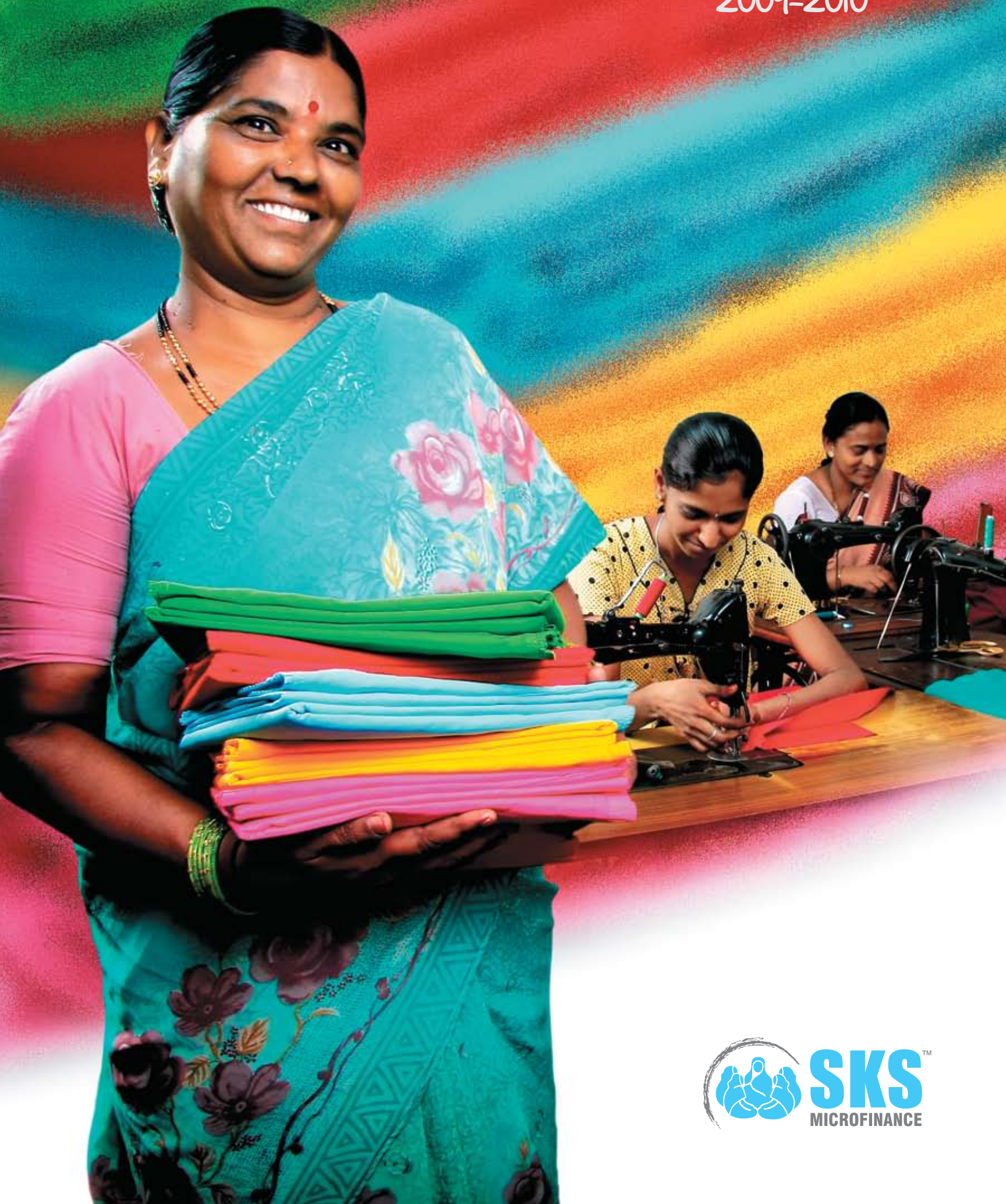


# Annual Report

2009-2010







# One stitch at a time

Lakshmi was a small time seamstress in a downtown neighbourhood in Hubli, a small city in north Karnataka. She used to stitch clothes and make some money which would help ease the financial constraints on the family. Today, Lakshmi's house is cramped with rolls of cloth, sewing machines, cutting machines, ironing boards and rows and rows of stitched and neatly folded saree petticoats in thousands of colours and shades.

The turning point for the family was in 2007 when SKS Microfinance started operations in their locality. Lakshmi was one of the early borrowers who dreamt of doing tailoring on a larger scale. More machines, more cloth helped her gain confidence. Her husband soon identified a few stores in the city which needed a regular supply of saree petticoats. Lakshmi switched to stitching only petticoats. But the shops wanted more. Her husband who had connects with the transport industry figured that sourcing the cloth from Ahmedabad would be cheaper. Every week or 10 days, Lakshmi would get fresh stocks of cloth from Ahmedabad. Margins increased.

Lakshmi hired two professional cutters who only cut the cloth. She bought more machines, hired tailors and also gave out the cut cloth for stitching to women who take it home and return the completed products. Today, three IGLs & three MTLs worth Rs. 56,000/- later, this cottage enterprise is bustling with activity. "There is so much demand for petticoats. Even if I double my supplies or if some more people start supplying to the same shop there is enough room for all," says Lakshmi. While her husband supports her completely by managing the logistics, her daughters take care of ensuring that the stitched petticoats are ironed and packed properly.

Does it not make sense to set up a shop on her own?

"Customer interaction needs different skills. I don't have them. However, I am sending my son to work as a salesman in a shop to learn the tricks of the trade. I will do it one day but right now I'd like to add a little storage space so I can get more cloth at one go from Ahmedabad," she explains.



## Mission

Our mission is to eradicate poverty. We do that by providing financial services to the poor and by using our channel to provide goods and services that the poor need.

## Vision

Our vision is to serve 50 million households across India and other parts of the world and also to create a commercial microfinance model that delivers high value to our customers.

## Core Values

**Right Focus - Customer first**

**Right Means - Ethics always**

**Right Way - Consistent quality**

A background image showing a group of men wearing helmets and riding motorcycles, positioned in a line. The image is faded and serves as a backdrop for the text.

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# Robust growth from a strong foundation

SKS Microfinance provides financial services to the poor in order to help them become financially self-reliant. As of March 31, 2010, SKS had 6.78 million women borrowers and total disbursements worth more than Rs.14,000 crore (\$3 billion). These small, income generating loans have had a tremendous impact on the lives of our women borrowers and their families.

**6,780,000**  
members



**14,000**  
crores  
disbursed

As we reach more and more people across India, it is important to remember the solid foundation that makes this robust growth possible. SKS continues to maintain repayment rates of more than 99% on collateral free loans. This stellar track record is due to our disciplined methodology and strong group lending model. SKS distributes small loans for income generating activities, not for consumer consumption. We lend only to women because they tend to be more careful with using loans than men. To be eligible for loans, members must take financial literacy training and pass a test to demonstrate they understand interest rates, loan installments, and repayment schedules.

SKS has always been committed to transparency on interest rates and fair collection practices. We have also taken the lead on transparency, codes of conduct and good governance initiatives in India and abroad.

This record of good governance provides a solid foundation for a business model that allows us to rapidly scale. Our commercial approach helps us access capital from investors and capital markets. This access to capital lets us expand and meet the urgent needs of millions of poor people.

**99%**  
repayment  
rates

To build capacity to handle this growth, we adopted best practices from the business world. This enables us to efficiently recruit and train nearly 700 field staff, open 55 new branches and enroll 200,000 new SKS members each month.

Early and continued investment in technology enabled SKS to streamline costs and carefully manage millions of small transactions. A user friendly software and IT system helps our field officers capture data and generate reports for analysis, while minimizing human error.

Based on a strong foundation, this approach has helped SKS build a profitable and sustainable business that strives to give the poor access to financial services and a valuable opportunity to improve their lives.



Much has changed and today, people around the world understand the power and potential of a small loan distributed to a woman like Anjamma.



Anjamma is one of our first members. When she joined SKS in 1998, she eked out a living doing casual agricultural work for Rs. 15/- (30 cents) a day in Andhra Pradesh in southern India. Anjamma could barely support her young family. She lived on one acre of land in a small thatched hut that leaked during the monsoon. Anjamma also had to contend with socio-economic barriers that faced Dalits, members of India's lowest castes.

SKS had just started distributing loans in 1998 when Anjamma took a Rs. 1,500 (\$ 33) loan to buy a goat, which augmented her meager income when she sold its milk and offspring. The next year, she bought a second goat with a Rs. 2,000 (\$ 44) loan. In the third year, with another Rs. 2,000 loan, Anjamma leased a piece of farm land. Over the years, SKS has given her loans totaling Rs. 130,000 (\$ 2,889). Today, Anjamma is in her 11th loan cycle. She owns a buffalo and a plot of land worth Rs. 40,000 (\$ 889) and now lives in a solid home with a clay-shingled roof. This single mother's hard-won financial independence allows her to support her two children, who are the first generation in her family to attend school.



As of March 31, 2010, SKS had 6.8 million members like Anjamma who invested in income generating activities that gave them an opportunity to create a better life. Notably, our members have maintained on time repayment rates of more than 99%, which results from a careful process of training members and field staff, along with our disciplined group lending methodology.

Anjamma has come a long way in the past decade and so has SKS. From humble beginnings, SKS has grown across 19 states in India to offer the poor financial services that can help break the cycle of poverty. This goal has sustained SKS over its 12 year journey, from its early days when friends and family made donations as small as \$ 11 to get us off the ground. Back then, microfinance was virtually unknown in mainstream circles. Much has changed and today, people around the world understand the power and potential of a small loan distributed to a woman like Anjamma.

This year SKS has continued to grow its microfinance network while expanding new areas of business, such as life insurance and financing mobile phones. Although the microfinance industry has flourished, we must continue to ensure high quality service to our borrowers. To that end, India's leading microfinance institutions formed a self-regulatory body called MFIN that set forth a code of conduct upholding good governance and transparency - qualities we have always embraced at SKS.

There have been many milestones for SKS but much work remains. There are still tens of millions of poor Indians without access to financial services. With that in mind, SKS will continue to strengthen, innovate and grow in order to enable people like Anjamma to create a better life for themselves and their families.

With Best Regards,

Dr. Vikram Akula  
Founder & Chairperson

# Methodology

SKS uses the group lending model, which yields repayment rates of more than 99%



SURVEY A VILLAGE



RECRUIT MEMBERS



DELIVER DOORSTEP SERVICE



PROVIDE TRAINING

MFIN sets a standard for good governance and accountability in our sector, while working toward the larger goal of financial inclusion.



**Suresh Gurumani, Chief Executive Officer**

SKS along with more than 30 microfinance institutions (MFIs) set up Microfinance Institutions Network (MFIN) in December 2009. MFIN is a self-regulatory organization of MFIs that are non-banking finance companies (NBFCs) regulated by the Reserve Bank of India. MFIN sets a standard for good governance and accountability in our sector, while working toward the larger goal of financial inclusion.

MFIN members endorsed a five-point code of conduct that addresses issues NBFC MFIs are facing today. They agreed to be transparent in communicating interest rates and fees to clients in vernacular language; to be responsible lenders and follow norms to prevent creating over indebtedness for clients, follow prudent and ethical collection practices; share information with credit bureaus to create a strong database for the sector; and follow fair recruitment and human resources practices. A whistleblower policy and an enforcement committee will ensure MFIN members abide by the code of conduct.



During 2009-10, field assistants spent 24.5 lakh (2.45 million) hours on Compulsory Group Training sessions, which provides basic financial literacy for our members.

**M R Rao, Chief Operating Officer**

This year SKS added 2.83 million new members (more than 200,000 every month). We opened 676 new branches (averaging 55 branches every month) and recruited 8,340 new field officers (nearly 700 every month). This growth is unprecedented in the micro-finance industry.

SKS' focus on training has been key to how we manage growth. The hundreds of field assistant trainees we hire monthly shadow an existing sangam manager for two months to understand the business on the job. In addition, during 2009-10, Field Assistants spent 24.5 lakh (2.45 million) hours on Compulsory Group Training sessions, which provides basic financial literacy for our members. Staff at various levels went through 25,932 hours of training.

This along with member contact and feedback mechanisms, such as Sangam leader (village center leader) meetings, group leader feedback, customer satisfaction surveys and a toll free number pilot, have helped SKS manage growth while maintaining high quality service and good customer relationships.

SKS marked another important milestone when we became the first MFI in India to file a Draft Red Herring Prospectus.



**S Dilli Raj, Chief Financial Officer**

This year SKS accessed incremental debt of Rs. 5,132 crores (\$ 1.2 billion) to fund expansion. Our funding model went through a major transformation. The highlights include:

**Diversified sources**

Our basket of sources is comprised of several financial instruments, such as term loans, cash credit, non-convertible debentures, commercial papers, rated pool assignment and sale of receivables. It is truly a mix that mitigates concentration risk.

**Stable funding partners**

The share of public sector banks (including State Bank of India) and development financial institutions that supply funds to SKS to lend to borrowers increased to 38% as of March 31, 2010 from 3.4% at the end of fiscal year 2008.

**Positive asset and liability management structure**

The average maturity of our liabilities exceeds that of our assets, thus mitigating the refinancing risk.

**Scientific liquidity management**

Well-defined liquidity metrics and close monitoring helped us ensure that our cash and cash equivalents were in excess of all corporate obligations and helped to promote uninterrupted asset growth.

**Financial innovation**

We continued to be a financial pioneer and this year, we became the first microfinance institution in India to:

- Obtain stand alone “Highest Safety” rating
- Place a rated debt paper with a mutual fund
- Place a rated paper with an insurer
- Obtain sanction for a unsecured 8 year Tier II subordinated bond.

We expect that our pioneering efforts in accessing these capital market instruments will help funds flow to the sector as a whole, and make robust financial architecture mainstream in microfinance.

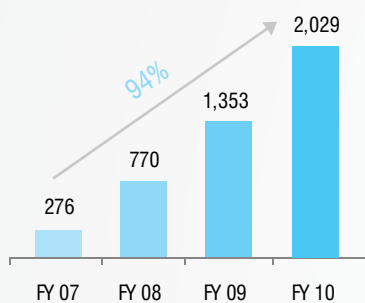
SKS marked another important milestone when we became the first MFI in India to file a Draft Red Herring Prospectus with the Securities Exchange Board of India for a public issue of Equity Shares.

## OPERATIONAL HIGHLIGHTS

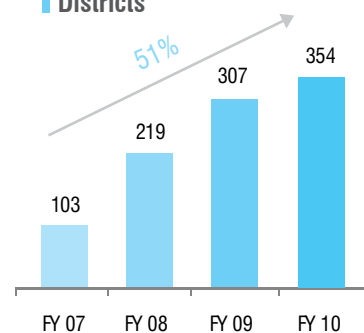
Operational Information	Mar-07	Mar-08	Mar-09	Mar-10
Total No. of Branches	276	770	1,353	2,029
Total No. of Districts	103	219	307	354
Total No. of Staff	2,381	6,818	12,814	21,154
Total No. of Members (in millions)	0.60	1.88	3.95	6.78
Amount Disbursed (Rs. in Crores)	452	1,680	4,485	7,618
Portfolio Outstanding (Rs. in Crores)*	276	1,051	2,456	4,321

\* Includes assigned portfolio

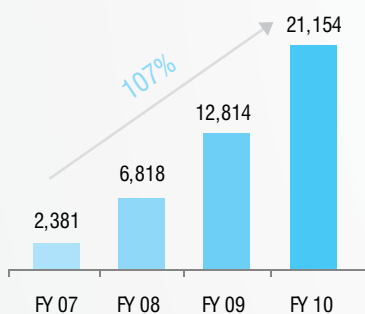
## Branches



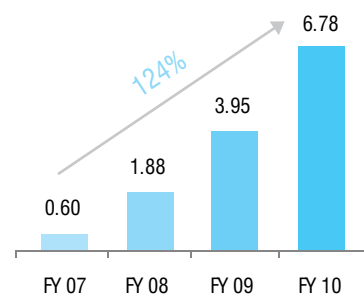
## Districts



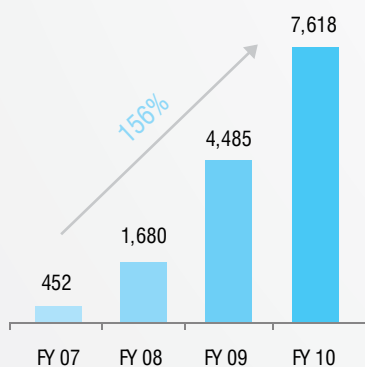
## Staff



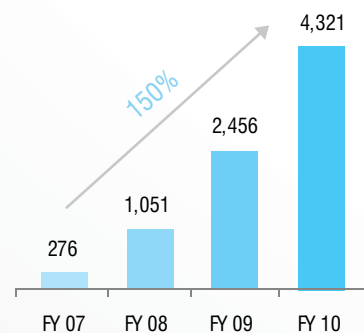
## Members (in millions)



## Disbursement (Rs. in Crores)



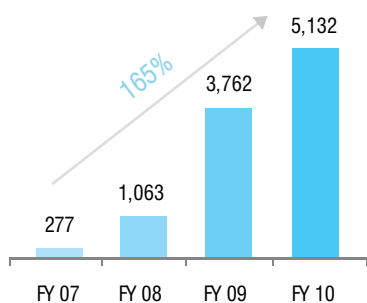
## Loan Portfolio (Rs. in Crores)



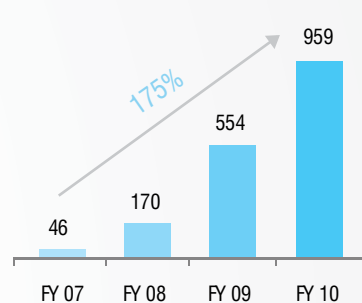
## FINANCIAL HIGHLIGHTS

Financial Information	Mar-07	Mar-08	Mar-09	Mar-10
Incremental Debt (Rs. in Crores)	277	1,063	3,762	5,132
Total Revenue (Rs. in Crores)	46	170	554	959
PAT (Rs. in Crores)	4	17	80	174
Total Assets (Rs. in Crores)	335	1,089	3,039	4,047
Return on Asset	1.69%	2.34%	3.89%	4.91%
Return on Equity	8.54%	11.71%	18.29%	21.54%

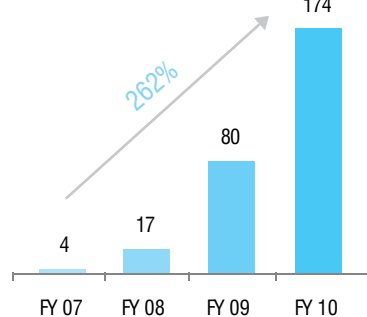
■ Incremental Debt (Rs. in Crores)



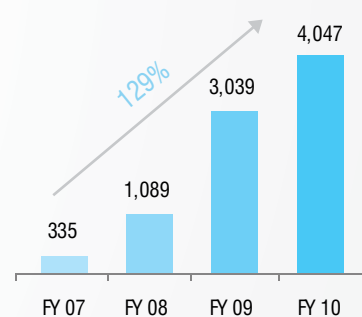
■ Revenue (Rs. in Crores)



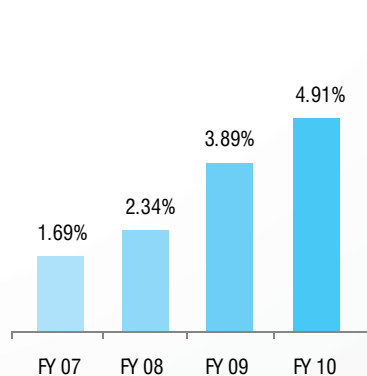
■ PAT (Rs. in Crores)



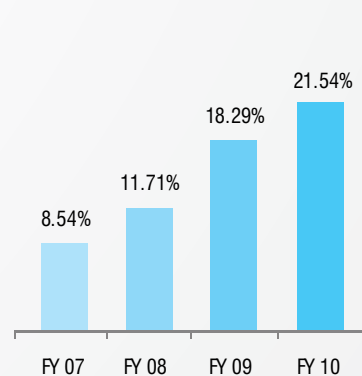
■ Assets (Rs. in Crores)



■ Return on Asset



■ Return on Equity



# Rickshaw queen of Kolkata



**Shayamali** Pal's husband Narayan Chandra Pal worked as a lower division clerk in the High Court at Howrah in Kolkata. Their family of four relied mainly on his income even though Shayamali used to make some money by making paper bags and doing odd sewing jobs.

Her husband's earnings would dry up every time there was a strike in the city, which made it difficult for the family to make ends meet. Shayamali, 39 years old, thought it would be good to invest in cycle rickshaws, which were a common means of transport in the city. She put together her savings and over the next few years purchased secondhand rickshaws to rent out. The driver would operate the rickshaw all day and was free to charge any fee but had to pay a daily rental to Shayamali. Expenses on maintenance and repairs were Shayamali's responsibility.

To buy a secondhand rickshaw, Shayamali had to spend up to Rs. 8,000 and could expect Rs. 20 as a daily rental. She gained confidence with every passing day and was happy she could help another family earn money. In 2008, she learned about SKS and took her first loan of Rs. 8,000 to purchase another secondhand rickshaw. Both her income and confidence increased.

Today, Shayamali is in her fourth loan cycle and owns 15 rickshaws, from which she earns Rs. 300 daily. Part of this goes back into maintenance of vehicles. She also makes some additional money from making paper bags and sewing jobs.

"I love to work for the sheer joy it brings to me," said Shayamali. "I like doing new things and it feels good that it helps me make my two daughters more secure. I am also able to provide opportunities for other poor households."

What has been her happiest moment? "Today and now I am happy that you are here to meet me because of my work. I also felt a deep sense of fulfillment when I purchased the first rickshaw," said Shayamali.







**Ashish Lakharpal**  
Kismet Capital



**Geoffrey Tanner Woolley**  
Independent Director



**Pramod Bhasin**  
Independent Director



**Paresh Patel**  
Sandstone Capital



**P H Ravikumar**  
Independent Director

# Directors' Report



**Sumir Chadha**  
Sequoia Capital



**Suresh Gurumani**  
Managing Director



**Tarun Khanna**  
Independent Director



**V Chandrashekar**  
Nominee Director - SIDBI



**Vikram Akula**  
Founder and Chairman

### Dear Members,

Your Directors have pleasure in presenting the Seventh Annual Report of the Company together with the audited statement of accounts for the year ended 31st March, 2010.

Your Company in 2008 has become the largest microfinance institution in India in terms of total value of loans outstanding, number of borrowers and number of branches. This status received an endorsement in the October 2009 CRISIL report titled India Top 50 Microfinance Institutions. Even as it continued to grow, your Company has displayed leadership in thought and action. The Company's market leadership position in the microfinance sector enhances its reputation and credibility with various stakeholders resulting in numerous benefits. Your Company continued to finance its expansion by accessing multiple sources of capital, both debt and equity, including listed debentures, priority sector qualifying loans from banks, and equity investments from venture capital and private equity investors, institutions and others. Additionally, your Company could sell/assign its portfolio loans to banks to finance its growth. Your Company continued to capitalize on its strengths on various parameters like superior asset quality, pan India distribution channels, development of an Information Technology platform, strategic business alliances and experienced management team.

### Financial Highlights

The financial performance for fiscal ended 31st March, 2010 is summarized in the following table:

(Rs. in Crores)

Year ended 31st March	2010	2009
Total Revenue	958.93	554.00
Less: Total Expenditure	691.23	429.94
Profit before tax	267.70	124.06
Profit after tax	173.95	80.22
Surplus brought forward	80.84	16.66
Amount available for appropriation	254.79	96.88
Appropriation have been made as under:		
Transfer to Statutory Reserve	34.79	16.04
Surplus carried to Balance Sheet	220.00	80.84

- The Company's gross income for the year ended 31st March, 2010 has increased to Rs. 958.93 crore from Rs. 554.00 crore in the previous year registering a growth of 73.1 percent.
- Net profit after tax for the year increased by 116.8 percent to Rs. 173.95 crore from Rs. 80.22 crore in the previous year.
- An amount of Rs. 34.79 crore was transferred to Statutory Reserve Fund pursuant to section 45-IC of the Reserve Bank of India Act, 1934.

### Operational Highlights

The following table summarizes the operational performance of the Company for the year ended 31st March, 2010 :

Year ended 31st March	2010	2009	% Change
Number of Branches	2,029	1,353	50.0
Number of Sangam members (in lakhs)	67.80	39.53	71.5
Number of Employees	21,154	12,814	65.1
Amount Disbursed (in Rs. Crore)	7,618.25	4,484.98	69.9
Portfolio Outstanding (in Rs. Crore)*	4,320.69	2,456.41	75.9

\*Includes Assigned Portfolio

During the year under review, your Company's Sangam member base has increased to 67.8 lakh (6.78 million) as compared to 39.53 lakh (3.95 million) for the previous year which demonstrates a robust growth of 71.5 percent, resulting in a 69.9 percent increase in loans disbursed to Rs. 7,618.25 crore from Rs. 4,484.98 crore. Your Company was also able to extend its services to many new members by adding 676 new branches.

## New Business Initiatives

In order to increase customer retention and diversify the revenue base, your Company is piloting innovative products that will increase the productivity of members like:

- Entering into a strategic relationship with Nokia India Private Limited (Nokia) and Bharti Airtel Limited (Airtel) under which a loan is provided to members for the purchase of a Nokia mobile phone and availing services from Airtel mobile service provider. The members are assisted about the mechanism of the loan, its features, loan documentation and collection of installment towards repayment of the loan.
- A program with METRO Cash & Carry India Private Limited (METRO) and Future Agroviet Limited (Future Agroviet) to provide working capital finance to the members operating local retail shops called kirana stores that purchase supplies from METRO and Future Agroviet on a wholesale basis.
- A project in housing in association with Housing Development Financial Corporation Limited (HDFC). Members are provided loans for construction, improvement and extension of their homes. The results have been encouraging and the number of branches covered under the project are being increased and extended to newer states. HDFC provides technology and financial support for the project.

## Dividend

Your Directors have not recommended any dividend during the year as the Board is of the view that the Company should take advantage of the rapid growth potential in the microfinance sector by expanding and strengthening the operations funded by internal accruals to the extent possible.

## Change in location of Registered Office

During the year under review the Registered Office of the Company was shifted from Maruthi Mansion, Municipality No. 2-3-578/1, Kachi Colony, Nallagutta, Minister Road, Secunderabad – 500 003, Andhra Pradesh, India to Ashoka Raghupathi Chambers, D No. 1-10-60 to 62, Opp: Shoppers Stop, Begumpet, Hyderabad - 500 016, Andhra Pradesh, India with effect from 15th January, 2010.

## Management's Discussion and Analysis

The Management's Discussion and Analysis Report for the year under review is presented in a separate section of this Annual report.

## Corporate Governance

Your Company adopts best corporate practices and is committed to conduct its business in accordance with applicable laws, rules and regulations and the highest standards of business ethics and ethical conduct. A report on Corporate Governance is provided separately in the Annual Report.

## Resources and Liquidity

Your Company being a Systemically Important Non-Deposit Accepting NBFC is subject to the capital adequacy requirements prescribed by the Reserve Bank of India. Your Company was required to maintain a minimum Capital to Risk Asset ratio (CRAR) of 12% 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 total capital to risk weighted assets. Your Company maintained a CRAR ratio higher than the RBI prescribed ratio which is 28.55% and 39.04 % as on 31st March, 2010 and 31st March, 2009 respectively.

During the year, on review of the Company's financial performance for Fiscal 2009, Credit Analysis & Research Limited has revised the rating from "PR2+" [Two Plus] " to "PR1+" [One Plus] " for "Credit Rating of Non – Convertible Debentures of Rs. 25 crore". Further, the Company has received ratings for various instruments to raise funds and a summary of the ratings is presented in the following table:

Agency	Item	Rating
Credit Analysis & Research Limited	Commercial Paper	PR1 +
Credit Analysis & Research Limited	Non-Convertible Debentures	PR1 +
Credit Analysis & Research Limited	Assignee Payouts	PR1 + (SO)
CRISIL Limited	Assignee Payouts	P1+ (SO)
ICRA Limited	Assignee Payouts	A1+ (SO)

The Company accessed an incremental borrowing of Rs. 5,131.94 crore in debt (includes Commercial Paper of Rs. 190 crore and rated short-term Non Convertible Debenture of Rs. 175 crore) from 48 credit grantors in the financial year 2009-10.

The Non Convertible Debenture issued to Yes Bank Limited during the year for Rs. 50 crore is listed on Bombay Stock Exchange. The Listing fee for the year 2010-11 has been paid by the Company.

#### Increase in Share Capital

During the year under review, your Company issued 12,955,948 Equity Shares of Rs. 10/- each, which included 10,405,625 Equity Shares of Rs. 10/- each issued on conversion of 10,405,625 Compulsorily Convertible Preference Shares (CCPS) of Rs. 10/- each in the ratio of 1:1. Further 3,863,415 Equity Shares of Rs. 10/- each (paid-up Rs. 0.50 per Equity Share) were made fully paid-up. Accordingly, the issued, subscribed and paid-up equity share capital increased to Rs. 64.53 crore as at 31st March, 2010 as compared to previous year share capital of Rs. 57.06 crore.

The above issue of shares include strategic investment of Rs. 499,999,800/- by Bajaj Allianz Life Insurance Company Limited, a leading insurer offering life insurance products. This was the first-ever investment by an insurance company in any Indian Microfinance Institution (MFI). Another strategic investment of Rs. 281,331,000/- was made by Catamaran Fund 1-A and Catamaran Fund 1-B (represented by their Trustee, Catamaran Management Services Fund Private Limited). The above strategic capital infusions give your Company greater stability and credibility, as well as a stronger capital base to extend its reach to serve more poor customers.

During the year under review, your Company proposed to increase the Authorized Share Capital of the Company to accommodate the proposed issue of Bonus Shares by passing necessary Special Resolutions. However, the said resolutions were withdrawn with the consent of the members present at the 6th Annual General Meeting dated 30th September 2009 and accordingly there was no Bonus Issue/increase in Authorized Share Capital.

#### Initial Public Offer (IPO) of the Company

In order to augment the capital base to meet the future capital requirements arising out of growth in our business and achieve the benefits of listing on the stock exchange inter alia, your Company proposes to raise the capital from the primary market by way of its initial public offering (IPO/Issue) and has filed its Draft Red Herring Prospectus (DRHP) with the Securities & Exchange Board of India (SEBI)

The Issue comprises 16,791,579 Equity Shares of Rs. 10/- each ("Equity Shares") for cash, at a price to be decided through a 100% book building process ("Issue"), consisting of a fresh issue of 7,445,323 Equity Shares by the Company and an offer for sale of 9,346,256 Equity Shares by certain selling shareholders. The Equity Shares to be offered through IPO are proposed to be listed on the Bombay Stock Exchange Limited and the National Stock Exchange of India Limited. The Issue will constitute 21.6% of the fully diluted post issue paid-up capital of the Company.

The Book Running Lead Managers (BRLMs) to the Issue are Kotak Mahindra Capital Company Limited, Citigroup Global Markets India Private Limited and Credit Suisse Securities (India) Private Limited.

#### RBI Guidelines

Your Company is registered with Reserve Bank of India (RBI), as a non-deposit accepting NBFC ("NBFC-ND") under Section 45-IA of the RBI Act, 1934. As per Non-Banking Finance Companies RBI Directions, 1998, the Directors hereby report that the Company did not accept any public deposits during the year and did not have any public deposits outstanding at the end of the year.

Further, in the month of March, 2010 the Department of Non Banking Supervision (DNBS) – RBI has conducted annual onsite inspection at the Registered Office of the Company for scrutiny of books of account/records. The Company has provided all the relevant information as requested during the inspection to the officials of DNBS - RBI.

#### Credit Bureau for MFIs

In order to address the issue of multiple lending or over indebtedness, various Micro Finance Institutions/NBFC's have come together to invest in the Credit Information Bureau namely High Mark Credit Information Services Private Limited ("High Mark") via Alpha Microfinance Consultants Private Limited ("Alpha"). In order to facilitate the collective investment in High Mark, as well as undertake other collective steps for building the technology infrastructure for credit information sharing among themselves, and to educate their staff in ensuring good customer protection principles are followed, Alpha has been established as a collective entity by 32 NBFC MFIs which together have about 70% of the total portfolio of the microfinance loans. Your Company invested Rs. 20 lakhs during the year in Alpha and Mr. Suresh Gurumani represents your Company on the Board of Alpha.

#### Self regulations for MFIs

Microfinance Institutions Network (MFIN), a self-regulatory organization of NBFC - Microfinance Institutions (NBFC-MFIs) that aims to work with regulators to promote microfinance to achieve larger financial inclusion goals. Along with the other NBFC-MFIs, your Company also has a representa-

tion in MFIN and Mr. Suresh Gurumani represents your Company on the Board of MFIN. MFIN has also defined a Code of Conduct which focuses on fair practices with borrowers including promoting transparency, fixing overall lending limits at the client level, data sharing, recruitment practices, whistle blowing and enforcement mechanisms. Members of MFIN have committed to communicate interest rates on reducing balance method and other charges clearly to borrowers while following fair recovery mechanisms. Your Company has subscribed to implement and follow the above MFIN Code of Conduct.

### Information Technology Initiatives

As a leader and innovator in the use of technology in the microfinance industry, with the assistance of carefully selected technology partners, your Company has developed its technology platform into a business tool for achieving and maintaining high levels of customer service, enhancing operational efficiency and creating competitive advantages for the organization.

### Human Resource Management

Human resources are the key fuel to your Company's incredible growth and key element in attracting and retaining talent.

The Human Resource function has over the year fully developed its capabilities and set up a scalable recruitment and human resources management process, which enables us to attract and retain higher caliber employees and contribute to the Company in its role as a Strategic Business Partner.

The total manpower strength of your Company stood at 21,154 as on March 31, 2010 as compared to 12,814 as on March 31, 2009, a growth of 65.1%.

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

Presently, 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 Employees 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")

The disclosures with respect to each of the above mentioned Company's Employee Share Purchase Scheme (ESPS) and Employee Stock Option Plan (ESOP) as required by Securities and Exchange Board of India (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

During the year under review, Mr. Gurcharan Das has resigned from the Board with effect from 5th January, 2010. The Directors place on record their appreciation of the services rendered by him during his tenure as Director on the Board of the Company.

On satisfying the "fit and proper" criteria as stipulated by RBI vide its Master Circular on Corporate Governance, Mr. Pramod Bhasin was appointed as Additional Director under Section 260 of the Companies Act, 1956 w.e.f. 4th November, 2009 on the Board of the Company as an "Independent Director". Mr. Bhasin holds this office up to the date of the ensuing Annual General Meeting. The Company has received notice together with deposit as required under Section 257 of the Companies Act, 1956, proposing his appointment as Director of the Company liable to retire by rotation.

Mr. P. H. Ravi Kumar, Dr. Vikram Akula and Mr. Paresh Patel retire by rotation and being eligible offer themselves for re-appointment. A brief profile of the above Directors is given in the Notice of the Seventh Annual General Meeting.

The Board recommends the above appointments/re-appointments for your approval.

### Director's 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 the Company at the end of the financial year 2009–10 and of the profit of the 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 the Company and for preventing and detecting fraud and other irregularities.
- iv) Your Company has prepared the annual accounts of the Company on a 'going concern' basis.

### Auditors

The Statutory Auditors of the Company, M/s. S.R.Batliboi & Co, Chartered Accountants, Mumbai, retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept office of the Auditors, if appointed. The Audit committee and the Board of Directors recommend reappointment of M/s. S. R. Batliboi & Co as Statutory Auditors of the Company for the financial year 2010-11 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 4th May 2010.

S. No.	Auditors' Comments	Response
(i)	Eighty two cases of cash embezzlements by the employees of the Company aggregating Rs. 15,024,158 were reported during the year. The services of all such employees involved have been terminated and the Company is in the process of taking legal action. We have been informed that thirty seven of these employees were absconding. The outstanding balance (net of recovery) aggregating to Rs. 8,663,302 has been written off;	There is an inherent risk involved in our operations as all the transactions at the field are in cash. The Company has taken legal or remedial action in almost all the cases of embezzlement of cash and issue of fake loans by employees. The Company has recovered an amount of Rs. 2,226,304 out of cash embezzled from the employees and an amount of Rs. 4,134,552 from the Insurance Company, as the company has the adequate Insurance coverage in place.
(ii)	Sixty one cases of loans given to non-existent borrowers on the basis of fictitious documentation created by the employees of the Company aggregating to Rs.13,645,345 were reported during the year. The services of all such employees involved have been terminated and the Company is in the process of taking legal action. The outstanding loan balance (net of recovery) aggregating Rs. 11,029,667 has been written off.	<p>To mitigate this risk the company has formed the policy which is as follows:</p> <ul style="list-style-type: none"> <li>a. Not to deploy the Sangam Manager in their Home Town</li> <li>b. Rotate the Centres handled by Sangam Manager's in every six months</li> <li>c. Transfer Sangam Manager/Branch Manager in a span of 9 to 12 months.</li> </ul> <p>In addition to the above stringent monitoring systems at all levels have been implemented and checked/verified by Risk/Audit Team on a monthly basis. Going forward at Head Office level we are implementing automated drop outs of dormant members month on month to mitigate the risk of fake loans.</p>
(iii)	Thirty one cases of loans taken by certain borrowers, in collusion with and under the identity of other loan members, aggregating to Rs. 6,025,000, were reported during the year. The Company is pursuing the members to repay the money. The outstanding loan balance (net of recovery) aggregating Rs. 2,359,930 has been written off.	<p>While the system of Joint Liability Groups in the Centre and changing Centre Leader every one year persists, intentional and fraudulent Centre Leaders have been identified and we have initiated legal proceedings with the help of Group Leaders and respective members.</p> <p>The net impact of frauds comes to around 0.029% of the total amount disbursed during the year. The company is working towards bringing down this percentage to the least possible by making process improvements, covering the loss by having adequate Insurance Policy and by increasing the number of opportunities for direct contact with our members.</p>

### Energy Conservation, Technology Absorption and Foreign Exchange Earnings and Outgo

The particulars as prescribed 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.

### Acknowledgements

Your Directors express their sincere appreciation of the co-operation and assistance received from Reserve Bank of India, Sangam Members, Shareholders, Bankers, and other stakeholders during the year under review. Your directors also wish to place on record their deep sense of appreciation for the commitment displayed from all executives, officers and field staff resulting in the successful performance of the Company during the year.

For and on behalf of the Board of Directors

Place: Hyderabad  
Date: 4th May, 2010

**Sd/-**  
**Vikram Akula**  
Chairman

**Sd/-**  
**Suresh Gurumani**  
Managing Director

## 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")

The Company instituted ESPS 2007 pursuant to a special resolution dated 9th February, 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 28th March, 2007 pursuant to a resolution passed by the Board of Directors dated 5th March, 2007. The effective date of the ESPS 2007 was 31st March, 2007 and it shall be in effect till 31st March, 2020.

Under ESPS 2007, 1,849,750 Equity Shares were issued for the benefit of the eligible employees and in the event the employee is terminated or has resigned from the service of the 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 the Company.

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

Particulars	Details of Tranche I	Details of Tranche II	Details of Tranche III
Shares Issued	818,000	514,250	517,500
Date of issue	31st March, 2007	20th November, 2007	25th August, 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 the Company at the time of allotment	Not Applicable	Not Applicable	Not Applicable
Fully diluted EPS	Rs. 27.33 (as on 31st March, 2010)		
Difference between employee compensation cost using the intrinsic value method and the employee compensation cost that shall have been recognised if the Company has used fair value and impact of this difference on profits and EPS of the Company	Not Applicable	Not Applicable	Not Applicable
Lock-in	-	-	-
Impact on profits of the last three years (Rs.)	Nil	Nil	5,345,775

Details regarding 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	456,666*	200,000 Equity Shares allotted on 31st March, 2007. 163,750 Equity Shares allotted on 25th August, 2008. 86,250 Equity Shares have been transferred from EWT on 25th August, 2008. 6,666 Equity Shares transferred from EWT on 29th July, 2009.
Mr. S. Dilli Raj	102,666**	100,000 Equity Shares have been transferred from EWT on 1st February, 2008. 2,666 Equity Shares transferred from EWT on 29th July, 2009.

\* 162,500 Equity Shares have been sold by Mr. M.R.Rao.

\*\* 25,000 Equity Shares have been sold by Mr. S. Dilli Raj.

## B. SKS Microfinance Employees Stock Option Plan 2007 ("ESOP 2007")

The Company instituted ESOP 2007 pursuant to a special resolution dated 8th September, 2007 passed at an AGM of the Company.

The total number of shares (which mean Equity Shares of the Company and securities convertible into Equity Shares) that may be issued under ESOP 2007 are 1,852,158 Equity Shares. The ESOP 2007 came into effect on 8th September, 2007 and is valid up to 7th September, 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.

The Company has granted 1,852,158 options convertible into 1,852,158 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 of the date :

Particulars	Details
Options granted	1,852,158
Date of grant	15th October, 2007
Exercise price of options (in Rs.)	49.77
Total options vested	1,852,158
Options exercised	945,424
Total number of Equity Shares that would arise as a result of full exercise of options already granted	1,852,158
Options forfeited/ lapsed/ cancelled	-
Variation in terms of options	-
Money realised by exercise of options (in Rs.)	47,053,753
Options outstanding (in force)	906,734
Person-wise details of options granted to	
i) Directors and key managerial employees	1,852,158
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 the Company at the time of grant	-
Fully diluted EPS	Rs. 27.33 (as on 31st March, 2010)
Difference between employee compensation cost using the intrinsic value method and the employee compensation cost that shall have been recognised if the Company has used fair value of options and impact of this difference on profits and EPS of the Company	Nil
Vesting schedule	Immediate
Lock-in	-
Impact on profits of the last three years (Rs.)	13,488,355

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

Name of Director / Key Managerial Personnel	Total No. of options granted under ESOP 2007	No. of options exercised under ESOP 2007	Total No. of options outstanding under ESOP 2007	No. of Equity Shares held	Plan
Dr. Vikram Akula	1,852,158	945,424*	906,734	-	ESOP 2007

\* 945,424 Equity Shares have been sold by Dr. Vikram Akula.

### C. SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors) ("ESOP 2008 (ID)")

The Company instituted ESOP 2008 (ID) pursuant to a special resolution dated 16th January, 2008 passed at an EGM of the Company. The Stock Option Plan 2008 was amended pursuant to the Board resolution dated 5th January, 2010 and EGM held on 8th January, 2010 and the name has been changed to SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors).

The total number of Equity Shares that may be issued under ESOP-2008 (ID) are 195,000 Equity Shares (as amended, pursuant to a resolution of the shareholders dated 8th January, 2010. The ESOP-2008 (ID) came into effect on 16th January, 2008 and is valid up to 15th January, 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 of the date :

Particulars	Details of Tranche I	Details of Tranche II	Details of Tranche III	Details of Tranche IV
Options granted	45,000	6,000	18,000	90,000
Date of Grant	1st February, 2008	10th November, 2008	29th July, 2009	1st February, 2010
Exercise price of options (in Rs.)	70.67	70.67	300.00	300.00
Total options vested	45,000	6,000	18,000	-
Options exercised	-	-	-	-
Total number of Equity Shares that would arise as a result of full exercise of options already granted	45,000	6,000	18,000	90,000
Options forfeited/ lapsed/ cancelled	-	-	-	-
Variation in terms of options	-	-	-	-
Money realised by exercise of options (in Rs.)	-	-	-	-
Options outstanding (in force)	45,000	6,000	18,000	90,000
Person-wise details of options granted to				
i) Directors and key managerial employees	45,000	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 the Company at the time of grant	-	-	-	-
Fully diluted EPS	Rs. 27.33 (as on 31st March, 2010)			
Difference between employee compensation cost using the intrinsic value method and the employee compensation cost that shall have been recognised if the Company has used fair value of options and impact of this difference on profits and EPS of the Company	-	-	-	-
Vesting schedule	Immediate	Immediate	Immediate	25% equally at the end of each year
Lock-in	-	-	-	-
Impact on profits of the last three years(Rs.)	626,479	219,550	122,094	504,566

Details regarding options granted to independent Directors are set forth below:

Name of Director	Total No. of options granted under ESOP 2008 (ID)	No. of options exercised under ESOP 2008 (ID)	Total No. of options outstanding under ESOP 2008 (ID)	No. of Equity Shares held	Plan
Mr. Gurcharan Das*	15,000	-	15,000	-	ESOP 2008 (ID) - Tranche I
Mr. P. H. Ravi Kumar	15,000	-	15,000	-	ESOP 2008 (ID) - Tranche I
Dr. Tarun Khanna	15,000	-	15,000	-	ESOP 2008 (ID) - Tranche I
Dr. Tarun Khanna	3,000	-	3,000	-	ESOP 2008 (ID) - Tranche II
Mr. P. H. Ravi Kumar	3,000	-	3,000	-	ESOP 2008 (ID) - Tranche II
Mr. Geoffrey Tanner Woolley	18,000	-	18,000	-	ESOP 2008 (ID) - Tranche III
Mr. P. H. Ravi Kumar	18,000	-	18,000	-	ESOP 2008 (ID) - Tranche IV
Dr. Tarun Khanna	18,000	-	18,000	-	ESOP 2008 (ID) - Tranche IV
Mr. Geoffrey Tanner Woolley	18,000	-	18,000	-	ESOP 2008 (ID) - Tranche IV
Mr. Pramod Bhasin	36,000	-	36,000	-	ESOP 2008 (ID) - Tranche IV

\* Resigned with effect from 5th January, 2010

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

The Company instituted ESOP 2008 pursuant to a special resolution dated 8th November, 2008 passed at an EGM of the Company.

The total number of shares (which mean Equity Shares of the Company and securities convertible into Equity Shares) that may be issued under ESOP 2008 are 2,669,537 Equity Shares. The ESOP 2008 came into effect on 10th November, 2008 and is valid up to 9th November, 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 of the date :

Particulars	Details of Tranche I	Details of Tranche II
Options granted	1,769,537	900,000
Date of grant	10th November, 2008	8th December, 2008
Exercise price of options (in Rs.)	300.00	300.00
Total options vested	1,769,537	225,000
Options exercised	-	225,000
Total number of Equity Shares that would arise as a result of full exercise of options already granted	1,769,537	900,000
Options forfeited/ lapsed/ cancelled	-	-
Variation in terms of options	-	-
Money realised by exercise of options (in Rs.)	-	Rs. 6.75 crore
Options outstanding (in force)	1,769,537	675,000
Person wise details of options granted to		
i) Directors and key managerial employees	1,769,537	900,000
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 the Company at the time of grant	-	-
Fully diluted EPS	Rs. 27.33 (as on 31st March, 2010)	
Difference between employee compensation cost using the intrinsic value method and the employee compensation cost that shall have been recognized if the Company has used fair value of options and impact of this difference on profits and EPS of the Company	Nil	Nil
Vesting schedule	Immediate	25% equally at the end of each year
Lock-in	-	-
Impact on profits of the last three years (Rs.)	5,159,964	634,902

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

Name of Director / Key Managerial Personnel	Total No. of options granted under ESOP 2008	No. of options exercised under ESOP 2008	Total No. of options outstanding under ESOP 2008	No. of Equity Shares held	Plan
Dr. Vikram Akula	1,769,537	-	1,769,537	-	ESOP 2008 - Tranche I
Mr. Suresh Gurumani	900,000	225,000*	675,000	-	ESOP 2008 - Tranche II

\* 225,000 Equity Shares have been sold by Mr. Suresh Gurumani.

#### E. SKS Microfinance Employees Stock Option Plan 2009 ("ESOP 2009")

The Company instituted ESOP 2009 pursuant to a special resolution dated 30th September, 2009 and as amended pursuant to a special resolution dated 10th December, 2009 passed at an EGM of the Company.

The total number of Equity Shares that may be issued under ESOP 2009 (as amended, pursuant to a resolution of shareholders dated 10th December, 2009) are 2,499,490 Equity Shares. The ESOP 2009 came into effect on 30th September, 2009 and is valid up to 30th November, 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 of the date:

Particulars	Details of Tranche I	Details of Tranche II
Options granted	514,750	1,881,160
Date of grant	3rd November, 2009	15th December, 2009
Exercise price of options	Rs. 300.00	1,313,160 at Rs. 150.00 per option and 568,000 at Rs. 300.00 per option
Total options vested	Nil	Nil
Options exercised	Nil	Nil
Total number of Equity Shares that would arise as a result of full exercise of options already granted	514,750	1,881,160
Options forfeited/ lapsed/ cancelled	Nil	Nil
Variation in terms of options	Nil	Nil
Money realised by exercise of options	Nil	Nil
Options outstanding (in force)	514,750	1,881,160
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 the Company at the time of grant	Nil	Nil
Fully diluted EPS	Rs. 27.33 (as on 31st March, 2010)	
Difference between employee compensation cost using the intrinsic value method and the employee compensation cost that shall have been recognised if the Company has used fair value of options and impact of this difference on profits and EPS of the Company	Not Applicable	Not Applicable
Vesting schedule	Year 1- 40% Year 2- 25% Year 3- 25% Year 4-10%	20 % equally at the end of each year
Lock-in	Nil	Nil
Impact on profits of the last three years (Rs.)	4,921,649	23,002,636

Apart from the options granted under the ESOP 2007, ESOP 2008, ESOP 2009 and ESOP 2008 (ID) 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 our Equity Shares of the Company.

For and on behalf of the Board of Directors

Place: Hyderabad  
Date: 4th May, 2010

Sd/-  
**Vikram Akula**  
Chairman

Sd/-  
**Suresh Gurumani**  
Managing Director

### 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 31st March, 2010.

#### A. Employed throughout the year and in receipt of remuneration of Rs. 2,400,000/- and above:

S. No.	Employee Name	Designation	Qualification	Age	Exp. (Years)	Joining Date	Gross Remuneration (Rs.)	Previous Employment & Designation
1	Suresh Gurumani	CEO	B.Com, CA	48	24	8th Dec, 2008	24,485,548	Barclays India, Director - Retail Banking
2	M R Rao	COO	MMS	46	22	24th Oct, 2006	11,735,227	ING Vysya Life Insurance, (Head) Alternate Channels
3	S. Dilli Raj	CFO	B.Com, MBA	42	17	28th Jan, 2008	7,836,559	First Leasing Company of India Ltd, CFO
4	Manjusha Raulkar	Vice President - HR & Training	B.Com, MBA	40	16	8th Jan, 2007	4,439,365	EXL Services, Associate Vice President
5	Kanchan Pandhre	Vice President - Finance & Accounts	B.Com, CA	34	10	14th Dec, 2006	3,291,419	Transcibernet India Pvt. Ltd., Manager- Finance & Accounts
6	K V Rao	Vice President - Member Services	PGDBM	48	17	2nd Apr, 2007	4,079,635	Sundaram Home Finance Ltd., Regional Manager
7	Mamta Bharadwaj	Vice President - Communications & Marketing	BA (Journalism, Psychology, English Literature)	48	21	9th Jul, 2007	3,151,971	Rediffusion DTR, Client Servicing Director (South)
8	V. Ramesh	Vice President -Administration	B. Tech, MBA	40	16	19th Feb, 2009	2,592,119	UBS India Service Center Pvt. Ltd., Director - Facilities & Services
9	Ashish Damani	Vice President - New Initiatives and Strategy	B.Com, AGMP	32	8	1st Dec, 2006	3,162,119	Fullerton, Manager-CMM
10	Sandeep Ralhan	Vice President -Member Services (Insurance)	B.Com	40	14	26th Jul, 2007	3,258,227	ING Vysya Life insurance, Regional Manager
11	A. Srikanth	Assistant Vice President -Information Technology	MSc. Computers	33	9	21st Jun, 2007	2,700,435	Microsoft India, Solution Owner.

#### B. Employed partly during the year and in receipt of remuneration of Rs. 200,000/- per month and above:

S. No.	Employee Name	Designation	Qualification	Age	Exp. (Years)	Joining Date	Gross Remuneration (Rs.)	Previous Employment & Designation
1	Lakshminarayan Subramanyam	Vice President -Internal Audit	B.Com, CA	37	12	13th Apr, 2009	3,288,750	Goldman Sachs Services Pvt. Ltd., Vice President (Internal Audit)
2	Tushar I Chudgar*	Vice President - Legal & Company Secretary	CS, CA	53	22	24th Jun, 2009	1,680,862	Nipuna Services Ltd., Vice President - Legal & Secretary

S No.	Employee Name	Designation	Qualification	Age	Exp. (Years)	Joining Date	Gross Remuneration (Rs.)	Previous Employment & Designation
3	Pradeep Kalra	Executive Vice President - Information Technology	B.E	43	20	3rd Aug, 2009	2,919,402	Yes Bank Ltd., Chief Technology Officer
4	P Balaji	Vice President - Finance Controller	B.Com, CA	39	13	5th Oct, 2009	1,296,091	Cholamandalam MS General Insurance Company Ltd., GM - Finance & Accounts
5	Sunil Kumar Bansal	Vice President - Legal & Company Secretary	FCS, AICWA,LLB	42	19	14th Dec, 2009	942,650	IDEB Group - Company Secretary

\* Appointed on 29th July 2009 and Resigned w.e.f 2nd November 2009.

Notes:

1. All appointments are contractual.
2. None of the employees are related to any Director of the Company.
3. Remunerations received/receivable includes Gross Salary (Fixed), Employers 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 percent or more, of the Equity Shares of the Company as on 31st March, 2010.

For and on behalf of the Board of Directors

Place: Hyderabad  
Date: 4th May, 2010

**Sd/-**  
**Vikram Akula**  
Chairman

**Sd/-**  
**Suresh Gurumani**  
Managing Director

### 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 ;	<ul style="list-style-type: none"> <li>• Implemented Solar Photovoltaic (SPV) installations as an alternate source of electricity for Company's branches by installation of roof top Solar panels at 30 locations across India.</li> <li>• Distributed 10,000 nos solar lanterns of D-Light among Company's Sangam Managers across the Regional Offices</li> </ul>
(b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy ;	Rs. 16,231,620/- incurred for installation of above measures
(c) Impact of the measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods ;	Saving of 51.12 MWP energy per year
(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 :	- Not applicable -
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 -
(g) Total Foreign Exchange used and earned.	Earnings - Nil Outgo - Rs. 47,563,543/-



Joining hands for progress



A few years ago, women in a slum of Hubli in Karnataka used to make agarbattis, or incense sticks, at home and supply them to the local factory. They used to get paid on an ad hoc basis depending on the number of incense sticks they made. In 2007 they became SKS members and their wages and work conditions improved dramatically.

**Hanifa Bi**, a mother of four, organized the ladies in the slum to form an SKS center. About 10 women decided to work together rather than individually in order to harness volumes and marketing. They purchased raw material to roll out agarbattis and cleared a small section in their slum for their work area. Every morning the women gathered there to make incense sticks and by evening the work area was full of huge piles of incense sticks. The sticks were sun dried and sprayed with perfume before they were packaged and sold to wholesalers in the nearby market. Each woman rolls out thousands of sticks every day and makes about Rs.1000/- every time they clear the stocks.

Ever since the women started collectively packaging the incense sticks, their earnings have doubled, said Mumtaz, one of the members. Hanifa added, "Working for yourself is better. We enjoy working together and supplementing our husband's earnings. We hope to create better storage space and increase volumes in days to come. Our children should lead better lives." Hanifa has borrowed roughly Rs. 60,000 over the last few years from SKS.



# Management's Discussion and Analysis

## MICROFINANCE STRENGTHENS

In fiscal 2010 the microfinance industry continued to flourish and grow. Leading microfinance institutions (MFIs) attracted an estimated \$ 200 million in equity investments in the past 18 months. This influx of capital has enabled MFIs to strengthen and expand, and fulfill even more of the unmet financial services needs of a large number of poor households.

With increasing awareness about the benefits of MFIs, the industry has been able to attract commercial capital, both debt and equity, from multiple sources. With an excellent asset quality, professionally managed institutions have attracted investments from venture capitalists and equity players, thus encouraging banks to lend to MFIs. This access to commercial capital has enabled MFIs to scale. Meanwhile, the government of India continues to stress its commitment to our common goal of financial inclusion.

MFIs have also attracted debt by securitizing assets and selling their loans to banks, as well as accessing traditional capital markets with listed bonds, debentures and similar financial instruments.

### Formation of Microfinance Network (MFIN)

As the industry grows, MFIs are acting to ensure quality service. India's largest MFIs this year formed the Microfinance Network (MFIN), a new self-regulatory organization for MFIs that are also Non-Banking Finance Companies (NBFCs). MFIN aims to collectively promote responsible lending, good governance, transparency and quality service to customers. MFIN has also pledged investment in a microfinance credit bureau - the first of its kind in India. Often MFIs have to make loans to customers with limited information about their credit history. MFIN members have invested in Alpha Micro Finance Consultants, which in turn has invested Rs. 2 crore (\$ 443,066) in a credit bureau, Highmark Credit Information Services. By working with Credit Information Bureau India Limited (CIBIL) and Highmark, MFIN members would be better able to assess clients' credit history and ensure their ability to re-pay loans. The bureau will help MFIs to improve credit risk management in the sector.

MFIN has also laid out a code of conduct that promotes transparency and fair recruitment practices; limits overall lending per customer; encourages sharing of data between MFIs; and establishes a whistle blower policy for any violations. Members have committed to making interest rates transparent and pledged to follow fair loan collection practices.

### Regulatory Updates

The Reserve Bank of India (RBI) has constituted a working group under the chairmanship of Mr. V. K. Sharma to focus on priority sector lending certificates (PSLCs). The group will examine the pros and cons of the recommendation made by the Committee on Financial Sector Reforms chaired by Dr. Raghuram G. Rajan, relating to PSLCs. It will make recommendations on introduction and trading of PSLCs in the open market. In its 2010-11 monetary policy, it was proposed to expand the scope of the working group to also review the pros and cons of including bank lending to Micro-Finance Institutions (MFIs) under priority sector lending. The group is expected to submit its report by the end of June 2010.

According to RBI circular DNBS.PD/ CC.No.140/03.02.002 dated May 26, 2009 your Company is required to maintain a minimum capital risk to asset ratio (also known as capital adequacy ratio) of 12% and 15% for the fiscal year ending March 31, 2010 and March 31, 2011 respectively.

The working group reviewing the business correspondent model suggested in its August 18, 2009 report that "Non-Deposit taking NBFCs in the nature of loan companies whose microfinance portfolio is not less than 80% of their loan outstanding, in the financially excluded districts as identified by the Committee on Financial Inclusion (Chairman: Dr. C. Rangarajan)" can be eligible for being appointed as business correspondents, only for liability products. This is a good sign for your Company to explore new business opportunities. However, the RBI has not yet issued any notification or circular about this matter.

### SKS Leads the way

During the year, your Company continued to play a leadership role with its continued emphasis on rigorous training and disciplined methodology, while delivering strong growth. SKS built on its core strengths of good governance, leveraging technology, a mix of products, diversified sources of capital and a pan-India distribution network. Your Company plans to further expand membership, loans and product offerings by relying on these strengths.

SKS demonstrated its ability to access capital innovatively - including listed debentures, priority sector qualifying loans from banks, and equity investments from venture capital and private equity investors, and others institutions. In addition, SKS sold and assigned its portfolio loans to banks to improve its financial position and fund further growth.

Your Company also played a lead role in setting up MFIN, the new self-regulatory body for NBFCs; working with other MFIs to set up MFI Credit Bureau and adopted a new code of conduct to improve the service standards in the sector.

### Key milestones of the year

- In 2009, your Company was ranked the number one MFI in the country in a CRISIL rating of India's top 50 MFIs.
- Your Company became the first MFI in India to propose a public listing when it filed a Draft Red Herring Prospectus with the Securities and Exchange Board of India.
- SKS played a lead role in setting up MFIN, a new self-regulatory organization for India's leading MFIs.

### Operational Highlights

In order to give millions of poor people across India access to financial services, SKS adopted a for-profit model of microfinance to attract commercial capital. As a result, your Company has grown rapidly since it became a Non-Banking Finance Company in 2005.

During the four year period from fiscal year 2006 to 2010, SKS expanded from 201,943 members in five states to 6,780,145 members in 19 states by March 2010. In the same period, the number of branches increased from 80 to 2,029. The number of employees grew from 574 to 21,154. Total loans outstanding increased at a Compounded Annual Growth Rate (CAGR) of 137.8% from Rs. 918.90 million as of March 31, 2006 to Rs. 29,367.20 million as of March 31, 2010. Over the three-year period from fiscal 2007 to fiscal 2010, our profit after tax increased at a CAGR of 262.0%, from Rs. 36.67 million to Rs. 1,739.54 million.

Operational Highlights	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10
No. of branches	80	276	770	1,353	2,029
No. of districts	19	103	219	307	354
No. of employees	574	2,381	6,818	12,814	21,154
No. of members (in millions)	0.20	0.60	1.88	3.95	6.78
Disbursements (Rs. in crores)	153	452	1,680	4,485	7,618
Gross loan portfolio (Rs. in crores)*	92	276	1,051	2,456	4,321

\* Includes assigned portfolio

Financial Highlights	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10
Incremental borrowings (Rs. in crores)	88	277	1,063	3,762	5,132
Total revenue (Rs. in crores)	11	46	170	554	959
Profit after tax (Rs. in crores)	0.44	3.67	16.65	80.22	173.95
Total assets (Rs. in crores)	100	335	1,089	3,039	4,047
Return on average asset	0.87%	1.69%	2.34%	3.89%	4.91%
Return on average equity	5.44%	8.54%	11.71%	18.29%	21.54%

## FINANCIAL PERFORMANCE IN 2009-2010

	fiscal 2010		fiscal 2009		Increase/ (Decrease)
	Rs. in crores	Percent to total income	Rs. in crores	Percent to total income	
Income from operations	873.6	91.1%	506.1	91.4%	72.6%
Other income	85.3	8.9%	47.9	8.6%	78.1%
<b>Gross revenue</b>	<b>958.9</b>	<b>100.0%</b>	<b>554.0</b>	<b>100.0%</b>	<b>73.1%</b>
Financial expenses	288.4	30.1%	194.4	35.1%	48.4%
Personnel expenses	216.4	22.6%	136.0	24.5%	59.1%
Operating and other expenses	122.1	12.7%	75.3	13.6%	62.2%
Depreciation and amortization	12.6	1.3%	10.8	1.9%	16.7%
Provisions and write-offs	51.7	5.4%	13.4	2.4%	285.8%
<b>Total expenditure</b>	<b>691.2</b>	<b>72.1%</b>	<b>429.9</b>	<b>77.6%</b>	<b>60.8%</b>
<b>Profit before tax</b>	<b>267.7</b>	<b>27.9%</b>	<b>124.1</b>	<b>22.4%</b>	<b>115.7%</b>
Tax expense	93.7	9.8%	43.9	7.9%	113.4%
<b>Profit after tax</b>	<b>174.0</b>	<b>18.1%</b>	<b>80.2</b>	<b>14.5%</b>	<b>117.0%</b>

**Income from operations:** Income from operations increased by 72.6% to Rs. 873.6 crore in fiscal 2010 from Rs. 506.1 crore in fiscal 2009. This increase is primarily due to an increase in interest income from disbursements, from Rs. 4,399 crore in fiscal 2009 to Rs. 7,560 crore in fiscal 2010 and an increase in gross loan portfolio outstanding at the beginning of the year, from Rs. 1,051 crore in fiscal 2009 to Rs. 2,456 crore in fiscal 2010.

**Other income:** Other income increased by 78.1% to Rs. 85.3 crore in fiscal 2010 from Rs. 47.9 crore in fiscal 2009. The rise in other income is primarily due to an increase in income from Group Insurance administrative charges by Rs. 14.8 crore, Insurance commission by Rs. 7.4 crore, and income from Interest on bank deposits by Rs.10.1 crore from fiscal 2009 to fiscal 2010.

The increase in income from Group Insurance administrative charges is due to an increase in our gross loan portfolio by 75.9% to Rs. 4,321 crore in fiscal 2010 from Rs. 2,456 crore in fiscal 2009, as we require our members to purchase the insurance to cover the principal amount of any loan they obtain and charge the member to administer the insurance policy.

The increase in income from insurance commission is primarily a result of the distribution of 11,62,997 new life insurance policies.

Interest income from fixed deposits increased from Rs. 14.4 crore in fiscal 2009 to Rs. 17.6 crore in fiscal 2010 primarily as a result of fresh deposits made in the last week of the fiscal 2009 maturing over the first half of fiscal year 2010. Further, interest income from security deposits increased from Rs. 2.7 crore in fiscal 2009 to Rs. 9.6 crore in fiscal 2010 primarily due to increased borrowings and portfolio loans assigned during fiscal 2010.

Other income comprises of Other Commission income of Rs. 3.2 crore in fiscal year 2010 relating to commission received from the strategic alliance partners on sale of other products, such as mobile phones, water purifiers and on the purchases made by the kirana stores owned by SKS members.

**Financial expenses:** Your Company's financial expense represents 41.7% of total expenses for fiscal 2010. Financial expenses increased by 48.4% from Rs. 194.4 crore in fiscal 2009 to Rs. 288.4 crore in fiscal 2010 due to an increased borrowings by 27.5% from Rs. 1,873 crore in fiscal 2009 to Rs. 2,389 crore in fiscal 2010

**Personnel expenses:** Personnel expenses consist of salaries and employee benefits. Personnel expenses increased by 59.1% from Rs. 136.0 crore in fiscal 2009 to Rs. 216.4 crore as of March 31, 2010, which was due to an increase in total employees from 12,814 as of March 31, 2009 to 21,154 as of March 31, 2010 and also on account of increased overall annual salaries at your Company.

**Operating and other expenses:** Operating and other expenses increased by 62.2% from Rs.75.3 crore in fiscal 2009 to Rs. 122.1 crore in fiscal 2010. This increase is primarily the result of an increase in the number of loans issued to members and the opening of 676 new branches across India in fiscal 2010.

**Depreciation and amortization:** Depreciation and amortization increased by 16.7% to Rs. 12.6 crore in fiscal 2010 from Rs. 10.8 crore in fiscal 2009. This increase was primarily on account of additions of Rs. 17.3 crore during the year.

## CUSTOMER ENGAGEMENT INITIATIVES

Microfinance is one of the few industries where company employees regularly meet and interact with customers face to face. Your Company interacts with its customers every week in scheduled group meetings.

To monitor service quality over huge geographies and varied cultures, your Company has launched initiatives to retain and strengthen close relationships with customers. These customer relations initiatives are notable for their extensive reach across India.

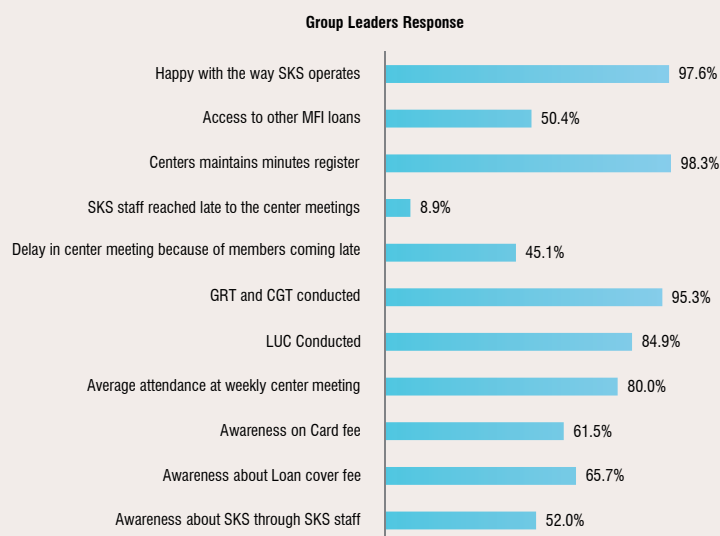
### Sangam Leader Meetings

Your Company intends to continue these large-scale meetings of “Sangam” leaders (Village Center leaders) who represent SKS members. Sangam leaders can interact with each other and meet SKS staff and management during these meetings. SKS also gets firsthand feedback on its services and members’ needs and expectations. Between April 2009 and March 2010, SKS organized 39 Sangam Leader Meetings attended by 13,212 Sangam leaders who represented 455,000 members in the states of Kerala, Uttar Pradesh, Uttarakhand, Karnataka, Maharashtra and Andhra Pradesh.

### Feedback Forms for Group Leaders

Building capacity is one of the key challenges of scaling Microfinance. Processes and standardisation have been fundamental to SKS’s growth. With operations in remote corners of the country, it is critical to monitor whether SKS field staff are following Company processes across offices and member bases.

Group leaders who represent five members each are a critical link in addition to Sangam leaders. Your Company has distributed over 63,000 inland survey letters to group leaders in Bihar, Rajasthan, Uttar Pradesh, Andhra Pradesh, Karnataka and West Bengal to track whether processes are being followed. SKS received more than 3,672 responses (801 from Bihar, Uttar Pradesh and Rajasthan; 2,456 from Andhra Pradesh; 399 from Karnataka and 567 from West Bengal). A total of 1,957 responses were translated and collated.



The following list summarizes the main survey findings:

- In 52.0% of the cases the members heard about SKS from our staff; 21.3% from a center leader; and 22.8% from a friend/neighbour.
- 65.7% of members are aware of loan cover fee; 61.5 % of card fee; and 40.9% of death relief fee.

- The attendance at center meetings is roughly 80.0%.
- 49.5% group leaders said it takes two weeks to process the loan and 47.6% said it takes one week.
- In 84.9% of the responses, group leaders said SKS staff had visited their homes after loan disbursement.
- 95.3% of the responses said SKS staff visited their homes during the Compulsory Group Training (CGT), a financial literacy training for potential members, as well as the Group Recognition Test (GRT), where potential members must show they understand basic financial concepts before they can take loans.
- 45.1% of group leaders said meetings are delayed because members arrived late; 8.9% said field assistants arrived late.
- 98.3% of the responses stated that the center maintains a minutes register.
- 97.6% said they were happy with the way the Sangam (group of members in a village) was functioning.

#### Member Toll Free Number

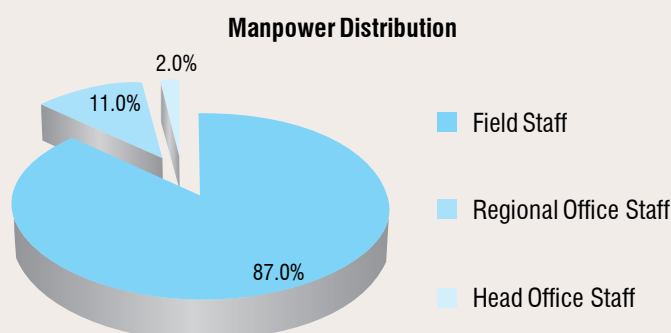
Your Company has piloted a toll free number for members to raise any questions or concerns in 101 branches in Andhra Pradesh. The number 1-800-300-100-00, which is manned between 10 am and 5:30 pm on weekdays, received 556 calls between November 2009 and March 31, 2010. Issues related to core products managed by SKS take one week to resolve, and issues connected with insurance products where SKS partners with third-party insurers take two weeks to resolve.

#### HUMAN RESOURCES

Running a Microfinance Institution is a labor intensive business. The basic challenge is to find a large pool of people with the right skill sets and aptitude, followed by additional challenges of retention, talent management and development.

At the end of March 31, 2010, the number of employees at your Company stood at 21,154 across India. Field staff numbered 18,344 (87.0%); Regional office staff totaled 2,413 (11.0%); and Head office staff stood at 397 (2.0%). This is a growth of 65.0% over the last financial year when employees totaled 12,814.

Attrition dipped to 25.7% in 2009-2010 compared to 29.7% last year. Attrition decreased due to various factors such as the Company's stringent recruitment and confirmation process, development programs and linking various rewards and recognition programs to individual and Company performances.



#### Major Achievements

- Around 23.8% of employees have been covered under the Employee Stock Option Plan (ESOP) and Employee Share Purchase Scheme (ESPS) with primary focus on retention, productivity, co-creation of wealth and creating a sense of ownership in the Company.
- The Human Resources team carried out about 25,932 man-days of training across India. Orientation training comprised 12,660 hours or 49.0%; refresher training 11,232 hours or 43.0%, and leadership training 2,040 or 8.0%.
- Opportunities have been made available for employees to get a range of skills through internal job rotations.

- New Competency-based performance management for operations geared toward Unit Managers, Area Managers and Assistant Area Managers.
- Rolled out a Human Resources Management System across all Regional offices.
- Introduction of a Human Resources toll free number enabling employees to register their grievances or suggestions.
- Salaries and incentives are now being paid to field employees on the same day. This has increased satisfaction levels dramatically.

As SKS emphasizes professionalism in its Human Resource practices, the Company has also focused on employee engagement and Human Resource automation in order to reduce human error and biases.

#### **Value Sensitization for Staff**

Your Company has a huge employee base that comes from varied backgrounds. While we celebrate this diversity, it is imperative that the organization sensitizes these employees to its culture and values with one key focus: the member. In order to ensure that the core values that drive SKS are understood and lived by its teams, an extensive value sensitization program has been conducted during the year across the organization.

#### **INFORMATION TECHNOLOGY**

At SKS, technology has always been a key to achieving cost reduction. SKS IT has been working to streamline cost of operations while improving service to end users. In fiscal 2010 your Company adopted new technologies, and launched initiatives to identify and eliminate unnecessary costs. Collaboration, consolidation and centralization are key objectives as SKS continues to be a technology-savvy business.

#### **SKS Lite - Core MF System**

A critical milestone has been achieved towards activation of SKSLite across the Company. The final release has been put under rigorous testing before rollout across branch networks.

#### **Security Framework Enhancement**

A robust enterprise class information security framework has been deployed to ensure complete protection for SKS information assets including SPAM and web content filtering.

#### **Intranet Collaboration Portal**

V-Konnect has been launched as a personalized gateway to SKS world of business applications, resources and utilities. To be able to consistently improve on efficiency and productivity benchmarks, V-Konnect intranet portal provides an interface to the SKS community to collaborate and share information effectively through Business Process Automation.

#### **Enterprise Resource Planning (ERP)**

MS Dynamics has been implemented to automate internal finance and accounting processes. The system aims to improve business process controls and bring in efficiency.

#### **Centralization of IT Support through Sevadesk and i-Seva**

Sevadesk, a service desk solution customized to suit your Company's needs, has been launched to enhance technology support service.

#### **Communication Network**

Secure communication network has been deployed connecting all regional offices and head office facilities. This ensures real-time data exchange and enhances decision making for SKS Management.

## TREASURY

In fiscal year 2010, the Company received sanctions for Rs. 5,132 crore as compared to Rs. 3,762 crore during fiscal year 2009. Further, the weighted average cost of borrowing as on balance sheet date reduced from 12.2% in fiscal 2009 to 10.3% in fiscal 2010. The amount raised included an amount of Rs.1,840.88 crore on sale of loans as compared to Rs. 1,441.3 crore during fiscal 2009, registering an increase of 27.7%.

Financial innovation was a theme for fiscal year 2010. Your Company became the first Microfinance Institution to:

- Obtain sanction for subordinated debt of Rs.100 crore from Small Industries Development Bank of India (SIDBI). Subordinated debt will be considered as Tier II capital for computation of capital adequacy as per the stipulated norms of Reserve Bank of India.
- Place a rated commercial paper of Rs. 25 crore with a mutual fund.
- Issue of non-convertible debenture, subscribed by an insurance company, Bajaj Allianz Life Insurance Company Limited.
- Obtain stand alone "Highest Safety" PR1 + rating from CARE.
- Highest pool rating A1 + SO, from ICRA.
- Funding from State Bank of India.
- File a Draft Red Herring Prospectus with SEBI to offer its Equity Shares to the public.

## Cash Management System

All transactions in the field are in cash, including our disbursements and collections from members. To reduce the potential risks of theft, fraud and mismanagement, we have implemented an integrated Cash Management System that was operational in approximately 1,338 of our branches as of March 31, 2010. The system utilizes an internet banking software platform that interfaces with various banks to provide real time data information. We believe that this integrated system augments our Management Information Systems, and facilitates our bank reconciliations, assurance process and cash flow management. The system also reduces errors and also facilitates maintenance of optimum float in the respective branch.

## RISK MANAGEMENT

Risk is an integral part of our business and sound risk management is critical to our success. 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 implemented an Enterprise Risk Management (ERM) mechanism to ensure that critical risks are addressed as early as possible. Comprehensive policies and procedures to identify, assess, monitor and manage risk throughout the Company have been identified and implemented.

Objectives of Enterprise Risk Management framework at SKS:

The primary objectives of implementing this framework at SKS is to ensure that

- Risks faced by SKS are identified and collected in a central repository, enabling top management to take a comprehensive understanding.
- Risks taken by your management are within SKS risk appetite and that these risks are managed proactively.

Committees of the Board of Directors have been constituted to oversee the various risk management activities. The audit committee provides direction to and also monitors the quality of the risk committee's functions. The risk committee reviews the risk management policies in relation to various risks and regulatory compliance issues. The risk committee reviews key risk indicators covering areas such as credit risk, operational risk, market risk, portfolio risk, and competition risks and the limits framework, including stress test limits, for various risks.

Your Company is primarily exposed to credit risk, operational risk, market risk, portfolio risk and competition risks.

Most of the risks that are common to Microfinance Institutions fall under one of these three categories: Financial risks, Operational risks and Strategic risks. This classification and coverage of these risks are based on our internal deliberations and needs. The Company's risk management activities are naturally based on past activities. However, individual focus areas and current initiatives are tailored to current challenges.

Financial risks	Operational risks	Strategic risks
Credit risk	Operational risk	Political risk
Market risk	Human resources risk	Competition risk
Liquidity risk	Fraud risk	

#### **Credit Risk:**

Credit risk, the most frequently addressed risk for MFIs, is the risk to earnings or capital due to borrowers' late and non-payment of loans. Credit risk encompasses both the loss of income resulting from the MFI's inability to collect anticipated interest earnings as well as the loss of principal resulting from loan defaults.

#### **Risk management activities:**

SKS structures its loans with a village-centered, group lending model to provide unsecured loans to its members. This model ensures credit discipline through mutual support and peer pressure within the group. Thus, individual members are prudent in conducting their financial affairs and are prompt in repaying their loans.

Furthermore, your Company advances loans only for income-generating purposes rather than loans for consumer consumption. It believes income-generating loans have the highest potential for generating additional income for members and therefore increases the likelihood of repayment. Well-designed income screening, careful loan structuring and close monitoring of the portfolio help mitigate this risk to an acceptably low level.

Finally, loans are progressive. Only members who have successfully demonstrated their ability to repay on time previously granted smaller loans are permitted to take larger loans. Your Company believes that all these features increase the likelihood that our members will successfully repay their loans.

#### **Market Risk:**

Market risk is the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates and credit spreads. The prime source of market risk for your Company is the interest rate risk we are exposed to as a financial intermediary. In addition to interest rate risk, the Company is exposed to other elements of market risk such as liquidity or funding risks.

#### **Risk management activities:**

Your Company has a mechanism of continuous monitoring of money markets to update and ensure the required credit spread. Further, the finance team of the Company functions with an objective to raise funds from sources, which were hitherto not available to the microfinance industry, thereby ensuring better credit spread. A combination of fixed and floating rates on borrowings plays a role of a catalyst in mitigating interest rate risk.

#### **Liquidity Risk:**

Liquidity risk is the possibility of negative effects on the interests of owners, customers and other stakeholders of the financial institution resulting from the inability to meet current cash obligations in a timely and cost-efficient manner.

#### **Risk management activities:**

Historically, the MFI sector has relied on priority sector funding from commercial banks. In addition to such funding, your Company is also able to fund growth of operations and loan portfolio through issuances of publicly traded debt securities, loans with various maturities raised from domestic and international banks, and the securitization of components of our loan portfolio. Your Company has also diversified its lenders to include public sector domestic banks, private sector domestic banks, private sector foreign banks and institutional investors. In addition to traditional cash flow management techniques, we also manage our cash flow through active asset liability strategies.

Your Company has structured our model to primarily borrow on a long-term basis while lending on a short-term basis. This allows us to better meet the growing loan demands of a rapidly increasing membership even if external borrowings and funding sources face temporary dislocation. We also manage our liquidity through stringent financial metrics that assess our ability to meet corporate debt and ongoing operational obligations. This allows us to monitor the funding needs of your Company's growth in a disciplined and well-defined manner.

**Operational Risk:**

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks and losses can result from fraud, employee errors, failure to properly document transactions or to obtain proper internal authorization, failure to comply with regulatory requirements and conduct of business rules, equipment failures, natural disasters, acts of third parties or the failure of external systems.

The management of operational risk in your organization is governed by the Enterprise Risk Management framework approved by the board of directors. The policy is applicable across the Company, including its branches. It ensures that there is clear accountability and responsibility for management and risk management activities of operational risk; developing a common understanding of operational risk; helping the business and operation groups units to improve internal controls, thereby reducing the probability and potential impact of losses from operational risks while meeting regulatory requirements. Operational risk can result from a variety of factors, including failure to obtain proper internal authorizations, improperly documented transactions, failure of operational and information security procedures, computer systems, software or equipment, fraud, inadequate training and employee errors.

The Company seeks to mitigate operational risk by maintaining a comprehensive system of internal controls, establishing systems and procedures to monitor transactions, maintaining key back-up procedures and undertaking regular contingency planning.

**Risk management activities:**

Some of the risk management activities measures taken by the company include:

- Ensuring proper internal check of all day-to-day transactions within the branch.
- Taking advice from reputable professional firms.
- Safe custody of cash with two key holders of the safe.
- Joint signatory mechanism for all bank transactions, including all the branches for withdrawal of cash.
- Internal audit department visits every branch on a monthly basis to ensure that the policies and procedures as prescribed, among others, are being adhered to.

Further, the Company has enforced the following human resource policies to reduce its exposure to fraud risk:

- Refrain from posting staff to home areas to reduce the opportunity and temptation to collude.
- Rotate staff regularly within the branches and centers.
- Obtain indemnity bond before the employee gets confirmed.

**Human Resources Risk:**

Human resources are the Company's most critical assets. The nature of business requires that the Company has adequate skilled professionals to fulfill customer demands. However, managing human resources involves certain risks such as high attrition rate and interruptions to the daily business activities due to union problems.

**Risk management activities:**

Human resources risk can be better mitigated by conducting frequent leadership programs for all the middle and top management to create a more amicable working environment. Our goal-oriented culture and incentive programs have contributed to develop a highly motivated workforce. We focus on building strong relationships with our members and partners by delivering personalized customer service, growing profitability and striving for the best operational efficiencies possible. Further, by conducting regular training to meet the training needs of the field staff we introduce professionalism into our work culture. Through transparent human resources policies and procedures and by making them accessible to employees, we develop a sense of belongingness among the staff.

**Fraud Risk:**

Also referred to as integrity risk, fraud risk is the risk of loss of earnings or capital as a result of intentional deception by an employee or client. The most common type of fraud at an MFI is the direct theft of funds by loan officers or other branch staff. Other forms of fraudulent activities include the creation of misleading financial statements, bribes, kickbacks and phantom loans.

**Risk management activities:**

Effective internal controls play a key role in protecting against fraud at the branch level, since line staff handles large amounts of client and MFI funds. The Company handles the fraud risk by building the fraud prevention into operational policies and procedures. It then tests procedures by conducting surprise internal audits that perform random operational checks. Further, the risk is monitored and managed by stringent Whistle Blower mechanism and Human Resource policies.

**Political Risk:**

Political risk refers to the complications that businesses and governments may face as a result of what are commonly referred to as political decisions or “any political change that alters the expected outcome and value of a given economic action by changing the probability of achieving business objectives.” Political risk in relation to our business refers to political pressures or interference to provide credit or services to particular communities or individuals.

**Risk management activities:**

We manage political risk by allowing the branch staff to mingle closely with the local village people, sarpanch (a village leader) and the village secretary. Operations will start in that village only after the village head/sarpanch's satisfactory assent. Further, the staff is adequately trained for preparation of co-ordinated response in case of any contingency.

**Competition Risk:**

The potential for micro-credit in India is estimated at \$ 55 billion. However, current outstanding micro loans stand at about \$ 5 billion, which includes loans from moneylenders and informal sources. The microfinance market remains largely untapped. The entry of new players and expansion to newer areas by peers will further intensify the competition. Our Company faces direct competition from other microfinance companies in India.

**Risk management activities:**

The Company's growth will depend on its ability to compete effectively. SKS believes that with the size and scale that was built over the years the Company is well poised to take full advantage of market opportunities. SKS management has placed the Company at a highly advantageous position to deal effectively against competition with its strong brand image, leadership position among the private operators, wide distribution network, strong operational processes and diversified product offerings among other features. Further, the Company regularly obtains relevant data about competitors to reduce our vulnerability to competition risk. The information includes product refinements, incentives for retention, details of new products, operational functioning and service quality measures.

**Internal Audit and Internal Control**

Internal audit is as an independent and objective function which reviews the effectiveness of risk management, control and governance processes within the Company and provides reasonable assurance to the Board of Directors and management. The head of internal audit reports to the CEO as well as the Audit Committee. The internal audit team consists of more than 370 staff spread across the country. The internal audit department adopts a risk-based audit approach and has been certified with ISO 9001:2008.

The management has overall responsibility for the system of internal control. Procedures have been designed for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; and for the reliability of financial information used within the business or for publication. The internal audit department along with the risk management department identifies and monitors the most important operational risks of the Company and periodically reports on the internal control framework to the Board of Directors, Audit Committee and Management.

The information and opinion expressed in this report may contain certain forward looking statements, which the Management believe, are true to the best of its knowledge at the time of its preparation. Actual results may differ materially from those either expressed or implied in this report. All reference to “\$” are to United States Dollars, the official currency of the United States of America. Based on the RBI reference rate, the exchange rate as on 31st March, 2010 was \$ 1 = Rs. 45.14/-.





# Where work is worship

**Ujwala** Chogule lives in a small one room tenement in a very modest neighbourhood in the princely town of Sangli in Maharashtra. A young widow, Ujwala had a very tough time bringing up two children on her own. She and her daughter used to make wicks for oil lamps. In spite of hours of work, they could at times make only Rs.10/- a day. Then three years ago, Ujwala joined SKS. Her resources and confidence levels increased. She started sourcing the raw cotton from Dharwad in Karnataka and not only increased the quantity of wicks but also started adding new products used in worship. She invested in the equipment and wax used to make candles. Wholesalers were now happy to source products from her due to the volumes she could generate. Ujwala now needed help. Every day 5-6 women from the neighbourhood join her at work and she pays them on the number of pieces they make and package. She then personally carries the goods to the wholesalers and sells them. She is today a regular supplier to three wholesale shops. On an average, she makes about Rs. 6,000/- per month. What's been the highpoint of her life so far? Does she feel a sense of achievement? "I am happy I could get my daughter married recently and I am able to send my son to college," she states the matter of fact.



# Report on Corporate Governance

### Company's Philosophy

SKS Microfinance Limited ("the Company") adopts best corporate practices and is committed to conduct its business in accordance with applicable laws, rules and regulations and the highest standards of business ethics and ethical conduct.

Your Company being registered with Reserve Bank of India (RBI) as a non-deposit accepting systematically important NBFC ("NBFC-ND-SI") under Section 45-IA of the RBI Act, 1934 adheres to transparency in its operations in compliance with the Guidelines on Corporate Governance issued by RBI vide DNBS(PD) CC No. 156 / 03.10.001 / 2009-10 dated 1st July, 2009.

Your Company has voluntarily adopted the Clause 49 of the Equity Listing Agreement framed by Securities & Exchange Board of India (SEBI) on Corporate Governance as applicable to listed Companies.

Adherence to the highest standards of integrity, transparency, fair practice and ethical behavior are fundamental to your Company's business model. The Company's Mission is to eradicate poverty and we believe that it would be achieved by abiding to the Core Values of the Company as follows:

1. **Right Focus - Customer first:** Our 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.
2. **Right Means - Ethics always:** We will follow ethical practices in all our relationships at all times, including following the law both in letter and spirit. This includes not offering bribes, not paying or taking commissions, or any other short-cuts.
3. **Right Way - Consistent quality:** We will have standardized processes as this will enable us to reach out to the most customers cost effectively. We will foster innovation but in a way that ensures consistent quality.

### Corporate Governance Guidelines

The Board of Directors implemented Corporate Governance Guidelines which empower the Board with necessary authority and practices in place, to review and evaluate our operations. These guidelines allow the Board to make decisions that are independent of the Management. The Board may change these guidelines from time to time to effectively achieve our stated objectives.

#### 1. BOARD OF DIRECTORS:

The Company currently has a judicious mix of Executive, Non - Executive and Independent Directors on the Board for maintaining the independence of the Board functions of governance and management.

As on 31st March, 2010, the Board of SKS Microfinance consisted of 10 (Ten) Directors, of whom 1 (One) was Non-Executive Chairman, 5 (Five) were Independent Directors, 3 (Three) were Non - Executive Directors and 1 (One) was Executive (Managing) Director as stated below:

**Composition of the Board and directorships held during fiscal 2010:**

Name of the Director	Indian Public Companies*	All Companies around the World**	Committee Membership***	Chairperson of Committees***
Mr. Ashish Lakhanpal Non Executive Director	1	21	1	-
Mr. Geoffrey Tanner Woolley Non Executive - Independent Director	1	12	-	-
Mr. Gurcharan Das # Non Executive - Independent Director	6	9	-	-
Mr. P. H. Ravi Kumar Non Executive - Independent Director	8	10	3	3
Mr. Paresh Patel Non - Executive Director	1	3	1	-
Mr. Pramod Bhasin ## Non Executive - Independent Director	2	5	1	-
Mr. Sumir Chadha Non - Executive Director	2	31	-	-
Mr. Suresh Gurumani Managing Director & CEO	1	3	1	-
Dr. Tarun Khanna Non Executive - Independent Director	2	4	1	-
Mr. V. Chandrasekaran Nominee Director of SIDBI Non Executive - Independent Director	1	1	1	-
Dr. Vikram Akula Non - Executive Chairman & Promoter	1	5	-	-

**Note:** There is no inter-se relationship between our Board members.

# Mr. Gurcharan Das has resigned with effect from 5th January, 2010.

## Mr. Pramod Bhasin was appointed on 4th November, 2009.

\* Directorships in Indian Public Companies (Listed and Unlisted Companies) including in SKS Microfinance Ltd.

\*\* Directorships in Companies around the World (Listed, Unlisted and Private Limited Companies) including SKS Microfinance Ltd.

\*\*\* As required by Clause 49 of the Listing Agreement, the disclosure includes Memberships/ Chairpersonship of Audit Committee and Investor Grievance Committee in Indian Public Companies (Listed & Unlisted) including SKS Microfinance Ltd.

**The Board Procedures**

The Board is presented with relevant information on various matters relating to the working of the Company especially those that require deliberation at the highest level ahead of the meeting. The different functional heads provide presentations to the board on various issues concerning the Company from time to time. The Directors have separate and independent access to Core Management Team all the time. In addition to items which are required to be placed before the board for its noting and/or approval, information is being provided for other significant items also.

During the year 2009-10, 5 (Five) meetings of the Board of Directors were held on 6th May, 2009, 29th July, 2009; 4th November, 2009; 5th January, 2010; and 12th February, 2010. The gap between any two meetings has been not more than 4 (Four) Months.

**Attendance of Directors during fiscal 2010:**

Name of the Director	Board Meetings held during the Tenure	Meetings Attended
Mr. Ashish Lakhanpal	5	4
Mr. Geoffrey Tanner Woolley	5	4
Mr. Gurcharan Das*	4	2
Mr. P. H. Ravi Kumar	5	4
Mr. Paresh Patel	5	5
Mr. Pramod Bhasin**	3	2#
Mr. Sumir Chadha	5	5
Mr. Suresh Gurumani	5	5
Dr. Tarun Khanna	5	3
Mr. V. Chandrasekaran	5	5
Dr. Vikram Akula	5	4#

\* Mr. Gurcharan Das has resigned with effect from 5th January, 2010.

\*\* Mr. Pramod Bhasin was appointed on 4th November, 2009.

# excluding one meeting attended through Audio Conferencing.

The Sixth Annual General Meeting of the Company was held on 30th September, 2009 and Mr. Suresh Gurumani is the only Director who attended the meeting.

**COMMITTEES OF THE BOARD**

The Board has constituted following 7 (Seven) Committees:

- Audit Committee;
- Shareholders'/Investors' Grievance Committee;
- Finance Committee;
- Asset Liability Management/Risk Management Committee;
- Remuneration and Compensation Committee;
- Nomination Committee;
- IPO Committee.

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

**AUDIT COMMITTEE**

With a view to comply with various requirements under the Companies Act, 1956 and Clause 49 of the Listing Agreement framed by SEBI, the Board has set up its Audit Committee.

The powers of the Audit Committee include the following:

- to investigate any activity within its terms of reference;
- to seek information from any employee;
- to obtain outside legal or other professional advice; and
- to secure attendance of outsiders with relevant expertise, if it considers necessary.

The Committee was reconstituted during the year under review.

## Composition & Meetings

Audit Committee currently consists of the following members:

Name of Member	Designation	No. of Meetings Attended
Mr. P. H Ravi Kumar	Chairman	3
Mr. Paresh Patel	Member	3
Mr. Sumir Chadha*	Member	2
Mr. V. Chandrasekaran**	Member	1
Dr. Tarun Khanna ** #	Member	-

\* Ceased to be a member w.e.f. 4th November, 2009.

\*\* Appointed as Committee member on 4th November, 2009.

# Ceased to be a member w.e.f. 5th January, 2010.

3 (Three) Committee meetings were held during the year on 6th May, 2009; 4th November, 2009 and 11th February, 2010.

## Terms of Reference/Scope of the Audit Committee:

General Functions and Role:

- a. Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
- b. Recommending to the Board, the appointment, reappointment and if required the replacement or removal of the statutory auditor and the fixation of audit fees;
- c. Approval of payment to statutory auditors for any other services rendered by the statutory auditors;
- d. Reviewing with the management the annual financial statements before submission to the Board for approval, with particular reference to:
  - Matters required to be included in the Directors Responsibility Statement to be included in the Board report in terms of clause (2AA) of Section 217 of the Companies Act, 1956;
  - Changes, if any, in accounting policies and practices and reasons for the same;
  - Major accounting entries involving estimates based on the exercise of judgement by management;
  - Significant adjustments made in the financial statements arising out of audit findings;
  - Compliance with listing and other legal requirements relating to financial statements;
  - Disclosure of any related party transactions; and
  - Qualifications in the draft audit report.
- e. Reviewing with the management, the quarterly financial statements before submission to the Board for approval;
- f. Reviewing with the management the statement of use/application of funds raised through an issue (public issue, rights issue, preferential issue etc.) the report submitted by the monitoring agency and making appropriate recommendations to the Board to take up steps in this matter;
- g. Reviewing with the management, performance of the statutory and internal auditors and adequacy of the internal control systems;
- h. Reviewing 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;
- i. Discussion with internal auditors, any significant findings and follow up there-on;

- j. Reviewing 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;
- k. Discussion with 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;
- l. To look into reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors; and
- m. To review the functioning of the Whistle Blower mechanism.

#### SHAREHOLDERS'/INVESTORS' GRIEVANCE COMMITTEE

With a view to comply with various requirements under the Companies Act, 1956 and Clause 49 of the Listing Agreement framed by SEBI, the Board has set up its Shareholders'/Investors' Grievance Committee. The Share Allotment Committee previously known as Share Issue and Allotment Committee was merged in the Shareholders'/Investors' Grievance Committee during the year.

The Committee was reconstituted during the year under review.

#### Composition & Meetings

The Committee currently consists of the following members:

Name of Member	Designation
Mr. P. H. Ravi Kumar	Chairman
Mr. Suresh Gurumani	Member
Dr. Tarun Khanna	Member
Mr. Ashish Lakhanpal	Member

There were no Committee meetings held during the year and all the resolutions were passed through circulation.

The Committee performs amongst others the role/functions as are set out in Clause 49 of the Listing Agreement framed by SEBI and includes:

- a. Review and redress the Shareholders'/Investors' Grievance like transfer of shares, debentures, non receipt of balance sheet, declaration of dividends;
- b. Deal with all aspects relating to issue and allotment of shares and debentures and /or other securities of the Company;
- c. To consider and approve subdivision, consolidation, transfer and issue of duplicate share and debenture certificate;
- d. Function in close association with the Compensation Committee for the allotment of Equity Shares under the Stock Option or Stock Purchase Plans and to accept and implement the recommendation of the Compensation Committee;
- e. To delegate any of the powers mentioned above to the Company executives; and
- f. Authority to act upon any other matter in relation to the above functions and powers.

#### FINANCE COMMITTEE

With a view to cater to the various borrowing requirements of the Company, the Board has set up/reconstituted the Finance Committee with additional powers to open Bank Accounts in the name of the Company both in and outside India. The Committee is responsible to the Board of Directors to provide general oversight with regard to the financial affairs of the Company. The Finance Committee was reconstituted during the year under review.

### Composition & Meetings

Finance Committee currently consists of the following members.

Name of Member	Designation	No. of Meetings Attended
Mr. Paresh Patel	Chairman	8
Mr. P. H. Ravi Kumar	Member	4
Mr. Suresh Gurumani	Member	9
Mr. Ashish Lakhanpal	Member	5

9 (Nine) Committee meetings were held during the year on 27th April, 2009; 29th July, 2009; 14th September, 2009; 4th November, 2009; 17th November, 2009; 23rd December, 2009; 27th January, 2010; 9th March, 2010 and 23rd March, 2010.

### Terms of reference/Scope of the Finance Committee

- Review and approve the loan facilities (on balance sheet and/or off balance sheet) and borrowings within the limit specified. If the facilities are beyond the limits, the same shall be reviewed and thereafter proposed to the Board for approval;
- Nominate and designate representatives to carry out the required documentation for the facilities approved by the Committee;
- Review the annual budget and revisions made to the business plan and make specific recommendation to the Board on its adoption, including where desirable, comments on expense level, revenue structures, fees and charges, adequacy of proposed funding levels and adequacy of provision for reserves;
- Review of the cash flows in comparison of the liquidity metric and review of the funding mix from time to time, to ensure mitigation of concentration risk in terms of specific lenders or lender class; and
- Power to open Bank Accounts in the name of the Company in/outside India.

### Other Functions/Limitations of the Committee

- The meeting(s) of the Committee shall be convened monthly to review and approve the facilities as and when the need arises;
- Consider under each loan/credit facilities upto Rs. 350 crores from any single Bank/Institution and the aggregate borrowings to be approved by the Committee shall be to the extent of Rs. 1,500 crores in total between two Board Meetings;
- The Committee would consider facilities having rate of interest not more than 15% per annum;
- External Commercial Borrowings (ECBs) - Consider and approve ECBs up to USD 75 million subject to compliance with RBI norms and proper hedging of the cross currency exposure;
- The report of the meeting(s) of the Finance Committee convened between two Board Meetings shall be kept before the Board for its perusal and taking note.

### ASSET LIABILITY MANAGEMENT/RISK MANAGEMENT COMMITTEE

The Asset Liability Management/Risk Management Committee has been constituted pursuant to relevant RBI regulations for monitoring the asset liability gap and to strategize action to mitigate risks associated with the Company.

### Composition & Meetings

Asset Liability Management/Risk Management Committee consists of the following members:

Name of Member	Designation	No. of Meetings Attended
Mr. Paresh Patel	Chairman	1
Mr. P. H. Ravikumar	Member	1
Mr. Suresh Gurumani	Member	1
Mr. Ashish Lakhanpal	Member	1

Only 1 (One) meeting of the Asset Liability Management/Risk Management Committee Meeting was held on 29th July, 2009.

#### Terms of Reference/Scope of the Asset Liability Management/Risk Management Committee:

- a. The scope of the Committee pertains to the review or operational risk (including sub risk for operational risk), information technology risk, integrity risk;
- b. The role and functions of the Committee shall include:
  - Addressing concerns regarding asset liability mismatches and interest rate risk exposure;
  - Taking strategic actions to mitigate the risk associated with the nature of the business;
  - Achieving optimal return on capital employed, whilst maintaining acceptable levels of risk (including and relating to liquidity, market & operational aspects) and adhering to the policies and regulations;
  - Reporting statement of short term dynamic liquidity, structural liquidity and interest rate sensitivity to the RBI; and
  - Apprising the Board of Directors at regular intervals regarding the process made in putting in place a progressive risk management system and risk management policy and strategy.

#### REMUNERATION AND COMPENSATION COMMITTEE

The Remuneration and Compensation Committee was reconstituted during the year subsequent to the change in the nomenclature of the existing "Compensation Committee" to "Remuneration and Compensation Committee". The Committee is constituted to discharge the Board's responsibilities relating to the compensation of the Company's Executive Directors and Senior management. The Committee has the overall responsibility of approving and evaluating the compensation plans, policies and programs for Executive Directors and Senior Management of the Company.

#### Composition & Meetings

Remuneration and Compensation Committee currently consists of the following members:

Name of Member	Designation	No. of Meetings Attended
Dr. Tarun Khanna	Chairman	2
Mr. Sumir Chadha	Member	3
Mr. Geoffrey Tanner Woolley *	Member	3
Mr. Pramod Bhasin **	Member	1
Mr. Ashish Lakhanpal #	Member	2

\* Reappointed as Committee member on 6th May, 2009.

\*\* Appointed as Committee member on 5th January, 2010.

# Ceased to be Committee member w.e.f. 5th January, 2010.

The Committee met 3 (Three) times during the year on 29th July, 2009; 3rd November, 2009 and 12th February, 2010.

#### Terms of reference/Scope of the Remuneration and Compensation Committee:

- a. Determining on behalf of the Board and on behalf of the shareholders with agreed terms of reference, the Company's policy on specific remuneration packages for executive directors including pension rights and any compensation payment;
- b. Determining the revenue matrix, salary and bonus to be paid to Whole time Director(s) or Managing Director of the Company;
- c. Determining the sitting fee to be paid to the members of the Board;
- d. Determining the revenue matrix, salary and bonus to be paid to "Key Management Personnel" of the Company;
- e. To identify, appoint and review the performance of "Key Management Personnel" of the Company;
- f. Making recommendation to the Board of Directors with respect to the compensation to be paid to the Executive Directors and Key Management Personnel of the Company;

- g. Determining the criteria for the grant of options or shares under the Stock Option or Stock Purchase Scheme;
- h. Considering any other matter as may be required by under the Stock Option or Stock Purchase Scheme of the Company;
- i. Authority to do any matter in relation to the above functions/powers;
- j. To delegate any of the powers mentioned above to the Company Executives

#### **NOMINATION COMMITTEE**

The Nomination Committee has been constituted to ensure that the general character of the management or the proposed management of the Non-Banking Financial 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 the Company.

#### **Composition & Meetings**

Nomination Committee currently consists of the following members:

Name of Member	Designation	No. of Meetings Attended
Dr. Tarun Khanna	Chairman	2
Mr. Sumir Chadha	Member	2
Mr. Ashish Lakhanpal	Member	2
Mr. Geoffrey Tanner Woolley *	Member	1

\* Reappointed as Committee member in the Board Meeting held on 6th May, 2009.

The Committee met twice during the year on 6th May, 2009 and 3rd November, 2009.

#### **Terms of reference and scope of the Nomination Committee**

The role and functions of the Nomination Committee are as follows:

- a. To ensure fit and proper credentials of proposed/existing Directors;
- b. Appointment and reappointment of Directors on the Board;
- c. Filling of a vacancy on the Board; and
- d. Appointment of members to the Executive Committee of the Board.

#### **IPO COMMITTEE**

The IPO Committee was constituted for giving effect to the proposed Public Issue of the Company.

#### **Composition & Meetings**

IPO Committee currently consists of the following members:

Name of Member	Designation	No. of Meetings Attended
Dr. Vikram Akula	Chairman	1
Mr. Sumir Chadha	Member	1
Mr. Paresh Patel	Member	2
Mr. Suresh Gurumani	Member	2
Mr. Ashish Lakhanpal *	Member	1

\* Appointed as Committee member in the Board Meeting held on 12th February, 2010.

The Committee met twice during the year on 23rd December, 2009 and 16th March, 2010.

### Terms of reference of SKS IPO Committee

The role and functions of the SKS IPO Committee are as follows:

- a. Evaluating the viability of the proposed IPO of the Company vis-a-vis market conditions, investors interest and recommend to the Board on the timings of the proposed IPO, the number of equity shares that may be offered under the Issue, the objects of the Issue, allocation of the Equity Shares to a specific category of persons and the estimated expenses on the Issue as percentage of Issue size;
- b. Identify, appoint and enter into necessary agreements/arrangements with the Book Running Lead Managers, Underwriters Syndicate Members, Brokers/Sub Brokers, Bankers, Escrow Collection Bankers, Registrars, Legal Advisors, Placement Agents, Depositories, Trustees, Custodians, Advertising Agencies, Monitoring Agency, Stabilization Agent and all such persons or agencies as may be involved in or concerned with and to negotiate and finalize the terms of their appointment, including mandate letter, negotiation, finalization and execution of the memorandum of understandings etc.;
- c. Remunerating all such intermediaries, advisors, agencies and persons as may be involved in or concerned with the Issue, if any, by way of commission, brokerage, fees or the like and opening bank accounts, share/securities accounts, escrow or custodian accounts, in India or abroad;
- d. Guiding the intermediaries in the preparation and finalization of the Draft Red Herring Prospectus, the Red Herring Prospectus, the Prospectus and the preliminary and final international wrap and approving the same including any amendments, supplements, notices or corrigenda thereto, together with any summaries thereto;
- e. Finalizing and arranging for the submission of the Draft Red Herring Prospectus, the Red Herring Prospectus, the Prospectus and the preliminary and final international wrap and any amendments, supplements, notices or corrigenda thereto, to SEBI, the Stock Exchanges, Registrar of Companies and other appropriate government and regulatory authorities, institutions or bodies;
- f. Making applications for listing of the shares in one or more stock exchange(s) for listing of the equity shares of the Company and to execute and to deliver or arrange the delivery of necessary documentation to the concerned stock exchange(s);
- g. Seeking, if required, the consent of the Company's lenders, parties with whom the Company has entered into various commercial and other agreements, all concerned government and regulatory authorities in India or outside India, and any other consents that may be required in connection with the Issue, if any;
- h. Determining and finalizing the price band for the Issue, any revision to the price band and the final Issue Price after bid closure, determining the bid opening and closing dates and determining the price at which the Equity Shares are offered or issued/ allotted to investors in the Issue;
- i. Making applications to the Foreign Investment Promotion Board, RBI and such other authorities as may be required for the purpose of allotment of shares to non-resident investors;
- j. Opening with the bankers to the Public Issue such accounts as are required by the regulations issued by SEBI;
- k. To do all such acts, deeds, matters and things and execute all such other documents etc. as it may, in its absolute discretion, deem necessary or desirable for such purpose, including without limitation, finalize the basis of allocation and to allot the shares to the successful allottees as permissible in law, issue of share certificates in accordance with the relevant rules;
- l. To settle all questions, difficulties or doubts that may arise in regard to such issues or allotment as it may, in its absolute discretion deem fit;
- m. To delegate any of the powers mentioned above to the Company Executives.

### REMUNERATION TO DIRECTORS

Criteria for making payments to Non-Executive Directors/Independent Directors:

The Non-Executive/Independent Directors of the Company play a crucial role in independent functions of the Board. They bring an external perspective to decision making and provide leadership and strategic guidance while maintaining objective judgments they also oversee Corporate Governance framework of the Company. The Company does not pay any remuneration to the Non-Executive/Independent Directors other than Sitting Fees as approved by the Board within the permissible limits of the Companies Act, 1956 and ESOPs as per Schemes of the Company.

The Executive (Managing) Director is paid remuneration as approved by the Shareholders of the Company in their meeting held on 30th September, 2009. The details of remuneration paid to the Executive (Managing) Director for the financial year ended 31st March, 2010 is as follows:

(Rs. in lakhs)					
Name	Salary & Incentives	Value of Perquisites	Contribution to Provident Fund	ESOPs	Total
Mr. Suresh Gurumani	118.99	36.45	9.56	4.58	169.58

The details of stock options granted to Independent Directors during the year under review are as follows:

- 18,000 stock options were granted to Mr. Geoffrey Tanner Woolley pursuant to SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors) at an exercise price of Rs. 300 each on 29th July, 2009.
- 18,000 stock options were granted to Mr. P. H. Ravi Kumar pursuant to SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors) at an exercise price of Rs. 300 each on 1st February, 2010.
- 18,000 stock options were granted to Dr. Tarun Khanna pursuant to SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors) at an exercise price of Rs. 300 each on 1st February, 2010.
- 18,000 stock options were granted to Mr. Geoffrey Tanner Woolley pursuant to SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors) at an exercise price of Rs. 300 each on 1st February, 2010.
- 36,000 stock options were granted to Mr. Pramod Bhasin pursuant to SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors) at an exercise price of Rs. 300 each on 1st February, 2010.

The details of the Equity Shares/ESOPs held by the Directors as on 31st March 2010 are as follows:

Name of the Director	No of Shares Held	No. of ESOPs held and Name of the Scheme
Mr. Gurcharan Das*	Nil	15,000 Stock Options under SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors) ["ESOP 2008 (ID)"].
Mr. Geoffrey Tanner Woolley	Nil	36,000 Stock Options under SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors) ["ESOP 2008 (ID)"].
Mr. P. H. Ravi Kumar	Nil	36,000 Stock Options under SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors) ["ESOP 2008 (ID)"].
Mr. Pramod Bhasin	Nil	36,000 Stock Options under SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors) ["ESOP 2008 (ID)"].
Mr. Suresh Gurumani	2,35,000**	6,75,000 Stock Options under SKS Microfinance Employees Stock Option Plan 2008 (ESOP 2008).
Dr. Tarun Khanna	8,080	36,000 Stock Options under SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors) ["ESOP 2008 (ID)"].
Dr. Vikram Akula	Nil	9,06,734 Stock Options under SKS Microfinance Employees Stock Option Plan 2007 (ESOP 2007) 17,69,537 Stock Options under SKS Microfinance Employees Stock Option Plan 2008 (ESOP 2008)

\* Mr. Gurcharan Das has resigned with effect from 5th January, 2010.

\*\* 2,25,000 Equity Shares sold by Mr. Suresh Gurumani to Tree Line Asia Master Fund (Singapore) Pte. Limited upon receiving approval from the RBI on 18th February, 2010.

The details of Sitting Fees paid to Directors for the year ended 31st March, 2010:

Name of the Director	Sitting Fees (Rs.)
Mr. Ashish Lakhanpal *	Nil
Mr. Geoffrey Tanner Woolley	Nil
Mr. Gurcharan Das	20,000
Mr. P. H. Ravi Kumar	40,000
Mr. Paresh Patel *	Nil
Mr. Pramod Bhasin *	Nil
Mr. Sumir Chadha *	Nil
Dr. Tarun Khanna	40,000
Mr. V. Chandrasekhran	30,000
Dr. Vikram Akula*	Nil

\* The Directors have waived off the Sitting fees payable to them in the Board Meeting held on 4th November, 2009.

## 2. 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 last three Annual General Meetings are given below:

Year	Location	Date & Time	No. of Special Resolutions passed
2006 – 07	# 8-2-608/1/1, Karama Enclave, Road No. 10, Banjara Hills, Hyderabad – 500034.	8th September, 2007 at 4.00 p.m.	3
2007 – 08	# 8-2-608/1/1, Karama Enclave, Road No. 10, Banjara Hills. Hyderabad – 500034.	7th August, 2008 at 4.00 p.m.	5
2008 – 09	# 2-3-578/1, Maruti Mansion, Kachi Colony, Nallagutta, Minister Road, Secunderabad – 500003	30th September, 2009 at 11.30 a.m.	5

No special resolution has been passed through postal ballot during the last year.

## 3. SUBSIDIARY COMPANY:

Your Company does not have any subsidiary.

## 4. DISCLOSURES:

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

There are no instances of non-compliance by the Company, penalties or strictures imposed by any Regulatory Authority.

The Company has adopted the Whistle Blower Policy and has established the necessary mechanism in line with clause 49 of the Listing Agreement with the Stock Exchanges, for employees to report concerns about unethical behavior. No person has been denied access to the Audit Committee.

The Company has adopted Code of Conduct ('Code') for the Members of the Board and 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 the Company contains a declaration to this effect signed by the Managing Director & CEO.

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

## SHAREHOLDERS' INFORMATION:

7th Annual General Meeting	
a. Date and Time	Friday, the 16th July 2010 at 4.30 pm
b. Venue	SKS Microfinance Ltd. Registered Office Ashoka Raghupathi Chambers, D No. 1-10-60 to 62, Opposite to Shoppers Stop, Begumpet, Hyderabad 500 016
c. Book Closure Date	N.A.
d. Dividend	Nil

Financial Calendar (Tentative)	
Unaudited First Quarter Financial Results	July, 2010
Unaudited Second Quarter Financial Results	October, 2010
Unaudited Third Quarter Financial Results	January, 2011
Audited results for the year ending March 31, 2011	May, 2011
Annual General Meeting for FY 2011	July, 2011

## SHARE TRANSFER SYSTEM

The Board of Directors has constituted Shareholders'/Investors' Grievance Committee to examine and redress shareholders' and investors' complaints. The status of complaints and share transfers is reported to the entire Board. Earlier all the requests for transfer of Equity Shares of the Company were approved by the Board. All the requests received for transfer of shares were processed within 30 days of receipt. The Company has not issued any GDRs/ADRs, warrants or other instruments which are pending for conversion.

## DEMATERIALISATION OF SHARES

Presently shares issued by the Company are in physical form. The Company is in process of coming with an Initial Public Offer (IPO) wherein allotment of shares will compulsorily be made in dematerialised form. The Company has made necessary applications to National Securities Depository Ltd. (NSDL) and Central Depository System Ltd. (CDSL) for allotment of International Security Identification Number (ISIN) where by the physical shares can be converted into dematerialised form.

## LISTING ON STOCK EXCHANGES

Secured Redeemable Non-Convertible Debentures (NCDs) aggregating to Rs. 125 Crores issued by the Company during the year to Standard Chartered Bank and Yes Bank were/are listed on Bombay Stock Exchange. Scrip Code of these NCDs is – SKS23Apr09 & SKS23Dec09 respectively.

The Company has made necessary application to BSE and NSE for In-principal approval for listing of securities proposed to be issued by the Company through IPO.

## REGISTRAR & SHARE TRANSFER AGENT

Presently the Company's shares are transferred by in-house Legal & Secretarial Department. The Company has appointed Karvy Computershare Private Limited as Registrars to the Issue and Share Transfer Agent.

## ADDRESS FOR CORRESPONDANCE & REGISTERED OFFICE

Investors and shareholders can correspond at Registered office of the Company at the following address:

**Mr. S. K. Bansal,**  
Compliance Officer  
Legal & Secretarial Department  
SKS Microfinance Limited  
'Ashoka Raghupati Chambers'  
1-10- 60 to 62,  
Opposite to Shoppers Stop,  
Begumpet,  
Hyderabad - 500 016 (India)  
email: skscomplianceofficer@sksindia.com

## CERTIFICATION OF FINANCIAL REPORTING AND INTERNAL CONTROLS

In accordance with Clause 49 V of the listing agreements, a certificate confirming the correctness of the financial statements, adequacy of internal control measures and matters to be reported to the Audit Committee was taken on record at the Board meeting convened for approval of the annual financial results of the Company for the year under review.

Corporate Governance Compliance Certificate issued by BS & Company, Company Secretaries, Hyderabad is given hereunder.

## NON-MANDATORY ITEMS:

### 1. The Board

The requirement regarding Non-Executive Chairman is complied by the Company. Dr. Vikram Akula, Chairman of the Company is Non-Executive Chairman as of now.

None of the Independent Directors on our Board have served for a tenure exceeding 9 (Nine) years from the date when the new Clause 49 effective.

### 2. Remuneration Committee

The Company has a Remuneration Committee. A detailed note on this committee is provided elsewhere in this report.

### 3. Shareholder Rights

A half-yearly declaration of financial performance including summary of significant events in the preceding six months, is sent to each household of shareholders.

### 4. Audit Qualifications

There are a few comments in the Audit Report which have suitably been addressed to in the Directors' Report.

### 5. Whistle Blower Policy

The Company has a Whistle Blower policy to enable employees to report to the management their concerns about unethical behavior, actual or suspected fraud or violation of Company's Code of Conduct or ethics policy. This mechanism provides safeguards against victimization of employees, who avail of the mechanism. This also provides for direct access to the Chairman of the Audit Committee in exceptional cases. The policy has been appropriately communicated to the employees within the organisation.

### 6. Nomination

Individual shareholders holding shares singly or jointly in physical form can nominate a person in whose name the shares shall be transferable in the case of death of the registered shareholder(s). The prescribed nomination form will be sent by the Company upon such request. Nomination facility for shares held in electronic form is also available with depository participant as per the bye-laws and business rules applicable to NSDL and CDSL.

### CEO CERTIFICATION ON CODE OF CONDUCT

I, Suresh Gurumani, Managing Director & Chief Executive Officer of SKS Microfinance Limited hereby declare that all the Board members and Senior Managerial Personnel have affirmed for the year ended 31 March 2010 compliance with the Code of conduct of the Company laid down for them.

Hyderabad  
Date: 4th May 2010

Sd/-  
**Suresh Gurumani**  
Managing Director & CEO

### CORPORATE GOVERNANCE COMPLIANCE CERTIFICATE

To  
The Members  
M/s SKS Microfinance Limited  
Hyderabad.

On the request of the Management, we have examined the relevant records of M/s SKS Microfinance Limited (the Company) for the purpose of certifying the compliance of conditions of Corporate Governance for the financial year ended 31st March, 2010. We have obtained relevant information and explanations which to the best of our knowledge and belief were necessary for the purposes of certification.

The Compliance of the conditions of Corporate Governance is the responsibility of the management. Our examination was in accordance with the Guidance Note on Corporate Governance Certificate read with Clause 49 of the Listing Agreement (Clause 49 of the listing agreement is not applicable to M/s SKS Microfinance limited as this is an unlisted company) issued by the Institute of Company Secretaries of India and was limited to the procedure and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance.

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 explanations and information furnished to us by the Company and its Officers, we certify that the Company has complied with the conditions of the Corporate Governance as stipulated in Clause 49 of the Listing Agreement (which is not applicable to the company).

Hyderabad  
Date: 30th April, 2010

Sd/-  
**BS & COMPANY**  
COMPANY SECRETARIES

Sd/-  
**(KVS SUBRAMANYAM)**  
Partner  
Certificate Of Practice No. 4815

# Adding colours of joy

**Minati** Mohapatra, her husband Bhagirathi Mohapatra and their joint family of seven members live in a very modest dwelling in Pipli, a town of weavers and tailors on the outskirts of Bhubaneswar in Orissa. The DarjiSahi extension of Pipli is a hub for skilled appliqué workers like the Mohapatras who make colorful cloth lanterns and bright wall hangings.

Minati learned appliqué skills from her mother-in-law. She and her husband started making a living by stitching cloth lanterns, wall hangings and cloth bags. The couple used to get orders from shops, but the money required for the initial investment was hard to come by. Moneylenders used to charge 8-10% interest per month, which used to cut into their margins. Minati and her family never had enough money to think beyond subsistence.

In 2006, Minati learned about SKS Microfinance and borrowed Rs. 10,000/-. The money helped the couple fulfill orders on time and provided the initial nudge for their enterprise to take off. They gradually increased the number of orders they serviced. Bhagirathi's brother and his wife also started working with them. With additional capital and resources, Minati soon employed three other people in the neighborhood.

Today, after eight loan cycles, including an individual loan of Rs. 30,000/-, the family is much better off. They regularly supply goods to shops in the towns of Cuttack and Puri. Minati is the SKS center leader and dreams of a bright future for her son as a computer engineer. Minati is an image of self-respect and quiet confidence and an inspiration to many in her circle. Her young son says Minati is an ideal mother since she cooks delicious food for him and supports his father in providing financial support for the family.







# Auditors' Report

To The Members of  
SKS Microfinance Limited

1. We have audited the attached Balance Sheet of SKS Microfinance Limited ('the Company') as at March 31, 2010 and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 (as amended) ('the Order') issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, ('the Act') we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:
  - i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - ii. 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;
  - iii. The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
  - iv. In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;
  - v. On the basis of the written representations received from the directors, as on March 31, 2010, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2010 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act;
  - vi. In our opinion and to the best of our information and according to the explanations given to us, the said accounts 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, 2010;
    - b) in the case of the Profit and Loss Account, of the profit 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.

**Sd/-**  
**For S. R. Batliboi & Co.**  
**Chartered Accountants**  
**Firm registration number:- 301003E**

**Sd/-**  
**per Viren H. Mehta**  
 Partner  
 Membership No.048749

Place: Mumbai  
 Date: May 05, 2010

Annexure referred to in paragraph 3 of our report of even date  
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) All fixed assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. As informed, no material discrepancies were noticed on such verification.  
(c) There was no substantial disposal of fixed assets during the year.
- (ii) The Company is a Non-Banking Financial Company ('NBFC') engaged in the business of giving loans and does not maintain any inventory. Therefore the provisions of clause 4(ii) of the Order are not applicable to the Company.
- (iii) (a) As informed, 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. Therefore, the provisions of clause 4 (iii) (a) to (d) of the Order are not applicable to the Company.  
(b) As informed, 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. Therefore, the provisions of clause 4 (iii) (e) to (g) of the Order are not applicable to the Company.
- (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, no major weakness has been noticed in the internal control system in respect of these areas.
- (v) (a) According to the information and explanations provided by the management, we are of the opinion that the particulars of contracts or arrangements referred to in section 301 of the Act that need to be entered into the register maintained under section 301 of the Act have been so entered.  
(b) In respect of transactions made in pursuance of such contracts or arrangements exceeding value of Rupees five lakhs entered into during the financial year, because of the specialized nature of the items involved and absence of any comparable prices, we are unable to comment whether the transactions were made at prevailing market prices at the relevant time.
- (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 and nature of its business.
- (viii) To the best of our knowledge and as explained, the Central Government has not prescribed 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.  
  
Further, since the Central Government has till date not prescribed the amount of cess payable under section 441 A of the Act, we are not in a position to comment upon the regularity or otherwise of the Company in depositing the same.  
(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 undisputed 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 has no accumulated losses at the end of the financial year and it has not 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 a financial institution, bank or debenture holders.
- (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 guarantee for loans taken by others from banks 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 investments payable on demand. The maximum amount of idle/surplus fund invested during the year was Rs. 12,677,820,861 of which Rs. 350,000,000 was outstanding at the end of the year.
- (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) According to the information and explanations given to us, during the year covered by our audit report, the Company had issued 1,750 debentures of Rs. 10,00,000 each. The Company has created security or charge in respect of debentures issued.
- (xx) The Company has not made any public issues during the year.
- (xxi) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the year though there were some instances of frauds on the Company by its employees and borrowers as given below:
  - (a) Eighty two cases of cash embezzlements by the employees of the Company aggregating Rs. 15,024,158 were reported during the year. The services of all such employees involved have been terminated and the Company is in the process of taking legal action. We have been informed that thirty seven of these employees were absconding. The outstanding balance (net of recovery) aggregating Rs. 8,663,302 has been written off;
  - (b) Sixty one cases of loans given to non-existent borrowers on the basis of fictitious documentation created by the employees of the Company aggregating Rs. 13,645,345 were reported during the year. The services of all such employees involved have been terminated and the Company is in the process of taking legal action. The outstanding loan balance (net of recovery) aggregating Rs. 11,029,667 has been written off; and
  - (c) Thirty one cases of loans taken by certain borrowers, in collusion with and under the identity of other borrowers, aggregating Rs. 6,025,000, were reported during the year. The Company is pursuing the borrowers to repay the money. The outstanding loan balance (net of recovery) aggregating Rs. 2,359,930 has been written off.

Sd/-

**For S. R. Batliboi & Co.**

**Chartered Accountants**

**Firm registration number:- 301003E**

Sd/-

**per Viren H. Mehta**

Partner

Membership No.048749

Place: Mumbai

Date: May 05, 2010

**Balance Sheet as at March 31, 2010**

	Schedules	March 31, 2010 Rupees	March 31, 2009 Rupees
<b>SOURCES OF FUNDS</b>			
Shareholders' Funds			
Share Capital	1	645,272,190	570,566,520
Stock Options Outstanding	1A	41,792,895	19,293,235
Reserves and Surplus	2	8,893,253,598	6,058,634,113
<b>Loan Funds</b>			
Secured Loans	3A	25,795,733,538	20,971,310,278
Unsecured Loans	3B	1,150,988,056	394,371,918
<b>TOTAL</b>		<b>36,527,040,277</b>	<b>28,014,176,064</b>
<b>APPLICATION OF FUNDS</b>			
<b>Fixed Assets</b>	4A		
<b>Gross Block</b>		403,943,713	250,994,853
Less: Accumulated Depreciation		215,426,101	126,862,689
<b>Net Block</b>		<b>188,517,612</b>	<b>124,132,164</b>
Capital Work in Progress including Capital Advances		-	69,102
		<b>188,517,612</b>	<b>124,201,266</b>
<b>Intangible Assets</b>	4B		
<b>Gross Block</b>		136,911,718	121,236,871
Less: Accumulated Amortization		99,521,137	65,551,244
<b>Net Block</b>		<b>37,390,581</b>	<b>55,685,627</b>
Capital Work in Progress including Capital Advances		17,683,800	9,836,800
		<b>55,074,381</b>	<b>65,522,427</b>
<b>Investment</b>	5	2,000,000	-
<b>Deferred Tax Assets (Net)</b>	6	94,796,209	42,403,359
<b>Current Assets, Loans and Advances</b>			
Sundry Debtors	7	29,539,143	21,404,763
Cash and Bank Balances	8	9,735,184,488	15,470,212,491
Other Current Assets	9	622,955,357	315,784,758
Loans and Advances	10	29,746,904,007	14,349,478,743
		<b>40,134,582,995</b>	<b>30,156,880,755</b>
<b>Less: Current Liabilities and Provisions</b>			
Current Liabilities	11	3,684,317,148	2,223,766,114
Provisions	12	340,760,581	151,065,629
		<b>4,025,077,729</b>	<b>2,374,831,743</b>
Net Current Assets		<b>36,109,505,266</b>	<b>27,782,049,012</b>
<b>Miscellaneous Expenditure</b>	13	77,146,809	-
(To the extent not written off or adjusted)			
<b>TOTAL</b>		<b>36,527,040,277</b>	<b>28,014,176,064</b>
<b>Notes to Accounts</b>	20		

The schedules referred to above and notes to accounts form an integral part of the Balance Sheet.

As per our report of even date

**Sd/-**  
**For S. R. Batliboi & Co.**  
**Chartered Accountants**  
Firm registration number:- 301003E

**Sd/-**  
**per Viren H. Mehta**  
Partner  
Membership No.048749  
Place: Mumbai  
Date: May 05, 2010

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

**Sd/-**  
**Vikram Akula**  
Chairman

**Sd/-**  
**S.Dilli Raj**  
Chief Financial Officer

**Sd/-**  
**Suresh Gurumani**  
Managing Director

**Sd/-**  
**Sunil K. Bansal**  
Company Secretary

## Profit and Loss Account for the year ended March 31, 2010

	Schedules	March 31, 2010 Rupees	March 31, 2009 Rupees
<b>INCOME</b>			
Income from operations	14	8,735,705,543	5,060,718,691
Other income	15	853,587,980	479,281,800
<b>TOTAL</b>		<b>9,589,293,523</b>	<b>5,540,000,491</b>
<b>EXPENDITURE</b>			
Financial expenses	16	2,884,051,711	1,944,308,792
Personnel expenses	17	2,163,792,369	1,360,010,587
Operating and other expenses	18	1,221,252,437	752,489,719
Depreciation and amortization	4A & 4B	125,999,054	108,468,322
Provisions and write offs	19	517,178,300	134,151,280
<b>TOTAL</b>		<b>6,912,273,871</b>	<b>4,299,428,700</b>
<b>Profit before tax</b>		<b>2,677,019,652</b>	<b>1,240,571,791</b>
<b>Provision for tax</b>			
Current tax		981,000,000	453,300,000
Deferred tax		(52,392,850)	(33,013,693)
Income tax for the previous year		8,672,577	2,684,104
Fringe Benefit Tax		-	15,356,836
Fringe Benefit Tax for the previous year		201,683	-
<b>Total tax expense</b>		<b>937,481,410</b>	<b>438,327,247</b>
<b>Profit after tax</b>		<b>1,739,538,242</b>	<b>802,244,544</b>
Profit brought forward from previous year		808,321,307	166,525,672
Profit available for appropriation		2,547,859,549	968,770,216
<b>APPROPRIATIONS</b>			
Transferred to Statutory Reserve @ 20% of profit after tax as required by sec 45-IC of Reserve Bank of India Act, 1934		347,907,648	160,448,909
<b>Surplus carried to Balance Sheet</b>		<b>2,199,951,901</b>	<b>808,321,307</b>
<b>Earnings per Share (Refer Note 12 of Schedule 20)</b>			
<b>Basic (Rs.)</b>		<b>32.82</b>	<b>17.95</b>
<b>Diluted (Rs.)</b>		<b>27.33</b>	<b>16.18</b>
<b>Nominal value of share (Rs.)</b>		<b>10.00</b>	<b>10.00</b>
<b>Notes to accounts</b>	<b>20</b>		

The schedules referred to above and notes to accounts form an integral part of the Profit and Loss Account.

As per our report of even date

Sd/-  
For S. R. Batliboi & Co.  
Chartered Accountants  
Firm registration number:- 301003E

Sd/-  
per Viren H. Mehta  
Partner  
Membership No.048749  
Place: Mumbai  
Date: May 05, 2010

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

Sd/-  
Vikram Akula  
Chairman

Sd/-  
S.Dilli Raj  
Chief Financial Officer

Sd/-  
Suresh Gurumani  
Managing Director

Sd/-  
Sunil K. Bansal  
Company Secretary

# Cash Flow Statement for the year ended March 31, 2010

	March 31, 2010 Rupees	March 31, 2009 Rupees
<b>A. Cash flow from operating activities</b>		
Net profit before taxation after prior period adjustment	2,677,019,652	1,240,571,791
<b>Adjustments for:</b>		
Depreciation and amortization	125,999,054	108,468,322
Provision for employee benefits	57,945,560	46,657,754
Stock option expenditure	29,386,960	16,723,823
Employee share purchase scheme expenditure	-	5,345,775
Share issue expenses	7,531,320	29,390,187
Provision for non performing assets	59,609,243	149,040
Bad debts written off	288,569,848	103,295,631
Loss from assignment of loans	168,999,209	30,706,609
Other provisions and write offs	66,181,152	29,538,553
Loss on disposal of fixed assets	837,912	(9,532)
<b>Operating profit before working capital changes</b>	<b>3,482,079,910</b>	<b>1,610,837,953</b>
<b>Movements in working capital:</b>		
(Increase)/decrease in sundry debtors	(8,134,380)	(21,404,763)
(Increase)/decrease in other current assets	(307,170,599)	(251,498,499)
(Increase)/decrease in portfolio loans	(15,480,547,404)	(6,469,627,319)
(Increase)/decrease in other loans and advances	(409,958,497)	(131,629,789)
(Decrease)/Increase in current liabilities	1,410,551,034	2,951,855,912
<b>Cash generated from operations</b>	<b>(11,313,179,936)</b>	<b>(2,311,466,505)</b>
Direct taxes paid	(948,403,683)	(456,500,283)
<b>Net cash generated from operating activities (A)</b>	<b>(12,261,583,619)</b>	<b>(2,767,966,788)</b>
<b>B. Cash flow from investing activities</b>		
Purchase of fixed assets (Including capital work in progress)	(157,229,805)	(124,020,680)
Sale of fixed assets	46,385	184,720
Purchase of intangible assets (Including capital work in progress)	(23,521,847)	(29,395,317)
Investment	(2,000,000)	
Bank deposits not considered as cash and cash equivalent (net)	322,708,335	(2,146,197,347)
<b>Net cash flow in investing activities (B)</b>	<b>140,003,068</b>	<b>(2,299,428,624)</b>
<b>C. Cash flow from financing activities</b>		
Proceeds from issuance of share capital (Including share premium)	1,162,899,613	3,698,821,725
Share issue expenses	(34,678,128)	(29,390,187)
Secured borrowings (net)	4,824,423,260	11,575,331,796
Unsecured borrowings (net)	756,616,138	394,371,918
<b>Net cash generated from financing activities (C)</b>	<b>6,709,260,883</b>	<b>15,639,135,252</b>
<b>Net increase/ (decrease) in cash and cash equivalents (A) + (B) + (C)</b>	<b>(5,412,319,668)</b>	<b>10,571,739,840</b>

**Cash Flow Statement for the year ended March 31, 2010**

	March 31, 2010 Rupees	March 31, 2009 Rupees
Cash and cash equivalents at the beginning of the year	13,187,117,098	2,615,377,258
<b>Cash and cash equivalents at the end of the year</b>	<b>7,774,797,430</b>	<b>13,187,117,098</b>

(Refer Note 20 of Schedule 20)

**Sd/-**  
**For S. R. Batliboi & Co.**  
**Chartered Accountants**  
 Firm registration number:- 301003E

**Sd/-**  
**per Viren H. Mehta**  
 Partner  
 Membership No.048749  
 Place: Mumbai  
 Date: May 05, 2010

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

**Sd/-**  
**Vikram Akula**  
 Chairman

**Sd/-**  
**S.Dilli Raj**  
 Chief Financial Officer

**Sd/-**  
**Suresh Gurumani**  
 Managing Director

**Sd/-**  
**Sunil K. Bansal**  
 Company Secretary

## Schedules To Balance Sheet

	March 31, 2010 Rupees	March 31, 2009 Rupees
<b>Schedule 1: Share Capital</b>		
<b>Authorized Share Capital</b>		
<b>Equity Shares</b>		
82,000,000 (Previous Year 82,000,000) equity shares of Rs. 10 each	820,000,000	820,000,000
<b>Preference Shares</b>		
13,000,000 (Previous Year 13,000,000) preference shares of Rs. 10 each	130,000,000	130,000,000
<b>Total</b>	<b>950,000,000</b>	<b>950,000,000</b>
<b>Equity Share Capital</b>		
<b>Issued Subscribed And Fully Paid-Up</b>		
64,527,219 (Previous Year: 47,707,856) equity shares of Rs. 10 each fully paid up	645,272,190	477,078,560
<b>Issued, Subscribed And Partly Paid-Up</b>		
Nil (Previous Year: 3,863,415) equity shares of Rs. 10 each, Rs. 0.50 paid up	-	1,931,710
<b>Preference Share Capital</b>		
<b>Issued, Subscribed And Fully Paid-Up</b>		
Nil (Previous Year: 9,155,625) 0% compulsorily convertible preference shares of Rs. 10 each compulsorily convertible on December 26, 2009 with an Option to the holder to convert the holding at any time before that date	-	91,556,250
<b>Total</b>	<b>645,272,190</b>	<b>570,566,520</b>
<b>Schedule 1a: Stock Options Outstanding</b>		
<b>Stock options outstanding</b>		
As per last balance sheet	21,316,514	14,212,480
Add: Fresh grant of options (Net of forfeiture)	209,166,984	7,104,034
Less: Amount transferred to securities premium account	6,887,300	-
<b>Closing Balance</b>	<b>223,596,198</b>	<b>21,316,514</b>
<b>Less: Deferred compensation outstanding</b>		
As per last balance sheet	2,023,279	11,643,068
Add: fresh grant of options (net of forfeiture)	209,166,984	7,104,034
Less: Employee stock option expenditure	27,924,284	-
Less: Directors stock option expenditure	1,462,676	16,723,823
<b>Closing Balance</b>	<b>181,803,303</b>	<b>2,023,279</b>
<b>Total</b>	<b>41,792,895</b>	<b>19,293,235</b>
<b>Schedule 2: Reserves and Surplus</b>		
<b>A. Securities Premium Account</b>		
As Per Last Balance Sheet	5,048,242,086	1,471,324,586
Add: Additions during the year	1,095,081,243	3,576,917,500
<b>Sub-total</b>	<b>6,143,323,329</b>	<b>5,048,242,086</b>
<b>B. Statutory Reserve</b>		
As Per last Balance Sheet	202,070,720	41,621,811
Add: Transferred from Profit and Loss Account	347,907,648	160,448,909
<b>Sub-total</b>	<b>549,978,368</b>	<b>202,070,720</b>
<b>C. Profit and Loss Account</b>		
Surplus brought forward from the Profit and Loss Account	2,199,951,901	808,321,307
<b>Sub-total</b>	<b>2,199,951,901</b>	<b>808,321,307</b>
<b>Total</b>	<b>(A + B + C)</b>	<b>8,893,253,598</b>
		<b>6,058,634,113</b>

## Schedules To Balance Sheet

	March 31, 2010 Rupees	March 31, 2009 Rupees
<b>Schedule 3 (A): Secured Loans</b>		
<b>Term Loans</b>		
From banks	16,251,526,566	14,290,741,048
*(Secured by hypothecation of portfolio loans and by lien marked on bank deposits)		
From financial institutions	6,096,517,683	4,116,373,996
(Secured by hypothecation of portfolio loans and by lien marked on bank deposits)		
From non banking financial companies	683,333,332	816,666,667
(Secured by hypothecation of portfolio loans and by lien marked on bank deposits)		
<b>Debentures (Short term)</b>		
2500 (Previous Year: 2500) 10.5% Secured Redeemable Non - Convertible Debentures of Rs. 100,000 each redeemable at par at the end of one year from the date of allotment Feb 27, 2010 (Secured by hypothecation of portfolio loans)	-	250,000,000
750 (Previous Year: Nil) 10% Secured Redeemable Non - Convertible Debentures of Rs. 10,00,000 each redeemable at par at the end of one year from the date of allotment Apr 23, 2010 (Secured by hypothecation of portfolio loans)	750,000,000	-
500 (Previous Year: Nil) 8.30% Secured Redeemable Non - Convertible Debentures of Rs. 10,00,000 each redeemable at par at the end of one year from the date of allotment Dec 23, 2010 (Secured by hypothecation of portfolio loans)	500,000,000	-
500 (Previous Year: Nil) 9.25% Secured Redeemable Non - Convertible Debentures of Rs. 10,00,000 each redeemable at par at the end of one year from the date of allotment Dec 23, 2010 (Secured by hypothecation of portfolio loans)	500,000,000	-
Bank Overdraft (Due within one year ) (Secured by hypothecation of portfolio loans and by lien marked on bank deposits)	1,014,355,957	1,497,528,567
<b>Total</b>	<b>25,795,733,538</b>	<b>20,971,310,278</b>

**Schedule 3 (B): Unsecured Loans****Term Loans**

From banks - 150,000,000

**Commercial paper** (Short term) 1,200,000,000

Less: Unamortized interest (49,011,944) 1,150,988,056 244,371,918

Maximum amount outstanding at any time during the year Rs. 1,150,988,056  
(Previous Year: 244,371,918)

**Total** 1,150,988,056 394,371,918

(\* The total secured loans borrowing outstanding as at the Balance Sheet date includes Rs. 500,000,000 (PY - Rs. 1,900,000,000) for which the creation of charge for security has been done subsequent to the Balance Sheet date.)

## Schedules to Balance Sheet

### Schedule 4 : Fixed Assets and Intangible Assets

#### 4A. Fixed Assets

Rupees

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As on April 1, 2009	Additions	Deletions	As on March 31, 2010	As on April 1, 2009	For the Year	Deletions	Total March 31, 2010	As on March 31, 2010	As on March 31, 2009
(I) Furniture and Fixtures	77,397,426	43,024,372	118,474	120,303,324	59,428,098	35,920,456	78,558	95,269,996	25,033,328	17,969,328
(II) Plant and Machinery:										
Computers	149,769,595	93,521,793	4,153,033	239,138,355	61,278,880	51,487,382	3,366,484	109,399,778	129,738,577	88,490,715
Office Equipments	23,086,682	18,702,742	78,540	41,710,884	5,705,287	4,535,876	20,708	10,220,455	31,490,429	17,381,395
(III) Vehicles	741,150	2,050,000	-	2,791,150	450,424	85,448	-	535,872	2,255,278	290,726
<b>Total</b>	<b>250,994,853</b>	<b>157,298,907</b>	<b>4,350,047</b>	<b>403,943,713</b>	<b>126,862,689</b>	<b>92,029,162</b>	<b>3,465,750</b>	<b>215,426,101</b>	<b>188,517,612</b>	<b>124,132,164</b>
<b>Previous Year</b>	<b>-</b>	<b>127,948,555</b>	<b>-</b>	<b>250,994,853</b>	<b>-</b>	<b>78,574,628</b>	<b>-</b>	<b>126,862,689</b>	<b>124,132,164</b>	

#### 4B. Intangible Assets

PARTICULARS	GROSS BLOCK				AMORTISATION				NET BLOCK	
	As on April 1, 2009	Additions	Deletions	As on March 31, 2010	As on April 1, 2009	For the Year	Deletions	Total March 31, 2010	As on March 31, 2010	As on March 31, 2009
(I) Goodwill	39,701,135	-	-	39,701,135	28,451,681	7,940,227	-	36,391,908	3,309,227	11,249,454
(II) Computer Software	81,535,736	15,674,847	-	97,210,583	37,099,563	26,029,666	-	63,129,229	34,081,354	44,436,173
<b>Total</b>	<b>121,236,871</b>	<b>15,674,847</b>	<b>-</b>	<b>136,911,718</b>	<b>65,551,244</b>	<b>33,969,893</b>	<b>-</b>	<b>99,521,137</b>	<b>37,390,581</b>	<b>55,685,627</b>
<b>Previous Year</b>	<b>-</b>	<b>21,233,517</b>	<b>-</b>	<b>121,236,871</b>	<b>-</b>	<b>29,893,694</b>	<b>-</b>	<b>65,551,244</b>	<b>55,685,627</b>	

## Schedules to Balance Sheet

	March 31, 2010 Rupees	March 31, 2009 Rupees
<b>Schedule 5: Investments</b>		
<b>Long Term Investment (At cost)</b>		
<b>Other than trade - Unquoted</b>		
200,000 (Previous year : Nil) Equity shares of Rs. 10/- each fully paid-up in Alpha Micro Finance Consultants Private Limited (Refer Note 15 of Schedule 20)	2,000,000	-
<b>Total</b>	<b>2,000,000</b>	<b>-</b>
Aggregate book value of unquoted long term investments	2,000,000	-
<b>Schedule 6: Deferred Tax Assets / (Liabilities) (Net)</b>		
<b>Deferred Tax Assets / (Liabilities)</b>		
Difference due to disallowance of expenses under section 43B of Income tax Act, 1961	30,473,757	16,502,644
Difference due to disallowance of provision for standard assets and non performing assets	59,433,791	23,266,153
Difference due to charge of tax on income on non performing assets	-	2,886,556
Differences in depreciation and other differences in block of fixed assets and intangible assets as per tax and books of accounts	4,888,661	(251,994)
<b>Deferred Tax Assets (Net)</b>	<b>94,796,209</b>	<b>42,403,359</b>
<b>Schedule 7: Sundry Debtors</b>		
<b>Debts outstanding for a period exceeding six months</b>		
Unsecured, Considered good	833,868	-
<b>Other debts</b>		
Unsecured, Considered good	28,705,275	21,404,763
	<b>29,539,143</b>	<b>21,404,763</b>
<b>Schedule 8: Cash and Bank Balances</b>		
Cash on hand	11,804,492	12,041,234
<b>Balances with Scheduled Banks:</b>		
On current accounts	2,242,574,554	1,565,288,217
On deposit accounts	7,480,187,058	13,890,916,254
(Of the total deposits placed with banks, lien has been partly marked against deposit certificates of Rs. 1,927,877,058 (Previous Year Rs.1,213,095,393) towards term loans availed from banks, financial institutions and towards cash collateral placed in connection with asset assignment)		
<b>Balances with Unscheduled Banks :</b>		
(Refer Note 16 of Schedule 20)		
On current accounts	618,384	1,966,786
<b>Total</b>	<b>9,735,184,488</b>	<b>15,470,212,491</b>

## Schedules to Balance Sheet

	March 31, 2010 Rupees	March 31, 2009 Rupees
<b>Schedule 9: Other Current Assets</b>		
Interest accrued but not due		
On portfolio loans	119,022,992	53,523,235
On deposits placed with banks	67,506,742	42,703,486
Others	25,612,246	4,283,667
Joint Liability Group Loans placed as collateral for loan asset assigned. (Refer Note 3 of Schedule 20)	410,813,377	215,274,370
<b>Total</b>	<b>622,955,357</b>	<b>315,784,758</b>

## Schedule 10: Loans & Advances

### A Portfolio Loans

#### a. Portfolio Loans (Secured, considered good)

Individual loans	13,949,529	-
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#### b. Portfolio Loans (Unsecured, considered good)

Joint liability group loans	29,256,915,711	13,625,109,106
Individual loans	281,660	502,238,790

#### c. Portfolio Loans (Unsecured, considered doubtful)\*

Joint liability group loans	96,057,621	37,264,254
Individual loans	-	10,614,815

<b>Sub-Total</b>	<b>(A)</b>	<b>29,367,204,521</b>	<b>14,175,226,965</b>
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\*These represent non performing asset (Refer Note 1(q) of Schedule 20)

### B Other Loans and Advances

#### Secured, considered good

Employee loans	433,010	3,810,013
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#### Unsecured, considered good

Loans to SKS Microfinance Employees Benefit Trust (Refer Note 17 of Schedule 20)	87,285,811	69,813,060
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Deposits	60,491,575	58,017,182
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Advance fringe benefit tax (Net of Provision)	937,183	-
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Interest accrued and due		
On portfolio loans	4,309,831	2,330,021

Advances recoverable in cash or kind or for value to be received		
Prepaid expenses	41,255,226	14,676,579
Others	172,084,046	25,604,923

#### Unsecured, considered doubtful

Advances recoverable in cash or kind or for value to be received	12,902,804	-
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<b>Sub-Total</b>	<b>(B)</b>	<b>379,699,486</b>	<b>174,251,778</b>
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<b>Total</b>	<b>(A + B)</b>	<b>29,746,904,007</b>	<b>14,349,478,743</b>
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## Schedules to Balance Sheet

	March 31, 2010 Rupees	March 31, 2009 Rupees
<b>Schedule 11: Current Liabilities</b>		
Sundry creditors (Refer Note 18 of Schedule 20) (Due to micro and small enterprises: Nil (Previous Year: Nil))	206,339,779	130,448,196
Employee Payable	203,460,604	138,141,083
Payable for loan asset assigned	2,001,169,390	1,442,557,827
Deferred income		
Unamortised interest income	199,766,947	93,811,694
Unamortised group insurance administrative charges	316,987,402	71,490,088
Deferred gain on asset assignment	495,783,238	256,452,196
Interest accrued but not due		
- On term loans	144,401,445	68,310,390
- On debentures	93,988,703	-
Statutory dues	22,419,640	22,554,640
<b>Total</b>	<b>3,684,317,148</b>	<b>2,223,766,114</b>
<b>Schedule 12: Provisions</b>		
Provision for taxation (Net of advance tax payments of Rs. 1,515,362,172 (Previous Year: Rs. 571,934,489))	74,652,372	31,373,477
Provision for fringe benefit tax (Net of advance tax payments of Rs. 25,213,461 (Previous Year: Rs. 26,958,687))	-	871,134
Provision for standard and non performing assets (Refer Note 13 of Schedule 20)	121,249,521	61,640,279
Provision for loss on assigned loans (Refer Note 2r (ii) of Schedule 20)	40,704,372	5,959,715
Provision for other doubtful assets	12,902,804	850,000
Provision for gratuity (Refer Note 9 of Schedule 20)	1,596,445	1,819,557
Provision for leave encashment and availment	89,655,067	48,551,467
<b>Total</b>	<b>340,760,581</b>	<b>151,065,629</b>
<b>Schedule 13: Miscellaneous Expenditure</b>		
Equity Share issue expenses for proposed initial public offer	77,146,809	-
<b>Total</b>	<b>77,146,809</b>	<b>-</b>

#### Schedules to Profit and Loss Account

	March 31, 2010 Rupees	March 31, 2009 Rupees
<b>Schedule 14: Income from Operations</b>		
Interest income on portfolio loans	7,565,419,169	4,504,720,788
Membership fees (Net of service tax of Rs. 16,249,986 (Previous Year: Rs. 9,284,426))	157,755,389	75,783,484
Income from assignment of loans (Refer Note 3 of Schedule 20)	1,012,530,985	480,214,419
<b>Total</b>	<b>8,735,705,543</b>	<b>5,060,718,691</b>

#### Schedule 15: Other Income

Interest on bank deposits (Tax deducted at source: Rs. 48,688,330 (Previous Year: Rs. 37,848,044))	272,310,159	171,371,356
Insurance commission (Tax deducted at source : Rs. 30,276,396 (Previous Year: Rs. 27,041,408)) (Net of service tax of Rs. 21,690,014 (Previous Year: Rs. 11,651,134))	192,516,647	118,843,425
Other commission income (Tax deducted at source : Rs. 1,999,993 (Previous Year: Rs. 28,552)) (Net of service tax of Rs. 3,172,685 (Previous Year: Rs. 61,256))	32,308,769	712,392
Group insurance administrative charges	323,233,253	175,392,451
Profit on disposal of fixed assets	-	9,532
Miscellaneous income (Tax deducted at source : Rs. 84,944 (Previous Year: Rs. 51,552))	33,219,152	12,952,644
<b>Total</b>	<b>853,587,980</b>	<b>479,281,800</b>

#### Schedule 16: Financial Expenses

Interest		
On term loans from banks	1,866,720,688	1,308,028,721
On term loans from financial institutions	554,445,945	312,304,350
On term loans from non banking financial companies	83,150,155	88,097,990
On other loans	46,622,636	474,658
On bank overdraft facility	34,235,545	22,460,812
On debentures	121,750,001	2,862,186
Loan processing fees	159,755,972	176,948,530
Guarantee fees	214,800	1,419,187
Bank charges	17,155,969	31,712,358
<b>Total</b>	<b>2,884,051,711</b>	<b>1,944,308,792</b>

## Schedules to Profit and Loss Account

	March 31, 2010 Rupees	March 31, 2009 Rupees
<b>Schedule 17: Personnel Expenses</b>		
Salaries and incentives	1,851,421,236	1,189,371,576
Staff leave encashment	88,423,953	56,305,907
Contribution to Provident Fund	65,025,435	37,629,387
Contribution to ESIC	23,299,952	12,108,807
Gratuity (Refer Note 9 of Schedule 20)	16,915,477	13,330,020
Staff welfare expenses	90,782,032	45,919,115
Employee stock option expenditure	27,924,284	-
Employee share purchase scheme expenditure	-	5,345,775
<b>Total</b>	<b>2,163,792,369</b>	<b>1,360,010,587</b>

## Schedule 18: Operating and Other Expenses

Rent	140,847,310	88,124,809
Rates and taxes	13,793,856	25,675,331
Insurance	49,310,050	2,152,957
Repairs and maintenance		
Plant and machinery	12,118,560	6,871,834
Others	70,498,717	35,499,647
Electricity charges	22,944,742	15,231,603
Travelling and conveyance	417,267,234	253,597,823
Communication expenses	97,361,291	49,483,072
Printing and stationery	157,202,989	112,188,056
Professional and consultancy charges	121,073,200	69,531,286
Directors' sitting fees	-	210,000
Directors stock option expenditure	1,462,676	16,723,823
Auditors' remuneration (Refer Note 21 of Schedule 20)		
Audit fees	6,650,000	
Certification fees	120,000	
Out of pocket expenses	1,536,977	
Share issue expenses	7,531,319	29,390,187
Other provisions and write offs	66,181,152	29,538,553
Loss on disposal of fixed assets	837,912	-
Miscellaneous expenses	34,514,452	13,486,630
<b>Total</b>	<b>1,221,252,437</b>	<b>752,489,719</b>

## Schedule 19 : Provisions and Write offs

Provision for standard and non performing assets	59,609,243	149,040
Bad debts written off	288,569,848	103,295,631
Loss from assignment of loans	168,999,209	30,706,609
<b>Total</b>	<b>517,178,300</b>	<b>134,151,280</b>

## SKS MICROFINANCE LIMITED

### NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2010 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2010

#### Schedule 20: Notes to Accounts

##### 1. Nature of operations

SKS Microfinance Limited ('the Company') is engaged in micro finance lending activities for providing financial services to poor women (referred as 'members') in the rural areas of India who are organized as Joint Liability Groups ('JLG'). The Company provides small value collateral free loans up to Rs. 25,000 for tenure of fifty weeks for income generation to poor women in groups.

All financial transactions are conducted in the group meetings organized near the habitats of these women. The operations, in the initial stages of group formation, involves efforts on development training on financial discipline, and constant monitoring through weekly meetings, and providing financial and support services at the doorsteps of the borrowers to ensure high rates of recovery. In case of loans given to JLG, the Company follows weekly collection for recovery of loans and the interest accrued thereon.

The Company has provided individual loans to the existing members ranging between Rs. 25,000 to Rs. 50,000 for income generation activities for a tenure ranging from twelve months to twenty four months. These loans are generally given to members who have completed a minimum of one cycle of loan under JLG. In case of individual loans, the Company follows monthly collection for recovery of loans and the interest accrued thereon.

The Company has also provided individual loan to the existing members ranging between Rs. 50,000 to Rs. 150,000 as loan against property for a tenure ranging from three to five years.

The Company has also tied up with Insurance Companies to act as Group Insurance Manager for providing life insurance to its members.

Further the Company has also entered into an arrangement with a mobile phone manufacturer and a service provider as well as a consumer goods wholesaler to facilitate the distribution of their products to its members.

##### 2. Statement of Significant Accounting Policies

###### a. Basis of preparation of financial statements

The financial statements have been prepared 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 ('the Act') and the provisions of the Reserve Bank of India ('RBI') as applicable to a non banking financial company. The financial statements have been prepared under the historical cost convention on an accrual basis except interest/discount on a loan which has been classified as a non performing asset and is accounted for on cash basis. The accounting policies have been consistently applied by the Company and are consistent with those applied in the previous year.

###### b. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

###### c. Revenue recognition

Revenue is recognized 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 recognized under the internal rate of return method. Income on non-performing loans is recognized only when realized and any interest recognized and remaining unrealized on such loans becoming non performing is reversed.
- ii. Interest income on deposits with banks is recognized on a time proportion accrual basis taking into account the amount outstanding and the rate applicable.
- iii. Membership fees from members are recognized on an upfront basis.

- iv. On sale of receivables under asset assignment arrangement, the profit arising on account of sale is recognized over the life of the receivables assigned on an accrual basis and loss, if any, arising on account of sale is accounted immediately.
- v. Commission income on insurance agency activities is recognized on accrual basis.
- vi. Dividend income is recognized when the right to receive payment is established by the balance sheet date.
- vii. All other income is recognized on an accrual basis.

#### d. Fixed assets

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

Asset under development as at the balance sheet date are shown as capital work in progress. Advance paid towards such development are also included under capital work in progress.

#### e. Intangibles

- i. Goodwill is amortized using the straight-line method over a period of five years.
- ii. Software cost related to computers are capitalized and amortized using the written down value method at a rate of 40% per annum.

#### f. Depreciation

- i. Depreciation on 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 in accordance with management estimates.
- ii. Fixed assets costing up to 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 recognized wherever 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 at the weighted average cost of capital.

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

#### h. Leases

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 recognized as an expense in the Profit and Loss Account on a straight-line basis over the lease term.

#### i. Investments

Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried 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 recognize a decline other than temporary in the value of the investments.

#### j. Foreign Currency Transactions

- i. All transactions in the foreign currency are recognized at the exchange rate prevailing on the date of transaction.
- ii. Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.
- iii. Foreign currency monetary items are reported using the exchange rate prevailing at the close of the financial year.
- iv. Exchange differences arising on the settlement of monetary items or on the 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 recognized as income or as expenses in the year in which they arise.

**k. Retirement and other employee benefits**

- i. Retirement benefits in the form of Provident Fund are a defined contribution scheme and the contributions are charged to the Profit and Loss Account of the year when the contributions to the respective funds are due. There are no other obligations other than the contribution payable to the respective funds.
- ii. Gratuity liability is defined benefit obligations and is provided for on the basis of an actuarial valuation on projected unit credit method made at the end of each financial year.
- iii. Short term compensated absences are provided for based on estimates. Long term compensated absences are provided for based on actuarial valuation at the year end. The actuarial valuation is done as per projected unit credit method at the year end.
- iv. Actuarial gains/losses are immediately taken to profit and loss account and are not deferred.

**l. Income Taxes**

Tax expense comprises of current, deferred and fringe benefit tax. Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized 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 realized.

The carrying amount of the deferred tax assets are reviewed at each balance sheet date. The Company writes down the carrying amount of the deferred tax assets 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 realized. 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.

**m. Earnings per Share**

Basic earnings per share is calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting preference dividend and attributable taxes) by the weighted average number of equity shares outstanding during the period. 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 period.

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

**n. Provisions**

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

**o. 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.

**p. Share Based payments**

- (a) In case of Employee Share Purchase Plan, measurement and disclosure of the employee share-based payment plans is done in accordance with the Guidance Note on Accounting for Employee Share-based Payments, issued by the ICAI. The Company measures compensation cost relating to employee share purchase plan using the fair value method.
- (b) Such compensation expense is recognized immediately as these are granted and vested immediately.
- (c) In case of Stock Option Plan, measurement and disclosure of the share-based payment plans is done in accordance with the Guidance Note on Accounting for Employee Share-based Payments, issued by the ICAI. The Company measures compensation cost relating to stock options using the Black-Scholes Model. Compensation expense is amortized over the vesting period of the option on the straight line basis.

**q. Classification of Loan Portfolio**

- i. Loans are classified as follows:

Asset Classification	Loans under JLG scheme	Individual Loans
Non Performing Assets	Overdue over 8 weeks	Overdue over 3 months
Sub-Standard	Overdue for 8 weeks - 25 weeks	Overdue for 3 - 6 months
Doubtful assets	--	Overdue for 6 - 12 months
Loss Assets	Overdue for more than 25 weeks	Overdue for more than 12 months

"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.

**r. Provision policy for Portfolio Loans & Assets Assigned**

- i. 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 is as follows:

**JLG (Joint liability group) Loans - Provisioning and write off policy**

Asset Classification	Arrear Period	Provision as per RBI prudential norms	Estimated Provision adopted by the Company
Standard	Less than 8 weeks	Nil	Note 1
Sub-Standard	Over 8 weeks - 25 weeks	10%	50%
Loss Assets	More than 25 weeks	100% / Write off	Write Off

**ILP Loans - Provisioning and write off policy**

Asset Classification	Arrear Period	Provision as per RBI prudential norms	Estimated Provision adopted by the Company
Standard	Less than 3 months	NIL	Note 1
Sub-Standard	Over 3 - 6 months	NIL	10%
Doubtful assets	Over 6 - 12 months	10%	50%
Loss Assets	More than 12 months	100%	100%

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

If Portfolio at Risk	Estimated Provision 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%

\*\* Portfolio at Risk represents overdue as a percentage of gross loans outstanding computed separately for JLG loans and ILP loans.

- ii. 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.
- iii. All other loans & 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.
- iv. 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.
- v. Further all loss assets identified per the extant RBI guidelines are provided / written off.

### 3. Assignment of loans

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

Particulars	Amount in Rs.	
	For the year ended March 31, 2010	For the year ended March 31, 2009
Total book value of the loan asset assigned	17,761,478,496	13,977,404,462
Sale consideration received for the loan asset assigned	18,408,838,735	14,412,999,597
Income from assignment of loans recognized in the Profit and Loss Account	1,012,530,985	480,214,419
Particulars	As at March 31, 2010	As at March 31, 2009
Cash margin placed with banks outstanding	1,198,126,851	834,045,299
Portfolio loan assigned and outstanding	13,839,701,132	10,388,895,202

Under the agreement for the assignment of loans the Company has transferred all the rights and obligations relating to the loan asset assigned as shown above to various banks. The guarantee given by the Company under the asset assignment has been disclosed in note 7 below.

### 4. Segment information

The Company operates in a single reportable segment i.e. lending to members, who 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.

## 5. Related parties

### a. Names of the related parties

Entities holding Significant Influence	The entities mentioned, in aggregate, exercise significant influence over the Company: a. Sequoia Capital India Growth Investments I b. Sequoia Capital India II LLC c. Tejas Ventures
Key Management Personnel	Mr. Suresh Gurumani, Managing Director and Chief Executive Officer Dr. Vikram Akula, (CY- Chairman, PY- Managing director till October 13, 2008) Mr. M.R.Rao, Chief Operating Officer Mr. S. Dilli Raj, Chief Financial Officer

### b. Related party transactions

Amount in Rs.

	Key Management Personnel **		Entities holding Significant Influence	
	31-Mar-10	31-Mar-09	31-Mar-10	31-Mar-09
<b>Transaction during the year</b>				
Issue of Equity Shares (Including Share Premium)				
- Mr. Suresh Gurumani	70,500,000	-	-	-
Issue of Equity Share (Including Share Premium)				
- Dr. Vikram Akula	47,053,752	-	-	-
Salary, incentive & perquisite - Mr. M.R. Rao	14,136,988	10,756,173	-	-
Salary, incentive & perquisite - Mr. S. Dilli Raj	9,036,327	5,421,101	-	-
<b>Balances as at year end</b>				
Equity Share Capital	-	-	158,075,760	138,524,980
Equity Share Capital				
- Mr. Suresh Gurumani	2,350,000	-	-	-
Equity Share Capital				
- Mr. M.R. Rao	3,566,660	-	-	-
Equity Share Capital				
- Mr. S. Dilli Raj	1,026,660	-	-	-
Incentive Payable				
- Mr. Suresh Gurumani	1,500,000	10,000,000	-	-
Incentive Payable				
- Mr. M.R. Rao	1,000,000	-	-	-
Incentive Payable				
- Mr. S. Dilli Raj	600,000	-	-	-
Stock Option Outstanding				
- Mr. Suresh Gurumani	632,652	177,162	-	-
Stock Option Outstanding				
- Dr. Vikram Akula	11,763,269	18,648,319	-	-

\*\* Remuneration paid to Managing director is disclosed in Note 10 and hence not included here.

## 6. Capital commitments

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

Amount in Rs.

Particulars	March 31, 2010	March 31, 2009
For purchase / development of computer software	39,797,435	8,990,400
For purchase of fixed assets	8,193,537	6,391,000

## 7. Contingent liabilities not provided for

Amount in Rs.

Particulars	March 31, 2010	March 31, 2009
Guarantees given and outstanding for the assigned loans (including cash collaterals and receivable placed with banks)	2,409,375,527	1,958,157,926
Claims against the Company not acknowledged as debts*	24,088,137	-

\*Represents the tax on amortization of goodwill disallowed by the Income Tax department not acknowledged by the company.

## 8. Stock option scheme

The Company has provided various share-based payment schemes to its directors and employee. During the year ended March 31, 2010, the following schemes were in operation:

Particulars	Plan I (a)	Plan I (b)	Plan I (c)
Date of grant	Oct 15, 2007	Nov 10, 2008	Dec 8, 2008
Date of Board approval	July 31, 2007	Oct 30, 2008	Oct 30, 2008
Date of shareholder's approval	Sept 8, 2007	Nov 8, 2008	Nov 8, 2008
Number of options granted	1,852,158	1,769,537	900,000
Method of settlement	Equity	Equity	Equity
Vesting option	Immediate	Immediate	25 % equally at the end of each year
Exercise period	48 months from the date of vesting	60 months from the date of vesting	48 months from the date of grant
Vesting conditions	***None	***None	***None

Particulars	Plan II (a)	Plan II (b)	Plan II (c)	Plan II (d)	Plan II (e)
Date of grant	Feb 1, 2008	Feb 1, 2008	Nov 10, 2008	July 29, 2009	Feb 1, 2010
Date of Board approval	Oct 15, 2007	Oct 15, 2007	Oct 15, 2007	Oct 15, 2007	Jan 5, 2010
Date of shareholder's approval	Jan 16, 2008	Jan 16, 2008	Jan 16, 2008	Jan 16, 2008	Jan 08, 2010
Number of options granted	30,000	15,000	6,000	18,000	90,000
Method of settlement	Equity	Equity	Equity	Equity	Equity
Vesting option	*Immediate	**Immediate	*Immediate	*Immediate	25 % equally at the end of each year
Exercise period	36 months from the date of vesting	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
Vesting conditions	***None	***None	***None	***None	***None

Particulars	Plan III (a)	Plan III (b)	Plan III (c)
Date of grant	Nov 3, 2009	Dec 15, 2009	Dec 15, 2009
Date of Board approval	July 29, 2009	Nov 04, 2009	Nov 04, 2009
Date of shareholder's approval	Sep 30, 2009	Dec 10, 2009	Dec 10, 2009
Number of options granted	514,750	1,313,160	568,000
Method of settlement	Equity	Equity	Equity
Vesting option	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
Exercise period	60 months from the date of grant	72 months from the date of grant	72 months from date of grant
Vesting conditions	***None	***None	***None

\* 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.

\*\*\*Option holders are required to hold the services being provided to the Company at the time of exercise of options.

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

Particulars	As at March 31, 2010		As at March 31, 2009	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	1,852,158	49.77	1,852,158	49.77
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	945,424	49.77	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	906,734	49.77	1,852,158	49.77
Exercisable at the end of the year	906,734	-	1,852,158	-
Weighted average remaining contractual life (in years)	1.6	-	2.6	-
Weighted average fair value of options granted	-	7.28	-	7.28

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

Particulars	As at March 31, 2010		As at March 31, 2009	
	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	-	-
Granted during the year	-	-	1,769,537	300.00
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	-	1,769,537	-
Weighted average remaining contractual life (in years)	3.6	-	4.6	-
Weighted average fair value of options granted	-	2.92	-	2.92

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

Particulars	As at March 31, 2010		As at March 31, 2009	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	900,000	300.00	-	-
Granted during the year	-	-	900,000	300.00
Forfeited during the year	-	-	-	-
Exercised during the year	225,000	300.00	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	675,000	300.00	900,000	300.00
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	2.6	-	3.6	-
Weighted average fair value of options granted	-	1.81	-	1.81

The details of **Plan II (a)** have been summarized below:

Particulars	As at March 31, 2010		As at March 31, 2009	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	30,000	70.67	30,000	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	30,000	70.67	30,000	70.67
Exercisable at the end of the year	30,000	-	20,000	-
Weighted average remaining contractual life (in years)	0.8	-	1.8	-
Weighted average fair value of options granted	-	15.28	-	15.28

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

Particulars	As at March 31, 2010		As at March 31, 2009	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	15000	70.67	15000	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	-	7,500	-
Weighted average remaining contractual life (in years)	0.8	-	1.8	-
Weighted average fair value of options granted	-	17.72	-	17.72

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

Particulars	As at March 31, 2010		As at March 31, 2009	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	6,000	70.67	-	-
Granted during the year	-	-	6,000	70.67
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	6,000	70.67	6,000	70.67
Exercisable at the end of the year	4,000	-	2,000	-
Weighted average remaining contractual life (in years)	1.6	-	2.5	-
Weighted average fair value of options granted	-	52.14	-	52.14

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

Particulars	As at March 31, 2010		As at March 31, 2009	
	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	18,000	300.00	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	18,000	300.00	-	-
Exercisable at the end of the year	6,000	-	-	-
Weighted average remaining contractual life (in years)	2.3	-	-	-
Weighted average fair value of options granted	-	21.57	-	-

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

Particulars	As at March 31, 2010		As at March 31, 2009	
	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	90,000	300.00	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	90,000	300.00	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	4.8	-	-	-
Weighted average fair value of options granted	-	72.53	-	-

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

Particulars	As at March 31, 2010		As at March 31, 2009	
	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	5,14,750	300.00	-	-
Forfeited during the year	12,500	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	5,02,250	300.00	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	4.6	-	-	-
Weighted average fair value of options granted	-	41.18	-	-

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

Particulars	As at March 31, 2010		As at March 31, 2009	
	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	1,313,160	150.00	-	-
Forfeited during the year	76,120	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	1,237,040	150.00	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	5.6	-	-	-
Weighted average fair value of options granted	-	115.30	-	-

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

Particulars	As at March 31, 2010		As at March 31, 2009	
	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	568,000	300.00	-	-
Forfeited during the year	6,000	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	562,000	300.00	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	5.6	-	-	-
Weighted average fair value of options granted	-	69.29	-	-

The details of exercise price for stock options outstanding at the end of the year March 31, 2010 are:

Series	Range of exercise prices (Rs.)	Number of options outstanding (31-Mar-10)	Number of options outstanding (31-Mar-09)	Weighted average remaining contractual life of options (in years) (31-Mar-10)	Weighted average remaining contractual life of options (in years) (31-Mar-09)	Weighted average exercise prices (Rs.)
<b>Options outstanding as on 31-Mar-09 and 31-Mar-10:</b>						
Plan I (a)	49.77	906,736	1,852,158	1.6	2.6	49.77
Plan I (b)	300.00	1,769,537	1,769,537	3.6	4.6	300.00
Plan I (c)	300.00	675,000	900,000	2.6	3.6	300.00
Plan II(a)	70.67	30,000	30,000	0.8	1.8	70.67
Plan II(b)	70.67	15,000	15,000	0.8	1.8	70.67
Plan II (c)	70.67	6,000	6,000	1.6	2.6	70.67
<b>Options issued during the year and outstanding as at 31-Mar-10:</b>						
Plan II (d)	300.00	18,000	-	2.3	-	300.00
Plan II (e)	300.00	90,000	-	4.8	-	300.00
Plan III (a)	300.00	502,250	-	4.6	-	300.00
Plan III (b)	150.00	1,237,040	-	5.6	-	150.00
Plan III (c)	300.00	562,000	-	5.6	-	300.00

#### Stock Options granted:

**Plan II (d)** - The weighted average fair value of stock options granted during the year was Rs. 21.57. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

	Yr 1	Yr 2	Yr 3
Weighted average share price (Rs.)	153.53	153.53	153.53
Exercise price (Rs.)	300.00	300.00	300.00
Expected volatility (%)	56.00	56.00	56.00
Historical volatility	-	-	-
Life of the options granted in years	1.0	2.0	3.0
Expected dividends per annum (Rs.)	-	-	-
Average risk-free interest rate (%)	4.93	5.20	6.15
Expected dividend rate (%)	0%	0%	0%

Expected Volatility - Since SKS Microfinance Limited is not a listed Company, a 56% Standard Deviation is assumed based on the volatility of the Bank Nifty Index over the last year preceding the grant date.

**Plan II (e)** - The weighted average fair value of stock options granted during the year was Rs. 72.53. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

	Yr 1	Yr 2	Yr 3	Yr 4
Weighted average share price (Rs.)	235.87	235.87	235.87	235.87
Exercise price (Rs.)	300.00	300.00	300.00	300.00
Expected volatility (%)	40.51	40.51	40.51	40.51
Historical volatility	-	-	-	-
Life of the options granted in years	1.0	2.0	3.0	4.0
Expected dividends per annum (Rs.)	-	-	-	-
Average risk-free interest rate (%)	6.21	6.5	6.8	7.09
Expected dividend rate (%)	0%	0%	0%	0%

Expected Volatility - Since SKS Microfinance Limited is not a listed Company, a 40.51 % Standard Deviation is assumed based on the volatility of the Bank Nifty Index over the one year period before Feb 1, 2010

**Plan III (a)** - The weighted average fair value of stock options granted during the year was Rs. 41.18. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

	Yr 1	Yr 2	Yr 3	Yr 4
Weighted average share price (Rs.)	196.04	196.04	196.04	196.04
Exercise price (Rs.)	300.00	300.00	300.00	300.00
Expected volatility (%)	37.51	37.51	37.51	37.51
Historical volatility	-	-	-	-
Life of the options granted in years	3.0	3.5	4.0	4.5
Expected dividends per annum (Rs.)	-	-	-	-
Average risk-free interest rate (%)	6.54	6.72	6.89	7.07
Expected dividend rate (%)	0%	0%	0%	0%

Expected Volatility – Since SKS Microfinance Limited is not a listed Company, a 37.51% Standard Deviation is assumed based on the volatility of the Bank Nifty Index on the NSE over the one year period before November 3, 2009.

**Plan III (b)** - The weighted average fair value of stock options granted during the year was Rs. 115.30. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Weighted average share price (Rs.)	205.23	205.23	205.23	205.23	205.23
Exercise price (Rs.)	150.00	150.00	150.00	150.00	150.00
Expected volatility (%)	43.92	43.92	43.92	43.92	43.92
Historical volatility	-	-	-	-	-
Life of the options granted in years	3.5	4.0	4.5	5.0	5.5
Expected dividends per annum (Rs.)	-	-	-	-	-
Average risk-free interest rate (%)	6.74	6.91	7.09	7.26	7.32
Expected dividend rate (%)	0%	0%	0%	0%	0%

Expected Volatility - Since SKS Microfinance Limited is not a listed Company, a 43.92% Standard Deviation is assumed based on the volatility of the Bank Nifty Index on the NSE over the one year period before December 15, 2009.

**Plan III (c)** - The weighted average fair value of stock options granted during the year was Rs. 69.29. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Weighted average share price (Rs.)	205.23	205.23	205.23	205.23	205.23
Exercise price (Rs.)	300.00	300.00	300.00	300.00	300.00
Expected volatility (%)	43.92	43.92	43.92	43.92	43.92
Historical volatility	-	-	-	-	-
Life of the options granted in years	3.5	4	4.5	5	5.5
Expected dividends per annum (Rs.)	-	-	-	-	-
Average risk-free interest rate (%)	6.74	6.91	7.09	7.26	7.32
Expected dividend rate (%)	0%	0%	0%	0%	0%

Expected Volatility - Since SKS Microfinance Limited is not a listed Company, a 43.92% Standard Deviation is assumed based on the volatility of the Bank Nifty Index on the NSE over the one year period before December 15, 2009.

Effect of the share-based payment plans on the Profit and Loss Account and on its financial position:

Amount in Rs.

Particulars	For the year ended March 31, 2010	For the year ended March 31, 2009
Directors stock option expenditure for the year pertaining to share-based payment plan	1,462,676	16,723,823
Employee stock option expenditure for the year pertaining to share-based payment plan	27,924,284	-
Particulars	As at March 31, 2010	As at March 31, 2009
Deferred compensation cost outstanding	181,803,303	2,023,279
Stock Options Outstanding	223,596,198	21,316,514

## 9. Retirement benefits

The Company has a defined contribution gratuity plan. Every employee who has completed five years or more of service is eligible for gratuity on departure 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 summarize the components of net benefit expense recognized in the Profit and Loss Account and the funded status and amounts recognized in the Balance Sheet for the gratuity plan.

### Profit and Loss Account

Net employees benefit expense:

Amount in Rs.

Particulars	For the year ended March 31, 2010	For the year ended March 31, 2009
Current service cost	12,462,640	4,312,962
Interest cost on benefit obligation	2,525,154	832,238
Expected return on plan assets	(1,513,633)	(400,402)
Net actuarial (gain) / loss recognized in the year	3,441,316	8,585,222
Past service cost	-	-
<b>Net employee benefit expense</b>	<b>16,915,477</b>	<b>13,330,020</b>
<b>Actual return on plan assets</b>	<b>(35,647)</b>	<b>8,31,726</b>

### Balance Sheet

Details of provision for gratuity:

Amount in Rs.

Particulars	March 31, 2010	March 31, 2009
Defined benefit obligation	36,483,997	19,642,037
Fair value of plan assets	(34,887,552)	(17,822,480)
	1,596,445	1,819,557
Less: Unrecognized past service cost	-	-
<b>Plan liability</b>	<b>1,596,445</b>	<b>1,819,557</b>

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

Amount in Rs.

Particulars	Gratuity	
	March 31, 2010	March 31, 2009
Opening defined benefit obligation	19,642,037	5,480,291
Interest cost	2,525,154	832,238
Current service cost	12,462,640	4,312,962
Benefits paid	(37,870)	-
Actuarial (gains) / losses on obligation	1,892,036	9,016,546
<b>Closing defined benefit obligation</b>	<b>36,483,997</b>	<b>19,642,037</b>

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

Amount in Rs.

Particulars	Gratuity	
	March 31, 2010	March 31, 2009
Opening fair value of plan assets	17,822,480	5,398,173
Expected return	1,513,633	400,402
Contributions by employer	17,138,589	11,592,580
Benefits paid	(37,870)	-
Actuarial gains / (losses)	(1,549,280)	431,324
<b>Closing fair value of plan assets</b>	<b>34,887,552</b>	<b>17,822,480</b>

The Company has contributed Rs. 17,155,164, towards gratuity during the period April 1, 2009 to March 31, 2010.

Employer's estimate of contribution expected to be paid to the plan during the annual period beginning after the balance sheet date could not be reasonably determined.

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

Particulars	Gratuity	
	March 31, 2010	March 31, 2009
Insurance Managed Fund	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, 2010		March 31, 2009	
Discount rate	8.30%		7.90%	
Expected rate of return on assets	7.50%		7.50%	
Salary escalation rate per annum	10% for the first four years and 7% there after		10% for the first three years and 7% there after	
Rates of leaving service at specimen ages	Age (Yrs)	Rates	Age (Yrs)	Rates
	21-30	5%	21-30	5%
	31-40	3%	31-40	3%
	41-59	2%	41-59	2%

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			
	Mar 31, 10	Mar 31, 09	Mar 31, 08	Mar 31, 07
Defined benefit obligation	36,483,997	19,642,037	5,480,291	1,825,204
Plan assets	34,887,552	17,822,480	5,398,173	1,591,392
Surplus / (deficit)	(1,596,445)	(1,819,557)	(82,118)	(233,812)
Experience adjustments on plan liabilities	4,582,747	5,137,920	2,213,180	-
Experience adjustments on plan assets	(1,549,280)	431,324	(93,594)	-

**10. Managing Director's Remuneration (On accrual basis)**

Amount in Rs.

Particulars	For the year ended 31-Mar-10	For the year ended 31-Mar-09
Salaries and Incentives	11,899,944	20,171,247
Perquisites	3,645,000	1,200,000
Contribution to provident fund	955,764	265,043
Stock option cost	457,740	11,153,559
<b>Total</b>	<b>16,958,448</b>	<b>32,789,849</b>

Note: As the liabilities for employee benefits pertaining to the Managing Director are provided on an actuarial basis for the Company as a whole, the amounts pertaining to the directors are not included above.

**11. Expenditure in foreign currency (On accrual basis)**

Amount in Rs.

Particulars	For the year ended 31-Mar-10	For the year ended 31-Mar-09
Salaries	-	5,674,863
Professional fees*	45,644,256	4,668,429
Travelling expenses	1,343,262	-
Guarantee fees	214,800	1,419,187
Membership and subscriptions	361,225	103,770
<b>Total</b>	<b>47,563,543</b>	<b>11,866,249</b>

\*Professional fees include an amount of Rs. 38,737,042 towards consultancy services in connection with the proposed public offer of equity shares.

**12. Earnings Per Share**

Particulars	For the year ended 31-Mar-10	For the year ended 31-Mar-09
Net Profit after tax as per Profit and Loss Account (Rs.)	1,739,538,242	802,244,544
Weighted average number of shares used in computing basic earnings per share	53,009,025	44,692,320
Add: Equity shares for Nil consideration arising on grant of stock options under stock option plan	1,428,615	1,061,071
Add: Partly paid up shares of Rs. 10 each, Rs. 0.50 paid up	2,523,921	3,670,244
Add: Compulsorily Convertible Preference Share of Rs. 10 each compulsorily convertible on December 26, 2009 with an option to the holder to convert the holding at any time before that date.	6,679,622	150,503
Weighted average number of shares in calculating Diluted Earning Per Share	<b>63,641,183</b>	<b>49,574,138</b>
Basic Earnings per Share (Rs.)	32.82	17.95
Diluted Earnings per Share (Rs.)	27.33	16.18
Nominal value of shares (Rs.)	10.00	10.00

### 13. Loan Portfolio and Provisions for Standard and Non Performing Assets:

Amount in Rs.

Asset Classification	Portfolio Loans Outstanding (Gross)		Provision for Standard and Non Performing Assets				Portfolio Loans Outstanding (Net)	
	As at March 31, 2010	As at March 31, 2009	As at March 31, 2009	Additional Provision made during the year	Provision Write back during the year	As at March 31, 2010	As at March 31, 2010	As at March 31, 2009
	Amount	Amount					Amount	Amount
Standard assets	29,271,146,900	14,127,347,896	38,984,173	34,236,537	-	73,220,710	29,197,926,190	14,088,363,723
Sub-standard assets	96,057,621	42,406,874	19,494,938	28,533,873	-	48,028,811	48,028,811	22,911,936
Doubtful assets	-	4,622,054	2,311,027	-	2,311,027	-	-	2,311,027
Loss assets	-	850,141	850,141	-	850,141	-	-	-
<b>Total</b>	<b>29,367,204,521</b>	<b>14,175,226,965</b>	<b>61,640,279</b>	<b>62,770,410</b>	<b>3,161,168</b>	<b>121,249,521</b>	<b>29,245,955,001</b>	<b>14,113,586,686</b>

### 14. Leases

#### 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 Company. However, the Head office premise has been obtained on the non-cancelable lease term of twenty four months with an escalation clause of five percent for every twelve months. There are no restrictions imposed by lease arrangements. There are no subleases. Lease payments during the year are charged to Profit and Loss Account.

Amount in Rs.

Description	March 31, 2010	March 31, 2009
Operating lease payments recognized during the year	140,847,310	88,124,809
Minimum Lease Obligations		
Not later than one year	41,310,012	40,935,845
Later than one year but not later than five years	32,130,036	145,911,053
Later than five years	Nil	Nil

#### Vehicles:

The Company has taken certain vehicles on cancellable operating leases. Total lease expense under cancellable operating lease during the year was Rs. 4,834,164 (Previous year Rs. 1,488,825).

## 15. Investments activity

Particulars	For the year ended March 31, 2010			
	Purchased during the year (Nos.)	Amount invested (Rs.)	Sold during the year (Nos.)	Sale proceeds (Rs.)
Alpha Micro Finance Consultants Pvt. Ltd.	200,000	2,000,000	-	-
<b>Total</b>	<b>200,000</b>	<b>2,000,000</b>	<b>-</b>	<b>-</b>

There were no investments for the year ended March 31, 2009.

## 16. Balances held with Non-scheduled banks in the current account and deposit account as at March 31, 2010 is as shown below:

Amount in Rs.

Bank Name	Maximum Balance outstanding during the year ended March 31, 2010	As at March 31, 2010	Maximum Balance outstanding during the year ended March 31, 2009	As at March 31, 2009
<b>Balances held in current account</b>				
Urban Co-operative Bank	6,701,091	556,569	3,436,842	1,661,211
Buldhana Urban Credit Co-operative Bank	2,202,125	61,815	1,804,980	305,575
<b>Total</b>		<b>618,384</b>		<b>1,966,786</b>

17. The Company has given Interest free collateral free loan to an employee welfare 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 yearend balance for the total loan granted is Rs. 87,285,811 (Previous Year Rs. 69,813,060).
18. The Company has initiated the process of identification of suppliers registered under the Micro Small and Medium Enterprise Development Act, 2006 (the 'MSMED') by obtaining confirmation from all the suppliers. Based on the information currently available with the Company no amount is payable to the Micro, Small and Medium Enterprises as per the MSMED Act, 2006 as at March 31, 2010.

## 19. Components of cash and cash equivalents

Amount in Rs.

Particulars	As at March 31, 2010	As at March 31, 2009
<b>Cash and Bank balance (Refer Schedule 8)</b>		
Cash on Hand	11,804,492	12,041,234
Balance with Scheduled bank		
On Current accounts	2,242,574,554	1,565,288,217
On Deposit accounts	7,480,187,058	13,890,916,254
Balance with Non scheduled bank		
On Current accounts	618,384	1,966,786
<b>Total</b>	<b>9,735,184,488</b>	<b>15,470,212,491</b>
<b>Less:</b> Bank deposits not considered as cash and cash equivalent	1,960,387,058	2,283,095,393
<b>Cash and Cash Equivalent</b>	<b>7,774,797,430</b>	<b>13,187,117,098</b>

## 21. Auditors' Remuneration

Particulars	March 31,2010	March 31,2009
<b>Disclosed under “Operating and other expenses”</b>		
Audit fees	6,650,000	3,900,000
Certification fees	120,000	130,000
Out of pocket expenses	1,536,977	754,108
<b>Disclosed under “Miscellaneous Expenditure”</b>		
Auditor services in connection with proposed initial public offer	3,600,000	-

a. **Capital Risk to Asset Ratio ('CRAR')**

**b.** The Company has no exposure to Real Estate Sector directly or indirectly.

Maturity pattern of certain items of assets and liabilities as on March 31, 2010:

[illegible]

Maturity pattern of certain items of assets and liabilities as on March 31, 2009:

(Rs. in Crores)

	1 day - 30/31 days (one Month)	Over 1 month to 2 months	Over 2 month to 3 months	Over 3 month to 6 months	Over 6 month to 1 year	Over 1 year to 3 years	Over 3 year to 5 years	Over 5 year	Total
<b>Liabilities</b>									
Borrowings from Banks	50.76	38.39	141.02	175.12	354.33	727.51	6.39	-	1,493.53
Market Borrowings	11.78	33.08	8.39	68.19	117.80	244.32	9.15	0.60	493.30
<b>Assets</b>									
Advances	238.52	207.47	184.50	439.21	354.46	-	6.98	5.80	1,436.94
Investment	-	-	-	-	-	-	-	-	-

23. Previous year's figures have been regrouped / recast wherever necessary to conform to current year's classification.

**For and on behalf of the Board of Directors of**

**SKS Microfinance Limited**

**Sd/-**  
**Vikram Akula**  
Chairman

**Sd/-**  
**Suresh Gurumani**  
Managing Director

**Sd/-**  
**S. Dilli Raj**  
Chief Financial Officer

**Sd/-**  
**Sunil K. Bansal**  
Company Secretary

**Statement pursuant to Part IV of Schedule VI to the Companies Act, 1956****Balance Sheet Abstract and Company's General Business Profile****I Registration Details**

Registration No:

N-09.00415

State Code:

1

Balance Sheet Date:

31-Mar-10

**II Capital Raised During The Year** (Amount in Rs. Thousands)

Public Issue

NIL

Rights Issue

NIL

Bonus Issue

NIL

Private Placement

74,706

**III Position of Mobilisation And Deployment of Funds** (Amount in Rs. Thousands)

Total Liabilities

36,527,040

Total Assets

36,527,040

**Sources of Funds**

Paid-Up Capital

645,272

Reserves and Surplus

8,893,254

Stock Options Outstanding

41,793

Secured Loans

25,795,734

Unsecured Loans

1,150,988

Deferred Tax Liability (Net)

-

**Application of Funds**

Net Fixed Assets

188,518

Net Intangible Assets

55,074

Investments

2,000

Deferred Tax Asset (Net)

94,796

Net Current Assets

36,109,505

Miscellaneous Expenditure

77,147

Accumulated Losses

-

**IV Performance of Company** (Amount in Rs. Thousands)

Turnover (Sales and other income)

9,589,294

Total Expenditure

6,912,274

Profit Before Tax

2,677,020

Profit After Tax

1,739,538

Earnings Per Share - Basic Rs.

32.82

Dividend Rate %

Nil

**V Generic names of principal products/services of the Company**  
**(As per monetary Terms)**

Item Code No. (ITC Code)

Not Applicable

Product Description

Microfinance





# A mother who nurtures

**Dhanam** and Veerabhadra are part of a weaver's community in Andhra Pradesh. They live in Peddasooraram, a remote village in Nalgonda district with their son Ramesh, his wife Saritha and a baby son. The older couple's daughter is married and lives in a nearby village.

It has been a long and arduous journey for the family who had a hard time making ends meet until a few years ago. Both Dhanam and Veerabhadra would stitch clothes late into the night. They lived in a small rented home that flooded with every rain. It was difficult to raise two young children and their son could not pursue college education due to financial constraints.

Things changed in 2005 when a young SKS field assistant visited their village. He told Dhanam about the company's small collateral-free loans. Dhanam did not hesitate since she knew what she could buy with the money. She organized the women in the village and they went through a training session to understand their rights and responsibilities as SKS borrowers.

Dhanam's first loan of Rs. 8,000/- helped the couple buy an embroidery machine. Things improved since they could charge a premium and add value to clothes they stitched. Over the next few years, Dhanam accessed nearly Rs.120,000/- in financing. This included Rs. 40,000/- as an individual loan from SKS for setting up a grocery store, then a telephone booth followed by two dish antennas for cable TV service.

Today, the family has multiple sources of revenue. They earn Rs. 40,000/- every month from cable TV connections to nearly 400 families in the four villages nearby. Of this, Rs. 10,000/- is spent on maintenance and paying two workers who help with the cable connections and collections. They have daily revenue of about Rs. 500/- Rs. 600/- from the grocery store, of which they can easily save Rs. 200/- every day. This makes them an additional Rs. 6000/- a month. The tailoring jobs undertaken by Veerabhadra fetch the family Rs. 3,000/- every month and a tractor purchased with a cooperative bank loan fetches them Rs. 20,000/- a month through rentals.

"SKS has been like a mother nurturing us throughout our struggles," said Dhanam. "We live a life of dignity and have a social status within the village. Women often come to me seeking advice and I am happy to guide and help them out."

What's her next dream? "I want to help my son set up a department store on the main road. My daughter-in-law will manage it. She is a graduate, you know," Dhanam said proudly.





