IFMR Capital

Capital markets access for asset classes impacting **low-income households**

ANNUAL REPORT 2011-12

MISSION

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

Contents

FROM THE CHAIRPERSON

BINDU ANANTH
President, IFMR Trust

During the year, we increased our coverage to
25
Originators and through them,
3
million households.

Professor Robert Shiller in a recent speech to a graduating class observed that "Finance, at its best, does not merely manage risk, but also acts as the steward of society's assets and an advocate of its deepest goals. Beyond compensation, the next generation of finance professionals will be paid its truest rewards in the satisfaction that comes with the gains made in democratizing finance – extending its benefits into corners of society where they are most needed." IFMR Capital is fast emerging as one such institution that is powerfully demonstrating the power of financial markets to achieve the national goal of inclusion.

Since inception in 2009, we have been focussed on identifying and growing high-quality Originators in the Indian financial system providing valuable financial services to low-income households. During the year, we increased our coverage to 25 Originators and through them, 3 million households. A significant highlight of the year was adding Originators in affordable housing and small business finance, in addition to micro finance. We expect these to be significant growth segments in the coming years. By creating access to debt capital markets for these institutions, it is our belief that we contribute to building their resilience and growth capacity in significant ways. Our Originator partners inspire us with their commitment to meet the financial services needs of their clients.

Our early and continued investments in risk surveillance and management were evidenced during the year with a track record of zero credit losses across all transactions in a high-growth year, despite an external environment that remained challenging for our clients. We had the honour of sharing our risk modelling work in a number of prestigious fora, including the International Growth Council's annual meetings and at the Tata Institute of Fundamental Research. We also continue to invest in and advance our capabilities in structuring appropriate financing products so that our clients can achieve better diversification of liabilities and reduce costs of financing.

I am happy to report that we have taken proactive action to ensure that our Originators display the highest standards of customer protection. Even as we are engaged in the broader policy conversation on customer protection as the IFMR Group, it was important for us to start demonstrating this in our own backyard. We have incorporated these in our under-writing guidelines and monitoring frameworks.

We are very honoured that Dr. Susan Thomas joined the Board of IFMR Capital this year as its second independent Director. Dr. Thomas brings a rich background in risk management and corporate governance and will help IFMR Capital achieve higher standards in these areas. I thank her, Charles Silberstein, Puneet Gupta and Dave Wallack for their outstanding contributions to the Board of IFMR Capital.

I would like to congratulate and thank Sucharita Mukherjee, Kshama Fernandes, the Partners and the entire team at IFMR Capital for their outstanding and sustained contributions to our shared mission.

BINDU ANANTH
President, IFMR Trust

FROM THE CEO

"Do not simply follow where the path may lead. Go instead where there is no path and leave a trail", said Ralph Waldo Emerson in 19th century America. In pursuit of its mission to provide access to capital for institutions that impact low income households, IFMR Capital continues making strides, often creating paths where none exist.

2011-2012 has been a period of strong performance for the microfinance asset class accompanied by forays into two other asset classes, namely affordable housing finance and small business loans. While the year was marked by uncertainty over a series of regulatory measures being put in place for the microfinance sector and for securitisation, the year ended with a lot more clarity on the regulatory environment. MFIs have re-calibrated their operations and reoriented themselves towards a newer business environment under a regime of margin caps, regulated competition and high levels of transparency and disclosure.

During this period, despite considerable challenges and concerns, we demonstrated our ability to identify high quality partner institutions whom we could take to the markets. We demonstrated the true power of capital markets by providing access to debt for these institutions during a critical period for the sector, all this while maintaining a zero NPA. Transactions structured by us showed an average collection efficiency of 99.65 percent and we have so far received 36 rating upgrades on our transactions.

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

The three key goals at IFMR Capital for this year were to substantially scale up our impact on access to debt finance for the microfinance sector, become a strategic business partner for each of our MFI clients and develop new business lines/asset classes that impact low income households.

DR. KSHAMA FERNANDES
CEO, IFMR Capital

We demonstrated the true power of capital markets by providing access to debt for these institutions during a critical period for the sector, all this while maintaining a

zero NPA.

Over the year, IFMR Capital enabled a funding of INR 10 billion to the sector. While most of this funding was to the microfinance sector, during the year we finalised and launched the underwriting guidelines for both small business loans and affordable housing finance. We also made our first investments in these sectors. We believe our competitive advantage lies in our ability to spot market opportunities, develop a robust understanding of underlying sectors and business models, identify high quality originators and develop relevant products for investors backed by institutions and assets that meet our underwriting guidelines. We have a robust pipeline and hope that most of this will translate into new business in the coming year.

On new product development, we launched the guarantee backed loan pool structure, revolver securitisation structure and cash credit facility for affordable housing finance companies. All of these have been developed in response to a specific client need and been supplemented by building partnerships such as that with the Asian Development Bank to reinforce investor confidence in these markets.

> We believe our competitive advantage lies in our ability to spot market opportunities, develop a robust understanding of underlying sectors and business models, identify high quality originators and develop relevant products for investors backed by institutions and assets that meet our underwriting guidelines.

As a part of our long-term competitive strategy, we continued developing our work in risk modelling. We developed risk-models for microfinance by observing the performance of the 2 million odd underlying loans securitised by us. The default distribution model enables us to predict losses, structure credit enhancements and estimate value at risk in any given capital markets transaction. We also developed an understanding of district and state wise probabilities of defaults, and correlations between entities/geographies that determine how risk behaves upon pooling. Our exposure to almost 300 districts in the country and our continuous on-the-field monitoring inputs give us the unique ability to validate our models.

We believe our employees are our most valuable assets. We have always made efforts to attract and retain the best talent. Our employees share a sense of purpose and ownership towards our mission. In the spirit of this ownership, we developed and implemented the "partnership concept" and the Long Term Incentive Plan (LTIP) for IFMR Capital. The LTIP provides a long term incentive to nurture key employees who have made significant sustained contribution to the mission of the company, and who we believe are vital to our success. Under this Plan, each participant will have an opportunity to participate in the performance of the company. We created a group of "Partners" at IFMR Capital, who will collectively carry the mission forward to fruition.

Our work at IFMR Capital constantly necessitates that we build understanding, respect and credibility with our clients and investors. We launched the first IFMR Capital Partners Meet, a platform for reflection, dialogue and action to re-vision access to finance for underserved households. Through the year, members of the IFMR Capital senior team were invited as speakers at important microfinance conferences and forums. Some noteworthy events are the ISB conference on SME Financing, the College of Agricultural Banking conference in Pune and the International Growth Centre meet at the London School of Economics. We were also part of the team that worked with the PMO in designing the national policy for skill development. We continue to closely work with the IFMR Finance Foundation on evolving a financial systems design for India.

> Our ambition for 2012-13 is to significantly scale up our business across asset classes relevant to low-income households, specifically affordable housing finance and small business finance

Our ambition for 2012-13 is to significantly scale up our business across asset classes relevant to low-income households, specifically affordable housing finance and small business finance, and take these to capital markets in a planned and sustainable manner. We believe our forays into these sectors will have a significant socio-economic impact and help towards diversifying our exposures. To achieve this will require us to deepen our expertise and reach across sectors, add to our team strength both in terms of numbers and knowledge, and expand and diversify our investor base. Our experience with the microfinance asset class gives us the confidence that we will succeed in our efforts across other asset classes.

I would like to take this opportunity to thank the IFMR Capital Board and the IFMR Capital Advisors group for their unwavering support, encouragement and strategic guidance.

I also thank all our investors and our business partners for believing in us and our mission. With your continued support, we will change the way access to capital happens to the financially excluded in India.

KSHAMA FERNANDES
CEO, IFMR Capital

IFMR Capital Business Highlights

IFMR Capital Business Highlights

The year 2012 was marked by continuing 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, pioneered new products and strengthened existing relationships by supporting our partners through a critical phase for the sector.

Impact

Clients:

Even as traditional investors shied away and funding to MFIs across the sector dried up, we continued to enable access to liquidity for existing partners and provided a significant source of finance for them enabling financing of close to INR 10 billion in FY 2012, 60% more than what we achieved in the previous financial year. Indeed, in the twelve months immediately following the microfinance crisis, we provided more than INR 7 billion of financing to the sector, despite the highly stressed liquidity environment for our partners during this period.

In addition to microfinance, we have also made inroads into asset classes of relevance to low-income households such as small-enterprise finance and affordable housing finance and launched Underwriting Guidelines for Small-Enterprise Finance and Affordable Housing Finance. We have developed new products such as a cash credit facility for affordable housing finance companies, and made our first four investments in these areas.

Risk:

We continued to maintain a zero delinquency track record across INR 17 billion of financing raised since inception till date.

Our risk analytics, field monitoring and surveillance capabilities were tested adequately during this period of stressed liquidity. We developed the first default distribution model for micro-loans that enables us to predict losses, estimate credit enhancement and size value at risk in any given capital markets transaction. We also developed an understanding of district and state wise probabilities of defaults and correlations between entity/geography that determines how the risk behaves on pooling. Our work presented at various forums such as the Reserve Bank of India-College of Agricultural Banking (RBI-CAB), at the leading rating agencies and Tata Institute of Fundamental Research (TIFR), is the first seminal piece of work in a scientific understanding and measurement of credit risk in retail asset classes in India.

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 have been 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. We also got on board private wealth investors, who so far had no access or exposure to the microfinance asset class.

During the year we facilitated INR 495 million of debt-syndication for our clients and achieved robust growth in our loans and securitisation transaction volumes, together totalling close to INR 10 billion. We also developed new products for our clients such as guarantee-backed loan pools, cash credit facilities and revolver securitisation.

Funding:

During the year, IFMR Capital completed 3 commercial paper issuances raising INR 238.5 million through its CP issuance program. IFMR Capital received a rating of CARE A1 by CARE in October 2011, in addition to having the long term rating of A- reaffirmed. The CP issuances mark a major milestone for IFMR Capital as it provides the company the ability to tap diversified sources of funding and serves as an alternative to bank credit for funding short-term capital requirements. IFMR Capital has also raised INR 360 million via issuance of rated listed non-convertible debentures, and raised a total of INR 1.1 billion of financing through bank loans, bonds and CPs, thus taking IFMR Capital's balance sheet size to approximately INR 1.7 billion.

This year also witnessed the investment by the leading Dutch development bank, FMO in IFMR Capital's NCD issuance. Investment in IFMR Capital's capital market issuance by FMO marks a huge milestone for the company since it is testimony once again to IFMR Capital's commitment to working with institutions that impact low-income households and enabling access to capital markets for them.

Transactions:

IFMR Capital closed its largest Multi-Originator Securitisation (MOSEC) with nine Originators contributing to the pool of MOSEC XII. The aggregate pool was highly diversified with underlying loans originated from 11 states and 112 districts. This is the twelfth MOSEC in an overall INR 4 billion programme that IFMR Capital has structured, arranged and invested in and establishes the potential and sustainability of the MOSEC model. It also reinforces IFMR Capital's commitment to enabling capital-market access to high-quality originators, regardless of their size.

Once again, many transactions structured, arranged and invested in by IFMR Capital received rating upgrades during the year. An example of this is S&P CRISIL's upgrade of its rating on the Series A3 certificates issued under Gamma Pioneer IFMR Capital 2010 originated by Equitas Micro Finance India Pvt. Ltd. to CRISIL AAA(SO) from CRISIL A+(SO). The upgrade was closely followed by ICRA, A Moody's company's rating upgrade on the PTCs issued under Aether IFMR Capital 2011. The Series A1 PTC was revised to A+(SO) from A-(SO) and the Series A2 PTC was revised to BBB-(SO) from BB+(SO). IFMR Capital has so far received 36 rating upgrades on its transactions.

As a first, IFMR Capital closed an INR 77.2 million rated PTC securitisation transaction (called Abeona SBL IFMR Capital 2012) with its

Even as traditional investors shied away and funding to MFIs across the sector dried up, we continued to enable access to liquidity for existing partners and provided a significant source of finance for them enabling financing of close to

INR 10 billion

in FY 2012, 60% higher than what we achieved in the previous financial year.

partner; the Bangalore based NBFC, Vistaar Financial Services Private Limited. The transaction was IFMR Capital's first securitisation of an exclusive SME loan pool and one among very few similar transactions in the past. IFMR Capital's transaction is unique as this was the first transaction with a new and small originator in a space that is dominated by larger NBFCs having significant vintage.

IFMR Capital plans to follow-up this transaction with several more in this asset class, and is currently in the process of building a pipeline of SME lenders. The next step would be to replicate the multi-originator securitisation structure for small business lenders, just as IFMR Capital has done successfully for microfinance institutions. Such a transaction would enable small business lenders to access capital markets at a reasonable cost.

Origination:

During the year, IFMR Capital released its revised Underwriting Guidelines on Microfinance adding a section on Governance and Customer Protection, where detailed standards for evaluation had not been laid out in the past. In this respect, the revised Guidelines state that the members of a JLG should self-select themselves and the group should not be formed though coercion or external influence. The Guidelines also advocate maker-checker arrangements, a process for recording of loan-utilisation checks and appropriate recovery practices.

IFMR Capital in the news:

This year witnessed a number of mentions of IFMR Capital's work in some of the world's most renowned publications. The Forbes magazine published an article covering IFMR Capital's work in multi-originator securitisation. An article in the Harvard Business Review on new approaches to funding social enterprises cited IFMR Capital's work in securitisation and structured finance of microfinance loan portfolios. The article explored how unbundling societal benefits and financial returns can dramatically increase investment. A chapter on IFMR Capital's structured finance approach was published in the Euromoney Structured Finance and Securitisation Yearbook 2011.

IFMR Capital hosted its Annual Risk Workshop in June this year. The concept of the workshop was to provide a common platform for capital providers/financiers and clients, and share our risk management principles and workings. The Risk Workshop was structured to cover the various aspects of risk as we perceive and evaluate it today, which in turn is based on our Underwriting Guidelines, risk frameworks and our policy initiatives in the sector. Senior level executives from 15 MFIs across the country flew in for a day of structured workshops, discussions, and case studies with the IFMR Capital team.

IFMR Capital was also a key contributor to the first annual Financial Systems Design Conference hosted at our premises. Our work on Financial Systems Design was presented by IFMR Capital at the International Growth Centre in London. As an effort to engage effectively with our partners' business and strategy in the changing sector landscape post the microfinance crisis, we hosted the IFMR Capital Partners Meet, to help shape the evolution of our partners business and better hone their response to industry shocks.

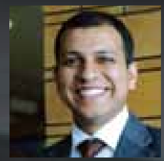
We look forward to another successful year of creating long term value for our clients and investors.

> The Forbes magazine published an article covering IFMR Capital's work in multi-originator securitisations.
>
> An article in the Harvard Business Review on new approaches to funding social enterprises cited IFMR Capital's work in securitisation and structured finance of microfinance loan portfolios

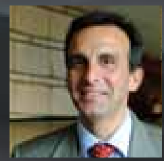
GOVERNANCE

Board of Directors

Bindu Ananth
Chairperson and President, IFMR Trust

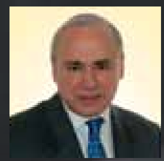


Puneet Gupta
Chief Executive Officer, IFMR Rural Finance

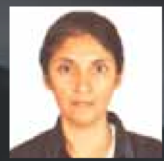


David Wallack
Chief Design Officer, IFMR Rural Finance

Sucharita Mukherjee
Trustee, IFMR Trust and Director, IFMR Capital



Charles Silberstein
Former Director- FSA, London, Independent Director

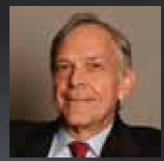


Dr. Susan Thomas
Faculty, Indira Gandhi Institute for Development Research (IGIDR), Independent Director

Dr. Kshama Fernandes
Chief Executive Officer and Senior Partner, IFMR Capital

Advisors

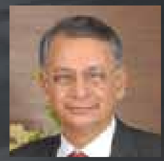
Dr. Nachiket Mor
Chairman, Sughavazhvu Health Care



W Bowman Cutter III
Former Managing Director, Warburg Pincus

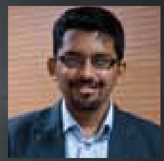
Dr. Tilman Ehrbeck
Chief Executive Officer, CGAP

Deidra Wager
Former Executive Vice President, Starbucks Coffee Company

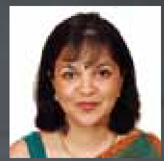


H N Sinor
Chief Executive, Association of Mutual Funds of India (AMFI)

Senior Management



Vineet Sukumar
Senior Partner and Chief Financial Officer



Meenal Madhukar
Senior Partner and Head - Investor Relations

Kalyanasundaram .C
Partner and Head - Operations

Gaurav Kumar
Partner and Head - Microfinance Business

Bhagirath Iyer
Partner and Head - Emerging Asset Classes

Directors' Report

Dear Shareholders,

Your directors have pleasure in presenting the third annual report along with the audited accounts of the company for the year ended March 31, 2012. The summarised financial results of the Company are given hereunder:

Financial results:

Rs in Cr.

Particulars	As on March 31, 2012	As on March 31, 2011
Income	20.85	13.70
Less: Expenditure	15.87	11.38
Gross profit before depreciation	4.98	2.31
Less: Depreciation for the year	0.34	0.25
PBT (Profit before Tax)	4.64	2.06
Less: Provision for tax (Current year)	0.74	0.47
Less: Deferred tax	0.58	(0.03)
PAT (Profit after Tax)	3.32	1.62
Profit brought forward from previous year	1.34	0.05
Less: Transfer to reserve	0.66	0.33
Balance carried forward to balance sheet	4.00	1.34

Dividend:

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

Operations:

During the year end March 31, 2012, the company achieved a Profit Before Tax of INR 4.64 Crores, a growth of 125.24% over last year.

During the year, your company has enabled financing via Securitisation transactions valuing around INR 830 Crores, Loans to Originate (LTO) transactions worth INR 96 Crores, NCD placements worth around 19 Crores and loan syndication worth 30 Crores.

Credit Rating:

Your Company has been rated as follows:

ICRA : A- for raising non-convertible debenture of an amount not exceeding INR 37 Crores

CARE : A1 for raising Commercial Paper of an amount not exceeding INR 25 Crores

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 on March 31, 2012 is 41.39% as against 101.09% as on March 31, 2011. The minimum capital adequacy ratio prescribed by RBI is 15%.

Outlook for 2012-13

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 scaled up our microfinance portfolio by expanding our partner base, achieving higher volumes, creating new products and structures and providing complete debt solutions via products. We have also added new partners to our non-microfinance portfolio such as high quality originators in the affordable housing finance and small-enterprise finance space. We have significantly scaled our outreach to capital market investors. Given our performance over the last four years investors have shown confidence in IFMR Capital backed transactions. 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 plan to deepen our outreach through sealing new relationships with potential partners, strengthening our existing relationships with partners and by expanding our range of debt funding solutions and value-adds across sectors. 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 company achieved a Profit Before Tax of

INR 4.64

Crores, a growth of

125.24%

over last year

Corporate Governance:

Your Company maintains and follows high standards of Corporate Governance in all its processes including voluntary adoption of good corporate governance practices. The 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**

Consequent to the resignation of Mr. SG Anil Kumar as director of the Company, he ceased to be a Member of the Nomination Committee of the Company. Mr. David Ira Wallack has been appointed in his place as Member of the Nomination Committee.

Directors:

Dr. Susan Thomas was appointed as an Additional Director on October 11, 2011 ceased to be a director at the Annual General Meeting held on May 14, 2012 and being eligible has been appointed as a Director of the Company in the Annual General Meeting held on May 14, 2012.

Non-acceptance of deposits:

Your Company has not accepted any public deposits during the financial year 2011-12.

Auditors:

M/s. Deloitte Haskins & Sells, chartered accountants, retire at the conclusion of the ensuing annual general meeting and being eligible, offer themselves 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 2011-12.

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, 2012 and the Balance Sheet as at that date ("financial statements") and confirm that:

- In the preparation of the Profit & Loss account for the financial year ended March 31, 2012 and the Balance Sheet as at 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 the 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, Share Holders of the Company.

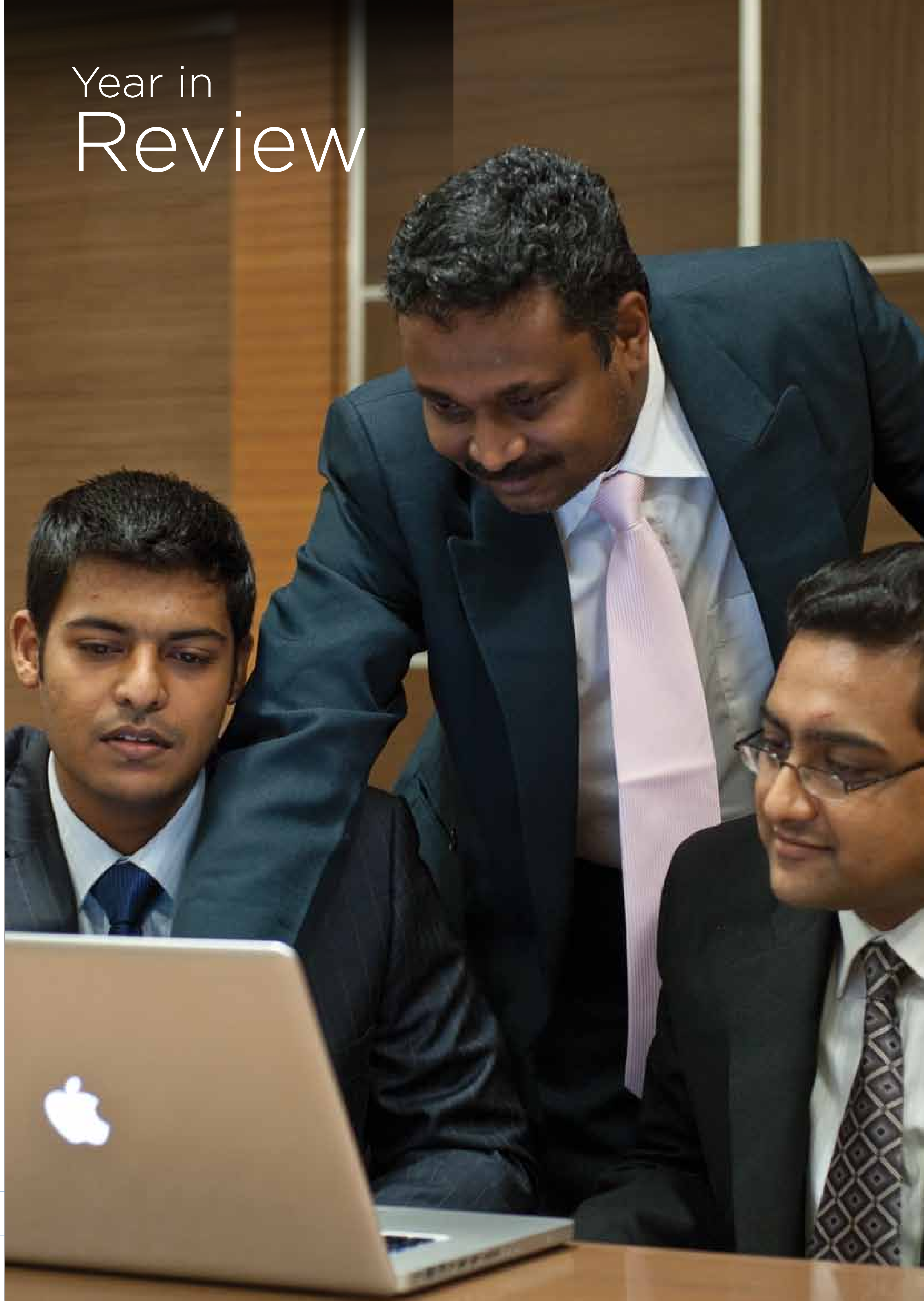
The Directors also thank the employees of the Company for their contribution toward the performance of the Company during the year under review.

On behalf of the Board
For IFMR Capital Finance Private Limited

Bindu Ananth
Director

Sucharita Mukherjee
Director

Date: May 14, 2012
Place: Chennai

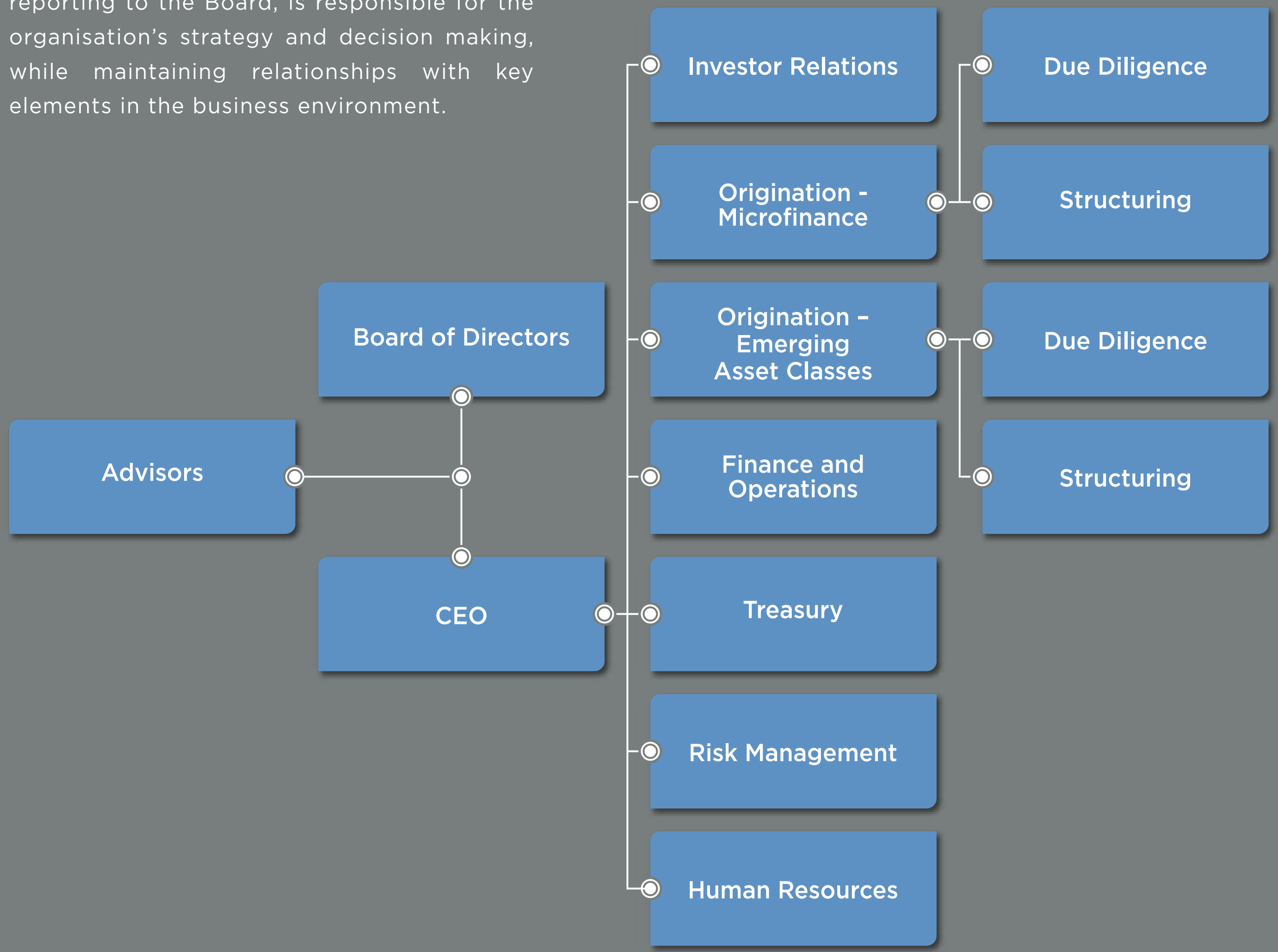


Building Teams

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 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 have designed an organisation structure that helps 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.

...in the year under review the organisation grew tremendously



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 organisation structure promotes specialisation while bringing different teams together for a transaction so that each team can leverage its expertise to complete transactions on time.

While the roles need to well laid out, the people handling each role have to be high-quality. In FY 2011-2012 IFMR Capital was able to attract high-quality talent and build a team comprising of experienced industry professionals from top class organisations as well as fresh recruits from India's best academic institutions.

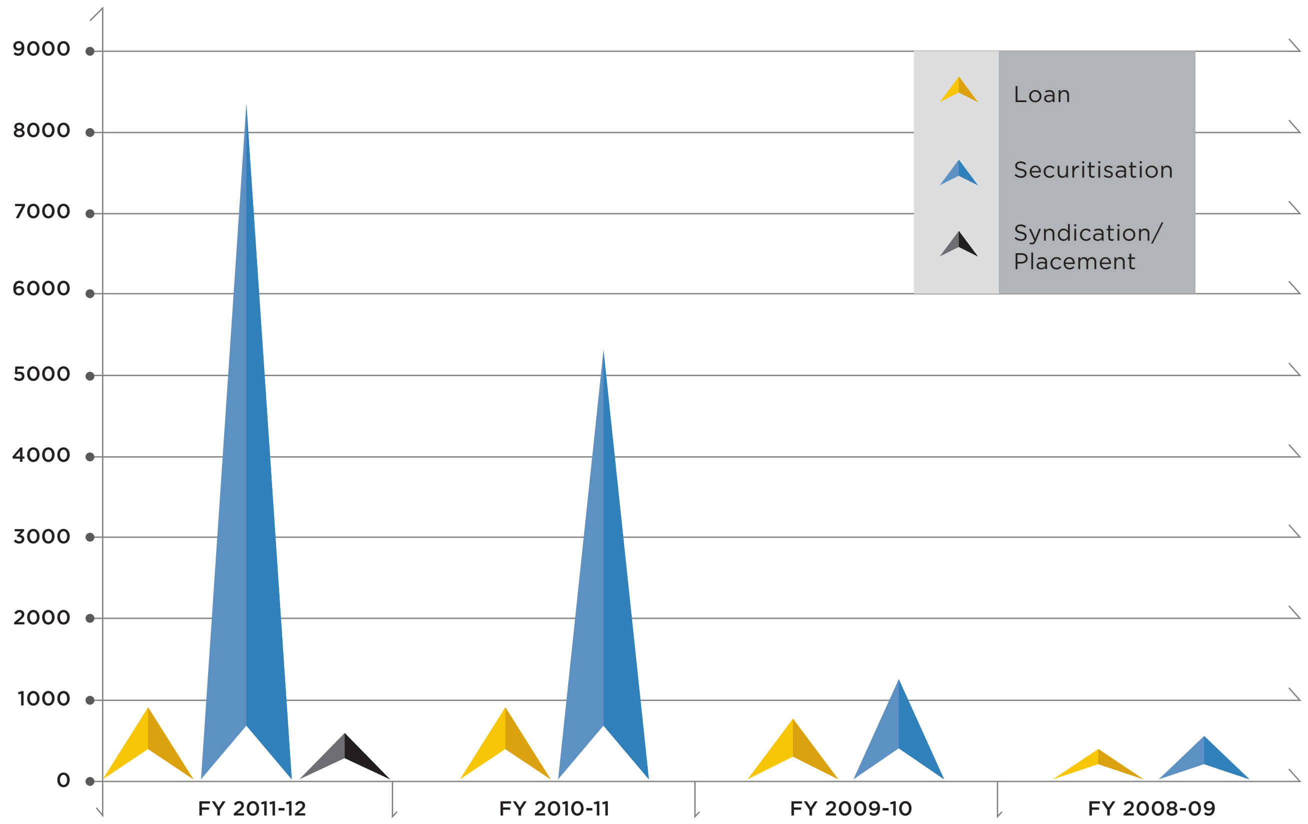
The organisation structure promotes specialisation while bringing different teams together for a transaction so that each team can leverage its expertise to complete transactions on time.

Working with high-quality originators

Our mission is to provide efficient and reliable access to debt capital markets for institutions that impact low-income households and we believe that high-quality institutions must always be able to avail of such access. Over the year, our due-diligence team conducted nearly 30 MFI's assessments to ensure that we worked with high-quality originators 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 Originators.

Our Origination team tracks the microfinance sector closely and engages in detailed conversations with our 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 partners and provided Loans-To-Originate that would then be securitised. The securitisation and on-balance sheet funding programme expanded significantly in FY 2012, with IFMR Capital enabling around INR 9,740 million worth of funding for our clients. This year also witnessed us close our first debt syndication deal for INR 495 million. Overall business volumes grew by around 61% year-on-year with securitisation volume expanding 62% and on-balance sheet funding growing by 2% over the previous year. IFMR Capital also structured, arranged and invested in the largest Multi-Originator Securitisation (Mosec) so far – Mosec XII with 9 originators.

As another step towards building tailor-made solutions to our clients' funding needs, IFMR Capital structured, arranged and invested in the first replenishment-based securitisation for this year with Grama Vidiyal. The year also marked the beginning of our foray into emerging asset classes of relevance to low-income households. IFMR Capital successfully completed its first securitisation transaction in the SME finance space with Vistaar Financial Services Private Limited. IFMR Capital plans to follow-up this transaction with several more in this asset class, and is currently in the process of building a pipeline of SME lenders. The next step would be to replicate the multi-originator securitisation structure for small business lenders, just as IFMR Capital has done successfully for microfinance institutions. Such a transaction would enable small business lenders to access capital markets at a reasonable cost. This is in addition to the provision of on-going on-balance sheet lending, and other financing solutions to high-quality originators in the SME finance and affordable housing space.



Our work in Emerging Asset Classes

After having successfully enabled capital market investments in microfinance, we felt that the time has come to replicate our success in other asset classes of relevance to lower income households and informal segment enterprises. IFMR Capital understands that there is a significant opportunity beyond microfinance, in the household segment that has strong enterprise-based cashflows, requires larger loans of longer tenor but typically does not have formal income documents or paper evidence of income and cashflows and therefore, is unable to access banks and other mainstream providers of credit. It is possible for originators with local knowledge and strong credit and cash flow assessment capabilities to lend to this segment, in the form of secured or unsecured loans. The credit demand for such households is both to meet the business working capital and investment needs as well as for other basic needs such as housing.

We have identified two potential asset classes – small business loans and affordable housing finance – that have significant scale up opportunities but, at the same time, do not have access to capital markets. Over the last one year, we have made significant headway in our work to refine our understanding, develop underwriting guidelines and commence business with high quality originators operating in this segment. Similar to its microfinance business, IFMR Capital will act as the key link between capital market investors and high quality originators of small business loans and affordable housing finance loans.

Our analysis indicates that while the demand for small business loans and affordable housing finance is very large and growing, there are few originators on the supply side and the number is growing. The underwriting models of these originators are diverse and still developing, while certain key principles are followed by all originators. Similar to the microfinance space, most of these originators are relatively small and not high-rated. This presents a good opportunity for IFMR Capital to develop access to capital markets for these institutions, backed by an underwriting framework based approach just as we have done in the microfinance industry in India.

We are in the process of developing new product offerings for originators as well as building networks amongst diverse capital market investors such as insurance companies who have an appetite to invest in long-term assets. We are presently developing a pipeline of potential investee companies in these two asset classes and have also made our first set of investments – one each in small business loan and affordable housing finance asset classes.

Affordable Housing Finance

As per the estimates of the Eleventh Five Year Plan (2007-12), the housing shortage in urban areas at the beginning of 2007 is about 24.71 million units and is likely to go up to 26.53 million units by 2012. It is also estimated that 99% of the shortage is for the economically weaker sections.

Housing is important because:

- Housing has direct impact on employment and income generation. Improved housing is essential for the well-being of a family.
- It also leads to enhanced security and health through organized housing with access to sanitation.
- Impact in terms of improved habitat, living, educational, social and cultural standards leads to better quality of human capital and thereby the future Income capabilities.
- Improved productivity leads to enhanced income, savings and repayment potential on sustainable lines.

The High Level Task Force on "Affordable Housing for All" estimates that alleviating the urban housing shortage could potentially raise the rate of growth of GDP by at least 1-1.5 percent and have a decisive impact on improving the basic quality of life.

Hence, enabling the informal sector customer to purchase better homes is one of the key ways in which economic development can be achieved. Loans to informal sector customers for affordable housing are a key catalyst to help such customers meet their need for own housing. Banks and mainstream housing finance companies typically do not lend to this segment on account of lack of documented evidence of income and cashflows and relatively high cost of credit assessment. Hence the need for specialised housing finance companies arises. Over the last two-three years, several housing finance companies focusing on housing finance for the informal segment have been set up with institutional equity support in different parts of the country. The HFCs are a mix of entities that provide loans for purchase of new flats as well as companies that finance retail purchases or construction of independent houses.

As per a Monitor Group- NHB study, low-income housing segment (Minimum household income of INR 5,000 – 20,000) is estimated at 22 Million units of INR 0.5 million each with an estimated market opportunity of INR 11,000 billion and a potential size of the affordable housing finance market of INR 8,800 billion.

After having developed underwriting guidelines for the market, we made our first debt investment into a housing finance company in December 2011. IFMR Capital has chosen to take direct balance sheet exposure in the affordable housing finance sector before introducing investors into the asset class. We plan to work with the players targeting affordable housing finance and help them access medium to long term funding through securitisation as well as through on-balance sheet financing. IFMR Capital also intends to play a role in assisting the housing finance companies to address short term funding needs arising out ALM mismatch through structured working capital products.

Small Business Loans

The 4th Census of Micro, Small and Medium Enterprises (MSMEs) estimates the number of enterprises as 26 million (as at FY 07 end). However, including small enterprises in the unorganised sector (i.e., unincorporated entities employing less than 10 workers and having capitalisation level less than INR 3.5 million), the number of micro-enterprises is estimated at 58 million (as at FY 07 end).

After having developed underwriting guidelines for the market, we made our first debt investment into a housing finance company in December 2011

Micro small and medium enterprises are important because:

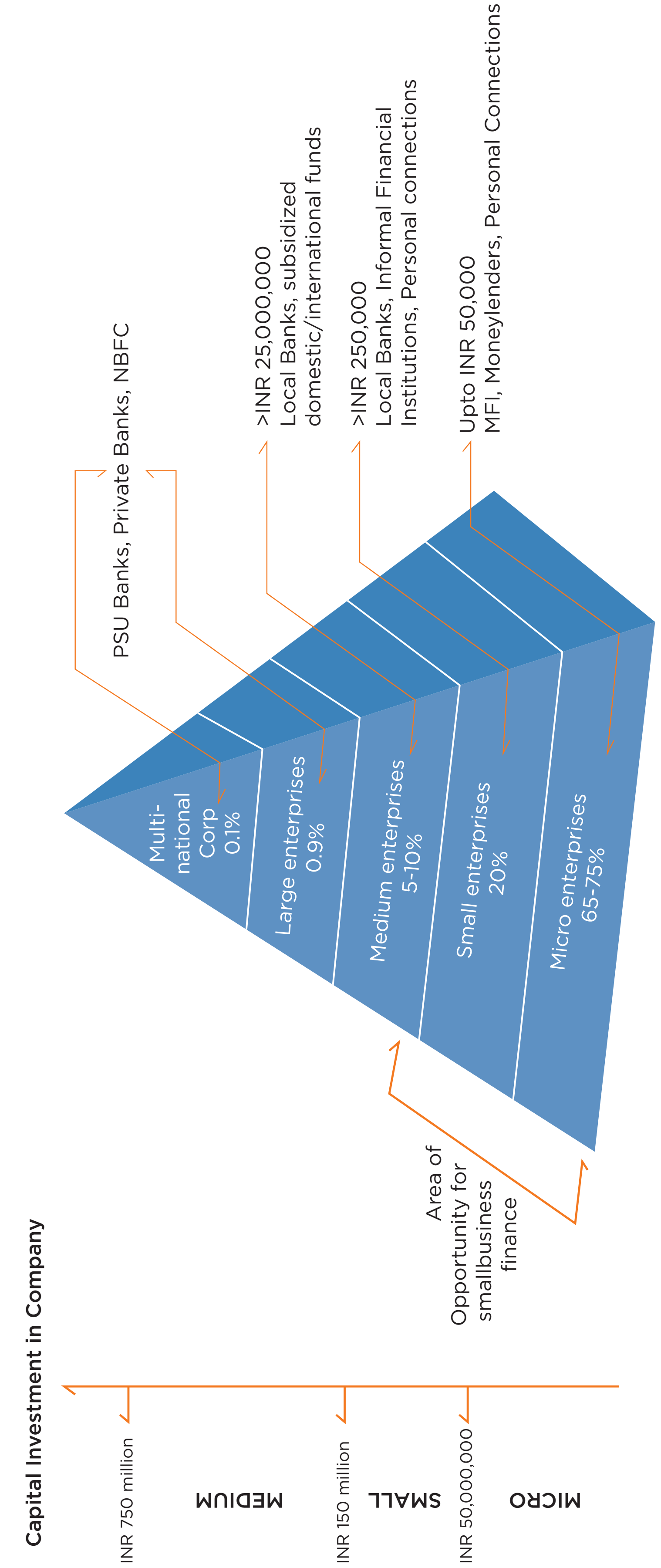
SMEs contribute to 8% of India's GDP and 45% of the total industrial production and the unorganised small scale sector constituted almost 85% of the total non-farm employment in India. A flourishing small business sector is widely considered vital for growth of the economy.

Small businesses often lack cash flows to make large investments and cannot access banks like larger firms can due to lack documentary evidence of income and cashflows. The lack of timely and adequate credit is one of the most critical obstacles to growth that the small business sector faces. It is estimated* that that the total demand of small business loans in about INR 1 trillion in the formal sector and INR 9 trillion in the informal sector (Source: IFC study on Micro, Small and Medium Enterprise Finance Market in India, 2012).

The missing middle in the SME finance market.

Hence, an effort to enable access to timely and adequate finance to small businesses in the informal sector would be critical to accelerate economic growth. Similar to the affordable housing finance market, banks and other mainstream financial institutions meet only a small proportion of the total demand and there is a need for specialized institutions that have local knowledge and make use of personal discussion and relationship-based lending approaches for credit assessment. This space is largely being catered to by specialized NBFCs and we have seen a mix of both new NBFCs being set up with an exclusive focus on SME financing as well as existing large NBFCs developing this as a separate line of business.

In December 2011, IFMR Capital provided its first sanction to a small business finance company. Based on strong underwriting framework, IFMR Capital is working closely with several such originators and is looking at enabling and investing in several capital market transactions in the coming days.



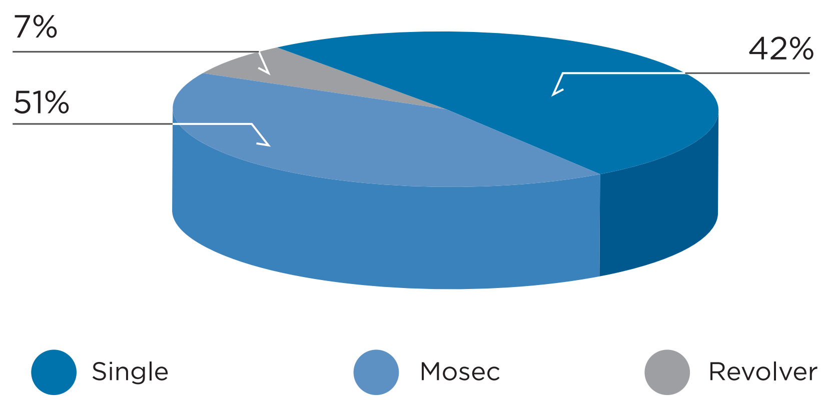
Our Partners

Funding through IFMR Capital FY 2011 – 2012

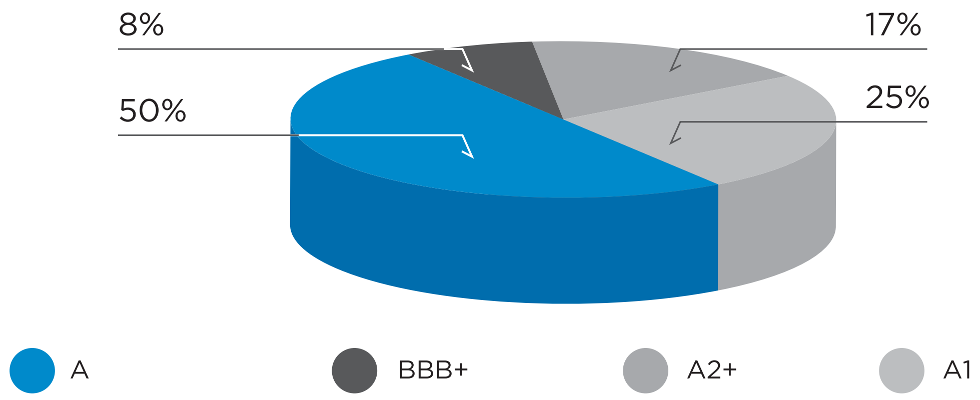
INR in Cr.

Partner Institution	Total Funding Enabled FY 12
Annapurna	17.98
Arohan	16.99
Asirvad	38.66
Disha	35.06
Fusion	16.57
Grameen Koota	141.85
Grama Vidiyal	137.54
Janalakshmi	51.34
Mimoza	9.98
Pudhuaaru	32.94
Pahal	3.00
Satin	115.92
SMILE	32.66
Sonata	36.48
Suryoday	71.78
SVCL	38.20
Ujjivan	57.53
Utkarsh	44.56
Vishwakriya	5.00
Vistaar	10.72

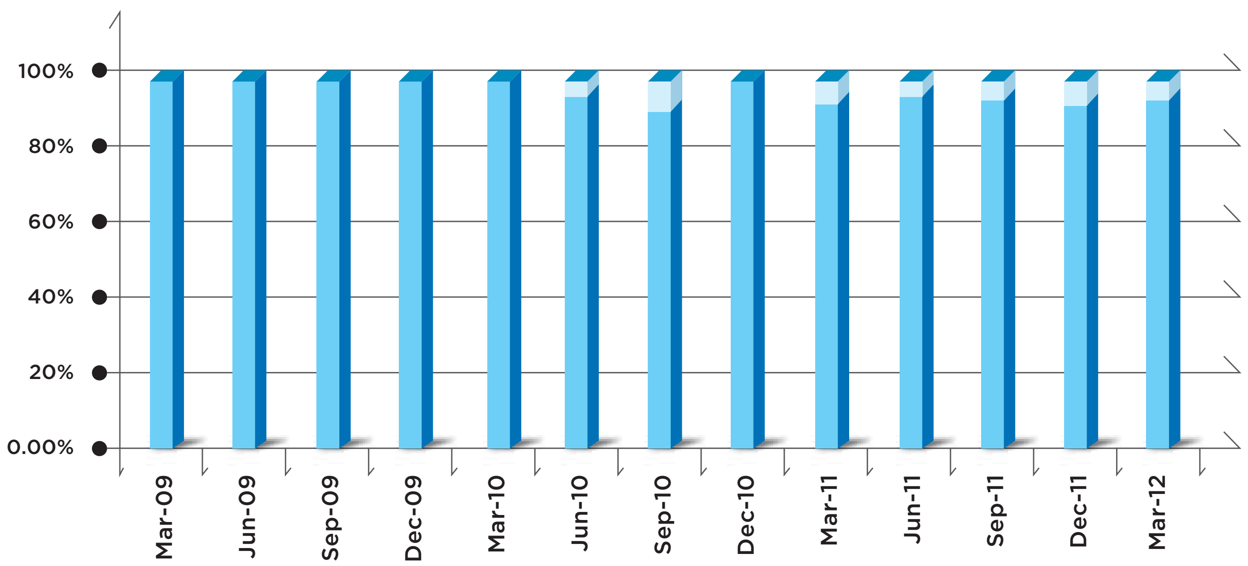
Securitisation Volume



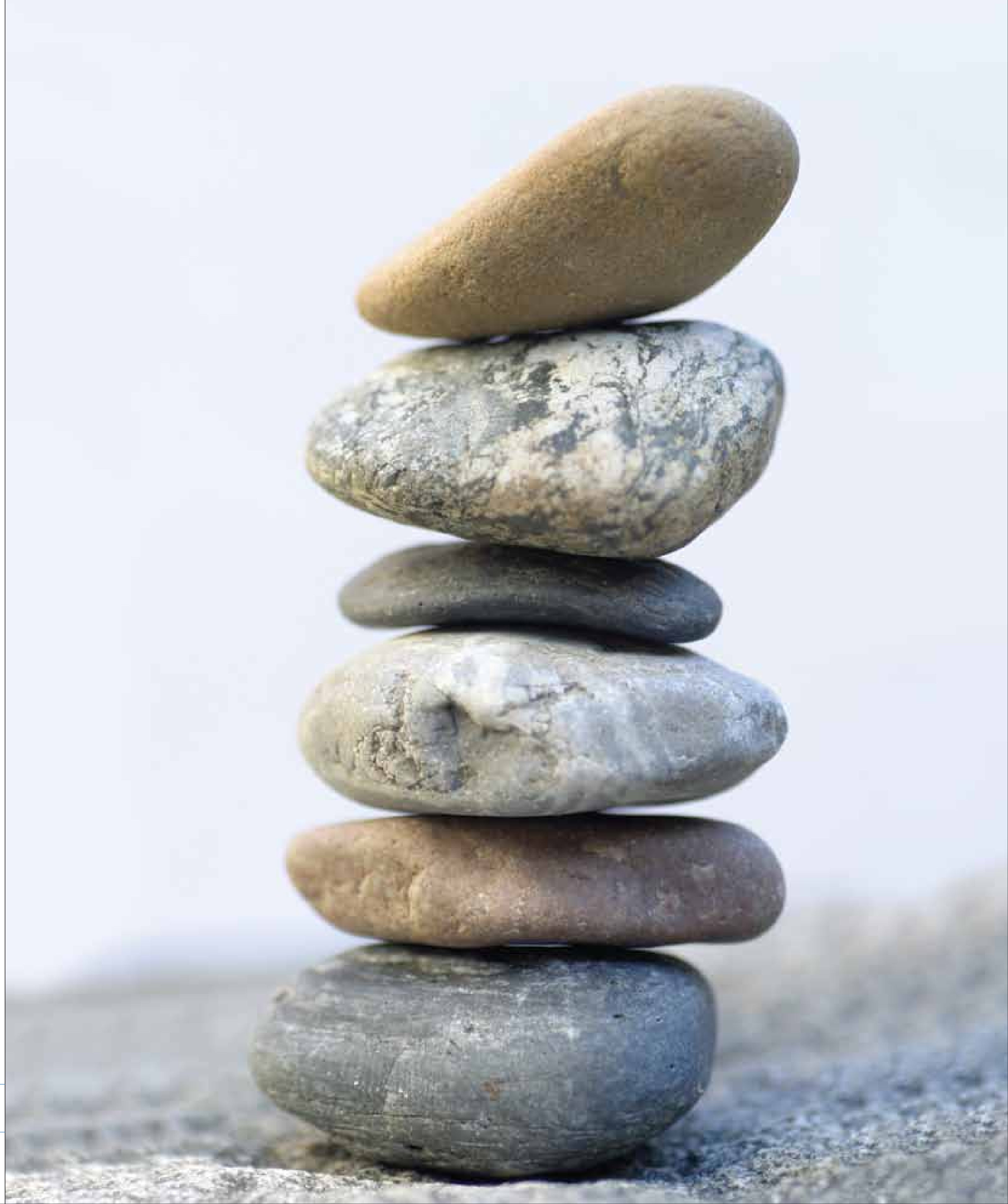
Rating



Collection Efficiency



Risk Management



Our approach of applying structured finance to enable capital markets access for our partners is based on prudent risk management. Through structuring, arranging, and investing in transactions originated by high quality entities in various asset classes, we seek to play the role of an efficient risk transfer agent, enabling our partners to access mainstream capital markets in a reliable manner.

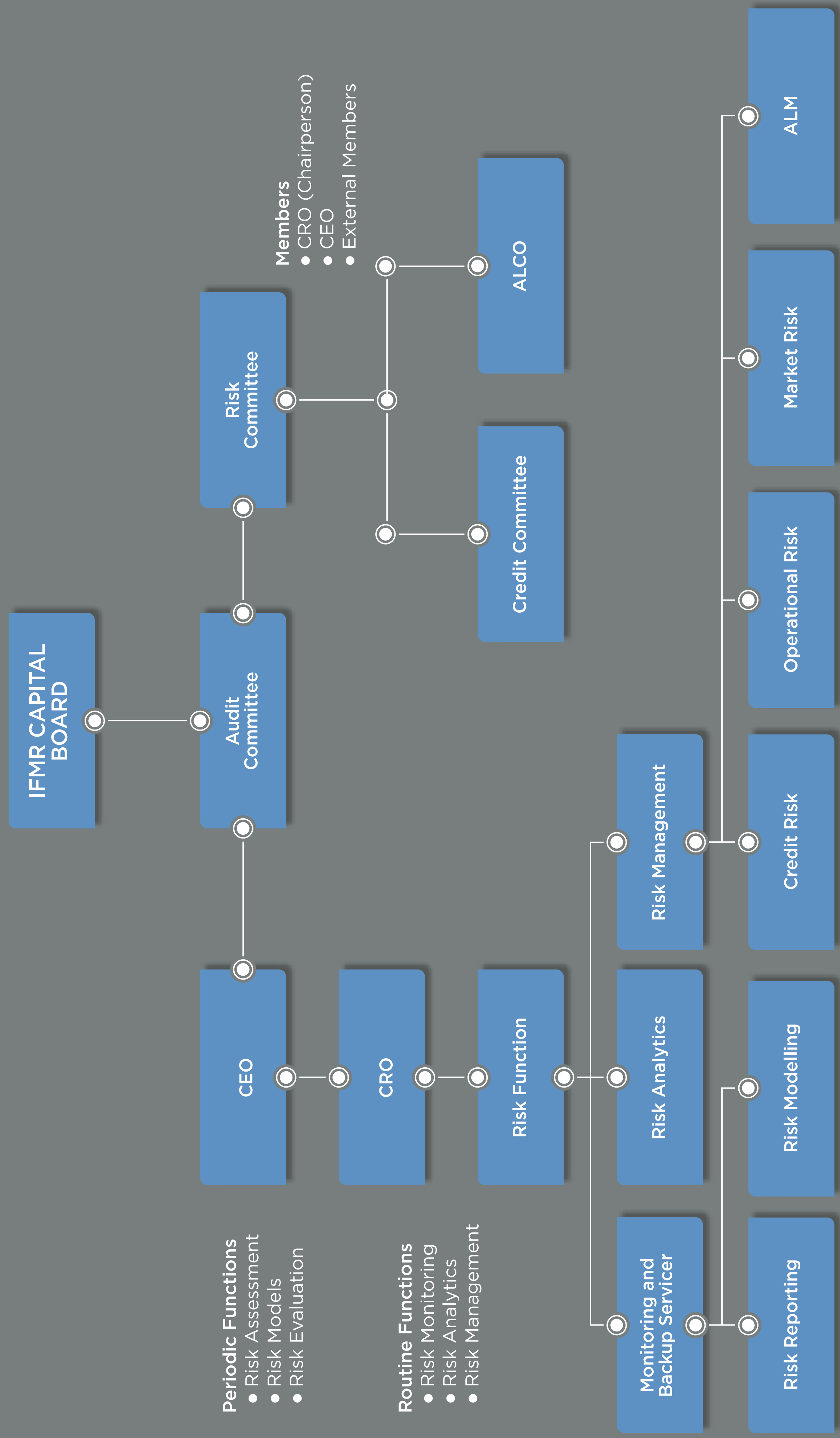
This role requires strong internal risk monitoring and risk management capabilities. Guided by our underwriting framework and risk policy, we follow a proactive approach towards risk management. We aim to ensure that effective risk management practices are embedded in our culture and in the way business 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 functions and responsibilities of the Risk team at IFMR Capital have set new standards for risk management in the sector, and have helped build credibility with investors, MFIs and rating agencies.

The 4-member Risk Committee of IFMR Capital meets once a quarter and directly reports to the Board. The risk team engages in monitoring, portfolio-level reporting and analytics, risk measurement and risk modelling and asset and liability management (ALCO). Through its cross-functional portfolio analytics and risk modelling capabilities, IFMR Capital aspires to establish a state-of-the-art scientific approach to risk management in the asset classes we work in.

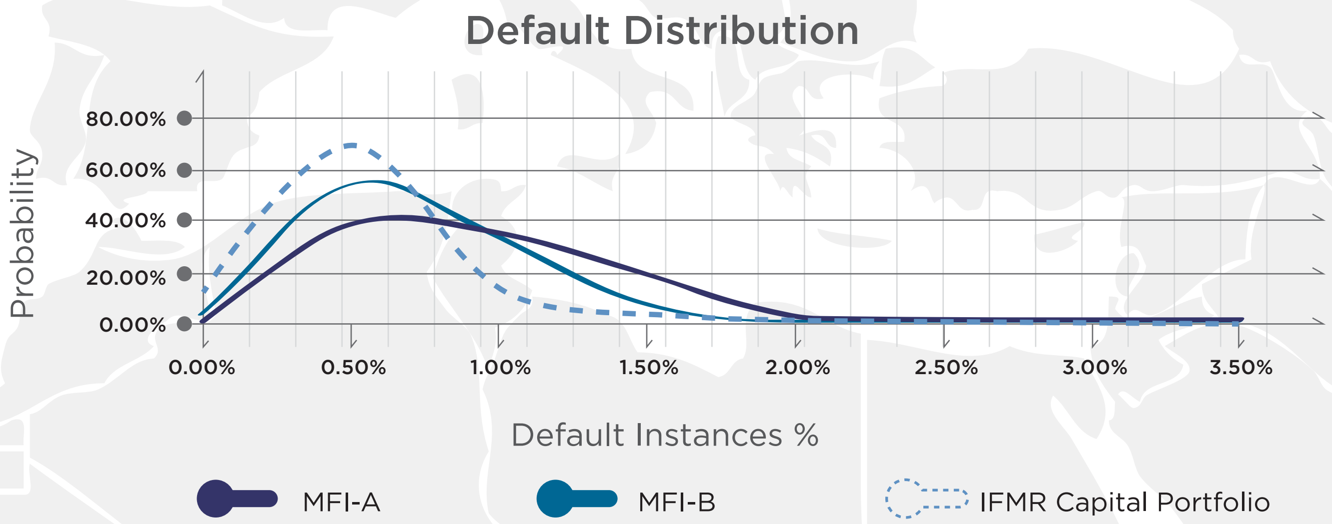
IFMR Capital has set new standards

for risk management in the sector



The portfolio analysis function enables the risk team to quantify the financial risk of pools and portfolios. Using quantitative techniques, the risk team estimates the default distribution curve for microloan transactions and the IFMR Capital portfolio based on the observed default instances. The estimated default distribution can then be used to assign necessary economic capital, calculate credit-at-risk and evaluate the portfolio performance.

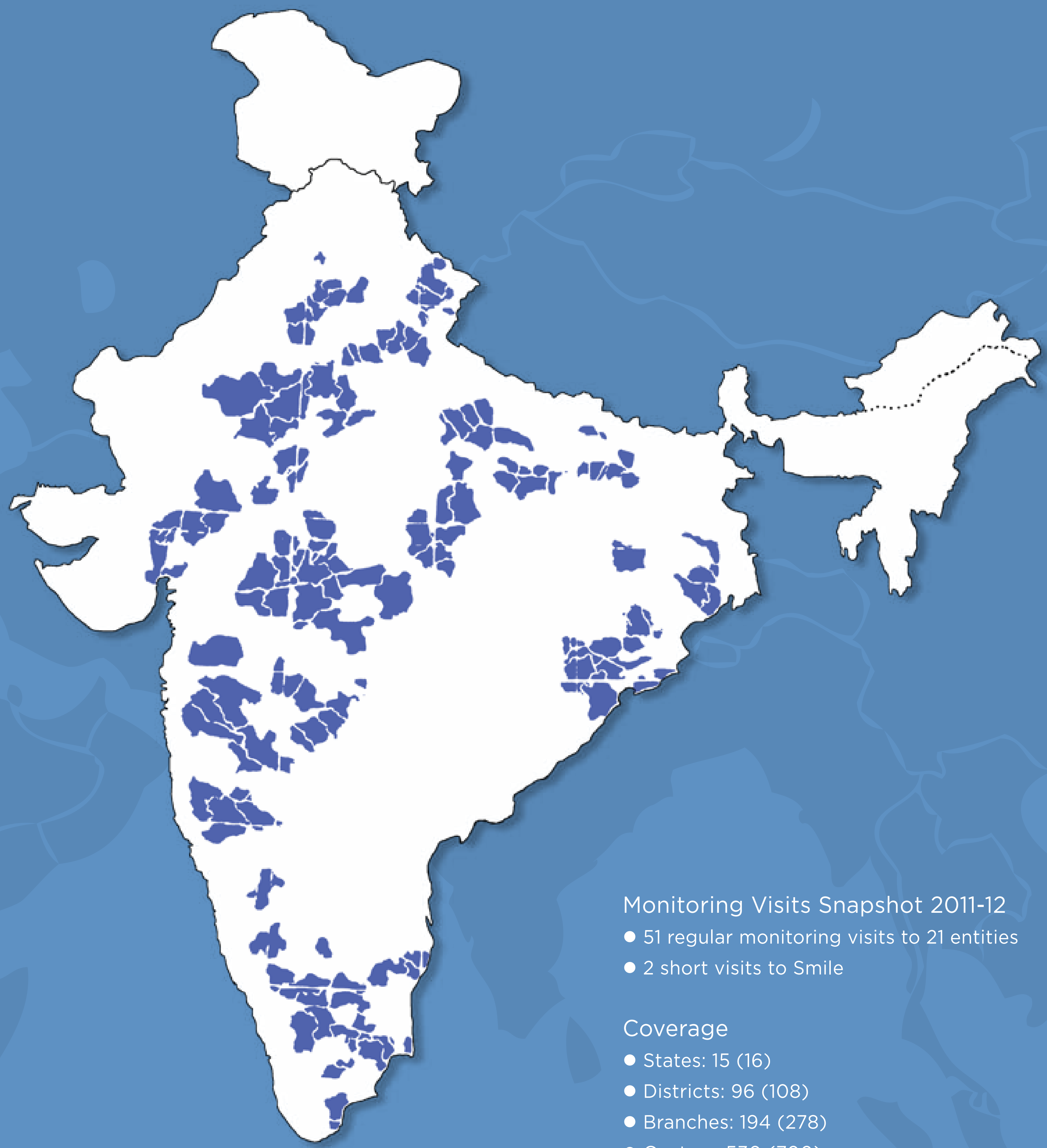
The figure below shows the default distribution of two partner microfinance institutions based on the securitized microloan pools originated by the two partners. Also depicted is the default distribution of IFMR Capital portfolio based on 16 securitised microloan pools.



Looking ahead in 2012-13, the risk team will work to develop existing models and create new ones to further understand risk factors driving microloan credit behaviour and profitability analysis for microfinance and other asset classes we work on.

A very important role of the risk team is on-the-ground monitoring. The monitoring function has increased in size, responsibilities, and profile as IFMR Capital's portfolio has grown. In the last one year, the monitoring team has made 51 visits to 21 MFIs across the length and breadth of the country this fiscal year. Three key initiatives have been launched that have developed and updated the scope of the monitoring team's work: MFIs are now evaluated on their customer protection practices, the stress metrics has become an integral monitoring tool, and a monitoring framework for emerging asset classes has been put in place. In addition, the monitoring team also tracks how our MFI partners have been complying with the new RBI guidelines.

The map below shows the reach and depth of IFMR Capital's monitoring function.



Monitoring Visits Snapshot 2011-12

- 51 regular monitoring visits to 21 entities
- 2 short visits to Smile

Coverage

- States: 15 (16)
- Districts: 96 (108)
- Branches: 194 (278)
- Centers: 530 (700)

Treasury and Funding

This year, IFMR Capital took significant steps towards becoming a mainstream financial institution, with substantial growth in the size of balance sheet, reaffirmation of our long term ratings, achieving a high short term rating and raising financing from diversified sources.

- The Company closed the year with a balance sheet size of INR 1.78 billion, achieving a growth of 124%

- The long term rating of the Company was reaffirmed at A- by ICRA, underscoring the quality of our processes and risk management strategy during a difficult year

- We achieved a short term rating of A1 from CARE – defined as "Instruments with this rating are considered to have very strong degree of safety regarding timely payment of debt obligations. Such instruments carry lowest credit risk"

- IFMR Capital raised over INR 1 billion of financing in FY 2012. We raised financing from banks, NBFCs, development finance institutions and private wealth investors, creating an extremely diversified funding base, which is critical to achieve for a financial institution

    - We raised money through issuance of rated non-convertible debentures, unsecured commercial paper and term loans
    - In keeping with our philosophy of high transparency brought about by the discipline of the capital markets, over 50% of debt was raised through the issuance of capital market instruments
    - Some critical relationships were forged during the year. FMO invested INR 0.3 billion into IFMR Capital's debenture issuance, with a commitment to invest a further INR 0.2 billion in FY 2013. This issuance has been completed as well in June 2012

IFMR Capital has thus established a strong platform to meet its funding requirements for FY 2013.

- Duration and nature of financing ensured that IFMR Capital minimised interest rate and liquidity risk. Through the year, the Company maintained moderately negative leveraged equity duration. Further, a mix of fixed and floating rate debt was raised with a higher emphasis on fixed rate debt, to match the underlying portfolio and minimise interest rate risk.

Given the changes in the business strategy and emergence of new asset classes, the treasury team faces new challenges in FY 2013 – a) doubling the quantum of debt raising to meet the year's business requirements, b) enabling long tenor financing to asset classes like affordable housing without exposing the Company to liquidity risk, c) use business planning as an effective tool to predict financing requirements, d) develop an efficient transfer pricing mechanism to reduce interest rate risk and price efficiently for different tenors and e) use market making as an efficient tool to enable liquidity and risk management. The team is well placed to meet these requirements. Key hiring decisions taken earlier have worked well, while close partnerships developed with rating agencies, market intermediaries and investors will stand us in good stead.

Investor Relations

The year 2012 saw our continued commitment to the microfinance sector wherein we worked with many new investors, new MFIs as well as new rating agencies. Given the numerous changes in the sector, we helped in restoring investor confidence through our continued performance, ensuring that high-quality originators received timely and cost effective access to debt and the investors received excellent returns while minimizing their risk through our structures.

The first quarter saw the placement of a landmark deal of INR 108 million; it was a noteworthy transaction as it was the first time an issue was fully subscribed to, by private wealth investors.

While microfinance has seen some social investing, the disclosures, monitoring and transparency associated with the IFMR Capital's trademark structure made the transaction attractive to the HNIs. Against the backdrop of the Andhra Pradesh ordinance, the issue also conveyed a strong message about the sector's resilience as well as IFMR Capital's ability to tap into non-traditional sources.

The second quarter witnessed India's first ever replenishment-based securitization in microfinance in the month of August. The breakthrough product, visualised as an off-balance sheet equivalent of a term loan with high principal moratorium, was designed to add value to investors by locking in the rates while at the same time increasing the life of microfinance deals and providing longer term funding benefit to originators.

The third quarter marked the entry of IFMR Capital into two other asset classes, the Affordable Housing Finance segment and the SME Finance segment. As with microfinance, we believe that these asset classes are resilient, underserved and in need of our support. Capital market investors are already seeing value in the stringent underwriting guidelines and monitoring developed by IFMR Capital over the past year, and dipping their feet into these nascent asset classes, on the back of our credibility.

The fourth quarter saw action on transaction at its peak, with us enabling a funding of INR 3,295.2 million, through loans, securitisations and debt syndication. The investors were mix of banks, HNIs and NBFCs. With that another eventful year drew to a close with stellar performance from all our pool portfolios, and investor confidence reinstated.

The fourth quarter saw action on transactions at its peak, with us enabling a funding of

INR 3,295.2

million

Financials

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 at 31st March, 2012, the Statement of Profit and Loss 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 Statement of Profit and Loss 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 Statement of Profit and Loss and the Cash Flow Statement dealtwith 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 at 31st March, 2012;
   (ii) in the case of the Statement of Profit and Loss, 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 on 31st March, 2012 taken on record by the Board of Directors, none of the Directors is disqualified as on 31st March, 2012 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 14, 2012

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(xvi) 4(xviii) 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 purchases 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 internal audit function carried out during the year by a firm of Chartered Accountants appointed by the Management have been commensurate with the size of the Company 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.

(b) There were no undisputed amounts payable in respect of Income-tax, Cess and other material statutory dues in arrears as at 31st March, 2012 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 on 31st March 2012.

(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, financial institutions and debenture holders.

(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 give 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, assets maturing in the next one year are in excess of the liabilities of similar maturity by INR 679,896,901

(xi) According to the information and explanations given to us, during the period covered by our audit report, the Company had issued 360 debentures of INR 10,00,000 each. The Company has created security in respect of the debentures issued.

(xii) 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 14, 2012

IFMR Capital Finance Private Limited
Balance Sheet as at March 31, 2012

Amount in INR

	Note Reference	As at March 31, 2012	As at March 31, 2011
I. EQUITY AND LIABILITIES			
Shareholder's Funds			
Share Capital	3	600,000,000	600,000,000
Reserves and Surplus	4	49,973,357	16,814,715
		649,973,357	616,814,715
Non Current Liabilities			
Long Term Borrowings	5	448,917,340	-
Deferred Tax Liability (Net)	34	5,846,304	76,875
Other Long Term Liabilities	6	17,829,872	13,935,105
Long Term Provi sions	7	3,013,188	988,710
		475,606,704	15,000,690
Current Liabilities			
Short Term Borrowings	8	409,456,009	119,902,673
Trade Payables	9	22,327,001	19,638,280
Other Current Liabilities	10	220,654,813	22,599,723
Short Term Provisions	11	3,125,882	1,463,642
		655,563,705	163,604,318
TOTAL		**1,781,143,766**	**795,419,723**
II. ASSETS			
Non Current Assets			
Fixed Assets			
Tangible Assets	12	2,354,040	5,100,803
Intangible Assets	12	205,833	514,582
		2,559,873	**5,615,385**
Non Current Investments	13	162,983,613	-
Receivables under Financing Activity	16	165,802,545	21,483,855
Other Non Current Assets	14	51,927,092	20,412,430
		383,273,123	**47,511,670**
Current Assets			
Current Investments	15	726,213,864	378,629,817
Receivables under Financing Activity	16	524,139,046	206,827,043
Cash and Cash Equivalents	17	79,708,005	132,266,687
Short Term Loans and Advances	18	9,868,455	4,093,583
Other Current Assets	19	57,941,273	26,090,923
		1,397,870,643	747,908,053
TOTAL		**1,781,143,766**	**795,419,723**

See accompanying notes forming part of the financial statements

In terms of our report attached.

For Deloitte Haskins & Sells
Chartered Accountants

For and on behalf of IFMR Capital Finance Private Limited

Bhavani Balasubramanian
Partner

Director

Director

Company Secretary

Place: Chennai
Date: May 14, 2012

IFMR Capital Finance Private Limited

Statement of Profit & Loss for the year ended March 31, 2012

Amount in INR

	Note Reference	For the year ended March 31, 2012	For the year ended March 31, 2011
INCOME			
Revenue from Operations	20	196,440,159	126,094,469
Other Income	21	12,021,901	10,864,657
TOTAL REVENUE (I)		**208,462,060**	**136,959,126**
EXPENDITURE			
Finance costs	22	50,363,733	32,075,223
Employee Benefit Expenses	23	53,136,212	39,173,491
Provisions for Standard Assets	24	2,430,495	1,517,352
Depreciation/ Amortization Expenses	12	3,449,120	2,515,903
Other Expenses	25	52,750,025	41,039,390
TOTAL EXPENSES (II)		**162,129,585**	**116,321,359**
Profit before Tax (I - II)		**46,332,475**	**20,637,767**
Tax Expenses			
Tax Expenses for Current Year		9,756,373	4,742,700
MAT Credit Entitlement		(3,767,101)	-
Tax Expenses for Previous Year		1,415,132	-
Deferred Tax		5,769,429	(335,472)
Fringe Benefit Tax		-	4,830
TOTAL TAX EXPENSES		**13,173,833**	**4,412,058**
Profit for the Year		33,158,642	16,225,709
Earnings Per Equity Share INR 10 each	33		
a) Basic		0.55	0.27
b) Diluted		0.55	0.27

See accompanying notes forming part of the financial statements

In terms of our report attached.

For Deloitte Haskins & Sells
Chartered Accountants

For and on behalf of IFMR Capital Finance Private Limited

Bhavani Balasubramanian
Partner

Director

Director

Company Secretary

Place: Chennai
Date: May 14, 2012

IFMR Capital Finance Private Limited

Cashflow Statement for the year ended March 31, 2012

Amount in INR

Particulars	For the year ended March 31, 2012		For the year ended March 31, 2011	
A. Cash flow from operating activities				
Net Profit before tax		46,332,475		20,637,767
Adjustments for:				
Depreciation/ Amortisation	3,449,120		2,515,903	
Amortisation of Processing Fees	3,958,762		1,749,088	
Finance costs	46,357,216		30,321,874	
Interest income	(3,696,787)		(5,558,872)	
Dividend income	(5,977,426)		(7,742,579)	
Provision for Standard Assets	2,430,495		1,517,352	
Provision for bonus no Longer Required Written Back	(4,160,855)		-	
Provision for Gratuity	513,157		602,000	
Provision for Long term incentive	743,066		-	
		43,616,748		23,404,766
Operating profit before working capital changes		89,949,223		44,042,533
Changes in working capital:				
Adjustments for (increase) / decrease in operating assets:				
Receivable under financing activity (Current)	(317,312,003)		124,616,052	
Receivable under financing activity (Non Current)	(144,318,690)		(21,483,855)	
Short-term loans and advances	(13,562,405)		(10,870,529)	
Investments in securitisation (Current)	(347,584,047)		(195,373,858)	
Investments in securitisation (Non Current)	(162,983,613)		-	
Other Non current assets	(8,703,900)		-	
Other current assets	(14,776,248)		(15,180,159)	
Adjustments for increase / (decrease) in operating liabilities:				
Trade payables	6,849,576		19,638,280	
Other current liabilities	36,193,033		(21,177,950)	
Other Long term liabilities	3,894,767		5,535,105	
		(962,303,530)		(114,296,914
Cash generated from operations		(872,354,307)		(70,254,381)
Net income tax (paid) / refunds		(3,458,982)		(4,830)
Interest received on collateral deposit		1,881,314		2,695,568
Interest paid on borrowings		(43,755,788)		(28,038,778)
Interest paid on security deposits		(1,739,369)		(2,626,931)
Net cash used in operating activities (A)		**(919,427,132)**		**(98,229,352)**
B. Cash flow from investing activities				
Capital expenditure on fixed assets, including capital advances	(399,201)		(5,134,485)	
Proceeds from sale of fixed assets	5,593		19,875	
Investment in Collateral deposits (net)	(38,352,208)		9,540,464	
Investment in Own deposits (net)	(2,871,238)		61,621,658	
Proceeds from sale of mutual funds	-		149,500,000	
Interest Income received from Banks	1,305,950		3,939,245	
Dividend received				
- Others	5,977,426		7,742,579	
	-	(34,333,678)		227,229,336
Net cash (used in) / generated from investing **activities (B)**		**(34,333,678)**		**227,229,336**

IFMR Capital Finance Private Limited

Cashflow Statement for the year ended March 31, 2012

Amount in INR

	For the year ended March 31, 2012		For the year ended March 31, 2011	
C. Cash flow from financing activities				
Proceeds from long-term borrowings	609,917,340		-	
Proceeds from Short-term borrowings	478,346,992		300,000,000	
Repayment of short term borrowings	(198,946,664)		(330,097,327)	
Processing fees paid	(25,247,361)		(750,000)	
		864,070,307		(30,847,327)
Net cash flow generated from / (used in) financing activities (C)		864,070,307		(30,847,327)
Net (decrease) / increase in Cash and cash equivalents (A+B+C)		(89,690,503)		98,152,655
Cash and cash equivalents at the beginning of the year		99,632,051		1,479,396
Cash and cash equivalents at the end of the year		9,941,548		99,632,051
Reconciliation of Cash and cash equivalents with the Balance Sheet:				
Cash and cash equivalents as per Balance Sheet (Refer Note 17)		79,708,005		132,266,687
Less: Bank balances not considered as Cash and cash equivalents as defined in AS 3 Cash Flow Statements				
Restricted balances placed in deposits account		69,766,457		32,634,636
Net Cash and cash equivalents (as defined in AS 3 Cash Flow Statements) included in Note 17		9,941,548		99,632,051
Cash and cash equivalents at the end of the year *		9,941,548		99,632,051
*Comprises of:				
Balances with banks in current accounts		9,941,548		99,632,051
		9,941,548		99,632,051

Notes:
These earmarked account balances with banks can be utilised only for the specific identified purposes.

See accompanying notes forming part of the financial statements

In terms of our report attached.

For Deloitte Haskins & Sells
Chartered Accountants

For and on behalf of IFMR Capital Finance Private Limited

Bhavani Balasubramanian
Partner

Director

Director

Company Secretary

Place: Chennai
Date: May 14, 2012

IFMR CAPITAL FINANCE PRIVATE LIMITED
Notes forming part of Financial Statements

1. CORPORATE INFORMATION

IFMR Capital Finance Private Limited ("IFMR Capital") is a non-banking finance company whose objective is to provide liquidity and developing access to debt-capital markets for rural and urban micro finance institutions and small and medium enterprises.

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of accounting and preparation of financial statements:

The financial statements of the Company have been prepared in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP) to comply with the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 (as amended) and the relevant provisions of the Companies Act, 1956. The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the previous year The Company follows the prudential norms for income recognition, asset classification and provisioning as prescribed by 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. Future results could differ due to these estimates and the differences between the actual results and the estimates are recognised in the period in which the results are known/materialise

2.3 Fixed Assets and Depreciation/Amortisation:

(a) Tangible fixed assets:-

Fixed assets are stated at historical cost less accumulated depreciation. The Company capitalizes 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 managements 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	60%
Furniture and Fittings	18.10%

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

Intangible assets:

Asset Category	Depreciation Rate
Website Development Cost	60%

2.4 Impairment of Assets:

The carrying values of assets / cash generating units at each Balance Sheet date are reviewed for impairment. If any indication of impairment exists, the recoverable amount of such assets is estimated and impairment is recognised, if the carrying amount of these assets exceeds their recoverable amount. The recoverable amount is the greater of the net selling price and their value in use. Value in use is arrived at by discounting the future cash flows to their present value based on an appropriate discount factor. When there is indication that an impairment loss recognised for an asset in earlier accounting periods no longer exists or may have decreased, such reversal of impairment loss is recognised in the Statement of Profit and Loss, except in case of revalued assets.

2.5 Investments:

Investments that are readily realisable and are intended to be held for not more than one year the date, on which such investments are made, are classified as current investments. Current investments are stated at lower of cost and fair value. 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 fair value, prevailing as at 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 recognized under the internal rate of return method.
II. The Loan Processing fee collected from the borrowers is recognized on P&L on an upfront basis.
III. Income from investments in securitisation is recognized on a straight line basis
IV. Dividend income on mutual fund investments is accounted for when the right to receive is established.

2.8 Employee Benefits:

Employee benefits include provident fund and gratuity. Employees are not provided with benefits of Compensated absences.

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.

2.9 Foreign Currency Transactions:

Transaction in foreign currencies is accounted at the exchange rates prevailing on the date of the transaction and the realized exchange loss /gain are dealt with in the profit & 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 in which the underlying service received is accounted and when there is no uncertainty in availing/utilizing the same.

The services rendered by the Company primarily fall under the service tax category of "Banking and Financial Services" and in line with Rule No.6 (3B) of CENVAT Credit Rules, 2004, the Company can avail 50 % of the CENVAT Credit on inputs and input services each month. In line with this, a reversal is accounted for in service tax input credit to the extent of 50% of the total credit available.

2.11 Prepaid Finance Charges:

Prepaid finance charges represents ancillary costs incurred in connection with the arrangement of borrowings, including borrowings sanctioned but not availed, and is amortised on a straight line basis, over the tenure of the respective borrowings. Un amortised borrowing costs remaining, if any, is fully expensed off as and when the related borrowing is prepaid/cancelled

2.12 Taxes on Income:

Income Tax

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

Minimum Alternate Tax

Minimum Alternate Tax (MAT) paid in accordance with the tax laws, which gives future economic benefits in the form of adjustment to future income tax liability, is considered as an asset if there is convincing evidence that the Company will pay normal income tax. Accordingly, MAT is recognised as an asset in the Balance Sheet when it is probable that future economic benefit associated with it will flow to the Company.

Deferred Tax

Deferred tax is recognised on timing differences, being the differences between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent periods.
Deferred tax is measured using the tax rates and the tax laws enacted or substantively enacted as at the reporting date. Deferred tax liabilities are recognised for all timing differences. Deferred tax assets are recognised for timing differences of other items only to the extent that reasonable certainty exists that sufficient future taxable income will be available against which these can be realised. Deferred tax assets and liabilities are offset if such items relate to taxes on income levied by the same governing tax laws and the Company has a legally enforceable right for such set off. Deferred tax assets are reviewed at each Balance Sheet date for their realisability.

2.13 Provisions and Contingencies:

Provision 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.

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

i. Classification of Assets

Asset Classification	Period of Over Due
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 identified 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.

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

ii. Provisioning Norms for Assets

Asset Classification	Percentage of Provision
Standard Assets	0.25%

Amount in INR

	As at March 31, 2012	As at March 31, 2011
Note 3		
Share Capital		
Authorised		
65,000,000 (As at 31 March 2011 - 65,000,000 shares) Equity Shares of INR 10/- each, with voting rights.	650,000,000	650,000,000
Total	**650,000,000**	**650,000,000**
Issued, Subscribed & Fully Paid-up		
60,000,000 (As at 31 March 2011 - 60,000,000 shares) Equity Shares of INR 10/- each with voting rights	600,000,000	600,000,000
Total	**600,000,000**	**600,000,000**

Details of Shares held by each shareholder holding more than 5% shares

	As at 31 March, 2012		As at 31 March, 2011	
Name of the shareholders	No of Shares held	% of Shares	No of Shares held	% of Shares
IFMR Trust (Controlling Entity) and its nominee	60,000,000	100.00	60,000,000	100.00

The Company has issued one class of equity share at a par value of INR 10 per share. Each holder of Equity share is entitled to one vote per share.

	As at March 31, 2012	As at March 31, 2011
Note 4		
Reserves and Surplus		
Statutory Reserve*		
Opening Balance	3,364,792	1,19,650
Add: Transfer from surplus in Statement of Profit and Loss	6,631,728	3,245,142
Closing Balance	9,996,520	3,364,792
* Statutory Reserve represents the Reserve Fund created under Section 45IC of the Reserve Bank of India Act, 1934		
Surplus in Statement of Profit and Loss		
Opening Balance	13,449,923	469,356
Add: Profit for the year	33,158,642	16,225,709
	46,608,565	16,695,065
Less:- Transferred to Statutory Reserve	(6,631,728)	(3,245,142)
Closing Balance	39,976,837	13,449,923
Total	**49,973,357**	**16,814,715**

Amount in INR

	As at March 31, 2012	As at March 31, 2011
Note 5		
Long Term Borrowings - Secured		
Debentures		
12.35% of Non Convertible Debenture of INR 1,000,000 each (Refer (a) below)	324,000,000	-
	324,000,000	-
Other Borrowings		
Cash Credits from Federal Bank - (Refer (b) below)	124,917,340	-
	124,917,340	-
Total	**448,917,340**	**-**
(a) The Company has issued 360, 12.35% Non Convertible Debentures (Listed) of INR 1,000,000 each redeemable at par in 10 quarterly instalments of INR 36,000,000 each beginning from 30 March 2013 for which interest is payable every quarter beginning from March 2012. These debentures are secured by exclusive floating charge over the investment into or credit enhancement for asset pools (Securitization Transaction) originated by the MFI and any form of credit exposure in the new asset classes of IFMR Capital with a security cover of 1.25 times. The instalments payable within next 12 months has been classified as other current liabilities in Note No.10		
(b) Cash Credit is secured by way of hypothecation charge on the book debts. Interest is charged on the basis of additional 2.5 % on the base rate which is payable monthly. Cash Credit is repayable in 8 quarterly instalments of INR 31,250,000 each beginning from June 2012. Such instalments payable within next 12 months has been classified as other current liabilities in Note No.10		
Note 6		
Other Long Term Liabilities		
Collateral Deposits from Customers	17,829,872	13,935,105
Note:		
"Represents amounts received as security from the borrowers towards issue of Term Loans. Such deposits repayable within 31 March 2013 have been grouped under Note 10 Other Current Liabilities"		
Total	**17,829,872**	**13,935,105**
Note 7		
Long Term Provisions		
Provision for Employee benefits		
For Gratuity (Refer Note No.30)	1,448,157	935,000
For Long Term Incentive (Refer Note No.29)	743,066	-
Standard Asset Provision (Refer Note 26)		
On Term Loans	414,506	53,710
On Securitisation Transaction	407,459	-
Total	**3,013,188**	**988,710**

Amount in INR

	As at March 31, 2012	As at March 31, 2011
Note 8		
Short Term Borrowings		
(a) Term Loan from Bank (Secured)		
Axis Bank	-	119,902,673
Ratnakar Bank Limited (Refer (a) below)	149,906,488	-
(b) Term Loan from Others (Secured)		
Mahindra & Mahindra Financial Services Limited (Refer (b) below)	21,049,521	-
Total	**170,956,009**	**119,902,673**
(c) Commercial Paper (Unsecured) (Refer (c) below)	238,500,000	-
	238,500,000	**-**
Total	**409,456,009**	**119,902,673**

(a) Term loan from Bank is repayable in 4 equal Quarterly instalments beginning from March 2012. Interest payable monthly at 2.5 % above the Base rate. The interest is currently at 13.5%. The Loan is secured by way of hypothecation charge on book debts

(b) Term loan from others is repayable in 15 Equated Monthly instalments of INR 3,652,917 beginning from July 11. Interest for which is being charged at 14%. The Loan is secured by way of hypothecation charge on book debts

(c) Commercial paper of face value of INR 5,00,000 each have been issued during the year at a discount of 13.5%. This discount is being amortised on a straight line basis over the tenor of the Commercial Paper. The unamortised discount has been disclosed under Note 19 Other Current Assets. The details of the Commercial Paper issued are given below:

No of units	Date of issue	Maturity Date	Amount in INR
149	14-Dec-11	11-Jun-12	74,500,000
115	10-Feb-12	8-Aug-12	57,500,000
213	14-Mar-12	10-Sep-12	106,500,000

	As at March 31, 2012	As at March 31, 2011
Note 9		
Trade Payables		
- Sundry Creditors	21,136,122	15,728,457
- Payable to Related parties (Refer Note No.32)	1,190,879	3,909,823
Total	**22,327,001**	**19,638,280**
Note 10		
Other Current Liabilities		
Current Maturities of Long Term Borrowings		
- 12.35% of Non Convertible Debenture of INR 1,000,000 each (Refer Note 5)	36,000,000	-
- Cash Credit from Federal Bank (Refer Note 5)	125,000,000	-
Collateral Deposits from Customers (Refer Note 6)		
- From Related Parties	3,000,000	-
- Others	51,127,446	19,670,005
Interest Accrued but Not Due	1,543,872	681,813
Statutory Liabilities	1,611,392	1,551,641
Other Liabilities	2,372,103	696,264
Total	**220,654,813**	**22,599,723**

Amount in INR

	As at March 31, 2012	As at March 31, 2011
Note 11		
Short Term Provisions		
For Standard Assets - (Refer Note 26)		
On Term Loans	1,310,347	517,067
On Securitisation Transaction	1,815,535	9,46,575
Total	**3,125,882**	**1,463,642**
Note 13		
Non Current Investments - At Cost		
Investment in Securitisation - (Refer Note 27)	162,983,613	-
Total	**162,983,613**	**-**
- Aggregate value of unquoted Investments	162,983,613	-
Note 14		
Other Non Current Assets		
Non Current Bank Balances (Refer note (i) below)		
- Collateral Deposits (Refer note (ii) below)	17,829,872	13,935,105
- Other deposits	196,858	-
Prepaid Finance Charges (Refer Note 28)	15,214,913	-
Interest Accrued but Not Due		
- on Collateral Deposits	239,079	-
- on Investments	8,464,821	-
- on Other Deposits	3,455	-
Advance Taxes and tax deducted at source (Net of provision for tax INR 16,927,409 (As at 31 March 2011 INR 5,878,178)	9,978,094	6,477,325
Total	**51,927,092**	**20,412,430**
(i) Represents cash and cash equivalents that are restricted from being utilised for more than 12 months from Balance Sheet Date		
"(ii) Represents amounts received as security from the borrowers towards issue of Term Loans"		
Note 15		
Current Investments - At cost		
Investments in Securitisation - (Refer Note 27)	726,213,864	378,629,817
Total	**726,213,864**	**378,629,817**
- Aggregate value of unquoted Investments	726,213,864	378,629,817
Note 16		
Receivables Under Financing Activity*		
Secured and considered good		
Non Current		
Term Loans	165,802,545	21,483,855
Current		
Term Loans	494,139,046	206,827,043
Loan to Related Party (Refer Note 32)	30,000,000	-
	524,139,046	**206,827,043**
Total	**689,941,591**	**228,310,898**
*Secured either by way of charge created on unencumbered assets of the Borrowers (in case Portfolio has not been created out of the lending) or by way of charge on the loan portfolio created out of the lending by the Company		

Note 12 - Fixed Assets

Amount in INR

	Gross block				Accumalated Depreciation/Amortisation				Net Block	
Description	**As at April 1, 2011**	**Additions**	**Delitions**	**As at March 31, 2012**	**As at April 1, 2011**	**For the year**	**Deletions**	**As at March 31, 2012**	**As at March 31, 2012**	**As at March 31, 2011**
Tangible assets										
Computers	1,365,686	399,201	48,604	1,716,283	986,021	311,055	43,011	1,254,065	462,218	379,665
Furniture and Fittings	10,687	-	-	10,687	2,652	1,454	-	4,106	6,581	8,035
PMS Server	6,609,723	-	-	6,609,723	1,896,620	2,827,862	-	4,724,482	1,885,241	4713,103
Total	**7,986,096**	**399,201**	**48,604**	**8,336,693**	**2,885,293**	**3,140,371**	**43,011**	**5,982,653**	**2,354,040**	**5,100,803**
Previous year	1,338,902	6,733,499	86,305	7,986,096	711,072	2,240,651	66,430	2,885,293	5,100,803	627,830
Intangible Assets										
Website Development cost	789,834	-	-	789,834	275,252	308,749	-	584,001	205,833	514,582
Total	**789,834**	**-**	**-**	**789,834**	**275,252**	**308,749**	**-**	**584,001**	**205,833**	**514,582**
Previous year	-	789,834	-	789,834	-	275,252	-	275,252	514,582	-

Amount in INR

	As at March 31, 2012	As at March 31, 2011
Note 17		
Cash and Cash Equivalents		
Cash and cash equivalents as defined in AS - 3		
Balance in Current Account	9,941,548	99,632,051
Other Bank Balances		
Collateral Deposits (Refer note (i) below)	54,127,446	19,670,005
Own Deposits (Refer note (ii) below)	15,639,011	12,964,631
Total	**79,708,005**	**132,266,687**
Of the above, the balances that meet the definition of Cash and Cash equivalents as per AS - 3 cashflow statement	9,941,548	99,632,051
Note: (i) Represents amounts received as security from the borrowers towards issue of Term Loans (ii) Balances in deposit accounts having an original maturity of more than 12 months		
Note 18		
Short Term Loans and Advances		
Deposits		
-Staff Security Deposit	1,125,000	808,000
-Caution Deposit	49,641	16,043
Other Advances		
-Receivable from other financial services	3,631,339	2,719,655
-Service Tax Input Credit	736,227	417,793
-Prepaid Expenses and Others	555,862	128,807
Mat Credit Entitlement	3,770,386	3,285
Total	**9,868,455**	**4,093,583**
Note 19		
Other Current Assets		
Interest Accrued but Not Due		
On Loans to Borrowers	4,449,133	111,393
On Collateral Deposits	952,954	686,310
On Investments	34,613,094	24,174,586
On Other Deposits	502,317	634,388
Prepaid Finance Charges (Refer Note 28)	7,270,767	484,246
Unamortised Discount on Issue on Commercial Paper	10,153,008	-
Total	**57,941,273**	**26,090,923**

Amount in INR

	As at March 31, 2012	As at March 31, 2011
Note 20		
Revenue from Operations		
Interest Income from Loans to borrowers	37,663,245	47,765,641
Income from Securitisation	84,762,925	39,767,378
Income from other Financial Services		
- Processing Fee	9,130,000	7,230,000
- Professional Fee	62,736,031	28,763,575
Interest Income from banks on Collateral Deposits from Customers	2,147,958	2,567,875
Total	**196,440,159**	**126,094,469**
Note 21		
Other Income		
Interest Income from banks on Deposits	1,548,829	2,990,997
Dividend Income from current investments	5,977,426	7,742,579
Profit on Sale of Current Investments	316,882	-
Provision for bonus no longer required written back	4,160,855	-
Other Non Operating Income	17,909	131,081
Total	**12,021,901**	**10,864,657**
Note 22		
Finance Cost		
Interest Expenses on		
- Term Loan	26,371,582	27,779,873
- Debentures	12,269,350	-
- Cash Credits	1,097,135	-
- On Collateral Deposits	2,247,948	2,542,000
- On Income Tax	47,755	4,262
Discount on Commercial Paper	4,371,201	-
Processing Fees	3,958,762	1,749,088
Total	**50,363,733**	**32,075,223**
Note 23		
Employee Benefit Expenses		
Salaries and Wages	49,258,174	35,734,400
Contribution to Provident Fund	2,315,610	1,600,735
Staff Welfare Expenses	1,049,271	1,236,356
Gratuity	513,157	602,000
Total	**53,136,212**	**39,173,491**
Note 24		
Provisions for Standard Assets		
a. Micro Finance Loans	1,154,076	570,777
b. Securitisation and Other rated Transactions	1,276,419	946,575
Total	**2,430,495**	**1,517,352**

Amount in INR

	As at March 31, 2012	As at March 31, 2011
Note 25		
Other expenses		
Rent	6,890,232	6,192,430
Rates and Taxes	36,197	37,970
Travelling and Conveyance	10,588,319	4,865,338
Legal and Professional Charges	26,710,002	23,048,809
Communication Expenses	586,075	697,625
Consultancy Charges	3,603,791	3,664,857
Repairs and Maintenance - Others	105,384	57,426
Printing and Stationery	623,303	614,581
Advertisement and Business Promotion	-	83,779
Auditors' remuneration:		
-Statutory Audit	1,200,000	550,000
-Certification	50,000	-
-Tax audit	100,000	100,000
-Out of pocket expenses	38,364	-
Miscellaneous Expenses	2,218,358	1,126,575
Total	**52,750,025**	**41,039,390**

26. Standard Asset Provisions:

Amount in INR

Standard Asset Movement	As at March 31, 2012	As at March 31, 2011
Long Term		
Investment in Securitisation	407,459	-
Term Loans	414,506	53,710
Short Term		
Investment in Securitisation	1,815,535	946,575
Term Loans	1,310,347	517,067
Total Provision on Investment in Securitisation	**2,222,994**	**946,575**
Total Provision on Term Loans	**1,724,853**	**570,777**
Total	**3,947,847**	**1,517,352**

Amount in INR

Particulars	Opening Balance	Additional provision	Utilization / Reversal	Closing Balance
Provision for standard assets under financing activity (Refer Note below)	570,777 (NIL)	1,154,076 (570,777)	NIL (NIL)	1,724,853 (570,777)
Provision for standard assets under Investment in Securitisation (Refer Note below)	946,575 (NIL)	1,276,419 (946,575)	NIL (NIL)	2,222,994 (946,575)

Note:

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

b. Figures in brackets are for the previous year.

27. Details for Investments held:

A. Securitisation

Amount in INR

Transaction	As at March 31, 2012	As at March 31, 2011
Aether IFMR Capital 2011	35,934,761	-
Auge IFMR Capital 2012	4,710,903	-
Chiron IFMR Capital 2012	11,865,191	-
Chloris IFMR Capital 2012	14,807,139	-
Cronus IFMR Capital 2012	10,787,083	-
Delas IFMR Capital 2012	10,696,330	-
Dysis IFMR Capital 2012	10,002,350	-
Eupraxia IFMR Capital 2012	10,135,634	-
Gaia IFMR Capital 2012	29,730,000	-
Helios IFMR Capital 2011	12,783,416	-
Hestia IFMR Capital 2011	18,023,061	-
HETA IFMR Capital 2011	10,862,516	-
IFMR Capital Pioneer Revolver-I	33,763,585	-
Investment in Mosec-IX	33,487,982	-
Investment in MOSEC-V	26,557,882	-
Investment in MOSEC VI	41,431,723	-
Investment in MOSEC-VII	76,783,103	-
Investment in MOSEC- VIII	30,130,146	-
Investment in MOSEC X	73,913,811	-
Investment in MOSEC - XI	97,687,934	-
Investment in MOSEC XII	70,812,089	-
Investment in MOSEC - XIII	63,223,526	-
Investments Mosec IV	49,024,698	-
Kiros Pioneer IFMR Capital 2011	42,169,489	-
Mousika IFMR Capital 2012	6,735,641	-
Pluto Pioneer IFMR Capital 2011	12,355,884	-
Selene IFMR Capital 2012	14,804,910	-
Themis IFMR Capital 2011	35,976,690	-
Chi Pioneer Direct Assignment	-	20,000,000
Omikron Pioneer IFMR Capital 2011	-	10,000,000
Phi Pioneer 2011	-	5,000,000
Sigma-2 Pioneer	-	4,953,132
TAU Pioneer	-	4,594,011
Alpha Pioneer IFMR Capital	-	1,689,528
Delta Pioneer IFMR Capital 2010	-	19,193,945
Epsilon Pioneer IFMR Capital 2010	-	32,570,650
Eta Pioneer IFMR Capital 2011	-	67,307,000
Gamma Pioneer IFMR Capital 2010	-	22,898,969
Investment In MOSEC III	-	9,984,151
Investment MOSEC II	-	3,443,051
Iota Pioneer IFMR Capital 2011	-	75,243,267
Kappa Pioneer Direct Assignment 2011	-	9,590,553
Lambda Pioneer IFMR Capital 2011	-	6,062,046
PSI Pioneer Capital 2011	-	4,809,782
Rho Pioneer IFMR Capital 2011	-	13,930,230
Sigma 1 Pioneer IFMR Capital 2011	-	10,000,613
Theta Pioneer IFMR Capital 2011	-	14,269,772
Upsilon Pioneer IFMR Capital 2011	-	13,089,117
Zeta Pioneer IFMR Capital 2010	-	30,000,000
Total	**889,197,477**	**378,629,817**

B. Reconciliation with Investments as per Balance Sheet

Amount in INR

Transaction	As at March 31, 2012	As at March 31, 2011
a) Non-Current Investment as per Note 13	162,983,613	-
b) Current Investment as per Note 15	726,213,864	378,629,817
Total	**889,197,477**	**378,629,817**

28. **Prepaid Finance Charges**

During the year the company borrowed INR.1,098,500,000 (Previous Year INR.150,000,000) by way of Term Loan, Commercial Paper and Non convertible debenture ,towards which an amount of INR 25,247,361 (Previous Year INR 7,500,000) has been paid as processing fees. All these borrowing costs are amortized over the tenor of the loan. The unamortised portion of these expenses amounting to INR 22,485,680 (Previous year INR 484,246) is included under Note 14 'Other Non Current Assets' and Note 19 'Short Term Loans & Advances'.

29. **Long Term Incentive Plan:**

During the year the company has introduced a Long Term Incentive Plan (LTIP) to the eligible employees (Participants) of the Company. As per the Scheme, the Participants are allotted Shadow Units which entitles them to receive Shadow Unit Compensation under the Plan. Subject to Participant's continued employment with the Company, the Units shall vest as per the following schedule and can be exercised at the option of the eligible employee:

- 20% at the end of 12 months from the Grant date
- 20% at the end of 24 months from the Grant date
- 30% at the end of 36 months from the Grant date
- 30% at the end of 48 months from Grant Date.

Provision is made in books to the extent of shadow units vested as per the above vesting schedule. Accordingly during the year company made a provision for INR 1,334,850, out of which an amount of INR 743,066 is included under Note 7 'Long Term Provisions' and an amount of INR 591,784 is included under Note 9 ' Trade Payables', based on the option exercised by the eligible employees.

Accounting Standard Disclosures:

30. **Employee Benefits:**

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

Accrued Gratuity Liabilility

Amount in INR

	2011-12	2010-11
Change in benefit obligation		
Accrued Liability as at beginning of the period:	935,000	333,000
Interest Cost	74,800	27,000
Current Service Cost	765,047	584,000
Actuarial gain / loss	(326,690)	(9,000)
Accrued Liability as at the end of the period:	**1,448,157**	**935,000**
(No Fund is being maintained)		
Amounts to be recognized in the Balance Sheet		
Present Value of obligations as on the accounting date:	1,448,157	935,000
Fair Value of the Plan Assets: (Zero as no fund is being maintained)	-	-
Liability to be recognized in the Balance Sheet:	**(1,448,157)**	**(935,000)**
Expenses to be recognized in the statement of Profit and Loss		
Interest Cost	74,800	27,000
Current Service Cost	765,047	584,000
Net Actuarial (gain) / loss	(326,690)	(9,000)
Net Expenses to be recognized in P/L a/c	**513,157**	**602,000**

* Rate of Mortality:	As per LIC (1994 – 96) (Ultimate) Mortality Table	
* Rate of Interest:	8.50% per annum	8.00% per annum
* Rate of Salary Escalation	20.00% per annum	20.00% per annum
* Rate of exit due to reasons other than death or retirement:	20.00% per annum	13.00% 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. The information on experience adjustment is not readily available

31. 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 Segment:
The Company does not have any reportable geographical segment as per Accounting Standard 17.

32. Related Party Disclosure

(i) Information relating to related party transactions for the year ended 31 March 2012(as identified by the management and relied upon by auditors)

(ii) Parties where control exists:
Controlling Entity: IFMR Trust – Represented by IFMR Trusteeship Services Private Limited

(iii) Fellow Subsidiaries with whom the Company had transactions during the year: Pudhuaaru Financial Services Private Limited

(iv) Key Management Personnel:
a. Ms. Sucharita Mukerjee, Chief Executive Officer and Whole Time Director
b. Ms. Bindu Ananth, Director

Remuneration is paid by the Company to the Chief Executive Officer amounting to INR 2,882,700 (Previous year – INR 3,435,484)

Transactions with Related Parties:

Amount in INR

Related Party	Transaction	As at March 31, 2012	As at March 31, 2011
IFMR Trust	Reimbursement of Expenses	4,038,842	3,835,968
	Share of common expenses	11,085,691	15,458,632
Pudhuaaru Financial Services Private Limited	Term Loan	50,000,000	35,000,000
	Interest on Term Loan	1,094,314	2,075,309
	Cash Collateral	5,000,000	2,000,000
	Interest on Cash Collateral	51,560	48,368

Outstanding Balances with Related Parties:

Amount in INR

Group Company	Balance outstanding during Year End	As at March 31, 2012	As at March 31, 2011
IFMR Trust	Equity Capital Reimbursement of Expenses Share of common expenses	600,000,000 471,556 719,323	600,000,000 901,915 3,007,908
Pudhuaaru Financial Services Private Limited	Term Loan Cash Collateral	30,000,000 3,000,000	NIL NIL
	Accrued Interest receivable on Term Loan	205,208	34,300
	Interest payable on Cash Collateral	36,217	33,059

33. Earnings per share:

Amount in INR

Description	For the year ended March 31, 2012	For the year ended 31 March 2011
Profit after Tax attributable to equity shareholders	33,158,642	16,225,709
Weighted average Shares allotted & outstanding during the period	60,000,000	60,000,000
Earnings per Share – Basic & Diluted face value of INR 10/- each	0.55	0.27

34. Deferred Tax

Break up of Deferred Tax Asset and Deferred Tax Liability arising out of timing differences:

Amount in INR

Particulars	As at March 31, 2012	As at March 31, 2011
Deferred Tax Liability:		
Unamortized Processing Charges	7,295,480	157,113
Depreciation	301,558	715,428
Deferred Tax Asset:		
Gratuity	469,855	303,361
Provision for Standard Assets	1,280,879	492,305
Net Deferred Tax Liability	**5,846,304**	**76,875**

Disclosure in accordance with provisions of Reserve Bank of India:

35. Disclosure of Capital Adequacy & 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 1 August 2008:

i. Capital Adequacy Ratio

Amount in INR

	As at March 31, 2012	As at March 31, 2011
Tier I Capital	649,767,524	616,814,715
Tier II Capital	1,724,853	1,517,352
Total Capital	**651,492,377**	**618,332,067**
Total Risk Weighted Assets	**1,574,596,111**	**607,276,280**
Capital Ratios		
Tier I Capital as a % of Total Risk Weighted Assets (%)	41.27	101.57
Tier II Capital as a % of Total Risk Weighted Assets (%)	0.11	0.25
Total Capital (%)	**41.38**	**101.82**

In Tier II Capital, the standard asset provision for Loan alone is included .The above details have been determined based on the financial statements of the Company as on 31 March 2012 and previous year as on 31 March 2011.

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 at March 31, 2012 and March 31, 2011.

36. **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	3,407,297	3,447,055	84,737,278	91,957,891	112,406,488	124,917,340	-	-	420,873,349
Market Borrowings	-	-	74,500,000	164,000,000	36,000,000	288,000,000	36,000,000	-	598,500,000
Assets:									
Advances	37,548,665	45,961,560	49,048,747	148,440,828	243,139,246	165,802,545	689,941,591		
Investments	33,329,221	37,021,471	62,539,974	169,688,178	423,635,020	162,983,613	-	-	889,197,477

This amount excludes interest accrued but not due and the above figures are based on the financial statements of the Company as on March 31, 2012.

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	-	-	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 on March 31, 2011.

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

Amount in INR

S.No.	Particulars	Amount Outstanding as at 31 March, 2012	Amount Overdue as at 31 March, 2012
	Liabilities:		
(1)	**Loans and Advance availed by the NBFC inclusive of interest accrued thereon but not paid**		
(a)	Debentures		
	- Secured	360,000,000	-
	- Unsecured	-	-
	(Other than Falling within the meaning of public Deposits)		
(b)	Deferred Credits	-	-
(c)	Term Loans	170,956,009	-
(d)	Inter- Corporate Loans and Borrowings	-	-
(e)	Commercial Paper	238,500,000	-
(f)	Other Loans	249,917,340	-

S.No.	Particulars	Amount Outstanding as on 31 March 2012
(2)	**Break up of Loans and Advances including Bills Receivables (Other than those included in (3) below):**	
(a)	Secured	689,941,591
(b)	Unsecured	-

S.No.	Particulars	Amount Outstanding as on 31 March 2012
(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)	889,197,477	

Amount in INR

(5)	Borrower Group-wise Classification of Assets Financed as in (2) and (3) above			
S.No.	**Category**	**As at 31st March 2012 (Net of Provision) (Refer Note below)**		
		Secured	**Unsecured**	**Total**
1.	Related Parties			
	(a) Subsidiaries	-	-	-
	(b) Companies in the same Group	29,925,000	-	29,925,000
	(c) Other Related Parties	-	-	-
2.	Other than Related Parties	658,291,738	-	658,291,738

Note:
The amount of Assets financed represents the net owned portfolio outstanding after adjusting the provisions for standard assets amounting to INR 1,724,853/-

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**
1.	Related Parties		
	(a) Subsidiaries	-	-
	(b) Companies in the Same Group	-	-
	(c) Other Related parties	-	-
2.	Other than Related Parties	-	886,974,483
	Total		886,974,483

Note:
The amount of Investments represents the Investments made in Securitisation and Other Rated Transactions after adjusting the provisions for standard assets amounting to INR 2,222,994/-

Amount in INR

(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 at 31 March 2012.

38. The Company is a Systemically Important Non Deposit taking Non-Banking Finance Company (NBFC – ND-SI) and has received Certificate of Registration (COR) dated 24 June 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 the Reserve Bank of India for change of name in the COR, which is still awaited.

39. The Revised Schedule VI has become effective from 1 April, 2011 for the preparation of financial statements. This has significantly impacted the disclosure and presentation made in the financial statements. Previous year's figures have been regrouped / reclassified wherever necessary to correspond with the current year's classification / disclosure.

For and on behalf of IFMR Capital Finance Private Limited

Director Director Company Secretary

Place: Chennai
Date: May 14, 2012

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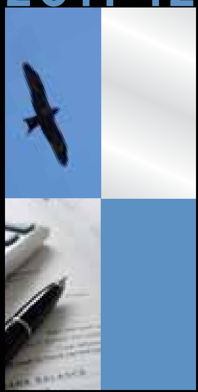

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