value		11.39		8.36

*Exercise period ending on February 1, 2013, extended upto February 1, 2016
**Exercise period ending on July 29, 2012, extended upto July 29, 2014

Effect of the share-based payment plans on the statement of profit and loss and on its financial position:

Particulars	For the year ended March 31, 2013	For the year ended March 31, 2012
Directors stock option expenditure	13,069,631	4,613,546
Employees stock option expenditure	15,541,113	92,311,868
Subtotal	**28,610,744**	**96,925,414**
Total compensation cost pertaining to equity-settled employee share based payment	**28,610,744**	**96,925,414**

Particulars	As at March 31, 2013	As at March 31, 2012
Stock options outstanding (gross)	272,293,052	342,766,257
Deferred compensation cost outstanding	(64,972,247)	(157,395,971)
Stock options outstanding (net)	207,320,805	185,370,286

32. Retirement benefits

The Company has a defined benefit gratuity plan. Every employee who has completed five years or more of service is eligible for gratuity on cessation of employment and it is computed at 15 days salary (last drawn salary) for each completed year of service. The scheme is funded with an insurance Company in the form of a qualifying insurance policy.

The following tables summarise the components of net benefit expense recognised in the statement of profit and loss and the funded status and amounts recognised in the Balance Sheet for the gratuity plan.

Statement of profit and loss

Net employees benefit expense (recognised in personnel expenses):

Particulars	For the year ended March 31, 2013	For the year ended March 31, 2012
Current service cost	19,320,701	26,256,016
Interest cost on benefit obligation	6,750,819	5,717,340
Expected return on plan assets	(3,193,877)	(2,986,886)
Net actuarial (gain)/ loss recognised in the year	(13,836,371)	(16,198,555)
Past service cost	-	1,434,381
Net employee benefit expense	**9,041,272**	**14,222,296**
Actual return on plan assets	**2,983,762**	**1,838,326**

Balance Sheet

Details of provision for gratuity:

Particulars	Gratuity	
	March 31, 2013	March 31, 2012
Defined benefit obligation	78,251,840	79,421,404
Fair value of plan assets	(27,981,896)	(37,575,021)
Plan liability	**50,269,944**	**41,846,383**

Changes in the present value of the defined benefit obligation are as follows:

Particulars	Gratuity	
	March 31, 2013	**March 31, 2012**
Opening defined benefit obligation	**79,421,404**	**68,883,615**
Interest cost	6,750,819	5,717,340
Current service cost	19,320,701	26,256,016
Benefits paid	(13,194,598)	(4,088,452)
Actuarial (gains)/ losses on obligation	(14,046,486)	(17,347,115)
Closing defined benefit obligation	**78,251,840**	**79,421,404**

Changes in the fair value of plan assets are as follows:

Particulars	Gratuity	
	March 31, 2013	**March 31, 2012**
Opening fair value of plan assets	**37,575,021**	**39,825,147**
Expected return	3,193,877	2,986,886
Contributions by employer	617,711	-
Benefits paid	(13,194,598)	(4,088,452)
Actuarial gains/ (losses)	(210,115)	(1,148,560)
Closing fair value of plan assets	**27,981,896**	**37,575,021**

The Company expects to contribute Rs. 1,500,000 to gratuity in the next year.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

Particulars	Gratuity	
	March 31, 2013	**March 31, 2012**
Investment with insurer	100%	100%

The overall expected rate of return on assets is determined based on the average long term rate of return expected on investment of the fund during the estimated term of the obligations.

The principal assumptions used in determining gratuity:

Particulars	Gratuity	
	March 31, 2013	**March 31, 2012**
Discount rate	8.00%	8.50%
Expected rate of return on assets	8.70%	8.50%
Salary escalation rate per annum	10% for the first two years and 7% there after	10% for the first two years and 7% there after
Rates of leaving service	15%	15%

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors.

Amounts for the current and previous four years are as follows:

Particulars	Gratuity				
	31-Mar-13	**31-Mar-12**	**31-Mar-11**	**31-Mar-10**	**31-Mar-09**
Defined benefit obligation	78,251,840	79,421,404	68,883,615	36,483,997	19,642,037
Plan assets	27,981,896	37,575,021	39,825,147	34,887,552	17,822,480
Surplus/ (deficit)	(50,269,944)	(41,846,383)	(29,058,468)	(1,596,445)	(1,819,557)
Experience adjustments on plan liabilities	(14,046,486)	(17,347,115)	4,648,214	4,582,747	5,137,920
Experience adjustments on plan assets	(210,115)	(1,148,560)	(2,044,673)	(1,549,280)	431,324

33. Expenditure in foreign currency (on accrual basis)

Particulars	For the year ended March 31, 2013	For the year ended March 31, 2012
Professional fees	25,059,000	419,741
Travelling expenses	1,601,768	1,839,316
Membership and subscriptions	240,999	191,462
Software Development	186,047	-
Total	**27,087,814**	**2,450,519**

34. Loan portfolio and provision for standard and non performing assets as at March 31, 2013:

Asset classification	Portfolio loans outstanding (Gross)		Provision for standard and non performing assets				Portfolio loans outstanding (Net)	
	As at March 31, 2013	As at March 31, 2012	As at March 31, 2012	Provision made during the year	Provision written back during the year	As at March 31, 2013	As at March 31, 2013	As at March 31, 2012
Standard assets	12,271,270,996	4,799,900,931	45,710,493	-	15,032,315	30,678,178	12,240,592,818	4,754,190,438
Sub-standard assets*	199,793,127	2,847,749,972	393,202,382	-	243,667,538	149,534,844	50,258,283	2,454,547,590
Doubtful assets*	27,894,437	-	-	27,894,437	-	27,894,437	-	-
Loss assets*	2,404,916,860	-	-	2,404,916,860	-	2,404,916,860	-	-
Total	**14,903,875,420**	**7,647,650,903**	**438,912,875**	**2,432,811,297**	**258,699,853**	**2,613,024,319**	**12,290,851,101**	**7,208,738,028**

Note: The above table does not include loans placed as collateral towards asset assignment/ securitisation transaction amounting to Rs. 404,892,002, as the provisioning thereof is done collectively alongwith the loan asset assigned/ securitised.

*Non-performing assets include amount of Rs. 2,576,351,728 representing portfolio in the state of Andhra Pradesh which has been fully provided for.

Loan portfolio and provision for standard and non performing assets as at March 31, 2012:

Asset classification	Portfolio loans outstanding (Gross)		Provision for standard and non performing assets				Portfolio loans outstanding (Net)	
	As at March 31, 2012	As at March 31, 2011	As at March 31, 2011	Provision made during the year	Provision written back during the year	As at March 31, 2012	As at March 31, 2012	As at March 31, 2011
Standard assets	4,799,900,931	33,946,075,772	241,748,305	-	196,037,812	45,710,493	4,754,190,438	33,704,327,467
Sub-standard assets	2,847,749,972	842,920,093	405,486,263	-	12,283,881	393,202,382	2,454,547,590	437,433,830
Total	**7,647,650,903**	**34,788,995,865**	**647,234,568**	**-**	**208,321,693**	**438,912,875**	**7,208,738,028**	**34,141,761,297**

Note: The above table does not include loans placed as collateral towards asset assignment/ securitisation transaction amounting to Rs. 1,374,051,292, as the provisioning thereof is done collectively alongwith the loan asset assigned/ securitised.

35. Leases

Finance Lease:
The Company has obtained computers on finance lease. The lease term is for three years, there is no escalation clause in the lease agreement. There are no restrictions imposed by lease arrangements. There are no subleases.

Description	March 31, 2013	March 31, 2012
Total minimum lease payments at the year end	2,231,008	11,155,038
Less : amount representing finance charges	103,834	1,114,602
Present value of minimum lease payments (Rate of interest: 13% p.a.)	**2,127,174**	**10,040,436**
Contingent rent recognised in the statement of profit and loss		-
Minimum Lease Obligations		
Not later than one year [Present value of Rs.1,567,868 as on March 31, 2013 (Rs. 6,799,311 as on March 31, 2012)]	2,231,008	8,924,031
Later than one year but not later than five years year [Present value of Rs.Nil as on March 31, 2013(Rs. 1,567,868 as on March 31, 2012)]	-	2,231,008
Later than five years	-	-

Operating Lease

Office Premises:

Head office and the branch office premises are obtained on operating lease. The branch office premises are generally rented on cancellable term for less than twelve months with no escalation clause and renewable at the option of the both the parties. However, the head office premise has been obtained on a non-cancelable lease term of twenty one months with an escalation clause of five percent after every twelve months. There are no restrictions imposed by lease arrangements. There are no subleases. Lease payments during the year are charged to statement of profit and loss.

Description	March 31, 2013	March 31, 2012
Operating lease expenses recognised in the statement of profit and loss on a straight line basis	141,234,225	203,480,583
Minimum lease obligations		
Not later than one year	16,416,445	-
Later than one year but not later than five years	**-**	**-**
Later than five years	-	-

Vehicles:

The Company has taken certain vehicles on cancellable operating lease. Total lease expense under cancellable operating lease during the year was Rs. 9,225,353 (Previous year: Rs. 10,439,969).

36. The Company has given interest free collateral free loan to an employee benefit trust under the Employee Stock Purchase Scheme to provide financial assistance to its employees to purchase equity shares of the Company under such scheme. The loan is repayable by the Trust under a back to back arrangement by the Trust with the employees of the Company. The year-end balance for the total loan granted is Rs. 54,168,606 (March 31, 2012: Rs. 54,168,606).

37. The Company had received a show cause notice (SCN) from service tax authorities on October 23, 2012 to explain as to why the assignment of portfolio loans should not be classified under “recovery agent service” and the related income from asset assignment transactions should not be subjected to service tax. The SCN relates to the period financial year 2007-08 to financial year 2011-12 and indicates an amount of Rs. 342,493,271 as service tax on the income from asset assignment during the said period. The Company has filed its response explaining the position that the income from asset assignments should not be subjected to service tax. Thereafter, the Company has not received any communication from the service tax authorities. However, based on the merits of the case, the management and its tax advisors believe that their position is likely to be upheld in the appellate process. Accordingly, no provision has been made for the amount indicated in the SCN as at March 31, 2013.

38. Dues to micro, small and medium enterprises

There are no amounts that need to be disclosed in accordance with the Micro Small and Medium Enterprise Development Act, 2006 (the 'MSMED') pertaining to micro or small enterprises.
For the year ended March 31, 2013, no supplier has intimated the Company about its status as micro or small enterprises or its registration with the appropriate authority under MSMED.

39. Additional disclosures required by the RBI

a. Capital Risk Adequacy Ratio ('CRAR'):

Item	March 31, 2013	March 31, 2012
CRAR (%)	33.85%	35.39%
CRAR – Tier I Capital (%)	33.85%	34.42%
CRAR – Tier II Capital (%)	0.00%	0.97%

The modifications to the NBFC-MFI directions issued by RBI vide its circular no.RBI/2012-13/161 DNBS (PD) CC.No.300 /03.10. 038/2012-13 dated August 3, 2012 have specified that provision made towards portfolio in the state of Andhra Pradesh should be in accordance with extant NBFC prudential norms and such provision should be added back notionally to the net owned funds for the purpose of calculation of the capital to risk assets ratio ('CRAR') and would be progressively reduced by 20% each year, over 5 years i.e. from March 31, 2013 to March 31, 2017. Accordingly, the CRAR as at March 31, 2013, given in the above table, is after adding back the provision towards the portfolio in the state of Andhra Pradesh of Rs. 2,576,351,728 to the net owned funds. Had the amount of provision mentioned above not been added back to the net owned funds, the CRAR as at March 31, 2013 would have been 20.65%. The Company has taken cognizance of the specific dispensation granted by RBI as it has applied for the registration as an NBFC-MFI and the response from RBI is awaited.

b. The Company has no exposure to the real estate sector directly or indirectly in the current and previous year.

c. Outstanding of loans against security of gold as a percentage to total assets is 2.23% (March 31, 2012: 1.58%).

d. Information on instances of fraud

Instances of fraud for the year ended March 31, 2013:

Nature of fraud	No. of cases	Amount of fraud	Recovery	Amount written-off
Cash embezzlement	120	12,762,403	1,743,054	11,019,349
Loans given against fictitious documents	43	8,332,870	948,664	7,384,206
Fraud by external party	1	455,000	-	-

Instances of fraud for the year ended March 31, 2012:

Nature of fraud	No. of cases	Amount of fraud	Recovery	Amount written-off
Cash embezzlement	580	25,091,317	10,859,714	14,231,603
Loans given against fictitious documents	234	133,313,975	7,397,648	125,916,327

e. Asset Liability Management

Maturity pattern of assets and liabilities as on March 31, 2013:

(Rs. in Crores)

Particulars	Upto 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Liabilities									
Borrowings from banks	346.1	53.1	113.6	310.3	419.2	195.3	4.2	-	**1,441.8**
Market borrowings	6.2	6.2	9.8	29.3	58.7	66.1	0.1	-	**176.4**
Assets									
Advances	136.1	123.0	116.0	382.8	524.3	19.9	20.0	243.3	**1565.4**
Investments	-	-	-	-	-	-	-	0.2	**0.2**

Maturity pattern of assets and liabilities as on March 31, 2012:

(Rs. in Crores)

Particulars	Upto 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Liabilities									
Borrowings from banks	167.6	54.6	63.5	139.4	207.4	216.3	0.0	0.0	**848.8**
Market borrowings	12.4	17.7	12.4	36.3	24.7	67.9	0.1	0.0	**171.5**
Assets									
Advances	117.8	109.3	61.1	129.3	229.9	17.4	284.8	0.0	**949.5**
Investments	-	-	-	-	-	-	-	0.2	**0.2**

40. Previous year's figures have been regrouped where necessary to conform to this year's classification.

For and on behalf of the Board of Directors of
SKS Microfinance Limited

P.H. Ravikumar
Non-Executive Chairman
(Interim)

M.R. Rao
Managing Director and
Chief Executive Officer

S. Dilli Raj
Chief Financial Officer

Sudershan Pallap
Company Secretary

SKS Microfinance Limited
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