IFMR Capital

CAPITAL MARKETS ACCESS FOR ASSET CLASSES IMPACTING LOW-INCOME HOUSEHOLDS

ANNUAL REPORT 2010-2011

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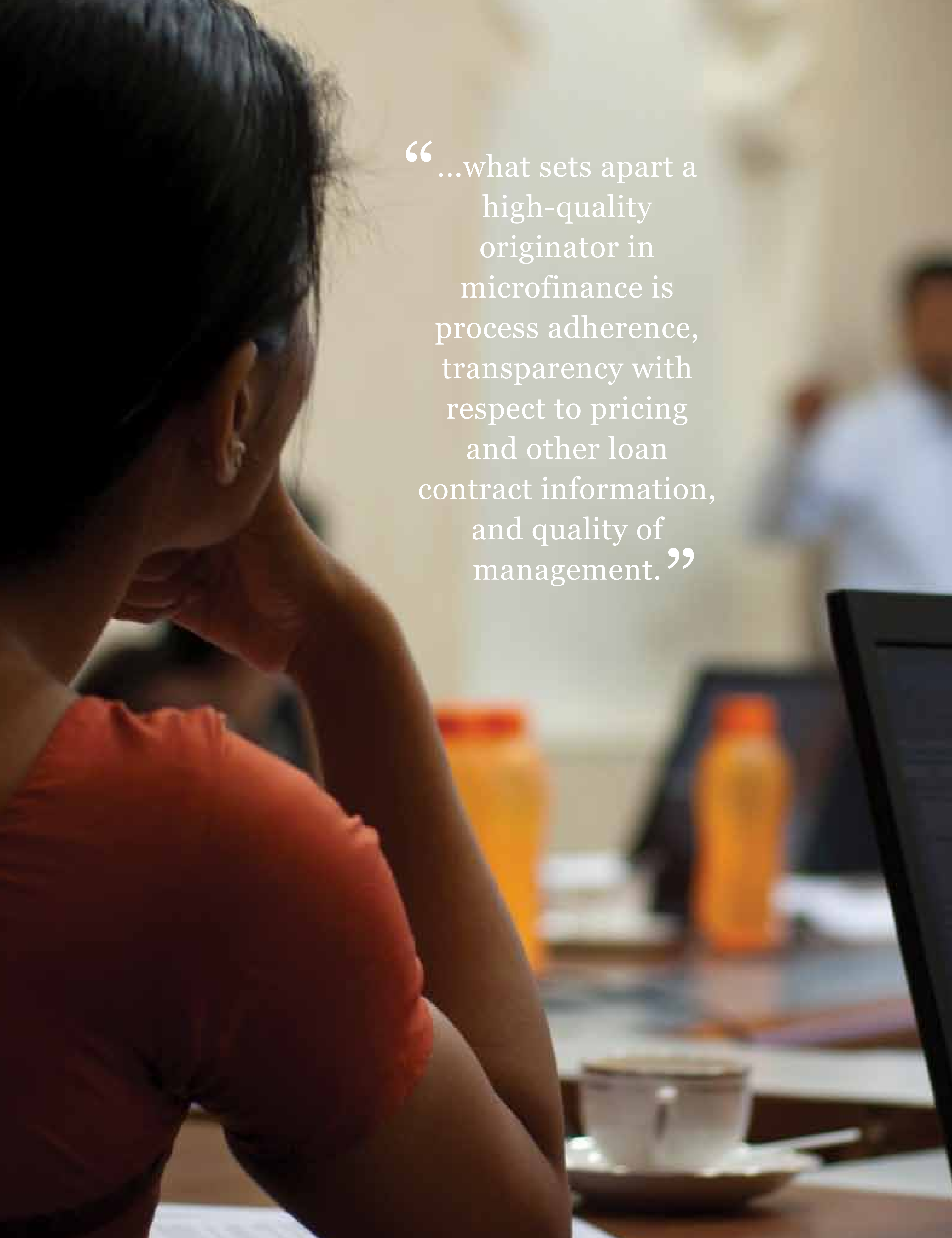
mission

To provide efficient and reliable access to debt capital for institutions that impact low-income households.

Contents



“...what sets apart a high-quality originator in microfinance is process adherence, transparency with respect to pricing and other loan contract information, and quality of management.”

From the Chairperson

20
Partners

15
States

INR 6 billion
of loans outstanding

This was a year in which political events in Andhra Pradesh created serious challenges for the Indian microfinance sector. The Andhra Pradesh crisis gave us an unprecedented opportunity to demonstrate the resilience of the asset class and that of our partners, despite severe constraints.

At IFMR Capital, we have consistently maintained that microfinance loans are an important innovation for low-income households that have been unable to access formal financial services. Having said that, what sets apart a high-quality originator in microfinance is process adherence, transparency with respect to pricing and other loan contract information and quality of management.

Across our portfolio spanning 20 partners and 15 states in the country and INR 6 billion of loans outstanding, the performance remained robust with collection efficiency of nearly 100% across transactions. In the months between October 2010 and March 2011, we completed incremental transactions worth INR 3.63 billion for our partners. Our underwriting guidelines for microfinance are increasingly being seen as defining the key elements of high quality. We expect that the new regulatory framework for Microfinance Institutions (MFIs) will restore certainty to the sector and that institutions can continue to provide much needed liquidity to low-income households for whom this represents an important lifeline.

On the market development front, we continued to work towards greater transparency of securitised assets. A significant development in this regard is the listing guidelines published by SEBI for securitised debt, that we believe will greatly contribute to further price discovery and transparency. We also continued to expand the pool of investors participating in securitised microfinance transactions. After successfully completing transactions with banks and mutual funds in previous years, we added national NBFCs, private wealth investors and offshore investors to the mix this year. Over a period of time, diversifying the pool of investors will serve to provide a buffer against 'sudden stop' behaviour of the kind that was displayed following political events in Andhra Pradesh this year. In order to ensure an appropriate capital structure for our partners, we have gone beyond securitisation and also participated in structuring and guaranteeing a range of financial instruments including rated portfolio assignments and Non-Convertible Debentures (NCD).

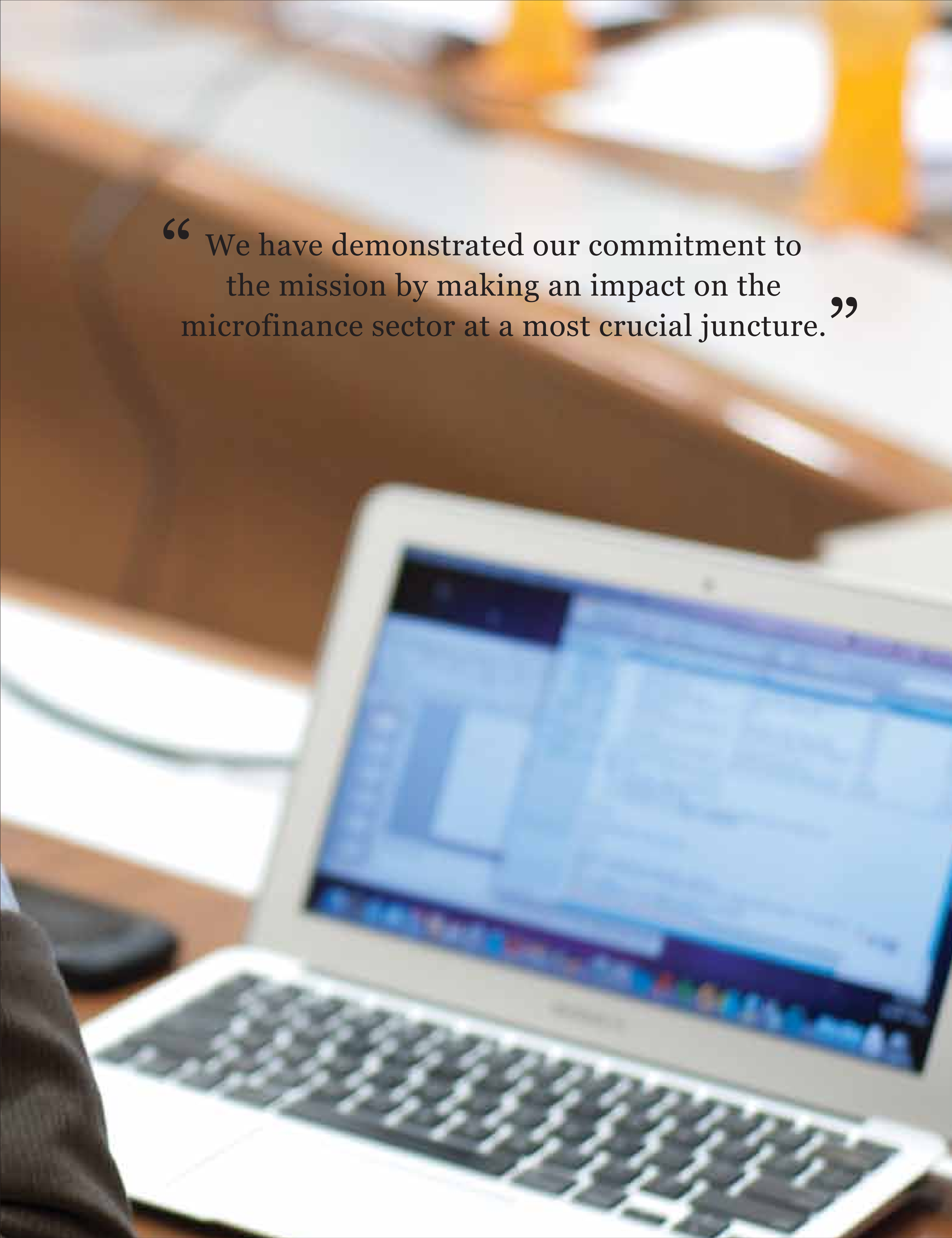
We are very honoured that Charles Silberstein joined the Board of IFMR Capital this year. He has been associated with IFMR Capital since its formative months and brings deep expertise in risk management and governance. I thank him and other colleagues on the Board for their valuable guidance. I also take this opportunity to congratulate Sucharita Mukherjee, Dr. Kshama Fernandes and the talented team at IFMR Capital for their outstanding commitment and contributions to our mission.

transactions worth

INR 3.63 billion

Bindu Ananth
Chairperson, IFMR Capital
President, IFMR Trust

“We have demonstrated our commitment to the mission by making an impact on the microfinance sector at a most crucial juncture.”



Highlights from Financial Year 2010-2011
IFMR CAPITAL: BUSINESS HIGHLIGHTS

Given IFMR Capital's vision of becoming a complete debt financing solutions provider to the microfinance sector, the last financial year was a year of progress amidst challenging circumstances. The year was marked by sector concerns that tested our ability to deliver on our mission to provide efficient and reliable access to debt capital for institutions that impact low-income households. During the year, we built new client and investor relationships, strengthened existing relationships and worked on new rated structures with multiple rating agencies. We also expanded our suite of rated and unrated products that infused liquidity and enabled access to capital for our MFI partners at a most crucial juncture. We also obtained and maintained a long term stable rating of A (-) for ourselves.

A snapshot of our achievements over the past year is presented below:

Impact

Clients: Even as traditional investors shied away and funding to MFIs across the sector dried up, we partnered with nine new MFIs. We continued to enable access to liquidity for existing partners and provided a significant source of finance for them. In some cases, this exceeded 50% of the funding raised by these entities during the financial year.

Financing enabled: We facilitated fund raising for our partners to the tune of INR 6.220 billion. This was over three times the fund raising facilitated in the last financial year. This not only provided much needed capital but also demonstrated the sustainability of the IFMR Capital business model.

Investors: Based on the performance of past transactions, and on the quality of due diligence, structuring and monitoring of portfolios originated by high quality MFIs, we were able to significantly expand our investor base bringing on board some of the biggest banks, mutual funds and NBFCs as investors in transactions structured by us. The strong NBFC investor base enabled us to place transactions even in the midst of the crisis. This year also saw the entry of the first Private Wealth Management investor into this sector.

New Products

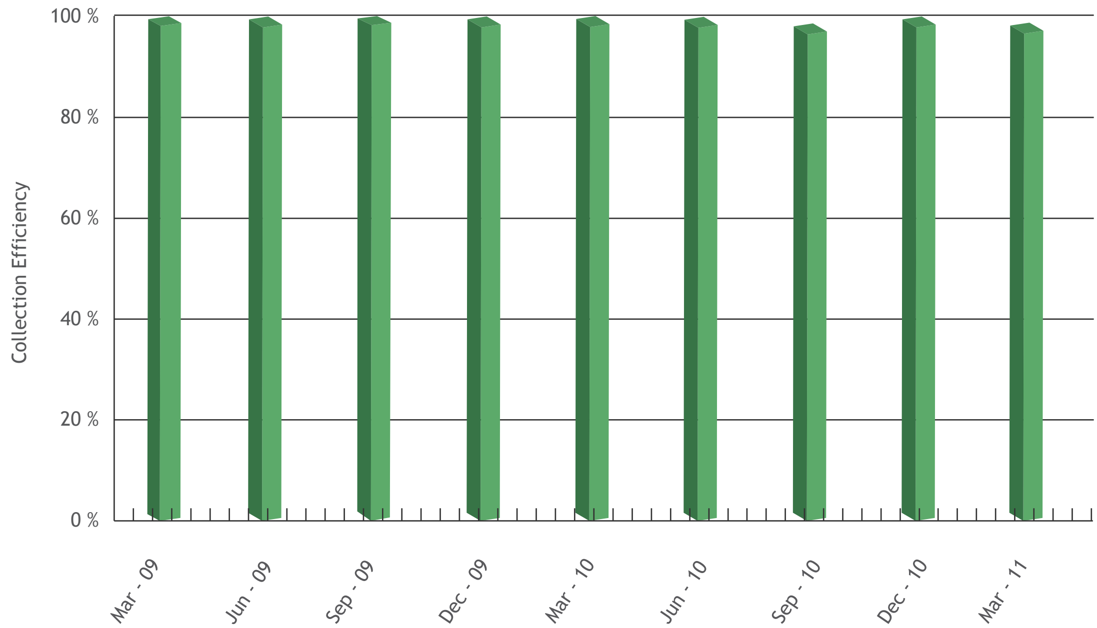
During the year we launched a series of new products. In early August 2010, we structured, arranged and invested in the first turbo par transaction with Janalakshmi Financial Services. We have since completed 15 such transactions. Starting December 2010, we also structured 7 credit-enhanced bilateral assignment transactions.

IFMR Capital was an advisor to Sahayata Microfinance on their first rated non-convertible debenture issuance, placed with DWM (Cyprus), a member of the Developing World Markets group. This transaction is yet another milestone in our efforts to provide high quality originators access to debt capital markets.

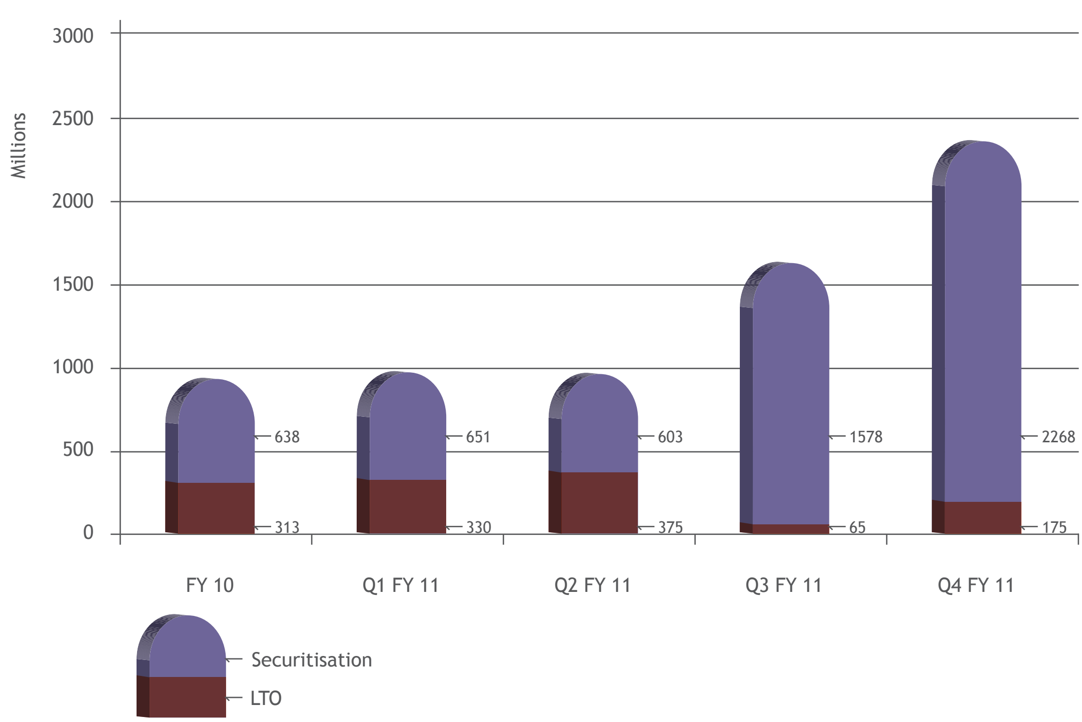
The Numbers

For the financial year ending March 31, 2011, IFMR Capital posted an income of INR 137 million – recording a growth of 232% over the last financial year, and profit after taxes of INR 16.2 million against INR 0.37 million in the last financial year.

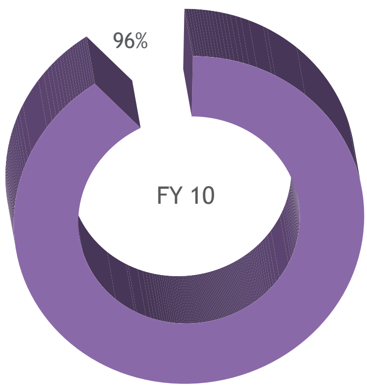
Overall Collection Efficiency

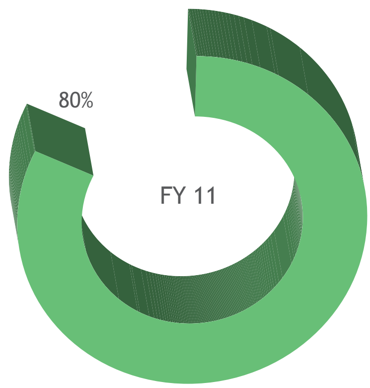


Funding Securitisation and Loan To Originate (LTO)

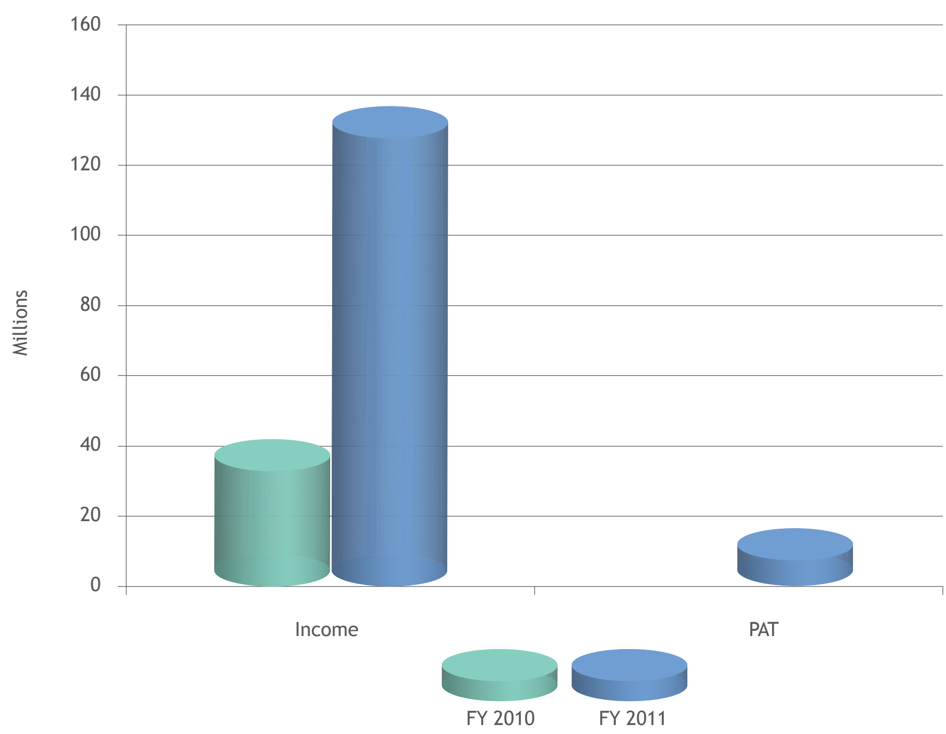


Cost to Net Income





Income and PAT




IFMR
Capital
User Login
Login ID
Password
Login
MFIs
Investors
egulators
Accountability
MIX

Board of Directors

Bindu Ananth
Chairperson

Charles Silberstein

Anil SG

Puneet Gupta

Sucharita Mukherjee
CEO & Director

Dave Wallack

Senior Management

Sucharita Mukherjee
CEO & Director

Meenal Madhukar
Head, Investor relations

Dr.Kshama Fernandes
Chief Risk Officer

Vineet Sukumar
Head, Treasury and Origination

Bhagirath Iyer
Head, Product Development

Gaurav Kumar
Head, Business Development

Diwakar BR
Head, Monitoring and Surveillance

C. Kalyansundaram
Head, Finance and Operations

"We believe that expanding our reach beyond microfinance into other asset classes that directly have an impact on low-income households will enable us to build a truly inclusive financial system."

Dear Shareholders,

The Directors have pleasure in presenting the third annual report along with the audited accounts of the Company for the year ended March 31, 2011. The summarised financial results of the Company are given hereunder:

Financial results

Particulars	INR in millions	
	As of March 31, 2011	As of March 31, 2010
Income	136.9	41.2
Less: Expenditure	113.8	38.9
Gross profit before depreciation	23.1	2.3
Less: Depreciation for the year	2.5	.5
PBT (Profit Before Tax)	20.6	1.8
Less: Provision for tax (Current year)	4.7	1
Less: Deferred tax	(0.3)	0.4
PAT (Profit After Tax)	16.2	0.4
Profit brought forward from previous year	0.5	0.2
Less: Transfer to reserve	3.2	0.1
Balance carried forward to Balance Sheet	13.4	0.5

Operations

During the year ended March 31, 2011, the Company achieved a Profit Before Tax of INR 20.6 million, a growth of 1030% over last year. During the year, your Company has completed securitisation transactions valuing INR 5140 million and Loans to Originate (LTO) transactions worth INR 940 million.

Rating

Your Company has been rated by ICRA as follows:
LA- (pronounced L A minus) with Stable outlook for raising senior debt of up to INR 1500 million.

Dividend

Due to the need for deploying funds back into the business for the growth of your Company, your Directors have not proposed any dividend for the current year.

Information Technology

The Company successfully implemented the Portfolio Monitoring System (PMS), which acts as the Company's risk management platform, on October 20, 2010. It is a dynamic and flexible software that enables active portfolio management and helps the management track performance across all transactions. The PMS maintains granular client level data on all transactions and aids analytics and reporting in terms of tracking exposures, performance and compliance.

Regulatory Compliance

The Company has complied with all the mandatory regulatory compliances as required under the Reserve Bank of India guidelines, the Companies Act, various tax statutes and other regulatory bodies.

Capital adequacy

The Company's capital adequacy ratio as of March 31, 2011 is 101.82% as against 94.40% as of March 31, 2010. The minimum capital adequacy ratio prescribed by the RBI is 15%.

Outlook for 2011-2012

In the year gone by, we have demonstrated our ability to scale up.
Our intervention has enabled our MFI partners to access liquidity and debt finance under stressed market conditions. We have demonstrated our commitment to the mission by making an impact on the microfinance sector at a most crucial juncture. During the year ahead we hope to further scale up our microfinance portfolio by expanding our partner base, creating new products and structures and providing complete debt solutions via products such as rated NCDs, revolver securitisations, risk participation and guarantee structures.
We also plan to work on further strengthening microfinance as a mainstream asset class by listing some of our PTCs on the exchange. Going beyond microfinance, we have plans to explore other new asset classes such as low-income housing finance, agricultural finance, gold loans etc. We believe that expanding our reach beyond microfinance into other asset classes that directly have an impact on low-income households will enable us to build a truly inclusive financial system.

The PMS maintains granular client level data on all transactions and aids analytics and reporting in terms of tracking exposures, performance and compliance

Corporate Governance

Your Company maintains and follows high standards of corporate governance in all its processes including voluntary adoption of good corporate governance practices. Your Company has formulated and adopted the following:

- Corporate Governance Policy
- Fair Practice Code
- KYC and AML Policy
- Short term investment Policy
- ALM Policy
- Risk Policy

Committees of the Board

As per RBI requirement your Company has constituted the mandatory committees, namely,

- Audit Committee
- Nomination Committee
- Risk Management Committee
- Asset Liability Management Committee

Your Company has also voluntarily formed the following committees, namely,

- Compensation Committee
- Credit Committee

for facilitating the functioning of the business.

Audit Committee

The Audit Committee comprises of 3 non-executive Directors namely,

- Puneet Gupta, Director
- Bindu Ananth, Director
- Dave Wallack, Director

The Committee was formed on March 25, 2010.

The main function of the Committee is to review the internal control mechanisms and all the financial statements before submission to the Board.

Nomination Committee

The Nomination Committee consists of 3 members namely,

- S G Anil Kumar, Director
- Charles Silberstein, Director
- Sucharita Mukherjee, Chief Executive Officer

The Committee was formed on January 17, 2011

The main functions of the Committee are:

- To formulate the election of Directors, identify and recruit suitable candidates, and present nominees to the Board who are consistent with the criteria approved by the Board.

Risk Management Committee

The Risk Management Committee consists of 4 members namely,

- Dr. Kshama Fernandes, Chief Risk Officer
- Sucharita Mukherjee, Chief Executive Officer
- Charles Silberstein, Member
- Dr. Susan Thomas, Member

The Committee was formed on October 18, 2010

The main functions of the Committee are:

- Framing of the risk policy and developing risk frameworks
- Defining acceptable broad risk thresholds for each class of risk for referral to the Board
- Periodically reviewing the risk framework

Asset Liability Management Committee

The Asset Liability Management Committee consist of 4 members namely,

- Sucharita Mukherjee, Chief Executive Officer
- Dr. Kshama Fernandes, Chief Risk Officer
- C. Kalyanasundaram, Head Operations
- Vineet Sukumar, Head Origination & Treasury

The main functions of the Committee are

- To determine the risk tolerance level and define the metrics, strategy and framework used to measure, monitor and review both liquidity and interest rate risks.

Compensation Committee

The Compensation Committee consists of 4 members, namely

- Bindu Ananth, Director
- Charles Silberstein, Director
- Dave Wallack, Director
- Sucharita Mukherjee, Chief Executive Officer

The Committee was formed on January 17, 2011

The main functions of the Committee are:

- To review and recommend annual variable compensation and long term incentive plan for the CEO and all employees of the Company.

Credit Committee

The Credit Committee consists of 5 members namely,

- Sucharita Mukherjee, Chief Executive Officer
- Dr. Kshama Fernandes, Chief Risk Officer
- Meenal Madhukar, Head of Investor Relations
- C. Kalyanasundaram, Head of Operations
- Vineet Sukumar, Head of Origination & Treasury

The Committee was formed on September 29, 2009.

The main functions of the Committee are:

- To evaluate and approve eligible entities, transaction structures and exposure limits for proposed transactions.

Directors

Mr. Charles David Silberstein, appointed as an Additional Director on July 20, 2010, ceased to be a director at the Annual General Meeting held on May 11, 2011 and being eligible, has been appointed as a Director of the Company in the Annual General Meeting held on May 11, 2011.

Non-acceptance of deposits

Your Company has not accepted any public deposits during the financial year 2010-2011.

Auditors

M/s. Deloitte Haskins & Sells, chartered accountants, retire at the ensuing annual general meeting and are eligible for re-appointment.

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

Particulars required to be furnished in this report under Section 217 (1)(e) of the Companies Act 1956, relating to conservation of energy and technology absorption are not applicable for the year under review, and hence not furnished. The Company has not carried on any foreign exchange transaction during the financial year 2010-2011.

Directors' Responsibility Statement

The Directors' responsibility statement as required under section 217(2AA) of the Companies Act, 1956, reporting the compliance with the Accounting Standards is attached and forms a part of the Directors' report. The Directors accept the responsibility for the integrity and objectivity of the Profit & Loss Account for the year ended March 31, 2011 and the Balance Sheet as of that date ("financial statements") and confirm that:

- In the preparation of the Profit & Loss account for the financial year ended March 31, 2011 and the Balance Sheet as of that date ("financial statements"), the applicable accounting standards had been followed along with proper explanation.

- The appropriate accounting policies have been selected and applied constantly except for changes detailed in the notes to accounts and such judgements and estimates that are reasonable and prudent have been made so as to give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit of the Company for that period.

- Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

- The financial statements have been prepared on a going concern basis.

- Proper systems are in place to ensure compliance of all laws applicable to the Company.

Particulars of employees

Information as required under the provisions of Section 217 (2A) of the Companies Act 1956, read with the Companies (Particulars of Employees) Amendment Rules 2011 is not applicable to the Company as none of the employees are in receipt of remuneration in excess of the prescribed limit.

Acknowledgement

The Directors wish to thank the Reserve Bank of India and other statutory authorities for their continued support and guidance. The Directors also place on record their sincere thanks for the support and co-operation extended by the bankers and shareholders of the Company.

The Directors also thank the employees of the Company for their contribution toward the performance of the Company during the year under review.

On behalf of the Board

Sucharita Mukherjee	Bindu Ananth
CEO & Director	Director

Place : Chennai

Date : May 11, 2011

> “Our focus on strong underwriting demonstrated to the market that even in deteriorating market conditions, it is possible to pick the right partners.”

From the CEO

The year 2010-2011 was a period of strong performance for IFMR Capital in a challenging year. We contended with uncertainty in regulation for microfinance institutions, a significant rethinking on guidelines impacting the securitisation market and the most severe crisis to ever hit the Indian microfinance industry. Despite these considerable challenges, we demonstrated the true power of the markets by providing access to debt finance for high quality microfinance institutions during a critical period.

Our results were driven by a few inter-related factors: the strength of our client relationships, our unquestionable expertise in the microfinance sector, our investment in human capital driving innovation, and our rigorous, dynamic approach to risk monitoring and management.

As we started the year, our three key goals at IFMR Capital were to substantially scale up our impact on access to debt finance for the microfinance sector, be a complete provider of debt capital markets solutions and develop new asset classes that are relevant to low-income households such as housing improvement finance, agricultural commodity backed finance and gold loans.

We established microfinance as an asset class that is not only mainstream but also has the capacity to withstand severe shocks.

Over the year, IFMR Capital provided over INR 6 billion of debt financing at a time when our partner originators needed it the most. We established microfinance as an asset class that is not only mainstream but also has the capacity to withstand severe shocks. Our focus on strong underwriting demonstrated to the market that even in deteriorating market conditions, it is possible to pick the right partners. The importance of high quality origination practices, robust systems and processes, adequate training, and asset liability management, has never been more clearly demonstrated! Our clients turned to us not only for financing but also for expert advice on aspects related to strategy and business planning. The commitment and dedication of our people serving our clients' needs helped us become a strategic business partner. For several of our partner originators, we became the single largest provider of debt finance in the previous financial year. IFMR Capital introduced two new categories of investors: private wealth financial institutions and NBFCs, into the fold of microfinance capital markets. In addition, we engaged constructively with rating agencies, bankers, financial institutions and the central bank to discuss underwriting standards, credit risk evaluation techniques, appropriate financing structures and the shape of policy most suited to stable growth of the microfinance sector.

We obtained a long term rating of LA- from ICRA this year, based on our track record of origination, solid asset performance, strong market position, quality of human capital and robust infrastructure. Our key investment in technology and the portfolio monitoring system paid off by creating efficiencies and helping us to measure, monitor and manage our exposures across hundreds of thousands of loans. Our ability to respond quickly and effectively to address our clients' needs with customised systems, products and services helped differentiate IFMR Capital. Our first non-convertible debenture issuance widens the array of debt capital markets solutions we can offer as a firm. Despite the severe shock, throughout the year, IFMR Capital has maintained nearly zero percent default record on its entire investment and loan book.

Our ambition in 2012 is to create new asset classes relevant to low-income households such as housing, agriculture and gold loans and take them to capital markets. The crisis has given us a unique opportunity to influence the direction of the industry into serving our end-customers better; I believe we will do it.

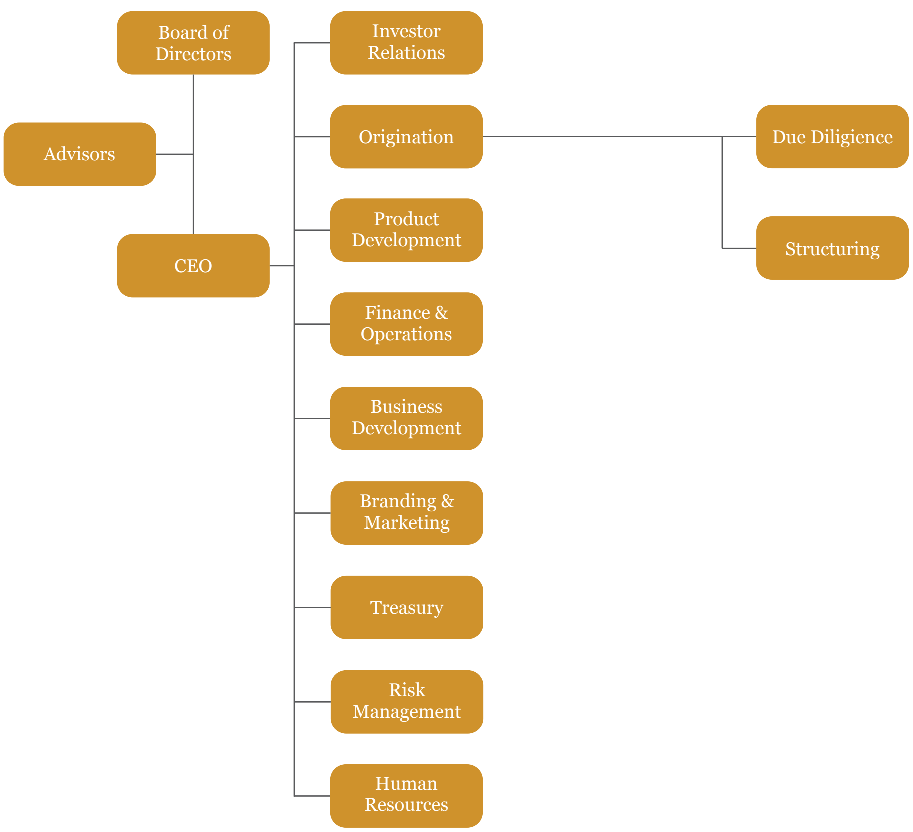
I would like to take this opportunity to thank our Board members and the IFMR Trust Governing Council for their unwavering support and strategic guidance.
I also thank our partner microfinance institutions and our investors for believing in us and our mission.

Sucharita Mukherjee
CEO & Director

The Team

Building teams
As the sector is evolving continuously, we at IFMR Capital understand that we need to stay ahead of the times; we need to understand emerging trends and develop models to create reliable solutions for our MFI partners. To do this, we need to build internal capacities and create an efficient talent pool. Thus, in the year under review, the organisation grew tremendously. We designed an organisation structure that could help us realise our objectives in the best possible manner.

In our organisational framework, the Board of Directors along with the advisors, oversee and guide the organisation's growth and strategy, in keeping with the mission. The CEO, reporting to the Board, is responsible for the organisation's strategy and decision making, while maintaining relationships with key elements in the business environment.



Reporting to the CEO are the heads of different teams, including Investor Relations, Origination, Treasury, Business Development, Product Development, Operations & Accounts, Risk Management and Human Resources.
This structure works efficiently for IFMR Capital. There is a high degree of delegation of authority across the various teams, enabling efficient planning and execution of transactions, as well as development of innovative financing solutions that add value for our clients. The structure promotes specialisation while bringing different teams together for a transaction, so that each team can leverage its expertise to complete transactions in time.

While the roles need to be well laid out, the people handling each role have to be high quality. In FY 2010-2011, IFMR Capital was able to attract high quality talent and build a team comprising experienced industry professionals from top class organisations as well as fresh recruits from India's best academic institutions.

Working with MFIs

Our mission is to ensure access to finance for institutions that impact low-income households and we believe that high quality institutions should be able to avail such access. Over the year, our due diligence team conducted nearly 50 MFI assessments to ensure that we worked with MFIs that met rigorous debt capital markets standards. Our robust underwriting guidelines were fine tuned to create a comprehensive evaluative framework and to build an internal pipeline of high quality MFIs.

Our origination team tracks the microfinance sector closely and engages in detailed conversations with our MFI partners to ensure that they achieve their business-plan numbers by diversifying their sources of funding. In the year under review, we sharpened our understanding of the needs of our partner MFIs and provided Loans-To-Originate (LTOs) that would then be securitised. The securitisation and loan programme expanded significantly with the number of partner MFIs going up to 20. We built a pipeline of 54 MFIs. The majority of these MFIs are small or medium sized.

To work better with these high quality MFIs, we created an innovative structure: the multi-originator securitisation transaction (MOSEC). This model enables the creation of a critical mass of loans required for capital markets transaction. It is done via pooling of portfolios from individual MFIs that on their own have inadequate unencumbered portfolios to be taken to debt capital markets. It also

Over the year, our due diligence team conducted nearly 50 MFI assessments to ensure that we worked with MFIs that met rigorous debt capital markets standards.

Being a pioneering transaction, IFMR Capital MOSEC I helped build the legal and rating framework for a completely new securitisation structure.

enables efficient diversification across geographies and servicers[1].
We demonstrated this model through India's first multi-originator securitisation transaction, IFMR Capital MOSEC I of INR 308 million. Four MFIs participated in the transaction: Sonata, Sahayata, Satin and Asirvad. Their individual portfolios were pooled and securitised into two tranches. The senior tranche got a P1+ rating and was bought by a mutual fund. Apart from creating opportunities for smaller MFIs to tap into debt capital markets, this deal established a pricing benchmark for micro loan securities with a maturity less than six months.
The MFIs benefited in terms of pricing obtained at the shorter end of the yield curve. Being a pioneering transaction, IFMR Capital MOSEC I helped build the legal and rating framework for a completely new securitisation structure. This year, IFMR Capital has completed two more multi-originator transactions with a total size of INR 693 million.

Through its LTO product and investments in the subordinated tranche IFMR Capital facilitated around INR 7 billion of funding for 20 MFIs spread across India. Through successive transactions benchmarked to market prices, we reduced funding costs for our partners by about 100-300 basis points.

This year, IFMR Capital has completed two more multi-originator transactions with a total size of

INR 693 million

MFI Partner	
➤ Asirvad Micro Finance	➤ Sahayata Microfinance
➤ Capital Trust	➤ Samasta Microfinance
➤ Cashpor Micro Credit	➤ Satin Creditcare
➤ Disha Micro Finance	➤ Shalom Microfinance
➤ Equitas Micro Finance	➤ Sonata Finance
➤ Fusion Micro Finance	➤ Suryoday Micro Finance
➤ Grama Vidiyal Micro Finance	➤ SV Creditline
➤ Grameen Financial Services	➤ Utkarsh Micro Finance
➤ Janalakshmi Financial Services	➤ Vistaar Livelihood Finance
➤ Mimoza Enterprises Finance	
➤ Pudhuaaru Kshetriya Gramin Financial Services	

[1] *MFIs that collect repayments on the loans they have securitised*

Funding Through IFMR Capital FY 2010-2011

(INR in millions)

	Total
Sahayata	495,403,678
Satin	773,017,163
Utkarsh	227,186,848
Asirvad	372,550,515
Suryoday	65,000,000
Samasta	30,000,000
SVCL	121,806,982
Pudhuaaru	186,007,425
Disha	50,000,000
Janalakshmi	648,665,250
Vistar	10,000,000
Fusion	10,000,000
Mimoza	30,000,000
Grameen Koota	853,718,908
Equitas Microfinance	985,993,124

We reduced funding costs for our partners by about

100-300

basis points through successive transactions benchmarked to market prices.

Risk Management

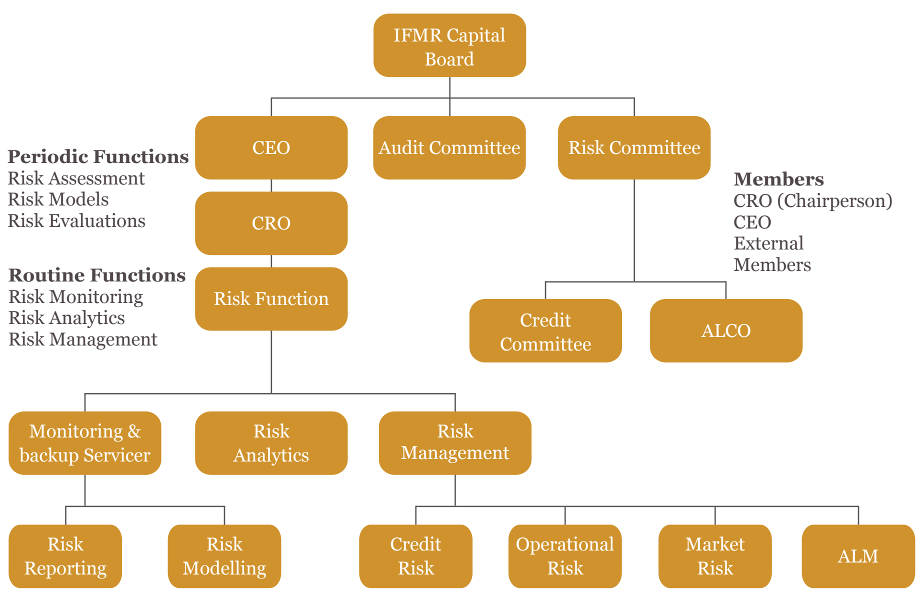
Our efforts at applying the structured finance approach to microfinance are based on prudent risk management. Via structuring, arranging and investing in transactions originated by high quality originators in various asset classes, we seek to play the role of an efficient risk transfer agent, enabling our partners to access mainstream capital markets. This role requires strong internal risk monitoring and risk management capabilities. Guided by our underwriting framework and risk policy, we follow a proactive approach towards risk management. We aim to ensure that effective risk management practices are embedded in our culture and in the way business is carried out at all levels within the organisation.

Over the past year, IFMR Capital has worked towards building systems and capabilities that enable us to function efficiently in our role as a risk transfer

agent. The Risk Committee of IFMR Capital meets once a quarter and directly reports to the Board. During this financial year, two external members have joined the Risk Committee, Charles Silberstein and Dr. Susan Thomas.
The 7-member risk team engages in monitoring, portfolio level reporting, analytics, risk measurement and modeling and asset and liability management (ALCO). The Portfolio Monitoring System (PMS) which forms the backbone of MIS and risk analytics has been implemented. IFMR Capital aspires to establish a state-of-the-art scientific approach to risk management in the asset classes we work in.

Our focus on strong underwriting demonstrated to the market that even in deteriorating market conditions, it is possible to pick the right partners.

Structure



The Portfolio Monitoring System

The Portfolio Monitoring System (PMS) which has been implemented this year helps track exposure across all IFMR Capital transactions. Its functionality has been built with considerable flexibility to ensure that the system can continue to be used across new asset classes. The PMS has the following capabilities:

- Track all forms of exposures to MFIs
- Track loans to originate from IFMR Capital
- Create waterfalls for securitisation transactions
- Track portfolios that are used as collateral and/or securitised

- Track repayments on portfolios
- Generate repayment reports for portfolios and MFIs
- Generate pre-payment and overdue reports
- Generate reports on IFMR Capital's exposure across different MFIs and geographies
- Present all data in a "cube" for creation of customised reports

The PMS forms the backbone of Management Information System (MIS) and risk analytics at IFMR Capital. Transactions and exposures are tracked on a real-time basis enabling us to ensure that we are well within our norms of compliance in terms of our exposures to entities and geographies across transactions.
The system is designed to generate reports under the following categories:

Reports related to securitisation transactions:

1) Exposure report by states, geographies, entities
2) Exposure reports from a compliance perspective
3) Outstanding reports on amount, number of clients who prepaid, prepayment amount, default amounts and number of clients across entities and across transactions
4) Performance and efficiency reports for all transactions
5) PAR reports for transactions at entity, state, district level
6) Report on tentative maturity date of every transaction (based on prepayments received)
7) Report on amount of credit enhancement used given current prepayments and defaults
8) Report on defaults observed on our portfolio, entity wise, geography wise, transaction wise and aggregate defaults across all our investments in subordinated tranches
9) Collection efficiencies report

Reports related to Loans to Originate:

1) Repayment schedules for all transactions
2) Report on outstanding balances from each MFI
3) Report on exposures by states, geographies, entities

Investors reports:

1) Amount invested by each investor in a transaction
2) Outstanding balances to each investor from a transaction

Investor Relations

In the first six months of the financial year, IFMR Capital steadily moved from strength to strength, closing at least one large transaction every month. We did a mix of single-originator and multi-originator structures. We succeeded in eliciting an increased participation from a number of top ranked mutual funds in the P1+ (so) rated senior tranche.

With each passing transaction, IFMR Capital continued to fulfill its goal of bringing in a new range of investors for the MFIs. August 2010 saw the entry of mainstream NBFCs into our transactions while September 2010 opened the doors to High Networth Individuals (HNIs) for the very first time. Due to the difference in risk appetite, many of these investors participated in a combination of senior and junior tranches, gaining comfort from IFMR Capital's stringent due diligence and co-investment in the junior tranches.

In October 2010, we completed our largest transaction till date (INR 1063.8 million), with the microfinance originator Equitas. Backed by a strong track record for the entity, we were able to bring the pricing premium down significantly creating a new benchmark for microloan based securitisation transactions.

The turbulence in the state of Andhra Pradesh in the last quarter of 2010 resulted in many investors putting their microfinance expansion strategy on hold while awaiting the Malegam Committee Report to seek clarity on the future of the sector. Despite the difficult circumstances, IFMR Capital was one of the few arrangers who persistently infused liquidity into the sector by structuring, arranging and co-investing in 16 transactions worth INR 3 billion during the last four months of the financial year. This clearly helped us reinforce our mission of being a robust and reliable partner to high quality originators.

Corporate Rating: Building our brand

IFMR Capital has been assigned a long-term-rating of LA- (pronounced L A minus) for its debt programmes by ICRA. The rating, which has been assigned a 'Stable Outlook', came at a time when the microfinance sector was going through the cloud of regulatory and political risk. The rating we obtained is the highest long term rating given to any entity operating in the microfinance space and in light of the current scenario, underscores a sound understanding of the microfinance sector within IFMR Trust Companies and their rigorous monitoring system.

The rating visit was conducted over two days in mid-October at IFMR Capital's corporate office and involved detailed discussions with the Board and senior management. The ICRA team also went through the detailed operating methodology of the various divisions of IFMR Capital and its overall business strategy and plan. This rating highlights IFMR Capital's adequate credit quality ratings factor in its rigorous underwriting and monitoring systems, good governance structure and an experienced management team, all of which are likely to help the company scale up its operations profitably in a niche market segment. Additionally, IFMR Capital intends to maintain a conservative capital structure and have a comfortable liquidity profile due to the short duration of its assets. IFMR Capital has a healthy earnings profile, comprising investment and interest income on the one hand and a steady fee based income on the other.

Key Strengths highlighted by ICRA

- Significant expertise arising out of a strong Board and senior management; committed Board level support from IFMR Trust
- Good underwriting and monitoring mechanisms; the company has developed and implemented strong risk management systems
- Presence in a niche market segment could ensure availability of profitable business volumes
- Comfortable expected economic capitalisation levels; conservative underwriting standards and availability of cushion in the form of collateral could support capitalisation over the medium term
- Revenue diversification in the form of fee based income could cushion impact of interest rate volatilities on profitability

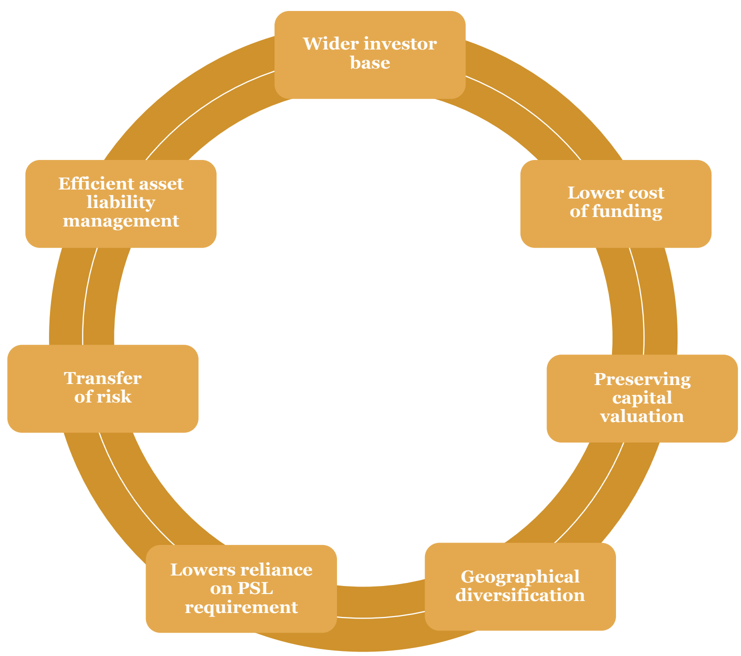
Product Development: Securitisation and beyond

Our core product, securitisation, is an off-balance sheet structured finance product. Developing the market for microfinance backed securitised assets has had the following impact:

1) Access to a wider investor base - asset backed securities are structured with some form of credit enhancement built into them. This results in the credit rating of these securities being higher than the rating of the originator. This has helped originators to raise financing from a wider set of investors who are sensitive to ratings of the assets they invest in. Further, such market-linked transactions create credit history, enhance the visibility of the originator and help attract further investments.

2) Preserving valuation - from an accounting standpoint, so long as securitisation complies fully with the accounting rules for true sale, an originator can achieve "Off-Balance Sheet Treatment", thus enhancing the originator's debt-to-equity ratio. Microfinance is a capital-intensive business. Securitisation enables the originator to reduce leverage and removes the necessity to dilute at an early stage, thus preserving valuation for the promoters.

3) Access to non-PSL financing - currently, MFIs are dependent on Priority Sector Lending (PSL) from banks. Under current guidelines, PSL targets are to be met by the end of the financial year. Given that MFI assets are less than a year in tenor and amortise on a weekly basis, such assets are attractive to banks in the last quarter of the year. Securitisation however provides MFIs with the wherewithal to raise financing throughout the year.



4) Limited recourse - Investors in asset backed securities have limited or no recourse to the originator or sponsor of the securitisation.

5) Risk transfer mechanism - for a price, the originator can transfer the default, prepayment and interest rate risk to investors who have an appetite for such risk-return profile.

6) Asset-Liability Management - an originator can use securitisation as a tool by which it can self-finance by better matching its assets and liabilities.

7) Reduce cost of financing - the originator's effective cost of funds can be reduced through a rated securitisation. This is because the highly rated senior tranche, accounting for c.80% of the transaction size, is priced in line with similar debt securities in the market, thus reducing overall pricing to the originator.

8) Geographical diversification - the originator may sell pools in certain geographical areas to effectively achieve geographical diversification of the on-balance sheet assets, which would in turn enhance its rating.

IFMR Capital offers both single originator and multi-originator securitisation structures to MFIs. Multi-originator securitisation enables smaller MFIs to access capital markets and obtain the benefits as enumerated above.

In addition to structuring securitisations, we have also been sole advisor to our partners on non-convertible debentures. Through an increased bouquet of products we have met the financing requirements of our clients throughout the year in an efficient and sustainable manner. The structuring team continuously works on developing new debt capital market products that could help MFIs in their debt-funding requirements in light of the following goals:

a. meet both on-balance sheet and off-balance sheet requirements of microfinance institutions
b. increase the tenor of financing
c. create products that meet the requirements of a wider class of investors, viz. insurance companies, pension funds and foreign institutional investors

Taking such products to the market requires substantial diligence by rating agencies, legal counsels and tax experts. The structuring team is working closely with external advisors to develop new structures such as longer term revolving securitisations and collateralised loan obligations to the market.

OUTLOOK FOR FY 2012

The microfinance sector continues to face challenges, particularly in Andhra Pradesh. Banks are yet to formulate policies that would allow them to commence lending to the sector on a regular basis. The RBI has recently released a notification specifying the conditions under which the microfinance sector could avail of priority sector funding – reaffirming the principles of the Malegam Committee Report, while making some allowances for ground realities.

The implications of these events on IFMR Capital's clients are:

- Decreased dependence on priority sector-led bank funding, making it imperative to scale up capital markets access
- Need to diversify to other forms of asset, liability and distribution products for its clientele

IFMR Capital recognizes these trends and is gearing up to meet the challenges. Our deep relationships with our onshore and offshore capital market investors and structuring expertise leaves us in a good position to grow in a market which will necessarily have to tap mainstream capital markets for growth and expansion. Our strong risk management approach is being effectively leveraged to enhance investor comfort in our diligence and transaction structuring. IFMR Capital is working on developing innovative capital market products that cover both on-balance sheet and off-balance sheet financing requirements including revolving securitisations and collateralised loan obligations.

IFMR Capital is also working on developing detailed underwriting guidelines and product notes in new asset classes that will be used to initiate business with high quality originators. We will play a leading role in developing these new asset classes as mainstream products in the capital markets. Some of the new asset classes that we expect will expand significantly in the coming year are:

i) Gold Loans: This INR 2 trillion market currently consists of banks, NBFCs and the unorganized sector. IFMR Capital has valuable insights into the origination processes of gold loans through the experience of KGFS - the regional rural financial institutions promoted by IFMR Trust. IFMR Capital's draft underwriting guidelines are now being shared with several experts for feedback and will be launched in the public domain shortly.

ii) Low-Income Housing Finance: The low-income housing market is witnessing robust growth on both the supply and the demand side. Specialized housing finance companies have developed robust credit appraisal mechanisms designed to understand and evaluate cash flows of a sector that may not have adequate documentation as proof of income. IFMR Capital has put together draft underwriting guidelines for housing finance products catering to low-income households. Given the illiquidity in long term debt capital markets, the challenge is to develop capital market products tailored for this asset class.We believe a structured finance approach can be used to bring mainstream capital markets access to these challenging albeit promising sectors.

"Our strong risk management approach is being effectively leveraged to enhance investor comfort in our diligence and transaction structuring."

Auditors’ Report to the members of IFMR Capital Finance Private Limited

1. We have audited the attached Balance Sheet of IFMR Capital Finance Private Limited (“the Company”) as of March 31, 2011, the Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that date, both 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 the 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and the disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor’s Report) Order, 2003 (CARO) issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956, 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 in paragraph 3 above, we report as follows:

   (a) 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

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

   (c) The 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

(d) In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in compliance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956

(e) 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 Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India

(i) In the case of the Balance Sheet, of the state of affairs of the Company as of March 31, 2011

(ii) In the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date and

(iii) In the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date

5. On the basis of the written representations received from the Directors as of March 31, 2011 taken on record by the Board of Directors, none of the Directors is disqualified as of March 31, 2011 from being appointed as a Director in terms of Section 274(1)(g) of the Companies Act, 1956.

For DELOITTE HASKINS & SELLS
Chartered Accountants
(Registration No. 008072S)

Bhavani Balasubramanian
Partner
(Membership No. 22156)
CHENNAI, May 11, 2011

Annexure to the Auditors' Report

(Referred to in paragraph 3 of our report of even date)

(i) Having regard to the nature of the Company's business/activities/result, clauses 4(ii), 4(vi), 4(viii), 4(x), 4(xii), 4(xiii), 4(xv), 4(xvii), 4(xviii), 4(xix) and 4 (xx) of CARO are not applicable.

(ii) In respect of its fixed assets:

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

(b) The fixed assets were physically verified during the year by the Management in accordance with a regular programme of verification which, in our opinion, provides for physical verification of all the fixed assets at reasonable intervals. According to the information and explanation given to us, no material discrepancies were noticed on such verification.

(c) The fixed assets disposed off during the year, in our opinion, do not constitute a substantial part of the fixed assets of the Company and such disposal has, in our opinion, not affected the going concern status of the Company.

(iii) The Company has neither granted nor taken any loans, secured or unsecured, to/from companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956.

(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 with regard to purchase of fixed assets and the rendering of services. During the course of our audit, we have not observed any major weakness in such internal control system. The activities of the Company do not involve purchase of inventory and sale of goods.

(v) To the best of our knowledge and belief and according to the information and explanations given to us, there are no contracts or arrangements that need to be entered in the register maintained in pursuance to Section 301 of the Companies Act, 1956.

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

(vii) According to the information and explanations given to us in respect of statutory dues:

(a) The Company has generally been regular in depositing undisputed dues, including Provident Fund, Income Tax, Service Tax, Cess and other material statutory dues applicable to it with the appropriate authorities, though there has been a slight delay in few cases.

(b) There were no undisputed amounts payable in respect of Income Tax, Cess and other material statutory dues in arrears as of March 31, 2011 for a period of more than six months from the date they became payable.

(c) There were no disputed amounts payable in respect of Income Tax, Service Tax and Cess which have not been deposited as of March 31, 2011.

(viii) In our opinion and according to the information and explanations given to us, the Company has not defaulted in the repayment of dues to banks.

(ix) Based on our examination of the records and evaluations of the related internal controls, the Company has maintained proper records of the transactions and contracts in respect of its dealing in other investments and timely entries have been made therein. The aforesaid securities have been held by the Company in its own name.

(x) According to the information and explanations given to us and on the basis of the maturity profile of assets and liabilities with a maturity profile of one year, as given in the Asset Liability Management Report, the assets maturing in the next one year are in excess of the liabilities of similar maturity by INR 465,554,187.

(xi) To the best of our knowledge and according to the information and explanations given to us, no fraud by the Company and no fraud on the Company has been noticed or reported during the year.

For DELOITTE HASKINS & SELLS
Chartered Accountants
(Registration No. 008072S)

Bhavani Balasubramanian
Partner
(Membership No. 22156)
CHENNAI, May 11, 2011

IFMR Capital Finance Private Limited
Balance Sheet as of March 31, 2011

Amount in INR

	Schedule	As of March 31, 2011	As of March 31, 2010
SOURCES OF FUNDS			
Shareholder's funds			
Share capital	1	600,000,000	600,000,000
Reserves and surplus	2	16,814,715	589,006
Loan funds	3		
Secured loans		119,902,673	150,000,000
Deferred tax liability (Net) (Refer Note 3.11 of Schedule 18)		76,875	412,347
Total		**736,794,263**	**751,001,353**
APPLICATION OF FUNDS			
Fixed assets	4		
Gross block		8,775,930	1,338,902
Less: Accumulated depreciation/amortisation		3,160,545	711,072
Net block		5,615,385	627,830
Add: Capital work in progress		-	2,388,848
		5,615,385	**3,016,678**
Investments	5	**378,629,817**	**332,755,959**
Current assets, loans and advances			
Receivables under financing activity	6	228,310,898	331,443,095
Cash and bank balances	7	146,201,793	119,211,260
Other current assets	8	25,606,677	12,052,531
Other loans and advances	9	11,055,153	5,376,339
		411,174,521	**468,083,225**
Less: Current liabilities and provisions			
Current liabilities	10	56,173,108	52,521,509
Provisions	11	2,452,352	333,000
		58,625,460	**52,854,509**
Net current assets		**352,549,061**	**415,228,716**
Total		**736,794,263**	**751,001,353**
Notes to accounts	18		

The schedules referred to above form an integral part of the Accounts.

In terms of our report attached
For Deloitte Haskins & Sells
Chartered Accountants

For and on behalf of the IFMR Capital Finance Private Limited

Bhavani Balasubramanian
Partner

Bindhu Ananth
Director

Sucharita Mukherjee
Director

Sanka Indrani
Company Secretary

Place : Chennai
Date : May 11, 2011

IFMR Capital Finance Private Limited
Profit and Loss Account for the year ended March 31, 2011

Amount in INR

	Schedule	For the year ended March 31, 2011	For the year ended March 31, 2010
INCOME			
Income from operations	12	123,526,594	31,494,810
Other income	13	13,432,532	9,801,812
Total		**136,959,126**	**41,296,622**
EXPENDITURE			
Finance expenses	14	32,119,850	1,523,064
Provisions for standard assets	15	1,517,352	-
Employee cost	16	39,173,491	19,245,772
Operating and other expenses	17	40,994,763	18,199,382
Depreciation/amortisation	4	2,515,903	502,593
Total		**116,321,359**	**39,470,811**
Profit before taxation		**20,637,767**	**1,825,811**
Provision for taxation			
- Current tax		4,742,700	1,013,204
- Deferred tax		(335,472)	441,349
- Fringe benefit tax relating to earlier years		4,830	-
Total tax expense		**4,412,058**	**1,454,553**
Profit after tax		**16,225,709**	**371,258**
Transfer to statutory reserve		(3,245,142)	(74,252)
Brought forward from previous year		469,356	172,350
Profit carried to Balance Sheet		**13,449,923**	**469,356**
Earning Per share			
- Basic and diluted earnings per share (Face value INR 10)		0.27	0.02
Notes to accounts	18		

The Schedules referred to above form an integral part of the accounts.

In terms of our report attached
For Deloitte Haskins & Sells
Chartered Accountants

Bhavani Balasubramanian
Partner

For and on behalf of the IFMR Capital Finance Private Limited

Bindhu Ananth
Director

Sucharita Mukherjee
Director

Sanka Indrani
Company Secretary

Place : Chennai
Date : May 11, 2011

IFMR Capital Finance Private Limited

Cash Flow Statement for the year ended March 31, 2011

Amount in INR

	For the year ended March 31, 2011	For the year ended March 31, 2010
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	20,637,767	1,825,811
Adjustments for:		
Depreciation	2,515,903	502,593
Processing fees	1,749,088	16,667
Interest on term loans from banks	27,779,873	258,905
Interest on security deposits	2,542,000	1,209,868
Provision for gratutiy	602,000	333,000
Provision for standard assets	1,517,352	-
Interest income - fixed deposits	(5,558,872)	(9,060,998)
Dividend income#	(7,742,579)	(615,014)
Operating profit/(loss) before working capital changes	**44,042,532**	**(5,529,168)**
Adjustments for:		
Decrease/(Increase) in receivables under financing activity	103,132,197	(322,197,463)
Increase in other current assets	(15,052,467)	(9,915,459)
Increase in other loans and advances	(10,870,529)	(3,372,068)
Increase in investment in securitisation	(195,373,858)	(138,212,467)
Increase in current liabilities	4,677,248	49,954,316
Cash used in operations	**(69,444,877)**	**(429,272,309)**
Direct taxes including fringe benefit tax paid	(4,830)	(200,487)
Interest paid on security deposits	(3,308,744)	(553,653)
Net cash used in operating activities - (A)	**(72,758,451)**	**(430,026,449)**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets including capital WIP	(5,134,485)	(3,306,771)
Proceeds from sale of fixed assets	19,875	-
(Sale)/Purchase of short term investments	149,500,000	(149,500,000)
Investments in collateral deposits (Net)	9,540,464	(42,130,910)
Investments in own deposits (Net)	61,621,658	(74,586,290)
Interest received - On fixed deposits	6,507,120	6,957,754
Dividend received#	7,742,579	615,014
Net cash generated from/used in investing activities - (B)	**229,797,211**	**(261,951,203)**
CASH FLOW FROM FINANCING ACTIVITIES		
Share application money received from the controlling entity*	-	296,800,000
Repayment of borrowings to Banks	(330,097,327)	-
Proceeds from borrowings from Banks	300,000,000	150,000,000
Repayment of loan to controlling entity	-	(65,903,641)
Interest expenses	(28,038,778)	-
Processing fees paid	(750,000)	(1,500,000)
Net cash used in/generated from financing activities - (C)	**(58,886,105)**	**379,396,359**

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IFMR Capital Finance Private Limited
Cash Flow Statement for the year ended March 31, 2011

Amount in INR

	For the year ended March 31, 2011	For the year ended March 31, 2010
Net increase/(decrease) in cash and cash equivalents - (A+B+C)	98,152,655	(312,581,293)
Opening balance of cash and cash equivalents	1,479,396	314,060,689
Closing balance of cash and cash equivalents	**99,632,051**	**1,479,396**
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents as per Balance Sheet	146,201,793	119,211,260
Less: Restricted balances placed in deposit accounts	46,569,742	117,731,864
Cash and cash equivalents as per Cash Flow Statement	**99,632,051**	**1,479,396**

Non-cash transaction:
* - application money received has been alloted in full during the year
# - Represents dividend income reinvested in Mutual Fund units

In terms of our report attached
For Deloitte Haskins & Sells
Chartered Accountants

For and on behalf of the IFMR Capital Finance Private Limited

Bhavani Balasubramanian
Partner

Bindhu Ananth
Director

Sucharita Mukherjee
Director

Sanka Indrani
Company Secretary

Place : Chennai
Date : 11 May 2011

IFMR Capital Finance Private Limited
Schedules forming part of the accounts

Amount in INR

	For the year ended March 31, 2011	For the year ended March 31, 2010
Schedule 1		
Share capital		
Authorised		
65,000,000 (As of March 31, 2010 - 65,000,000 shares) Equity Shares of INR 10 each	650,000,000	650,000,000
Total	**650,000,000**	**650,000,000**
Issued, subscribed and fully paid-up		
60,000,000 (As of March 31, 2010 - 60,000,000) Equity Shares of INR 10 each (Of the above, 59,999,999 shares are held by the Controlling entity, IFMR Trust).	600,000,000	600,000,000
Total	**600,000,000**	**600,000,000**
Schedule 2		
Reserves and surplus		
Statutory reserve (Refer Note below)		
Opening balance	119,650	45,398
Add : Additions	3,245,142	74,252
Total	**3,364,792**	**119,650**
Profit and Loss Account		
Surplus in Profit and Loss Account	13,449,923	469,356
Total	**16,814,715**	**589,006**
Notes: Statutory reserve represents the reserve fund created under Section 45IC of the Reserve Bank of India Act, 1934		
Schedule 3		
Secured loans		
- Term loan from bank	119,902,673	150,000,000
(Secured by way of a hypothecation charge on the book debts equivalent to the assistance provided) (Repayments due within one year - INR 119,902,673 (as of March 31, 2010 - 90,000,000))		
Total	**119,902,673**	**150,000,000**

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IIFMR Capital Finance Private Limited
Schedules forming part of the accounts

Schedule 4
Fixed assets

Amount in INR

Descriptions	Gross block					Accumalated depreciation/amortisation					Net block	
	As of April 1, 2010	Adjustments	Additions	Deletions	As of March 31, 2011	As of March 1, 2010	Adjustments	For the year	Deletions	As of March 31, 2011	As of March 31, 2011	As of March 31,2010
Computers	1,274,305	-	177,686	86,305	1,365,686	701,862	-	350,589	66,430	986,021	379,665	572,443
Furniture and fittings	10,687	-	-	-	10,687	1,234	-	1,418	-	2,652	8,035	9,453
Intangible assets - software	53,910	-	6,555,813	-	6,609,723	7,976	-	1,888,644	-	1,896,620	4,713,103	45,934
Website development cost	-	-	789,834	-	789,834	-	-	275,252	-	275,252	514,582	-
Grand Total	1,338,902	-	7,523,333	86,305	8,775,930	711,072	-	2,515,903	66,430	3,160,545	5,615,385	627,830
Capital WIP											-	2,388,848
Previous year	-	608,931	729,971	-	1,338,902	-	208,479	502,593	-	711,072	627,830	-

(Cont to next page)

IFMR Capital Finance Private Limited
Schedules forming part of the accounts

Amount in INR

	For the year ended March 31, 2011	For the year ended March 31, 2010
Schedule 5		
Investments (Refer Note no 3.1 of Schedule 18)		
A. Investment in securitisation		
Investments in pass through certificates and other rated transactions	378,629,817	183,255,959
B. Current - Non-trade - Unquoted		
Investments in mutual funds	-	149,500,000
Total	**378,629,817**	**332,755,959**
Schedule 6		
Receivables under financing activity		
Secured and considered good		
Micro Finance Loans *	228,310,898	331,443,095
Total	**228,310,898**	**331,443,095**
*Secured either by way of charge created on unencumbured assets of the borrowers (in case porfolio has not been created out of the lending) or by way of charge on the loan portfolio created out of the lendings by the Company		
Schedule 7		
Cash and bank balances		
Cheques on hand	-	916,604
Balances with scheduled banks:		
On current account	99,632,051	562,792
On deposit accounts:		
- Collateral deposits (Refer Note below)	33,605,110	43,145,574
- Others	12,964,632	74,586,290
Total	**146,201,793**	**119,211,260**
Note: (Represents amounts received as security from the borrowers towards issue of Micro Finance Loans)		
Schedule 8		
Other current assets - considered good		
Interest accrued but not due		
- on loans to borrowers	111,393	517,171
- on collateral deposits	686,310	814,003
- on investments	24,174,586	8,588,649
- on other deposits	634,388	2,132,708
Total	**25,606,677**	**12,052,531**

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Amount in INR

	For the year ended March 31, 2011	For the year ended March 31, 2010
Schedule 9		
Other loans and advances		
Unsecured - Considered good		
Advances recoverable in cash or in kind or for value to be received (Refer Note 3.2 of Schedule 18)	4,574,543	2,729,416
Advance tax and tax deducted at source [Net of provision] INR 5,878,177 {As of March 31, 2010 INR 1,135,477}	6,477,325	2,643,638
Mat credit entitlement	3,285	3,285
Total	**11,055,153**	**5,376,339**
Schedule 10		
Current liabilities		
Security deposits from customers	33,605,110	43,145,574
Interest accrued but not due		
- on term loans from banks	-	258,905
- on security deposits	681,813	766,744
Other Liabilities (Refer Note below)	21,886,185	8,350,286
Note :		
Includes an amount of INR 3,909,823 payable to the controlling entity (As of March 31, 2010 - INR 2,587,368)		
Total	**56,173,108**	**52,521,509**
Schedule 11		
Provisions		
- For gratuity	935,000	333,000
- For standard assets (Refer Note 3.4 of Schedule 18)	-	-
a. Micro Finance loans	570,777	-
b. Securitisation and other rated transactions	946,575	-
Total	**2,452,352**	**333,000**

(Cont to next page)

IFMR Capital Finance Private Limited
Schedules forming part of the accounts

Amount in INR

	For the year ended March 31, 2011	For the year ended March 31, 2010
Schedule 12		
Income from operations		
Interest income from loans provided to Micro Finance Institutions (Tax deducted at source INR 4,644,737 (Previous year INR 1,709,748))	47,765,641	18,976,786
Processing and professional fees (Tax deducted at source INR 3,381,578 (Previous year INR 416,235))	35,993,575	3,929,375
Income from securitisation/assignment of receivables	39,767,378	8,588,649
Total	**123,526,594**	**31,494,810**
Schedule 13		
Other income		
Interest on bank deposits (Tax deducted at source INR 550,072 (Previous year 1,101,015))	5,558,872	9,060,998
Dividend income	7,742,579	615,014
Other income	131,081	125,800
Total	**13,432,532**	**9,801,812**
Schedule 14		
Finance expenses		
Interest on term loans from banks	27,779,873	258,905
Interest on security deposits	2,542,000	1,209,868
Processing fees and other expenses	1,749,088	38,480
Bank charges	48,889	15,811
Total	**32,119,850**	**1,523,064**
Schedule 15		
Provisions for standard assets		
- For standard assets		
a. Micro Finance loans	570,777	-
b. Investments	946,575	-
Total	**1,517,352**	**-**
Schedule 16		
Employee costs		
Salaries and bonus	35,734,400	17,923,265
Contribution to provident fund	1,600,735	388,080
Staff welfare expenses	1,236,356	601,427
Gratuity	602,000	333,000
Total	**39,173,491**	**19,245,772**

(Cont to next page)

Amount in INR

	For the year ended March 31, 2011	For the year ended March 31, 2010
Schedule 17		
Operating and other expenses		
Rent	6,192,430	159,296
Electricity charges	-	105,398
Rates and taxes	37,970	3,303,590
Travelling and conveyance	4,865,338	5,719,324
Legal and professional charges	23,048,809	3,173,294
Communication expenses	697,625	1,067,980
Consultancy charges	3,664,857	1,912,877
Repairs and maintenance - others	57,426	247,479
Printing and stationery	614,581	664,965
Advertisement and business promotion	83,779	380,043
Office maintenance	-	287,968
Auditors' remuneration:		
- Statutory audit	550,000	300,000
- Special audit	-	400,000
- Others	100,000	106,898
Interest on income tax	4,262	20,312
Other expenses	1,077,686	349,958
Total	**40,994,763**	**18,199,382**

IFMR Capital Finance Private Limited

Schedule – 18

Notes on accounts for the year ended March 31, 2011

1. Background

IFMR Capital Finance Private Limited (IFMR Capital) is a Non-Banking Finance Company whose objective is to provide liquidity and develop access to debt-capital markets for rural and urban microfinance institutions and small and medium enterprises.

IFMR Capital, formerly known as Highland Leasing and Finance Private Limited, was acquired by IFMR Trust on November 27, 2008 to achieve their mission. Consequently, IFMR Capital has become the subsidiary of IFMR Trust.

2. Significant Accounting Policies

2.1 Basis of preparation of financial statements:

The financial statements are prepared under historical cost convention, on accrual basis under Indian Generally Accepted Accounting Principles (GAAP). GAAP comprises Accounting Standards notified by the Central Government of India, other pronouncements of the Institute of Chartered Accountants of India, the provisions of the Companies Act, 1956 and regulations prescribed for Non-Deposit taking, Non-Banking Financial Companies by the Reserve Bank of India.

The Company follows the prudential norms for income recognition, asset classification and provisioning as prescribed by the Reserve Bank of India for Systemically Important Non-deposit taking Non-Banking Finance Companies (NBFC-ND-SI). The Company is a subsidiary of IFMR Trust, which is not a Small and Medium Sized entity (SMC) as defined in the General Instructions in respect of Accounting Standards notified under the Companies Act, 1956. Accordingly, the Company has also been classified as non-SMC and has complied with the accounting standards as applicable to a non-SMC.

2.2 Use of estimates:

The preparation of the financial statements in conformity with the Generally Accepted Accounting Principles requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of financial statements and the reported amount of revenues and expenses during the reporting period. Management believes that the estimates used in the preparation of financial statements are prudent and reasonable. Actual results could differ from these estimates.

2.3 Fixed assets and depreciation/amortisation:

Fixed assets are stated at historical cost less accumulated depreciation. The Company capitalises all costs relating to the acquisition and installation of fixed assets. Cost comprises the purchase price and any cost attributable to bringing the asset to its working condition for its intended use. Depreciation on assets have been provided on the Written Down Value method at the following rates based on the Management's estimate of the useful life of the assets, which are higher than the rates prescribed under Schedule XIV of the Companies Act, 1956:

Asset category	Depreciation rate
Computer and software	60%
Furniture and fittings	18.10%

Assets individually costing less than INR 5,000 added during the year are fully depreciated.

2.4 Impairment of assets:

The Company determines whether there is any indication of impairment of the carrying amount of its assets. The recoverable amount of such assets are estimated, if any indication exists and impairment loss is recognised wherever the carrying amount of the assets exceeds its recoverable amount.

2.5 Investments:

Long-term investments are stated at cost of acquisition. Provision for diminution is made if such diminution is considered other than temporary in nature. Investments in mutual funds are valued at the lower of cost or market value, prevailing as of the Balance Sheet date.

2.6 Receivables under financing activity

All loan exposure to borrowers with installment structure is stated at the full agreement value after netting off installment appropriated up to the year end.

2.7 Revenue recognition:

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

I. Interest income on loans given is recognised under the internal rate of return method.
II. The loan processing fee collected from the borrowers is recognised on P&L on an upfront basis.
III. Income from investments in securitisation is recognised on a straight line basis.

2.8 Employee benefits:

Defined contribution plan:

Provident fund

Contribution to Provident fund and family pension fund accrued and paid on monthly basis to the relevant authorities, are absorbed in the Profit and Loss Account.

Defined benefit plans (Long-term employee benefits):

Gratuity

The Company accounts for its liability for future gratuity benefits based on the actuarial valuation, as at the Balance Sheet date, determined by an Independent Actuary using the Projected Unit Credit method and is provided for. The Company's gratuity plan is non-funded.

Actuarial gains and losses are recognised in the Profit and Loss Account in the year in which they occur.

Compensated absences

Benefits of compensated absences are not provided to the employees of the Company.

2.9 Foreign currency transactions:

Transaction in foreign currencies is accounted at the exchange rates prevailing on the date of the transaction and the realised exchange loss/gain are dealt with in the Profit and Loss Account. Monetary assets and liabilities denominated in foreign currency are restated at the rates of exchange as on the Balance Sheet date and the exchange gain/loss is suitably dealt with in the Profit and Loss Account.

2.10 Service tax input credit:

Service tax input credit is accounted for in the books in the period when the underlying service received is accounted and when there is no uncertainty in availing/utilising the same.

2.11 Taxation:

Income tax

Current tax is determined in accordance with the provisions of Income Tax Act, 1961.

Deferred tax

Deferred tax is calculated at the rates and laws that have been enacted or substantively enacted as of Balance Sheet date and is recognised on timing difference that originate one period and capable of reversal in one or more subsequent periods. Deferred tax assets, subject to consideration of prudence are recognised and carried forward only to the extent that they can be realised.

2.12 Provisions, contingent liabilities and contingent assets:

Provisions are recognised only when the Company has present or legal or constructive obligation as a result of past events for which it is probable that an outflow of economic benefit will be required to settle the transaction and a reliable estimate can be made for the amount of the obligation. Contingent liability is disclosed for (i) Possible obligation which will be confirmed only by future events not wholly within the control of the Company or (ii) Present obligation arising from past events where it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made. Contingent assets are not recognised in the financial statements since this may results in the recognition of income that may never be realised.

Pursuant to the RBI circular no DNBS.PD.CC.No.207/ 03.02.002 /2010-11 dated January 17, 2011 the Company has adopted from the current year, the following as the policy for classification of assets and the provisioning there on:

i. Classification of assets

Asset classification	Period of overdue
Standard assets	Not overdue and overdue for less than 30 days
Non-Performing Assets (NPA)	
Sub-standard assets	Overdue for 30 days and more but less than 90 days
Doubtful assets	Overdue for 90 days and more
Loss assets	Assets which are to be included as loss by the Company or by the internal auditor or the statutory auditor or by Reserve Bank of India

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

ii. Provisioning norms for assets

Asset classification	Percentage of provision
Standard assets	0.25%

There is no Non-Performing Assets (NPA) as of the Balance Sheet date.

3 Notes forming part of accounts

3.1 Investment activity during the current year:

A. Securitisation

Name of the investment	Amount invested (in INR)	Amount realised (in INR)
Equitas Securitisations I	NIL	45,043,492
Equitas Securitisations II	NIL	16,650,000
MOSEC I	NIL	68,633,072

Name of the investment	Amount invested (in INR)	Amount realised (in INR)
Grameen Koota Securitisation	NIL	52,929,395
Investment in Mosec II	81,387,482	77,944,431
Alpha Pioneer	59,187,826	57,498,298
Delta Pioneer	64,584,130	45,390,185
Investment in Mosec III	9,984,151	NIL
Gamma Pioneer	22,898,969	NIL
Zeta Pioneer	30,000,000	NIL
Epsilon Pioneer	32,570,650	NIL
Eta Pioneer	67,307,000	NIL
Theta Pioneer	14,269,772	NIL
Iota Pioneer	75,243,267	NIL
Sigma 2 Pioneer	4,953,132	NIL
Lambda Pioneer	6,062,046	NIL
Chi Pioneer	20,000,000	NIL
Omikron Pioneer	10,000,000	NIL
Phi Pioneer	5,000,000	NIL
Tau Pioneer	4,594,011	NIL
Kappa Pioneer	9,590,553	NIL
PSI Pioneer	4,809,782	NIL
Sigma 1 Pioneer	10,000,613	NIL
Upsilon Pioneer	13,089,117	NIL
Rho Pioneer	13,930,230	NIL
Total	**559,462,731**	**364,088,873**

Previous year (2009-2010)

Name of the investment	Amount invested (in INR)	Amount realised (in INR)
Equitas Securitisation II	16,650,000	NIL
MOSEC I	68,633,072	NIL
Grameen Koota Securitisation	52,929,395	NIL
Total	**138,212,467**	**NIL**

B. Mutual funds

Amount in INR

Mutual fund	Units purchased	Amount invested during the year (In Nos.)	Units sold	Sale proceeds during the year (In Nos.)
Kotak Mutual Fund - Liquid (Institutional Premium) DDR	9,610,838	117,522,291	9,610,838	117,522,291
Kotak Mutual Fund - Short Term - Daily Dividend	12,389,102	125,330,633	12,389,102	125,330,633
Kotak Mutual Fund - Flexi Debt Institutional Scheme - DDR	22,453,106	225,597,579	26,931,832	270,597,579
Kotak Mutual Fund - Floater Long Term - DDR	2,127,804	21,447,834	2,127,804	21,447,834
LICMF - Liquid Fund	7,314,229	80,310,967	7,314,229	80,310,967
LIC Floating Rate Fund - Short Term Plan Fund	438,374	4,794,394	2,938,374	29,794,394
LIC Savings Plus Fund - Daily Dividend Plan	7,412,271	74,122,711	9,912,271	99,122,711
LIC Income Plus Fund - Daily Dividend Plan	2,428,844	24,288,436	2,428,844	24,288,436
Reliance Liquid Plus Fund - Treasury Plan - Institutional Option - Daily Dividend Option	14,810,838	226,399,371	18,081,548	276,399,371
Reliance - Money Manager Fund - Institutional Option - Daily Dividend Plan	211,194	211,483,262	211,194	211,483,262
Reliance - Monthly Interval Fund - Series Institutional Option - Daily Dividend Plan	1,004,058	10,043,092	1,004,058	10,043,092
Reliance - Medium Term Fund - Daily Dividend Plan	1,471,184	25,151,220	1,471,184	25,151,220
Birla Mutual Fund - Sunlife Cash Plus - Instl. Plan - DDR	10,693,954	115,519,475	10,968,857	120,019,474
Birla Mutual Fund - Ultra Short Term Fund - IP-DDR	5,270,239	52,731,379	5,270,239	52,731,380
Birla Mutual Fund - Ultra Short Term Fund - Retails - DDR-Minimum Lock - in period 15 days	2,090,116	20,912,658	2,090,116	20,912,658
Birla Mutual Fund - Sunlife Saving Fund - Retail	2,160,644	21,621,138	2,160,645	21,621,138

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Amount in INR

	Units purchased during the year (In Nos.)	Amount invested	Units sold during the year (In Nos.)	Sale proceeds
Birla Mutual Fund - Sunlife Saving Fund - Instl.	7,757,920	77,631,949	7,757,920	77,631,949
Birla Mutual Fund - Sunlife Cash Manager- WDR	2,350,904	23,536,001	2,350,904	23,536,000
Birla Mutual Fund - Sunlife Cash Manager-IP-DDR	8,159,438	81,618,854	8,159,438	81,618,854
IDFCMF - Cash Fund - Daily Dividend	15,019,638	158,936,308	15,019,638	158,936,308
IDFCMF - Cash Fund - Inst Plan B – DDR	1,133,653	12,002,327	1,133,653	12,002,327
IDFCMF-Money Manager - Treasury Plan A – DDR	6,917,094	69,654,443	6,917,094	69,654,443
IDFCMF-Money Manager - Treasury Plan A – Growth	161,003	2,401,707	161,003	2,401,707
IDFCMF-Money Manager Fund - Treasury - Super Inst Plan C – DDR	21,802,777	218,060,473	21,802,777	218,060,473
HDFC - Cash Management Fund - Savings Plan - DDR	9,214,680	98,011,019	9,214,680	98,011,019
HDFC-Cash Management Fund - Treasury Advantage Plan - Wholesale-DDR	10,381,648	104,143,503	10,381,648	104,143,503
SBI- Magnum Insta Cash Fund	2,538,146	42,514,703	2,538,146	42,514,703
SBI-SHF-Ultra Short Term Fund - Int. Plan – DDR	9,166,408	91,719,082	9,166,408	91,719,082
UTI Liquid Cash Plan Regular - Daily Income Option - Re-investment	10,246	10,901,721	10,246	10,901,721
UTI Liquid Cash Plan Institutional - Daily Income Option - Re-investment	49,579	50,542,711	49,579	50,542,711
UTI Treasury Advantage Fund - DDR Plan	67,835	70,943,462	67,835	70,943,463
Total	**196,617,764**	**2,469,894,703**	**209,642,104**	**2,619,394,703**

Previous year (2009-2010)				Amount in INR
Mutual funds	**Units purchased**	**Amount invested during the year (In Nos.)**	**Units sold during the year (In Nos.)**	**Sale proceeds**
Birla Mutual Fund - Liquid Plus Fund	274,936	4,500,000	274,936	4,500,530
Birla Mutual Fund - Short Term Fund - Retail - Daily Dividend - Reinvestment Plan	449,806	4,500,530	NIL	NIL
Kotak Mutual Fund - Institutional Daily Dividend	2,251,716	27,534,209	2,251,716	27,534,209
Kotak Mutual Fund - Flexi Debt Scheme - Daily dividend	1,742,410	1,75,19,233	1,742,410	17,519,233
Kotak Mutual Fund - Flexi Debt Institutional Scheme - Daily Dividend	7,219,756	72,540,500	2,741,030	27,540,500
Kotak Mutual Fund - Floater Long Term Daily Dividend	2,087,137	21,037,924	2,087,137	21,037,924
HDFC Floating Rate Income Fund	546,935	5,513,601	546,935	5,513,601
HDFC Liquid Fund - Dividend	540,809	5,515,277	540,809	5,515,277
HDFC Cash Management Fund - Treasury Advantage - Whole sale - Daily Dividend	1,497,318	15,020,348	1,497,318	15,020,348
Reliance Liquid Plus Fund - Treasury Plan - Institutional Option - Daily Dividend Option	1,814,623	27,659,569	1,814,623	27,659,569
Reliance Liquid Plus Fund - Treasury Plan - Institutional Option - Daily Dividend Option	7,345,061	112,285,411	4,074,350	62,285,412
ICICI Prudential Flexible Income Plan Regular Daily Dividend	25,982	2,713,829	25,982	2,713,829
LIC Saving Plus Fund - Daily Dividend Plan	10,018,116	100,181,156	7,518,115	75,181,155
LIC Floating Rate Fund	2,500,000	25,000,000	NIL	NIL
LIC Floating Rate Fund - Short Term plan - Daily Dividend Plan	502,385	5,023,853	502,385	5,023,853
LIC Income Plus Fund - Daily Dividend Plan	964,558	9,645,575	964,558	9,645,575
Total	**39,781,548**	**456,191,015**	**26,582,304**	**306,691,015**

3.2 During the year, a term loan of INR 150 million (Previous Year INR 300 million) has been sanctioned by the bank, towards which an amount of INR 0.75 million (Previous Year INR 1.50 million) has been charged as processing fee equivalent to 0.5% of the loan amount. This processing fee is amortised over the tenor of the term loan The unamortised portion of these expenses amounting to INR 0.48 million (Previous Year INR 1.48 million) is included under Schedule 9, 'Other Loans & Advances' in the financial statements.

3.3 Loan portfolio and provision for standard assets

A. Current year			Amount in INR
Microfinance loans			
Asset classification	**Amount outstanding as of March 31, 2011 (Gross)**	**Provision for assets - as of March 31, 2011 (Net)**	**Amount outstanding as of March 31, 2011 (Net)**
Standard assets	228,310,898	570,777	227,740,121
Sub-standard assets	NIL	NIL	NIL
Doubtful assets	NIL	NIL	NIL
Loss assets	NIL	NIL	NIL
Total	**228,310,898**	**570,777**	**227,740,121**

Investment in securitisations			Amount in INR
Asset classification	**Amount outstanding as of March 31, 2011 (Gross)**	**Provision for assets - as of March 31, 2011 (Net)**	**Amount outstanding as of March 31, 2011 (Net)**
Standard assets	378,629,817	946,575	377,683,242
Sub-standard assets	NIL	NIL	NIL
Doubtful assets	NIL	NIL	NIL
Loss assets	NIL	NIL	NIL
Total	**378,629,817**	**946,575**	**377,683,242**

The company has adopted the provisioning policy as given in Accounting Policy 2.12 above, to be in line with the provisioning norms prescribed by RBI vide circular no DNBS.PD.CC.No.207/ 03.02.002 /2010-2011 dated January 17, 2011 hence no provision was considered during the previous year 2009-2010.

3.4 Changes in provisions

				Amount in INR
Particulars	As of April 1, 2010	Additional provision	Utilisation / Reversal	As of March 31, 2011
Provision for standard assets under financing activity (Refer Note below)	-	570,777	-	570,777
Provision for standard assets under investment in securitisation (Refer Note below)	-	946,575	-	946,575

Note:

The Management has reviewed the loan portfolio and Investment in securitisation and has identified that there are no Non-Performing Assets as of the Balance Sheet date. Hence provisioning has been made at 0.25% on the standard assets as required by RBI Norms

3.5 Information with regard to other matters specified under paragraphs 4A, 4C and 4D of Part II of the Schedule VI of the Companies Act, 1956 is not applicable to the Company, due to the nature of the Company's activities.

3.6 As of March 31, 2011, the value of estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances paid) is INR NIL (previous year – INR 4,502,352).

3.7 Employee benefits:

The company's obligation towards gratuity is a defined benefit plan. The details of actuarial valuation are given below:

Accrued gratuity liability

	2010-2011	2009-2010
Movements in Accrued liability	Amount in INR	
Accrued liability as at beginning of the period:	333,000	-
Interest cost	27,000	-
Current service cost	584,000	222,000
Past service cost	-	-
Curtailment cost	-	-
Settlement cost	-	-
Benefits paid	-	-
Actuarial gain/loss	(9,000)	111,000
Accrued liability as of the end of the period:	**935,000**	**333,000**
(No fund is being maintained)		

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Accrued gratuity liability

	2010-2011	2009-2010
Movements in accrued liability	**Amount in INR**	
Amounts to be recognised in the Balance Sheet		
Present value of obligations as on the accounting date:	935,000	333,000
Fair value of the plan assets: (Zero as no fund is being maintained)	-	-
Liability to be recognised in the Balance Sheet:	**(935,000)**	**(333,000)**
Expenses to be recognised in P/L Account		
Interest cost	27,000	-
Current service cost	584,000	222,000
Past service cost	-	-
Expected return on plan assets	-	-
Curtailment cost (Credit)	-	-
Settlement cost (Credit)	-	-
Net actuarial (gain)/loss	(9,000)	111,000
Net expenses to be recognised in Profit and Loss Account	**602,000**	**333,000**

*** Rate of mortality**	**As per LIC (1994 - 1996) (Ultimate) Mortality table**	
* Rate of interest	8.0% per annum	8.0% per annum
* Rate of salary escalation	20.00% per annum	10.00% per annum
* Rate of exit due to reasons other than death or retirement	13.00% per annum	10.00% per annum
* Rate of return on plan assets	Does not arise	Does not arise

Note:

1. The estimate of future salary increase takes into account inflation, seniority, promotion and other relevant factors.
2. Discount rate is the prevailing market yields used by LIC for similar computations.

3.8 Segment accounting:

(i) Business segments:

The Company operates in only one business segment, namely providing capital either in the form of loans or investments.

(ii) Geographical segments:

The Company does not have any reportable geographical segments as per Accounting Standard 17.

3.9 Related party disclosure:

Information relating to related party transactions for the year ended March 31, 2011(as identified by the Management and relied upon by Auditors)

1. **Parties where control exists:**
   Controlling entity: IFMR Trust – Represented by IFMR Trusteeship Services Private Limited

2. Fellow subsidiaries with whom the Company had transactions during the year: Pudhuaaru Financial Services Private Limited

3. **Key management personnel:**

I. Ms. Sucharita Mukerjee, Chief Executive Officer and Director
II. Ms. Bindu Ananth, Director

Remuneration is paid by the Company to the Chief Executive Officer amounting to INR 3,435,484 (Previous year – INR 2,252,004)

Transactions with related parties:

Related party	Transactions	For the year ended March 31, 2011	For the year ended March 31, 2010
		Amount in INR	
IFMR Trust	Equity capital	NIL	600,000,000
	Reimbursement of expenses	3,835,968	2,587,368
	Share application money received	NIL	296,800,000
	Loan repaid	NIL	65,903,641
	Share of common expenses	15,458,632	2,727,083
Pudhuaaru Financial Services Private Limited	Term loan given and collected	35,000,000	NIL
	Interest on term loan	2,075,309	NIL
	cash collateral received and repaid	2,000,000	NIL
	Interest on cash collateral	48,368	NIL

Outstanding balances with related parties:

Related party	Transactions	For the year ended March 31, 2011	For the year ended March 31, 2010
		Amount in INR	
IFMR Trust	Equity capital	600,000,000	600,000,000
	reimbursement of expenses	901,015	2,587,368
	Share of common expenses	3,007,908	NIL
Pudhuaaru Financial Services Private Limited	Accrued interest receivable on term loan	34,300	NIL
	Interest payable on cash collateral	33,059	NIL

3.10 Earnings per share:

Description	For the year ended March 31, 2011	For the year ended March 31, 2010
	Amount in INR	
Profit after tax attributable to equity shareholders	16,225,709	371,258
Weighted average shares allotted and outstanding during the period	60,000,000	18,922,082
Earnings per share - basic & diluted	0.27	0.02

3.11 Deferred tax

Break up of deferred tax asset and deferred tax liability arising out of timing differences:

Particulars	As of March 31, 2011	As of March 31, 2010
	Amount in INR	
Deferred tax asset:		
Gratuity	303,361	110,623
Provision for standard assets	492,305	
Deferred tax liability:		
Unamortised processing charges	157,113	492,763
Depreciation	715,428	30,207
Net deferred tax liability	**76,875**	**412,347**

3.12 Disclosure of capital adequacy and liquidity:

The Company has disclosed the following information as per the Guidelines for Systemically Important Non-Deposit taking Non-Banking Finance Companies as regards capital adequacy, liquidity and disclosure norms issued by the Reserve Bank of India on August 1, 2008:

i. Capital adequacy ratio

Amount in INR

Particulars	As of March 31, 2011	As of March 31, 2010
Tier I Capital	616,814,715	600,589,006
Tier II Capital	1,517,352	NIL
Total capital	**618,332,067**	**600,589,006**
Total risk weighted assets	**607,276,280**	**636,210,394**
Capital ratios		
Tier I Capital as a % of total risk weighted assets (%)	101.57	94.40
Tier II Capital as a % of total risk weighted assets (%)	0.25	0.00
Total capital (%)	**101.82**	**94.40**

The above details have been determined based on the financial statements of the Company as of March 31, 2011 and previous year as of March 31, 2010.

ii. Exposure to real estate sector, both direct and indirect

The Company does not have any direct or indirect exposure to the real estate sector as of March 31, 2011 and March 31, 2010.

iii. Asset liability management

Maturity pattern of certain items of assets and liabilities:

Amount in INR

Particulars	Upto 1 Month	Over 1 Month to 2 Months	Over 2 Months to 3 Months	Over 3 Months to 6 Months	Over 6 Months to 1 Year	Over 1 Year to 3 Years	Over 3 Years to 5 Years	Over 5 Years	Total
Liabilities:									
Borrowing from banks	-	-	60,000,000	59,902,673	-	-	-	-	119,902,673
Market borrowings	-	-	-	-	-	-	-	-	-
Assets:									
Advances	17,679,571	21,077,254	26,501,512	63,778,169	77,790,537	21,483,855	-	-	228,310,898
Investments	25,605,030	11,942,664	25,262,840	118,411,970	197,407,313	-	-	-	378,629,817

This amount excludes interest accrued but not due and the above figures are based on the financial statements of the Company as of March 31, 2011.

Previous year

Amount in INR

Particulars	Upto 1 Month	Over 1 Month to 2 Months	Over 2 Months to 3 Months	Over 3 Months to 6 Months	Over 6 Months to 1 Year	Over 1 Year to 3 Years	Over 3 Years to 5 Years	Over 5 Years	Total
Liabilities:									
Borrowing from banks *	0.00	0.00	0.00	30,000,000	60,000,000	60,000,000	0.00	0.00	150,000,000
Market borrowings	-	-	-	-	-	-	-	-	-
Assets:									
Advances	39,414,694	31,494,719	29,181,973	93,652,922	137,698,787	0.00	0.00	0.00	331,443,095
Investments	149,500,000	19,742,640	8,812,757	80,669,566	74,030,996	0.00	0.00	0.00	332,755,959

This amount excludes interest accrued but not due and the above figures are based on the financial statements of the Company as of March 31, 2010.

3.13 Disclosure Pursuant to Reserve Bank of India Notification DNBS.193DG (VL) - 2007 dated 22 February 2007:

As of March 31, 2011

S.NO	Particulars	Amount Outstanding in INR	Amount Overdue in INR
	Liabilities:		
(1)	**Loans and Advance availed by the NBFC inclusive of interest accrued thereon but not paid**		
(a)	Debentures		
	- Secured	-	-
	- Unsecured	-	-
	(Other than falling within the meaning of Public Deposits)		
(b)	Deferred Credits	-	-
(c)	Term Loans	119,902,673	-
(d)	Inter-Corporate Loans and Borrowings	-	-
(e)	Commercial Paper	-	-
(f)	Other Loans	-	-

S.NO	Particulars	Amount Outstanding as of March 31, 2011 in INR
(2)	**Break up of Loans and Advances including Bills Receivables (Other than those included in (3) below):**	
(a)	Secured	228,310,898
(b)	Unsecured	-

S.NO	Particulars	Amount Outstanding as of March 31, 2011 in INR
(3)	**Break up of Leased Assets and Stock on Hire and Other Assets counting towards AFC activities**	
(i)	Lease Assets including Least Rentals Accrued and Due:	
	a) Financial Lease	-
	b) Operating Lease	-
(ii)	Stock on Hire including Hire Charges under Sundry Debtors:	
	a) Asset on Hire	-
	b) Repossessed Assets	-
(iii)	Other Loans counting towards AFC Activities	
	(a) Loans where Assets have been Repossessed	-
	(b) Loans other than (a) above	-

S.NO	Particulars	Current Investment	Long Term Investment
(4)	**Break-up of Investments**		
I	**Quoted:**		
(i)	Shares :		
	(a) Equity (b) Preference	- -	- -
(ii)	Debentures and Bonds	-	-
(iii)	Government Securities	-	-
(iv)	Others (Please Specify)		-
II	**Unquoted:**		
(i)	Shares :		
	Equity Preference	- -	- -
(ii)	Debentures and Bonds	-	-
(iii)	Government Securities	-	-
(iv)	Others (Investments in Pass Through Certificates and Other Rated Transactions)	378,629,817	-

Amount in INR

(5) **Borrower Group-wise Classification of Assets Financed as in (2) and (3) above**

S.NO	Category	As of March 31, 2011 (Net of Provision) (Refer Note below)		
		Secured	Unsecured	Total
1	Related Parties			
	(a) Subsidiaries (b) Companies in the same Group (c) Other Related Parties	- - -	- - -	- - -
2	Other than Related Parties	227,740,121	-	227,740,121

Note:

The amount of Assets financed represents the net owned portfolio outstanding after adjusting the provisions for standard assets amounting to INR 570,777

Amount in INR

(6) **Investor group-wise classification of all Investments (Current and Long Term) in Shares and Securities (both Quoted and Unquoted)**

S.NO	Category	Market Value/Break-up Value or Fair Value or Net Asset Value	Book Value (Net of Provisioning) (Refer note below)
1	Related Parties		
	(a) Subsidiaries	-	-
	(b) Companies in the same group	-	-
	(c) Other related parties	-	-
2	Other than related parties	-	377,683,242
Total			**377,683,242**

Note:

The amount of Investment represents the Investments made in Securitisation and Other Rated Transactions after adjusting the provisions for Standard Assets amounting to INR 946,575

(7)	Other Information	Related Parties	Other than Related Parties
(i)	Gross Non-Performing Assets	-	-
(ii)	Net Non-Performing Assets	-	-
(iii)	Assets Acquired in Satisfaction of Debt	-	-

The above figures are based on the financial statements of the company as of March 31, 2011.

3.14 The Company is a Systemically Important Non-Deposit taking Non-Banking Finance Company (NBFC – ND-SI) and has received Certificate of Registration (COR) dated June 24, 1999, from the Reserve Bank of India (RBI) to carry on the business of Non-Banking Financial Institution without accepting deposits. However COR is in the name of Highland Leasing and Finance Private Limited till date and the Company has requested RBI for change of name in the COR, which is still awaited.

3.15 Previous year figures have been regrouped/reclassified wherever necessary to confirm to current year's presentation.

For and on behalf of
IFMR Capital Finance Private Limited

Sucharita Mukherjee	**Bindu Ananth**	**Sanka Indrani**
CEO & Director	**Director**	**Company Secretary**

Place : Chennai
Date : 11 May 2011

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