Creating capital markets access
for financially excluded
households and institutions

ANNUAL REPORT 2013-14

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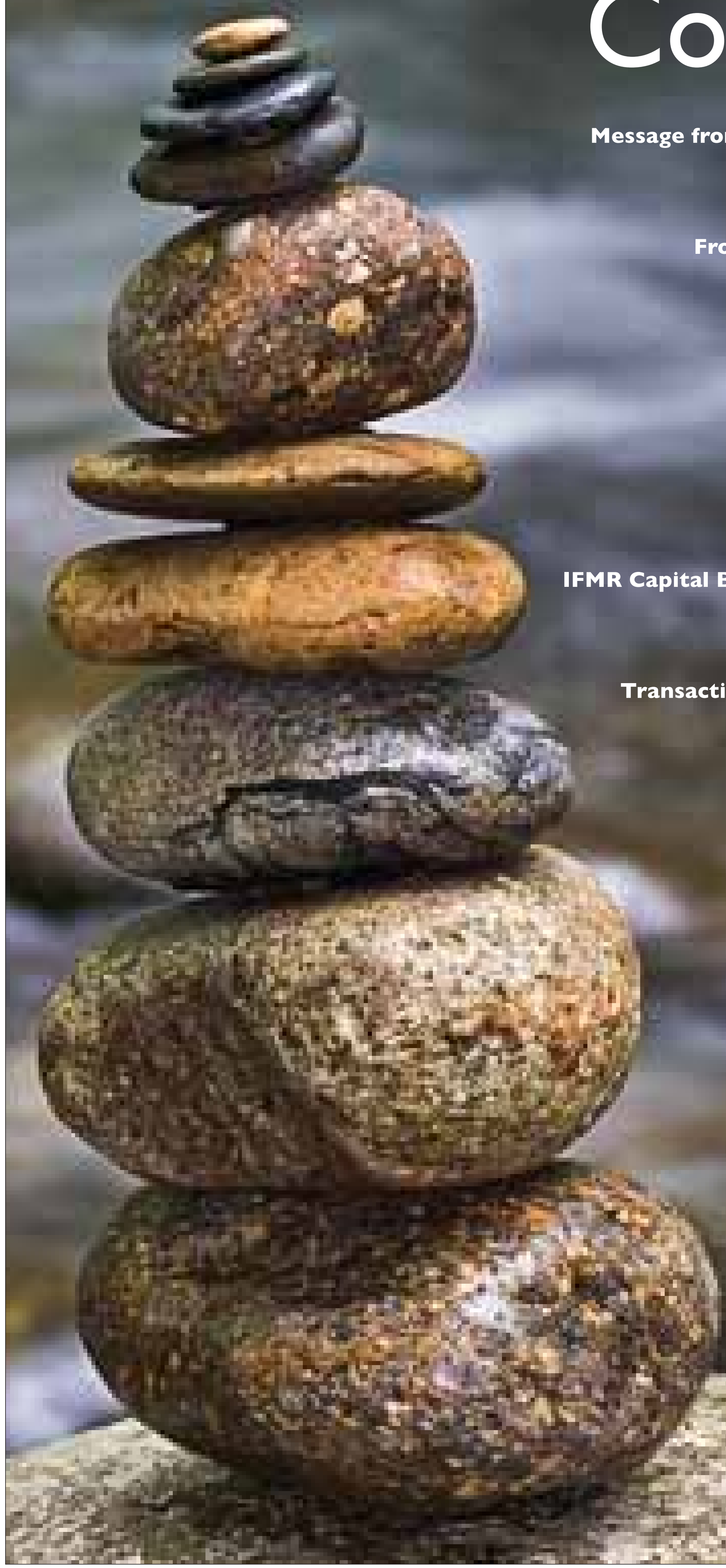
MISSION

"To provide efficient and reliable access to debt capital for institutions that impact financially excluded households and businesses"



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About IFMR Capital

IFMR Capital is a non-banking financial company based in Chennai, India. Its mission is to provide efficient and reliable access to capital markets for institutions that provide debt to the financially excluded. Over the last few years, it has pioneered a range of structured finance products that enable risk transfer from high-quality originator institutions to a diversified set of well-capitalised investors.

IFMR Capital has deep expertise in the sectors it works in. Originators are identified on the basis of a robust underwriting framework. IFMR Capital then arranges financing for these originators from mainstream investors using its own capital to co-invest and credit enhance the transaction. In the capacity of an investor, IFMR Capital closely monitors the performance of these transactions on an ongoing basis. The underlying pool performance data is mirrored and tracked on a loan-by-loan basis. Proprietary risk models have been developed that provide early warning signals.

Acting as a bridge between high-quality originators and capital market investors in the capacity of a structurer, arranger and investor, IFMR Capital has enabled investments from a range of capital markets investors such as banks, mutual funds, private wealth investors, non-banking financial companies, development finance institutions, offshore funds and others. Transactions routinely get upgraded. Portfolio performance has been strong with no losses incurred by investors since inception.

Message from the Chairperson

IFMR Capital made significant strides in its vision of financial inclusion this year. Its role as a bridge between high-quality originators and capital markets is enabling access to financial services for millions of households.

This year, we expanded our presence to four asset classes with an exposure across 52 clients, with our Microfinance business significantly scaling up to an overall volume of INR 29.6 billion, an increase of 67 percent from FY 2013. In FY 2014, we on-boarded new partners and now have 26 Microfinance partners with a portfolio spread across 25 states and 370 districts, up from 23 partners, 23 states, and 314 districts last year. Our partners in other asset classes include nine Small Business Loan companies, eleven Affordable Housing finance companies, three Commercial Vehicle finance companies, and partners in Agriculture financing.

We continued to leverage our understanding of asset classes and structured finance to execute landmark transactions in FY 2014 - our first Collateralised Bond Obligation (CBO) transaction, our first Small Business Loan Multi-Originator Securitisation SBL Mosec™ in which eight high-quality originators participated, and our first Mortgage-backed Securitization (MBS). Subsequently, the year ended at INR 35 billion of deal volume, almost doubling from the previous year, with rated securitization contributing to 69 percent of total volumes. Our asset quality continues to be robust with an average collection efficiency of 99.16 percent across all transactions.

Our risk management team initiated analytics and modeling during the year that proved to be game changers. Apart from building key automation tools, we implemented comprehensive transaction loss estimation models for proposed transactions across asset classes, enabling us to launch new products and structure transactions in an efficient manner, therefore adding tremendous value to our clients while enabling us to reliably estimate our risk, which was particularly valuable for the non-microfinance asset classes.

Our efforts in investor relations also scaled up significantly this year, as we have inducted some of the largest public and private sector banks, large private wealth management companies, Non-Banking Financial Companies (NBFC), and Foreign Institutional Investors (FII) to our transactions. We were fortunate to find in LeapFrog Investments an investor equally committed to our mission of financial inclusion and look forward to significant scale and impact through our partnership.

We continue to be strong advocates for capital markets access. We contributed to the work of Commitee on Comprehensive Financial Services for Small Businesses and Low Income Households (CCFS), Corporate Bonds and Securitisation Advisory Committee (CoBoSAC), the Federation of Indian Chambers of Commerce and Industry (FICCI) Committee on Capital Markets and presented in forums such as the round table organised by the National Housing Bank (NHB) and Department of International Development (DFID), UK and workshops organised by Microfinance Institutions Network (MFIN).

I would like to take this opportunity to thank all our Directors for their valuable contributions to the Board of IFMR Capital. In FY 2014, we inducted Samir Shah, CEO of NCDEX as an Independent Director. Along with Charles Silberstein and Dr. Susan Thomas, the Independent Directors have played a crucial role in shaping our strategy and governance. I thank Kshama Fernandes for her outstanding leadership, the Partners, and the entire team, for their valuable and continued contributions towards our mission.

Bindu Ananth
IFMR Trust

BINDU ANANTH
President, IFMR Trust

From the CEO's Desk

"To accomplish great things we must not only act, but also dream; not only plan, but also believe" - words of Noble Laureate Anatole France, 1896.

At IFMR Capital we have come a long way from where we started, building on the foundations of the core principles on which the company was founded. We continue to seek opportunities where our capital markets focus and expertise may be best leveraged for purposes of providing access to capital. We continue in our role as principals enabling risk transmission via our investments. We continue exercising our role as experts in underlying sectors with emphasis on high quality origination, innovative structuring, extensive capital market coverage and state-of-the-art risk management. And we continue creating and expanding markets for asset classes we work in. We dream, we plan, we act and we continue to believe in our dreams.

While Microfinance constituted the highest proportion of our business volumes, FY 2014 saw us diversifying across four asset classes. Affordable Housing finance picked up well during the year. While we expected to see more action on Small Business Loans finance, it was the newly launched Commercial Vehicles finance business that outperformed expectation. Microfinance now constitutes 84 percent of volumes down from 92 percent in FY 2013. It forms 75 percent of balance sheet down from 89 percent in FY 2013. While we continue to add new clients, our existing clients have grown significantly - many of them with Assets under Management (AUM) exceeding INR 5 billion. Even as we continue to account for a large share of funding availed by our smaller clients, we have demonstrated our value to larger clients through innovations in product structures, reduction in credit enhancement, diversification of investor base, timing of funding and pricing. We saw a strong growth in our client base of originators with the number of approved entities increasing from 40 to 52. We enabled a total financing of INR 35 billion across four asset classes, a jump of 82 percent over FY 2013. There was significant diversification in the product spread. We structured two new products during the year - a guarantee backed CBO and the risk participation structure, adapted existing products, closed our first MBS - investment into which is our longest tenor exposure till date, as well as closed the first Mosec™ in small business loans. Loans and non-convertible debenture (NCD) syndications were scaled up during the year with significant long term funding being availed by our partners.

Our balance sheet grew from INR 2.9 billion to INR 5.4 billion with several new lines of funding coming in over the year. We raised financing from a variety of sources including loans, Commercial Paper (CP) and NCDs. Operating income grew by 70 percent and profits by 65 percent. Operating costs as percentage of average assets showed a drop of 150 basis points. We expect this trend to strengthen in the coming year. We closed the year with a profit after tax of INR 121 million. The equity raise process that we commenced in July 2013 concluded in March 2014 with LeapFrog Investments taking a significant minority stake in IFMR Capital. We believe that the strong shared sense of purpose as well as our approach towards sustainably promoting financial inclusion will take us a long way together.

The number of investors we work with increased from 29 to 40 during the year. We closed the largest Mosec™ transaction till date, an INR 1.7 billion transaction with a large private sector bank coming in as investor. We scaled up on existing relationships by ensuring higher volumes, as well as by diversifying into new products. We established new relationships with public and private sector banks, NBFCs, Housing Finance companies (HFC) and offshore investors. This will enable us to enhance commercial risk appetite in the asset classes we cover, and reduce the classic first half skew.

IFMR Capital currently has exposure to 370 districts across 25 states. The portfolio is better diversified as against last year. The single largest state exposure has dropped to 18 percent from 25 percent as in FY 2013. Top three entity exposures have significantly reduced over the year as well. The cumulative collection efficiency of live securitization transactions is 99.16 percent. IFMR Capital's portfolio continues to exhibit strong performance with a zero delinquency track record.

KSHAMA FERNANDES
CEO, IFMR Capital

We continued with the emphasis on our risk analytics and modeling initiatives during the year. We developed automation tools and implemented comprehensive transaction loss estimation models enabling us to launch new products and structure transactions in a more efficient manner. The risk monitoring team piloted and refined the monitoring and pool audit framework for the newer asset classes, providing crucial feedback to deepen our asset class, entity and transaction analysis.

Training and development included both internal knowledge management sessions as well as external programs. Combining deep skills in capital markets with a passion for financial inclusion, the team at IFMR Capital continues to be at the forefront of financial innovation in India. We added our Chief Risk Officer to the Partner cadre taking the total number of Partners to six. The Originators and Investors Meet 2014 was a great success. The meet was an excellent display of our strong engagement and value-add vis-a-vis our originators, investors and other stakeholders.

The year that went by tested our ability to scale up volumes across various asset classes, products and structures. Our execution capacity was put to the test towards the end of the year as we juggled between soaring year-end volumes and the closure of the equity raise process. Team IFMR Capital put up a stellar performance in turn setting the bar even higher. The coming year will really be about trying to ensure a more uniform spread of business across all quarters. We have already taken steps towards this. A stronger balance sheet will also enable us to step in with on-balance funding for clients when required.

On the origination front, we plan to deepen our presence in existing asset classes by increasing our originator base by over 40 percent with a concerted effort towards expanding across tiers. We also plan to make a foray into another new asset class. The agriculture sector looks promising especially with new originators emerging over time. We will also explore capital markets opportunities in the Small and Medium Enterprise (SME) space.

On the markets front, the focus will be to diversify the investor base across Priority Sector Lending (PSL) and non-PSL seeking investors. We aim to add new investors across banks, NBFCs, HFCs, mutual funds, international social and commercial investors, private wealth and domestic insurance companies.

We will strengthen our risk scoring and stress metrics framework in the coming year while also undertaking an estimation of portfolio level risk for IFMR Capital. We plan to rigorously test our risk models and build more stress testing tools. The monitoring design will be carefully calibrated to our differential understanding of risk across asset classes. Key processes that impact our stakeholders such as investor reporting and client servicing for securitization transactions will be managed proactively. The development of an ERP system for the Company is underway. Once fully implemented, it will strengthen our data-capture and operational processes and increase efficiency while reducing risks of errors.

We have ambitious plans for the coming year with a projected doubling in volumes. A large proportion of this volume is expected to come from our non-microfinance businesses. The proportion of Microfinance will see a further drop. So will the share of securitization as we scale up across syndication and other newer structures.

I would like to take this opportunity to thank the Board of IFMR Capital for their continuous support, encouragement and guidance over the years. This year was particularly crucial. I would like to thank the LeapFrog team for making the leap of faith and joining us in our journey. I also thank all our investors and our originator partners for the trust and confidence placed in us year after year. Your continued support is invaluable in the journey towards creating efficient and sustainable capital markets access for the financially excluded in India. We continue to have an ambitious outlook and big dreams for the future. As Thomas Edison put it "If we all did the things we are really capable of doing, we would literally astound ourselves." FY 2015 has all promise of being an astounding year for IFMR Capital.

Kshama Fernandes
CEO, IFMR Capital

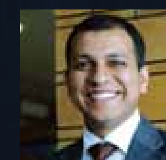
GOVERNANCE

Board of Directors

Bindu Ananth
President, IFMR Trust
Chairperson

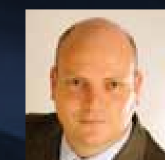
Dr. Kshama Fernandes
Chief Executive Officer and Senior Partner, IFMR Capital
Executive Director

Michael Fernandes
Partner, LeapFrog Investments
Nominee Director

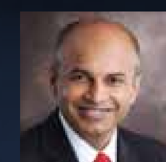


Puneet Gupta
Chief Executive Officer, IFMR Rural Finance
Director

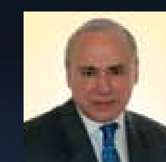
Sucharita Mukherjee
Chief Executive Officer IFMR Holdings
Director



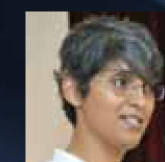
Dr. Jim Roth
Co-founder and Partner, LeapFrog Investments
Nominee Director



Samir Shah
Managing Director and Chief Executive Officer, NCDEX Limited
Independent Director

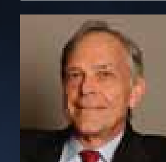


Charles Silberstein
Former Director, FSA - London
Independent Director



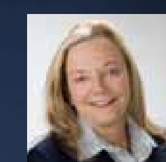
Dr. Susan Thomas
Faculty, Indira Gandhi Institute for Development Research (IGIDR)
Independent Director

Advisors

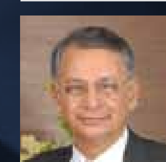


W Bowman Cutter III
Former Managing Director, Warburg Pincus

Dr. Tilman Ehrbeck
Chief Executive Officer, CGAP

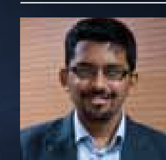


Deidra Wager
Former Executive Vice President, Starbucks Coffee Company

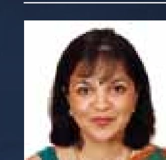


H N Sinor
Chief Executive, Association of Mutual Funds of India (AMFI)

Senior Management



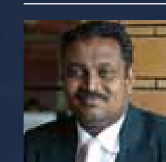
Vineet Sukumar
Senior Partner and Chief Financial Officer



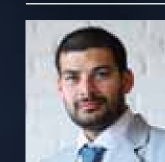
Meenal Madhukar
Senior Partner and Chief Markets Officer

Gaurav Kumar
Senior Partner and Head - Origination

Bama Balakrishnan
Senior Partner and Chief Risk Officer



Kalyanasundaram C
Partner and Head - Operations

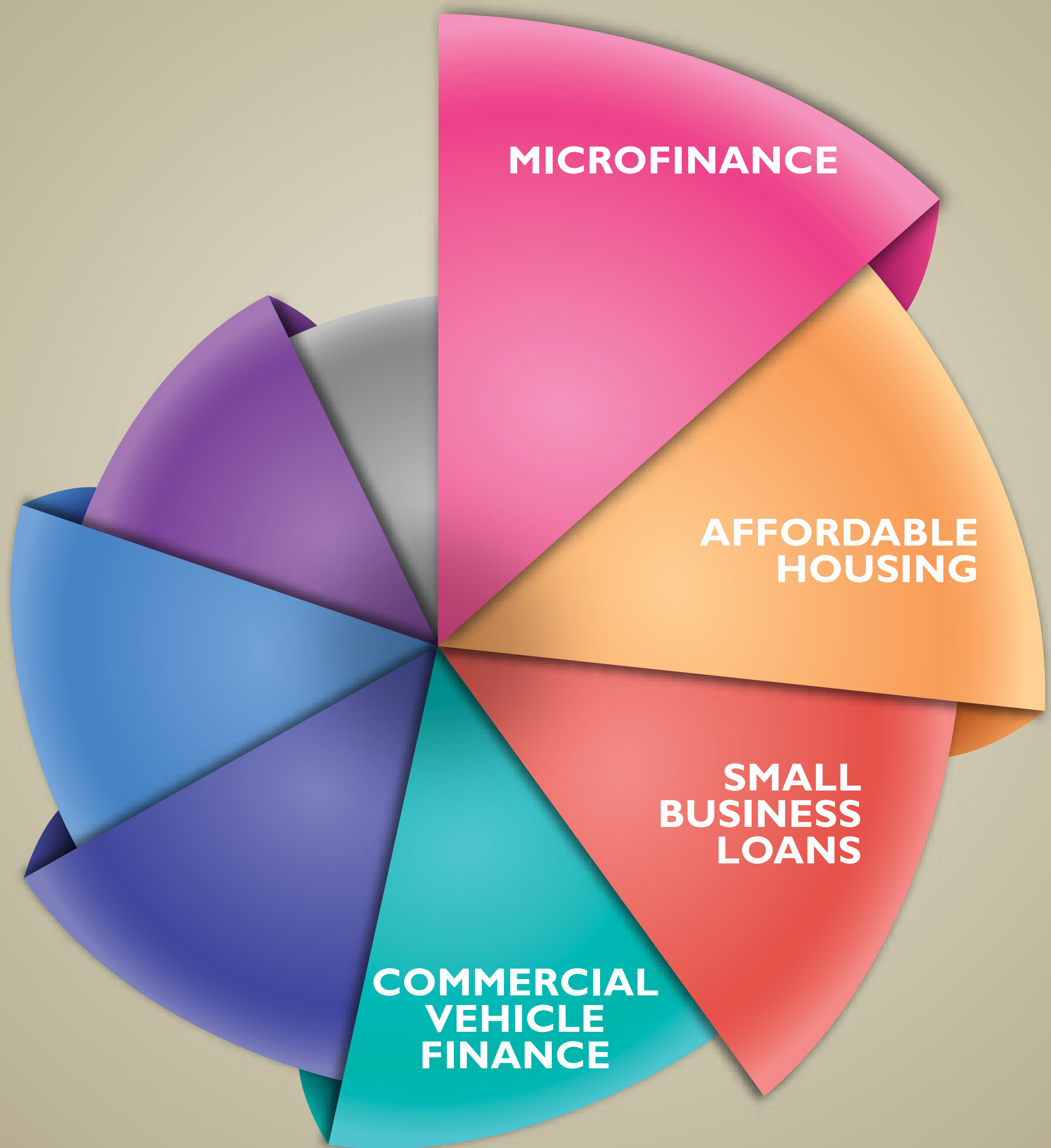


Saurabh Jaywant
Chief Legal Counsel

IFMR CAPITAL **PEOPLE**

IFMR CAPITAL ANNUAL REPORT 2013-14

Sector Overview



FY 2014 proved to be yet another year during which IFMR Capital outdid the performance of the previous year on all accounts - number of client relationships, volume of financing enabled and the launch of a new asset class - Commercial Vehicle finance. FY 2014 also marked another year of innovation for IFMR Capital with the development of new products and transaction structures and their placement with a diverse set of investors.

At the end of FY 2014, IFMR Capital's client portfolio grew to 52, with three new partners each in Microfinance, Commercial Vehicle finance, Small Business Loan finance and Affordable Housing finance sectors, with a total volume of INR 35 billion of financing enabled across these asset classes.

In the following sections, we take a look at each of the sectors we work in.

Microfinance

The Indian microfinance sector has shown remarkable progress over the last three years. Microfinance institutions (MFIs) across the country have made substantial strides in strengthening their operations and reducing costs whilst improving and sustaining portfolio quality. Concerns about over-indebtedness of microfinance borrowers have been allayed by the setting up of credit bureaus, which provide MFIs information on existing debt and credit history of potential borrowers.

Over the last two years, Indian MFIs have begun to emerge as efficient financial intermediaries for banks and NBFCs via the business correspondent model, offering access to a widened range of services and products for the financially excluded. Most MFIs have also demonstrated commendable scale, sustainability and impact. MFIs in India now serve over 70 million borrowers, by far the largest in any country across the world.

The potential size of the microfinance market, served primarily by microfinance institutions and self-help groups with bank linkages is estimated at INR 1.4 – 2.5 trillion. This could imply the possibility of microfinance institutions being able to grow at an annualised rate of 30 - 35 percent over the next three years. According to ICRA, microfinance institutions in India reported a growth of 33 percent in loan book size in FY 2014, enabled by an increase of 37 percent in the number of active borrowers and of eight percent in ticket sizes.

The shadow of the Andhra Pradesh crisis seems well behind the sector as credit flow to MFIs increased by 38 percent in FY 2014. The year saw a lot of microfinance institutions tapping into a new source of capital via the issuance of NCDs, further enabling a reduction in their funding costs.

On the regulation front, the Reserve Bank of India (RBI) recognised Microfinance Institutions Network (MFIN) as the first Self-Regulatory Organisation for NBFC-MFI, and also reaffirmed the regulations governing NBFC-MFIs covering minimum capital requirement, capital adequacy requirement, multiple lending and indebtedness, pricing of credit and consumer protection initiatives. The consequence of the new regulation has been positive with greater reporting requirements, higher standards of transparency, and improved sentiment amongst rating agencies and investors. More recently, the RBI has allowed non-deposit accepting NBFC-ND to be business correspondents, which is likely to provide a fillip to financial inclusion and to the business prospect of microfinance institutions.

The sector has also witnessed continued interest from equity investors reflecting the rising confidence in the growth potential of the sector. Among our partners, Satin Creditcare Network Ltd, Janalakshmi Financial Services Pvt Ltd, Arohan Financial Services Pvt Ltd, Annapurna Microfinance Pvt Ltd, Grameen Financials Pvt Ltd have all raised equity in FY 2014.

Affordable Housing

The rapid pace of urbanization in the country and rising income levels over the last few years have been and continue to be the primary expansionary propellants of the Affordable Housing market in India. The market for financing the demand for these affordable houses has recently shown improvement by way of various financial reforms. ; However the penetration of housing finance in India remains low with housing credit forming a mere seven percent of Gross Domestic Product (GDP). The total housing shortage in rural areas is estimated to be around 44 million housing units and in urban areas it is estimated to be around 19 million units. The biggest factor in attacting financing to the lower income segments is the sheer size of the growth opportunity.

Banks have traditionally been the largest player in the housing loan market and continue to hold more than 75 percent of the total home loan portfolio in India. The other players in the market are housing finance companies, land development banks and housing societies. Despite the network of banks, low income groups lack access to home finance.

The aggregate AUM of all affordable housing finance companies is estimated at around INR 4,500 billion, as of March 2014 according to ICRA and IFMR Capital estimates. Even within this segment, large housing finance companies that cater to borrowers in the formal sector capable of producing documented proof of income, dominate the market.

On the supply side, over the last few years, NHB has launched many refinance schemes to promote institutional financing of the rural and urban low-income housing segments, like the Rural Housing Fund (RHF), Urban Housing Fund (UHF) and Special Refinance Scheme for Urban Low Income Housing. However, recently, NHB has placed interest rate caps on loans

disbursed under these schemes. Further, to encourage more affordable housing development and financing, the national budget for FY 2015 has allocated INR 40 billion to the National Housing Bank with the aim to provide cheaper credit facilities to people belonging to the low-income groups and economically weaker sections, who face 95 percent of the housing shortage. Further, projects which commit at least 30 percent of the total project cost for low-cost affordable housing have been exempted from the minimum built-up area and capitalisation requirements.

IFMR Capital partners closed FY 2014 with an AUM of around INR 24 billion. Our housing finance partners are young companies with high standards of governance who have in their early days of operations, invested in human resources and systems that are critical for scaling up. The experienced teams have been able to customise their origination processes apt for assessing the target clientele. The specialised cash flow assessments complement the mortgage/security that is provided. Each of these housing finance companies have been innovating in risk assessment of their potential borrowers, collection mechanisms and building systems to ensure process control before scaling up the operations.

Performance has been better than the industry with our partners demonstrating excellent asset quality reflected in their average NPA of 0.5 percent.

Given the low base and almost unlimited demand, we believe that the affordable housing finance market will witness tremendous growth over the next few years, Most HFCs in this space have stabilized operations and have witnessed excellent asset quality. At the same time, concerns about areas such as asset liability management, access to a diversified investor base and rating limitations persist.

Commercial Vehicle Financing

A key highlight of FY 2014 was our foray into the Commercial Vehicles (CV) financing segment. Commercial vehicles are those vehicles used by businesses either to transport goods or to transport passengers and are a critical component in the complete supply chain, ensuring efficient movement of raw material - mainly agricultural and primary goods - from producers to manufacturers to consumers. IFMR Capital ventured into this asset class given the relevance it has to the lives of financially excluded households in their roles as consumers, producers and participants (especially in the case of small road transport owners, drivers turned owners and first time buyers).

The commercial vehicle industry has historically been positively correlated with the economic growth of the country. The slowing industrial growth and weakening investment sentiment across most sectors since the second half of FY 2012 have started showing its effect on the commercial vehicle market. Recent reports suggest that the commercial vehicle segment has shrunk by 20 percent in FY 2014 compared to the previous fiscal year. However, the long-term prospects of the sector continue to be supported by expectations of improvement in economic growth, the increasing pace of investments in highway and road infrastructure, along with positive structural changes such as the recent implementation of norms governing emission and anti-overloading which should boost demand for replacement trucks and other commercial vehicles. Vehicles below four years of age form 50 percent of the total CV population in India. High demand during the past decade has resulted in a considerable build-up of CV stock. 5 - 12 year old vehicles form 38 percent of the total CV population while vehicles more than 12 years form the balance 12 percent. It is estimated that the market potential for CVs in 0 - 4 years of age group is INR 9,200 billion, while it is INR 750 billion for CVs in the age group of 5-12 years and INR 180 billion for CV's more than 12 years old.

The Commercial Vehicle segment comprises of Medium and Heavy Commercial Vehicles (M&HCVs), and Light Commercial Vehicles (LCVs). While heavy commercial vehicles have a positive correlation with the economic growth of the country and have been affected by the recent slowdown in the economy, the market for LCVs and used commercial vehicles has largely been unaffected.

The used Commercial Vehicle segment is a very niche segment. Despite the opportunity, banks have stayed away from this segment due to the complexities involved in operating this business. IFMR Capital now enables access to capital markets for high quality originators in the Commercial Vehicle financing space just as it has demonstrated access to capital markets in other underserved asset classes such as Microfinance, Affordable Housing finance and Small Business Loan finance.

Small Business Loan Financing

The Micro, Small and Medium Enterprises (MSME) sector has consistently grown at a pace faster than India's GDP, according to the Ministry of Micro, Small and Medium Enterprises. The sector however has not been supported by adequate formal financing. This is largely because many of these businesses are in the informal segment and lack proper documentation and liquid collateral making underwriting difficult for banks. While banks have been active in the SME space for larger enterprises, it is the MFIs and the Self-Help Group-Bank Linkage Programme (SHG-Bank Linkage) who have been successful in meeting the credit needs for household-based income-generating activities and very small enterprises. There is clearly therefore, a significant 'missing middle' segment that has been largely left out by the mainstream credit delivery channels.

India has witnessed evolution of various models over the years in response to the inadequacy of the banks to meet the credit needs of the unorganised sector. NBFCs with localised presence and domain knowledge have started to look at the small business finance market as an opportunity. Presently, the small business finance market comprises of NBFC-MFIs, large and old NBFCs along with new NBFCs.

Microfinance emerged as a step forward in addressing the perennial challenge of financial inclusion. Some microfinance institutions such as Grameen Financial, Grama Vidiyal and Ujjivan have started offering Individual Loans to customers with long standing relationships, while others like Swadhaar, Arohan and Utkarsh have created a small customer base of individual run micro enterprises. Many others are also experimenting with this product on a pilot basis for their 'graduated' group-loan clients as well as non-clients who are entrepreneurs, before they scale up the product to small businesses.

NBFCs with a focus on MSME finance like Intec Capital, Electronica Finance, MAS Financials and Five Star have steadily developed their business for over two decades. Their unique model of underwriting and credit delivery has helped them scale financing to small businesses while maintaining good portfolio quality. The loans offered are mainly for facilitating needs like equipment purchase, business expansion, technology upgrades and working capital requirements.

Recently, newer NBFCs, sensing opportunity, have made a foray into SME lending with innovative business models over the past 5 years. These NBFCs scrutinize informal records of income that banks generally do not recognise or accept, and conduct background checks on potential customers through an exhaustive evaluation process. They have built unique credit methodologies to undertake cash-flow based assessment of MSME financials, even in the absence of conventional income documents by assessing customers' economic activity. Several new players have entered the market - either new entities or offshoots of existing financial institutions. New NBFCs such as Vistaar Finance, Kinara Capital have commenced business with a focus on micro enterprise lending, while others like Shriram City, Bajaj Finance, Religare Finvest, and Au Financiers have leveraged upon an existing branch network and customer base.

Several originators have developed their own niche of operating models to meet specific gaps in the market, ranging from working capital needs of corporates, equipment financing for larger MSMEs, on-going business requirements for smaller businesses, among others. Other originators have chosen a geographic metier, developing and deepening their networks and customer relationships in specific geographies. These lending institutions also have innovative processes to expand target clientele - referral systems integrated with the supply chain, systematic cluster-based approaches, direct marketing, and strategic relationships with other institutions which work with the same target clientele, to name a few. Certain other institutions, such as IFMR Rural Channels and Janalakshmi Financial Services, which believe in a holistic, livelihood-based approach to lending, have also started offering enterprise loans in their operational area.

IFMR Capital's partners in this space have demonstrated their key strength of having developed a specialised model of lending to small business and enterprises. The origination model relies on an in-depth understanding of the customer segment in the target geographies. Across all the partners, the origination model thrives on independent and separate business and credit functions. All partners have customised their processes to effectively assess the enterprise for credit delivery.

Each partner has developed templates for margins and cash flow analysis of the businesses that are financed. Wherever, there are no documentary proofs, there is focus on understanding and verifying the underlying cash flows of the business through proxy information and multiple checks.

Portfolio quality of these partners has continuously been very good in comparison to the industry. Gross NPA of all IFMR Capital partners in this space has been in the range of 0-1 percent against an industry average of approximately three percent as of September 2013. The robust origination, collection and delinquency management processes have resulted in steep reduction in PAR across buckets.

The cumulative AUM of our SBL partners has doubled over the last one and half years from approximately INR 17.5 billion to INR 42 billion. All NBFCs lending to MSMEs currently, are very small in terms of the small business loan portfolio that they manage.

The asset class has witnessed significant equity interest from a variety of investors: early stage investors such as Elevar and Lok, development financial institutions such as FMO, Proparco, Lok Capital, DEG and SIDBI, as well as mainstream private equity players such as Matrix Partners, Warburg Pincus, Chrys Capital and fund advised by MOPE. In the last two years, the SBL partners of IFMR Capital have seen more than INR 3 billion of equity infusion from institutional investors. Given the nascent stage and vast demand, IFMR Capital expects significant growth from existing players, as well as the emergence of newer players.

IFMR Capital Business **Highlights**

IFMR Capital has witnessed another year of robust growth and strong relationships. During the year, we built new client and investor relationships, developed new products and strengthened our existing relationships. We present below IFMR Capital's highlights for FY 2014.

Microfinance

Working with high-quality originators: The microfinance sector continued its upward trajectory in FY 2014. We are happy to report that all our partners have shown consistent portfolio growth, healthy margins and good asset quality. FY 2014 also marked another series of *firsts* for IFMR Capital and helped us create better value for our clients through path-breaking deals and a wider product suite. During the year we enabled financing of over INR 29 billion to our partners via rated securitisation, term loans, guarantee-backed deals, placement of NCDs and commercial paper, and debt syndication. Our Origination team conducted MFI assessments on potential partners this year and successfully inducted three who met our rigorous capital markets standards. Our pipeline for new partnerships is promising and we hope to induct new partner institutions that have done commendable work over the last couple of years. We now have an active relationship with 26 high-quality Microfinance Institutions.

Our **Partners**

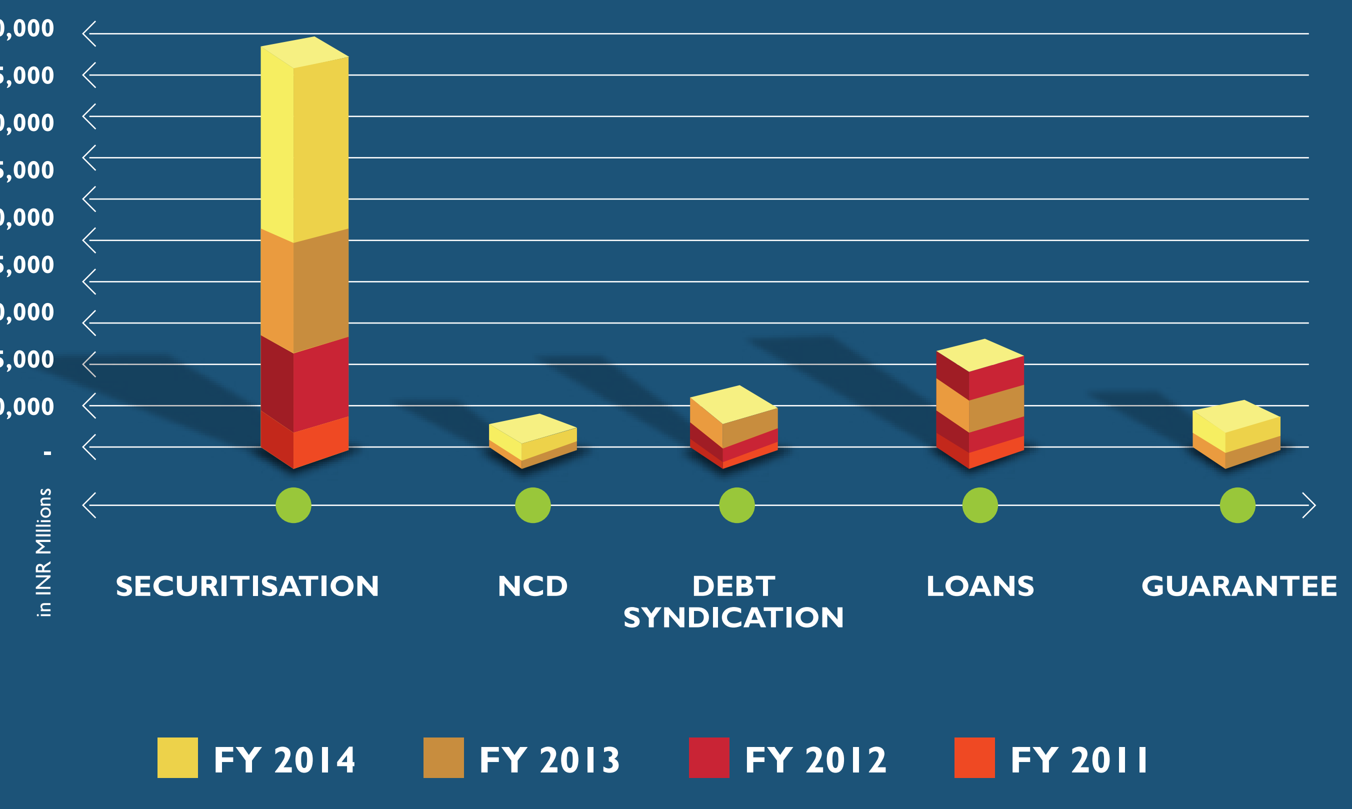
Products and Volumes

Our Origination team tracks the microfinance sector closely and engages in detailed conversations with our partners to ensure that they have reliable access to debt to achieve their business-plan numbers by diversifying their sources of funding. During the year gone by, we added Collateralised Bond Obligations, issuance of Commercial Paper, and Risk Participation in Direct Assignment transactions to our product suite for microfinance originators. Our securitisation and other on-balance sheet funding program continued to grow as planned.

Our overall business volumes in the microfinance sector grew by 67 percent year-on-year with securitisation volume in microfinance expanding 66 percent over the previous year, term loan funding growing by 80 percent and NCD placement and debt syndication volumes exhibiting a growth of 300 percent and 91 percent respectively.

The eight NCD transactions closed in the year under review bodes well for the industry, with the cost of funding on these expected to be lower than other sources of funding available currently.

As in previous years, the lion's share of our volumes came from arranging and structuring securitization and assignment transactions. The microfinance securitization market was estimated to be around INR 51 billion in FY 2014. INR 21 billion of this was on account of IFMR Capital.



Transactions & Highlights

We have closed 61 Mosec™ transactions since inception with 29 in FY 2014 alone. We have also concluded 10 guarantee backed deals and 11 syndication deals this year.

Our efforts at innovation in structures relevant to our originators and investors continued with our first Risk Participation in a Direct Assignment of INR 144 million micro loan portfolio originated by one of our clients. The loan portfolio was assigned to a private sector bank with IFMR Capital sharing in the risk of the underlying pool. Moreover, with the closure of this transaction, we now have a product offering for those originators / investors who may prefer the assignment route over securitization.

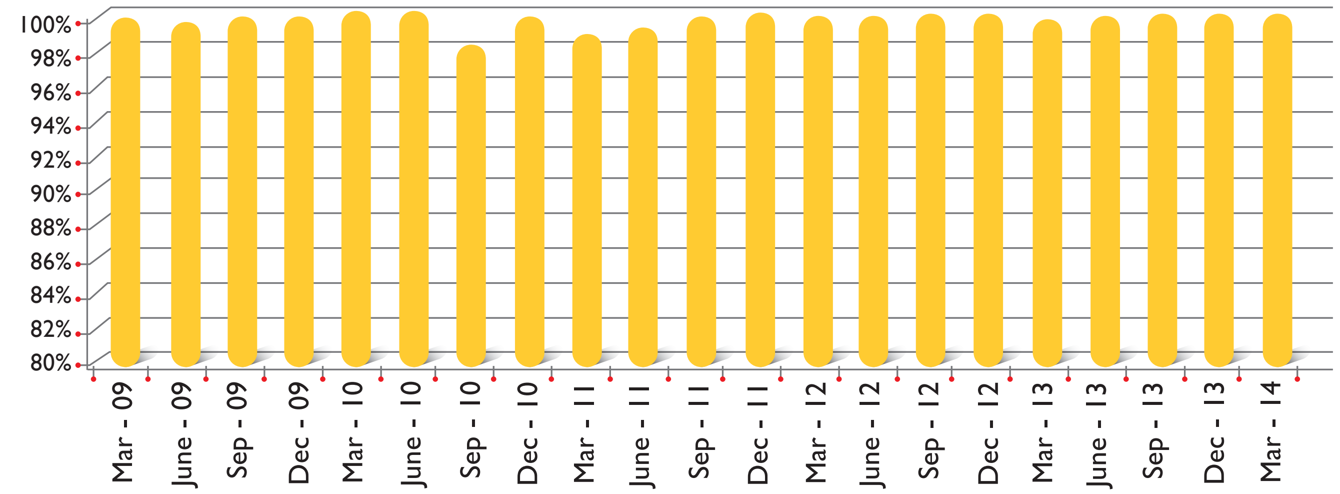
The year under review saw us structure the first issuance of Collateralised Bond Obligation in India - the IFMR CBO I of INR 980 million, comprising multi-issuer pooled non-convertible debentures. This CBO saw participation from 11 first-time issuers of non-convertible debentures. All issuers are microfinance companies and small business lenders whose end customers are either self-employed individuals from the financially excluded segment or the ones employed in informal sectors.

This transaction illustrates well our efforts in developing scalable structures for meeting the requirements of our clients and investors. The diversification, credit enhancement and IFMR Capital's participation ensured that a large number of our clients could issue bonds for the very first time. Product development expertise, legal drafting capacity and execution capability are critical to pulling off a structure like this. With all these in place, we are now confident that we can take more issuers to capital markets and continue to attract new investors into such structures.

While the CBO introduces several high quality, small sized originators to the capital markets for the first time, it also opens up an investor base that is willing to invest in on-balance sheet debt instruments issued by them. Historically small-sized firms have found it difficult to do so, given the threshold constraints for ratings of the issuer and the instrument.

The issuers in the transaction include Annapurna Microfinance, Asirvad Microfinance, Arohan Financial Services, Disha Microfin, Future Financial Services, India School Finance Company, Intrepid Finance and Leasing, Pahal Financial Services, Suryoday Micro Finance, SV Credit Line and Svasti Microfinance.

Cumulative Collection Efficiency



Given below are some highlights of the sector derived using insights from IFMR Capital data across exposure to portfolio in 370 districts, 25 states and 26 MFIs:

Classification	AUM Range in INR millions	FY 2013		FY 2014	
		PAT %	Gearing	PAT %	Gearing
Tier I	AUM > 10,000	12.6%	2.8x	13.9%	4.1x
Tier II	10,000 > AUM > 5,000	4.7%	4.8x	8.1%	5.6x
Tier III	5,000 > AUM > 2,000	6.0%	2.1x	17.9%	3.3x
Tier IV	2,000 > AUM > 1,000	8.4%	1.8x	12.1%	3.4x
Tier V	1,000 > AUM > 500	2.6%	1.8x	8.0%	3.3x
Tier VI	500 > AUM	3.4%	1.9x	3.5%	2.2x

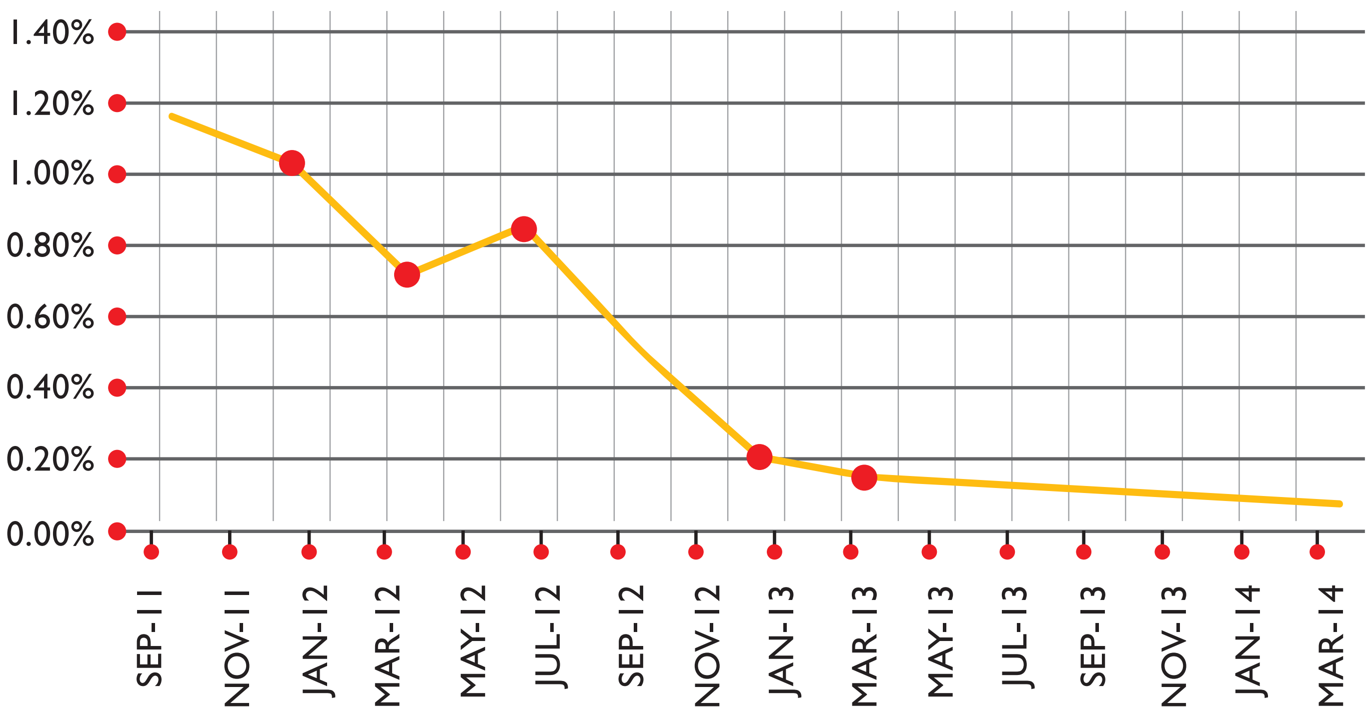
"In a very short span of time, we have grown comfortable working with the IFMR Capital team. We appreciate their analysis and insights, and how they have represented us to external investors and the capital markets. We definitely hope for more of this in the years to come, and look forward to a long term relationship."

Rajendra Setia,
Managing Director, Esskay Auto Finance

As the table above indicates, profitability has increased considerably across the board for all microfinance institutions, and this comes in spite of the higher provisioning requirements that have been in place since the beginning of this financial year. The higher gearing ratios across the board confirm the increased availability of funding available to the sector.

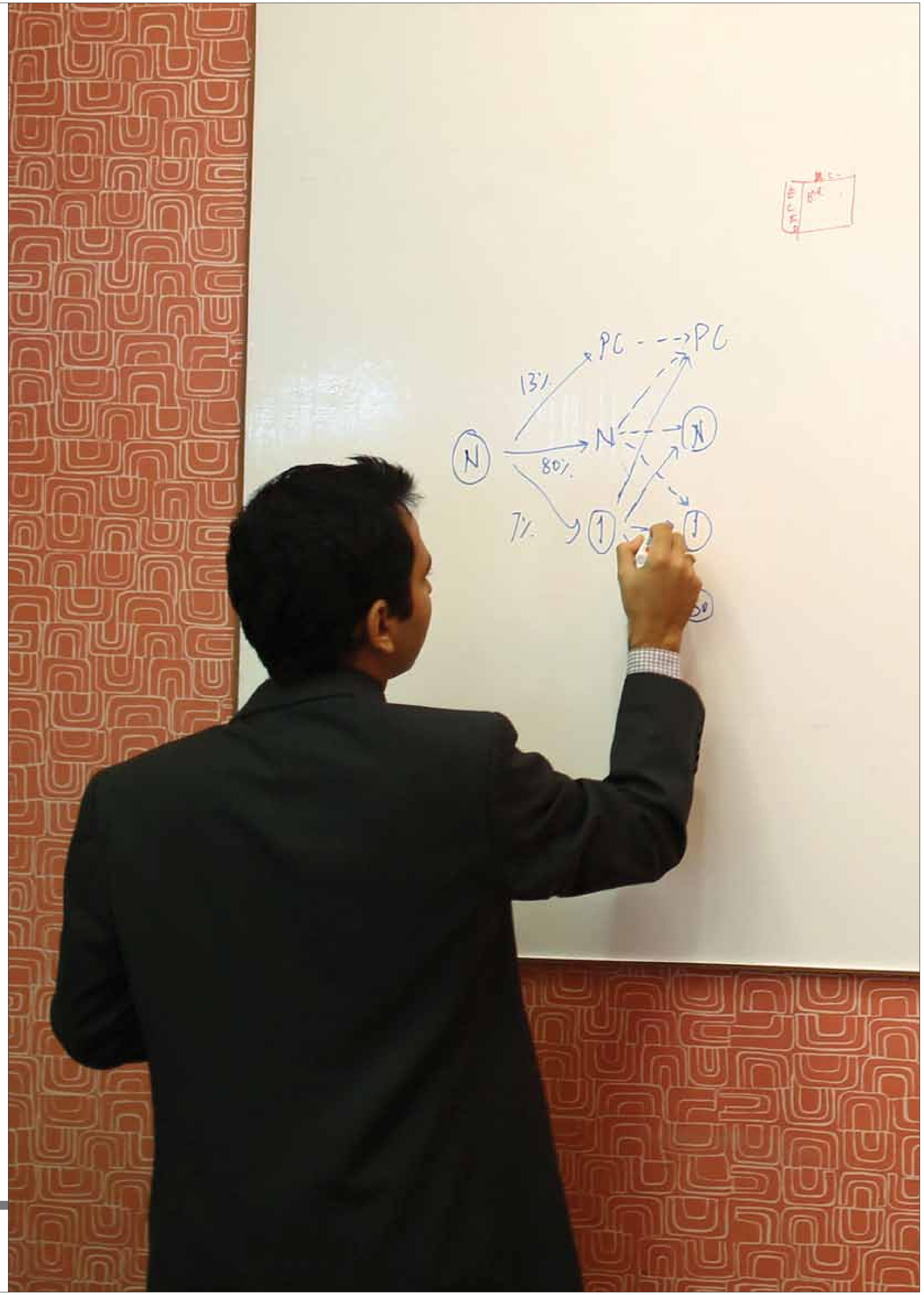
The measures taken by RBI to prevent over-indebtedness of borrower have been implemented by all our partners. The average PAR 30 percent (percentage of portfolio which is due past 30 or more days) has decreased from 0.72 percent in end March 2012 to 0.15 percent in March 2014.

PAR 30



> **ISFC was delighted to be one of the participants in the CBO. Apart from adding a new dimension for borrowings for small NBFCs, a structured product like CBO can help smaller NBFCs to come into the purview of larger ticket transactions / lenders which otherwise would not have been possible.**

Ankur Aggarwal,
Chief Operating Officer, Indian School Finance Company



Emerging Asset Classes - Small Business Loans, Affordable Housing Finance, Commercial Vehicle Finance

Our foray into emerging asset classes of relevance to financially excluded households began in FY 2012, and at the start of FY 2013, we had in place five approved partners across the Small Business and Affordable Housing finance asset classes. We closed FY 2014 with a strong foundation in these asset classes and look to leverage our understanding of the sectors and relationships to take them to the next level opening up reliable and efficient funding sources for high quality originators in the space.

We built upon our understanding of the two asset classes - Small Business Loans and Affordable Housing and fine-tuned our underwriting guidelines to capture the variations that we had seen in models of financing across these asset classes. Further, we added a new asset class to this mix - Commercial Vehicle financing. The Commercial Vehicle financing market is estimated to be over INR 1,000 billion. Despite this opportunity, banks have stayed away due to the complexities involved - high cost of delivery, stark geographical differences, and the perceived high risk of lending to the informal market. It is estimated that 55 percent of this market is served by money lenders and private financiers who charge interest rates of well over 50 percent per annum. The remaining is served by very large NBFCs like Shriram Transport Finance and small NBFCs with assets under management less than INR 3 billion, with interest rates ranging between 18 - 25 percent per annum. These smaller NBFCs have very limited borrowing experience and almost no access to capital markets.

The common denominator across these asset classes is the plethora of models used which is a reflection of the huge gap that exists in financing to these customer segments. They have attracted a lot of interest in recent years with the entry of many specialized players motivated by the opportunity of reaching out to the largely underserved informal sector and financially excluded households. Access to diversified and dependable sources of funds would be key to ensuring a robust growth of these specialized financial institutions and hence addressing the financing needs of a largely untapped market.

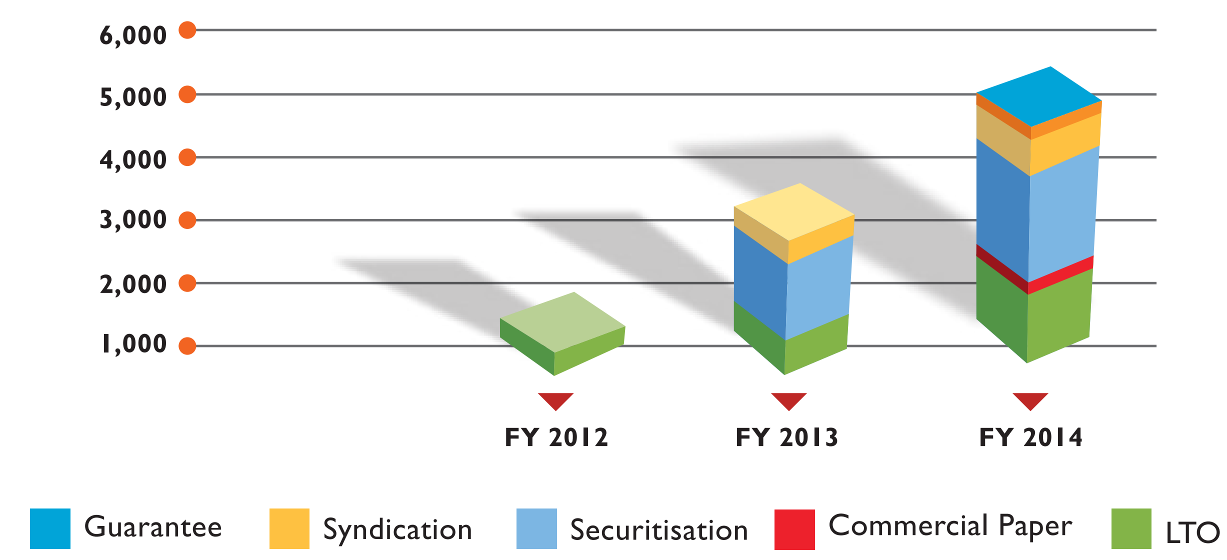
Our partners in the Small Business Loans asset class include a wide variety of financial institutions, each catering to a specific niche in the enterprise financing space. Our partners have developed specialized lending models for financing of livelihood businesses, micro-enterprises, equipment/machinery, supply chains and even affordable private schools.

In the Affordable Housing space, our partners have presence across the country and are largely new generation entities promoted by experienced professionals who leverage different models ranging from housing microfinance for incremental housing to micro mortgages with small ticket size, to reach out to their target customer segments. We have seen extensive work being done by all these entities to devise innovative and detailed methodologies for evaluation of their customers.

Our partners in Commercial Vehicle financing space have more than a decade's experience in the sector. They have developed grids which help them assess the viability of used commercial vehicles based on different underlying customer profiles and vehicle profiles.

We now have around 25 originator partners in these three asset classes.

On the business volumes front, we saw a sharp increase in volumes from INR 1.6 billion last financial year to INR 5.5 billion this year. We enabled debt financing to our partners through a mix of on-balance sheet and off-balance sheet transactions spanning products like plain vanilla debt, structured debt, and securitization.



IFMR Capital concluded the first Multi-Originator Securitization (Mosec™) of Small Business Loans (SBL), and the first Mortgage Backed Securitization for an Affordable Housing Finance company in India.

Three originators - Indian School, India Shelter and Vistaar - participated in the first SBL Mosec™. The senior tranche of the INR 200 million securitization transaction was rated 'BBB+ (SO)', and subscribed to by an NBFC. The underlying pool consisted of 1,155 contracts (small business hypothecation loans, small business mortgage loans, school finance loans and loans against property) issued to borrowers in urban, semi-urban and rural areas across seven states in the country. The average tenor of these loans was slightly above 4.5 years, and the average loan size about INR 0.8 million. The highest loan amount was INR 3.5 million. The average seasoning of the pool was a little over 15 months.

Given a non-traditional approach to credit appraisal, AHFCs face challenges in accessing debt that they can then on-lend to their potential borrowers. Access to capital markets via securitization can be a very effective tool to provide efficient, reliable and sustainable sources of funds for AHFCs on a maturity matched basis, provided the legal complexities and risks of a mortgage-backed securitization (MBS) can be adequately managed. IFMR Capital pioneered the first ever MBS for an AHFC, Hebros AHL IFMR Capital 2014, leading the way for AHFCs to enter capital markets.

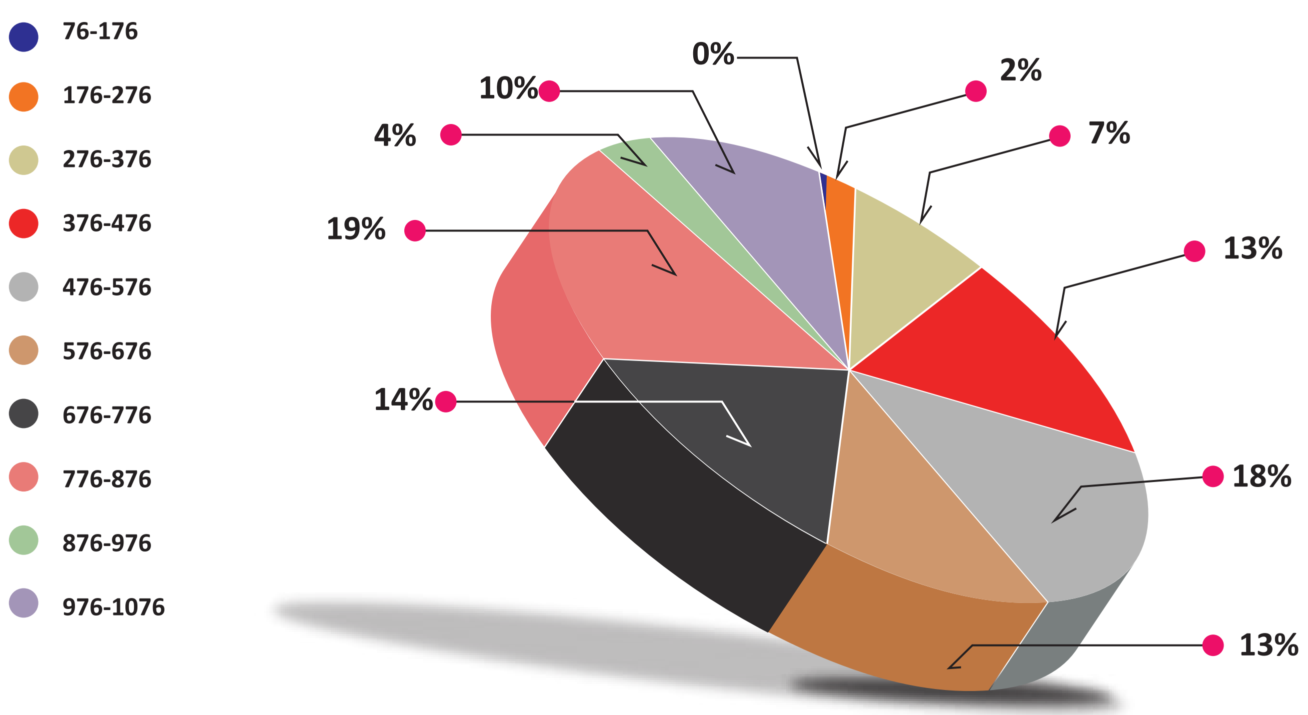
The transaction Hebros AHL IFMR Capital 2014 was rated by ICRA. The senior tranche was rated 'BBB+' and the junior tranche was rated 'BB+'. The senior tranche was subscribed to by a large Indian private sector bank, while IFMR Capital, in keeping with its policy of incentive alignment, purchased the junior tranche. Hebros had an underlying pool of 311 housing loan contracts with an outstanding principal value of INR 165.3 million originated by Shubham Housing Development Finance Company (Shubham). The loans in the Hebros pool were a mix of loans for ready home purchase and for self-construction on owned land, and had the characteristic as depicted in below exhibits.

Characteristics of **Hebros pool**

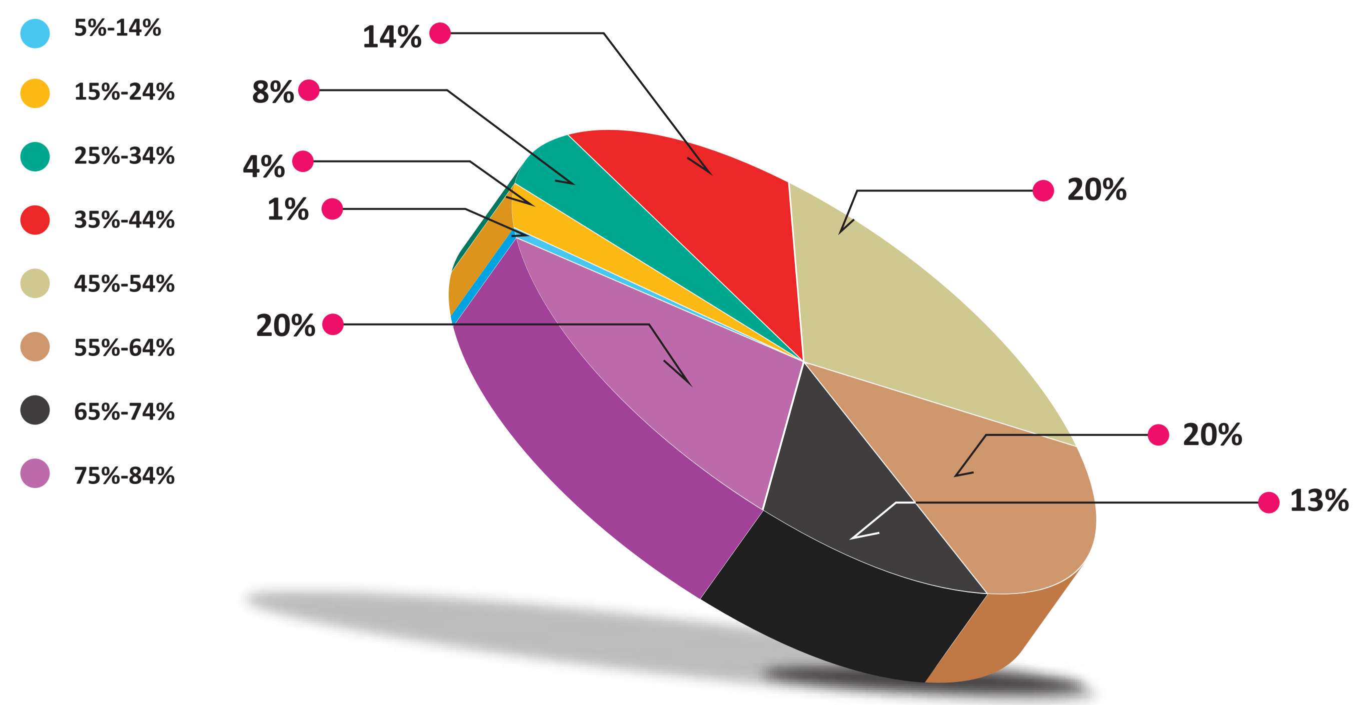
WEIGHTED AVERAGE SEASONING	20 months
WEIGHTED AVERAGE IRR	16.9%
AVERAGE TICKET SIZE	INR 570,000
WEIGHTED AVERAGE ORIGINAL LTV*	55.5%
TOP 10 OBLIGORS AS % OF POOL	5.87%

* Loan to Value

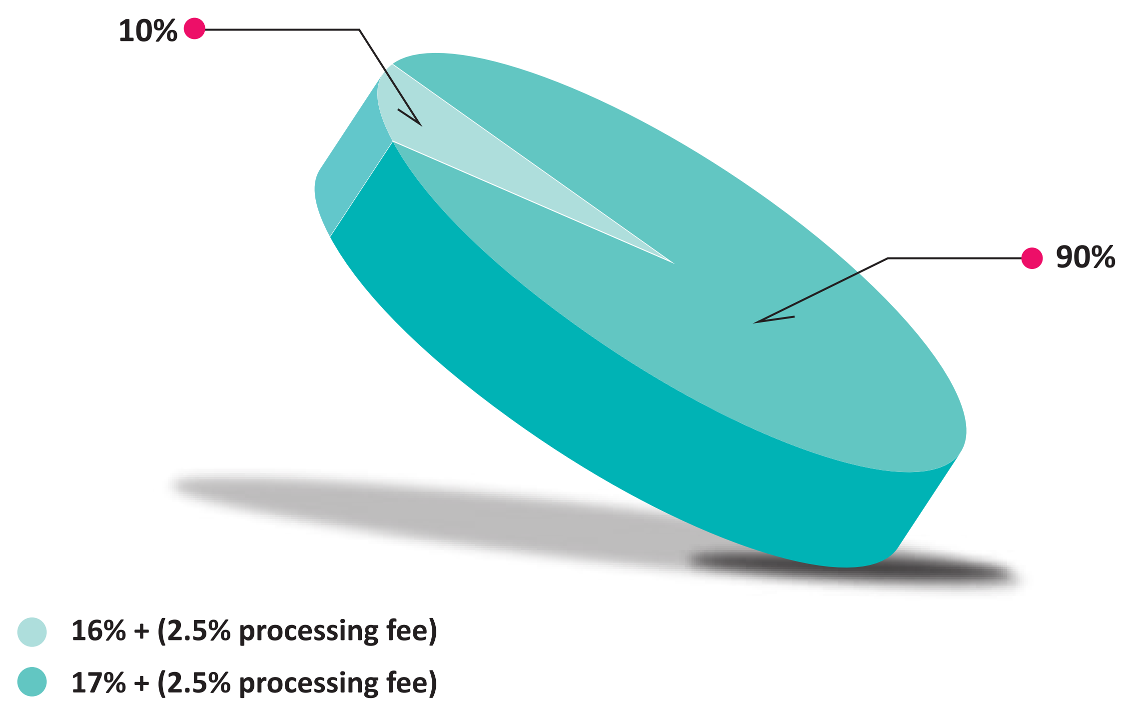
Original Loan Amount in INR '000



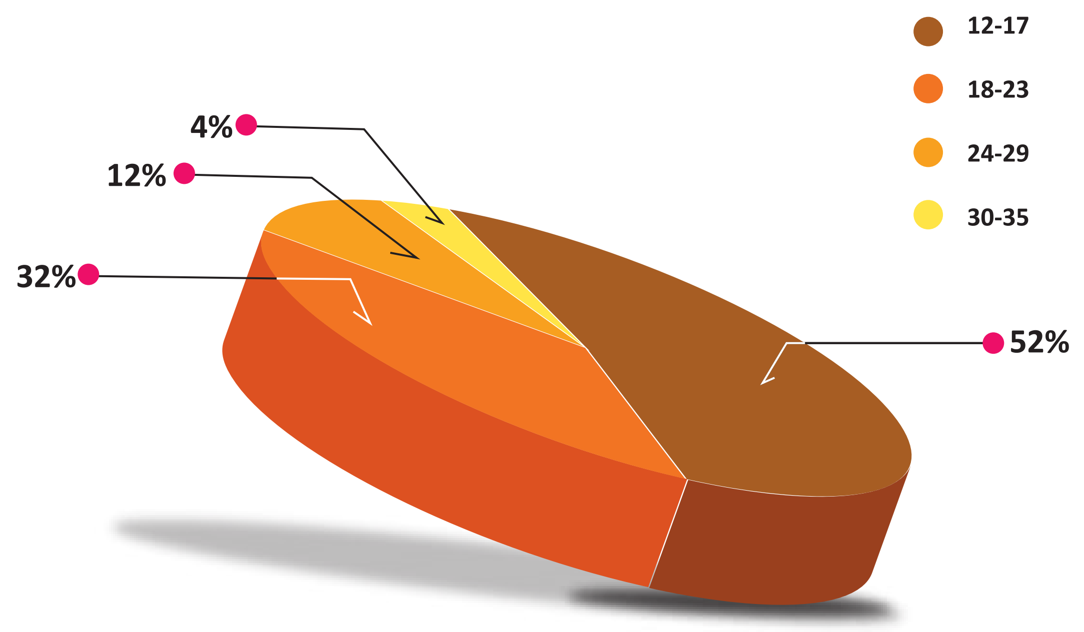
Original Loan to Value



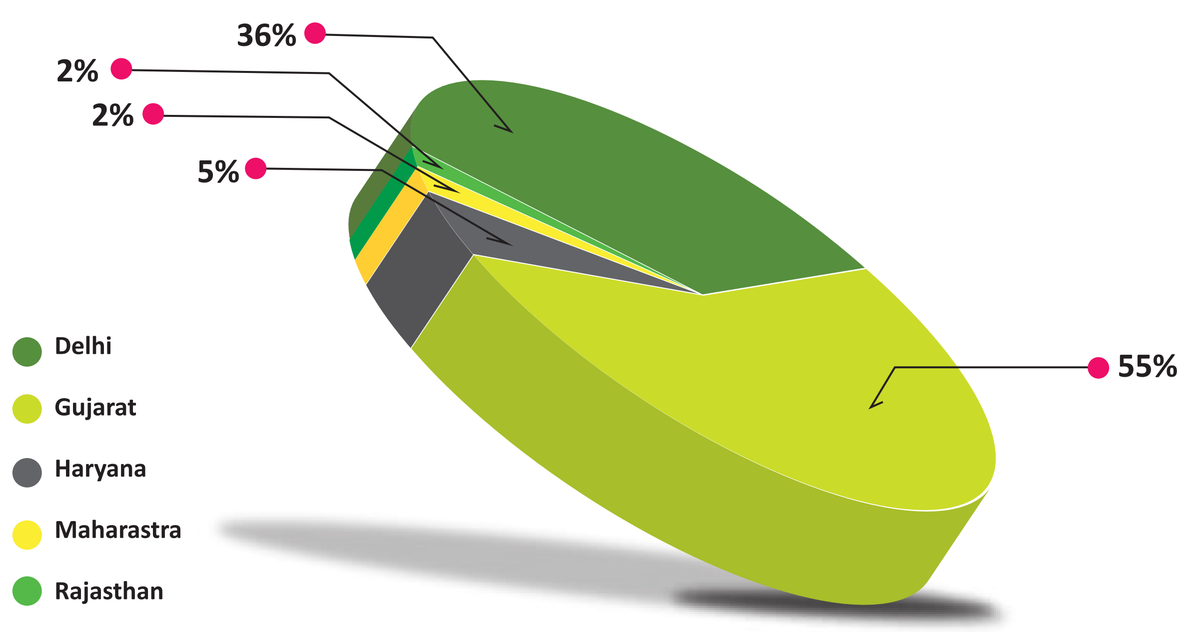
Hebros - Pool by Loan Interest Rate



Seasoning in months



Hebros Pool by Geography



We also customized structured debt products to meet short term liquidity requirements of borrowers.

This past year, we have achieved significant traction in Commercial Vehicle financing volumes as well structuring and arranging seven securitisation and assignment transactions, apart from syndicating a non-convertible debenture for one of our partners from a Dutch development bank. We have done significant groundwork on the market building front to build understanding and awareness of this asset class.

> **"As we look back at the last one year, IFMR has clearly been our most valuable partners. They came on board when we were just a few months old and have continued to be on our side. While there is no doubt on the professional excellence – all disbursements and other requests are handled with great speed and efficiency - what appeals to us the most is that they are one of the very few who actually understand the business dynamics. They can relate to our challenges and are always open to exploring alternatives without diluting their credit quality. Kudos to the team; if Varthana were giving out annual awards, the Partner of the Year award would undoubtedly go to IFMR Capital. We look forward to a continuing a fruitful partnership for many years to come."**
>
> **Brajesh Mishra,**
> Promoter and Director, Varthana

Investor Relations

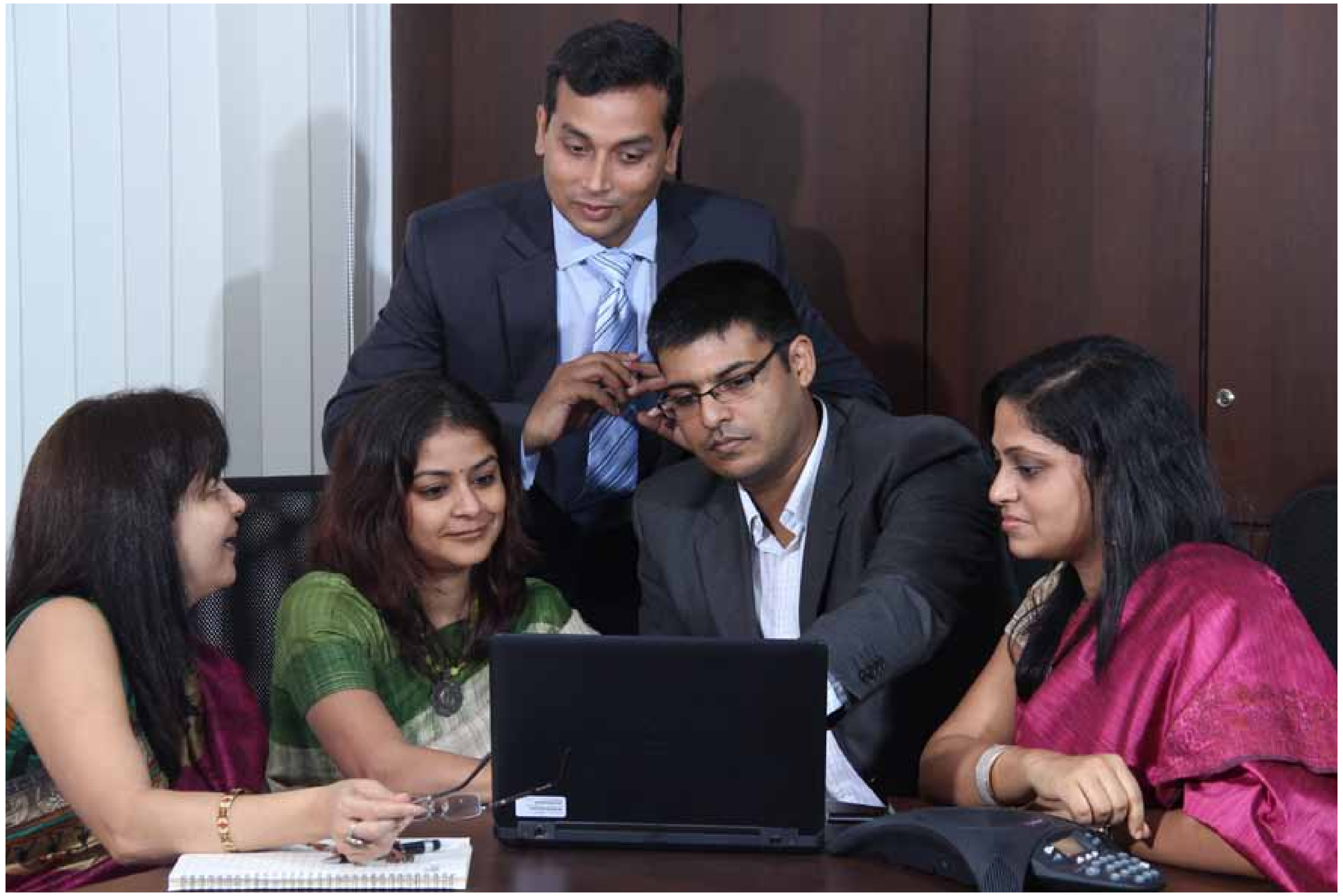
Looking back, the year gone by was a year of market research and innovation. While we continued to focus on establishing the merits of our business model and expanding into newer asset classes, on the investor side we spent a great deal of time scanning the market for the right product mix to suit each investor class and in developing these structures, many of them a first for the Indian markets.

It is said that necessity is the mother of invention. FY 2013 brought with it the distribution tax on securitized instruments impacting some of the investors in a significant way. Mutual Funds completely stayed away from investing in Pass Through Certificates (PTC), while other investors (Banks and NBFCs) had to re-examine their portfolios on account of the cost implications. The need to further lower the cost of our PTC transactions led us to remodel the structure and to bring in a mezzanine guarantor. Towards this we sought participation from a 'AAA' rated NBFC that has been a strong investor in our transactions over the last many years. The availability of a guarantee reduced the size of the junior tranche, thereby reducing transaction cost for the originators while maintaining the return for the investors.

Though PTCs became less attractive, it was heartening to note that the capital market investors continued to support the positive outlook on our partner set of originators. Their demand for a new structure led us to develop the 'Multi Originator Guaranteed Bond' (MOGB). The structure closely mirrors the Mosec™, is credit enhanced through a guarantee and so an 'on balance sheet' structure. IFMR Capital closed its first MOGB for INR 980 million in March with 11 entities from diversified asset classes participating in the structure, invested into by an NBFC.

Another product, the Risk Participation Assignment format was developed to provide investors the safety and security of a securitization transaction while enabling the originator to derive greater value than a regular assignment transaction.

In another string of firsts, IFMR completed the very first Mosec™ transaction for the SME Finance sector and did a series of credit enhanced securitizations and assignments for the Affordable Housing segment as well. This was a great learning phase for the team as we moved into newer grounds and were faced with the varying nuances of each asset class such as tenor, default and repayment characteristics, pricing and more. For each transaction, we dived deeper into the asset class, re-engineered the base structures, ensured that the differences were truly accounted for and that the senior investors were suitably protected with adequate 'skin in the game' from IFMR Capital.



In an Affordable Housing finance initiative, IFMR Capital was commissioned by the NHB and the Department for International Development (DFID) to evaluate the performance of NHB's housing microfinance program (HMF) and to prepare recommendations on scaling up the HMF Program for lower/informal sector households, and assist with product design and underwriting guidelines framework for housing microfinance. Apart from recommendations on training and capacity building for affordable housing partners, the detailed underwriting guidelines presented, were on similar lines as those followed by IFMR Capital, focusing on high quality management, governance, operations and systems along with the necessity of having strong data driven monitoring processes. We also suggested a structure where NHB could act as a facilitator, providing an additional line of protection in the form of a partial guarantee for participating lenders. The idea would be to demonstrate a model of funding which can then be replicated in future by other guarantee agencies as well, enabling a wider markets access to the affordable housing originators. NHB is in the process of implementing some of these suggestions.

And last but not the least, on the offshore front IFMR Mosec™ featured in a joint report by Bridge Ventures, UK and Bank of America Merrill Lynch titled 'Shifting the Lens: A De-risking Toolkit for Impact Investment'. The report researched a variety of impact investment products that provide sufficiently high risk-adjusted financial returns, combined with social returns. Mosec™ was one of the two products featured from Asia, and the only one from India: another stamp of approval for IFMR Capital's underlying approach of mitigating risk.

> **Brick by brick, IFMR Capital is building a truly inclusive financial system. Their understanding of asset classes is based on deep on-the ground coverage together with path breaking data analytics which leads to innovative solutions. This is a source of additional comfort not just for banks but for many other capital market investors who want to participate in financial inclusion, but do not have the access and information to evaluate these nascent sectors.**
>
> **S. K. V Srinivasan,**
> Executive Director, IDBI Bank

Risk Management

To keep pace with a considerable array of innovations and achievements by IFMR Capital during FY 2014 - new clients added, new asset classes entered, new investor types engaged, new products devised and executed, total financing volumes nearly doubled - the risk management function has evolved and adapted to continue to be effective given the changes in the underlying business.

The rigor of our enterprise-wide risk management approach has translated into consistently high portfolio quality. IFMR Capital's portfolio continues to exhibit strong performance with a zero delinquency track record. The portfolio exposure has further diversified and is spread across 25 states and 370 districts. Exposure is spread across 44 entities compared to thirty entities in March 2013. Microfinance exposure now constitutes 74 percent of total credit exposure compared to 91 percent about a year ago.

The cumulative collection efficiency of live securitization transactions was 99.16 percent as of March 31, 2014. Till date, there has been no utilization of the first loss for shortfalls in principal repayment of the securitized debt instruments, and consistent achievement of rating upgrades for securitized debt instruments over the life of the transactions.

The risk management function at IFMR Capital includes risk analytics, risk modeling, and risk monitoring, and is headed by the Chief Risk Officer, who has a dotted line to the Board via the Risk Committee.

The risk analytics team is responsible for periodic reporting - internal and external - and proactive surveillance of transaction and portfolio performance along with monitoring our adherence to exposure covenants using proprietary models and metrics.

The risk modeling team aims to build and develop understanding of risk at all levels - asset class, originator, transaction and overall AUM - and therefore to be able to better measure risk. With a wealth of data from about 3.7 million underlying loan contracts from 141 securitization transactions, financial and portfolio performance from more than 40 originators in four asset classes, across the length and breadth of the country, the risk modeling team carries out advanced analysis using proprietary models to plot the credit behavior of underlying borrowers under the base case and stress case scenarios. The output of our loss estimation work forms a critical input into new product development, transaction structuring and investment decision-making.

The risk monitoring and surveillance team is responsible for continuous and on-the-ground monitoring of IFMR Capital's portfolio. Once a transaction has been completed, the team conducts monitoring visits to every partner institution two to three times in a year, and flags any portfolio quality and servicing issues or stress points to the credit committee. The visit design is based on the asset class and an exhaustive list of metrics are analyzed to measure stress at an entity level.

Over the years, the risk monitoring team has conducted a large number of cumulative visits to entities covering a significant number of districts, states and operational units of our clients. In the last financial year, the risk monitoring team has made 92 visits to 38 entities and conducted 18 transaction pool audits across Microfinance, Small Business Loan finance, Affordable Housing finance, and Commercial Vehicle finance. The breadth of the monitoring team's coverage is illustrated in the table below.

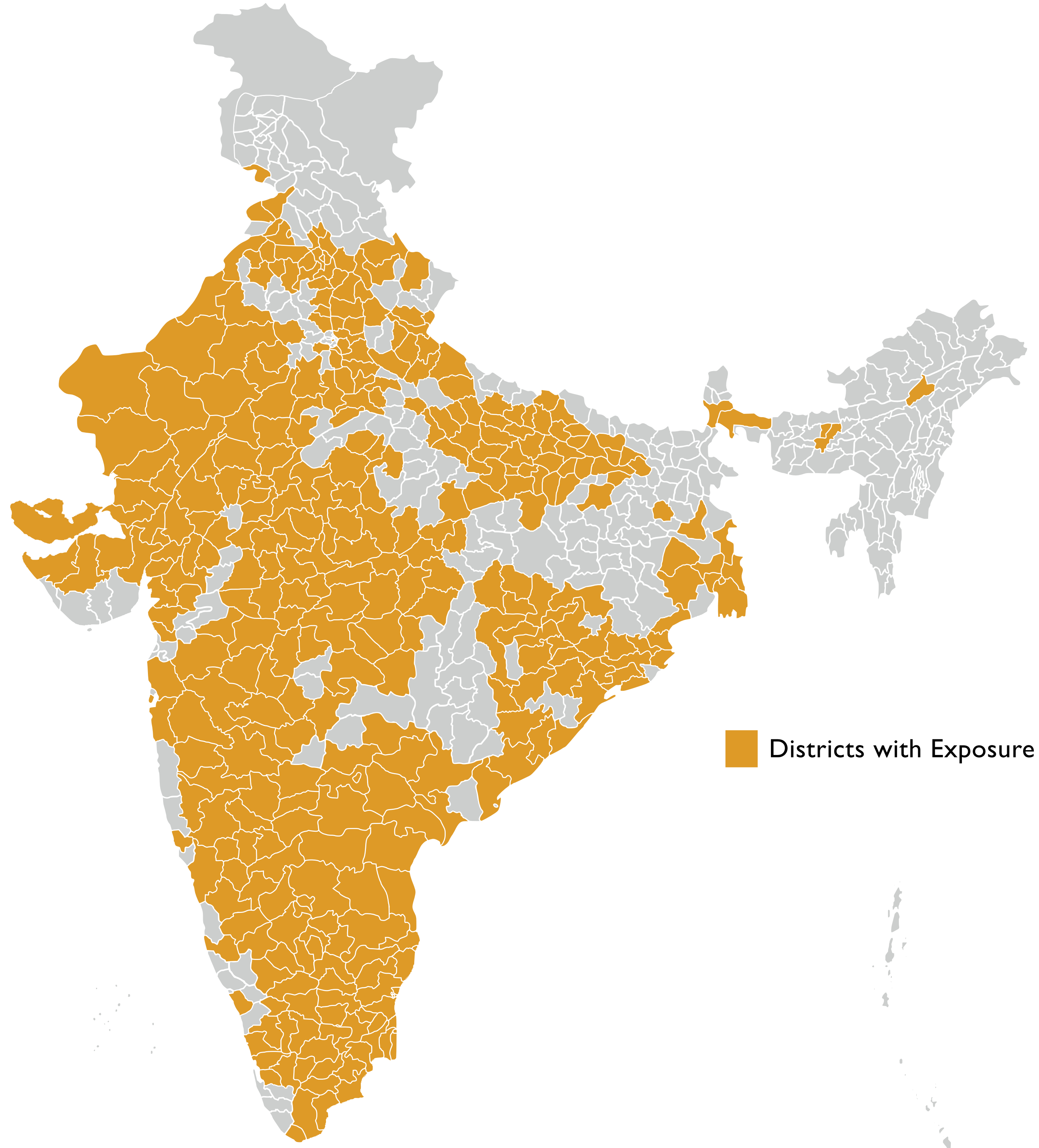
FY 2014	Q1	Q2	Q3	Q4	FY Total	Till Date
No of Visits	25	20	23	24	92	234
No of entities	24	20	23	23	38	49
No of states/UT	12	11	10	12	16	20
No of districts	44	31	33	23	93	176
No of branches	72	42	45	37	196	691
No of centers	153	129	145	76	503	1732
No of enterprises	18	28	16	45	107	164
No of customers	55	-	32	30	117	117

Table: Monitoring visit snapshot in FY 2014

> **The CBO product is yet another innovation brought forth by IFMR Capital in the microfinance sector that allows MFIs access to low-cost funding from capital markets. The CBO product will open up new vistas for MFIs as the sector enters the next phase of growth. Suryoday looks forward for greater participation in such transactions.**

Sanjay Tiwari,
AVP Finance, Accounts & Treasury
Suryoday Micro Finance

IFMR Capital - District Wise Exposure



During the last financial year, the risk monitoring team piloted and refined the risk monitoring and pool audit framework for the newer asset classes, providing crucial feedback to advance even further our asset class, entity and transaction analysis.

The risk analytics and modeling initiatives during the year proved to be a game changer for us. Apart from building key automation tools to manage our portfolio, we implemented comprehensive transaction loss estimation models across asset classes, enabling us to launch new products and to structure transactions in an efficient manner - adding value to our clients while providing us with a reliable risk estimate. This was particularly valuable for the non-microfinance asset classes.

With the first ever multi-borrower guarantee transaction, the risk modeling team designed a model to allocate the exposure to each issuer in the transaction based on certain risk parameters.

A proprietary Transition Matrix method was developed to estimate loss in a proposed portfolio for securitization or assignment using the historical repayment behavior of loans. Several alternate loss estimation methods were developed for all asset classes. The risk modeling team has also commenced work on measuring industry risk in our portfolio.

During the coming year, we will further strengthen our risk analytics and modeling at a transaction and entity level, rigorously test our risk models and build more stress testing tools. The risk monitoring design will be carefully calibrated to our understanding of the nuances of risk across asset classes to optimize the collective risk management product. Key processes that impact our stakeholders, such as investor reporting and client servicing for securitization transactions, will continue to be proactively managed.

Further investment in automation will be made to manage larger transaction volumes while we build and implement our new ERP system over the next year. The requirements-gathering process for the new ERP system is a drawing to a close and the first phase of development has commenced in parallel.

Treasury

IFMR Capital continued to raise the bar in its quest for enabling access to finance to under-served sectors in the economy. We sustained the growth in business on a much higher base through market expansion across investors, deepening of coverage with existing clients, launching a new asset class and product development to enhance our relevance.

We infused equity of INR 720 million (with a further INR 280 million infused in Q1 FY 2015) - this raised our capital adequacy to 33.7 percent.

We achieved a growth in operating revenues of around 70 percent in FY 2014. This was driven by 80 percent growth in earning assets and strong fee income growth. Fee income comprised of 36 percent of operating revenues - this was 500 basis points higher than FY 2013 on account of new product launches, longer tenor financing raised for our clients and growth of the syndication business. Growth in expenses was well within budgets for the year.

Operating expenses grew by 32 percent (excluding distribution tax, please see Note 30). With most key hires having being completed in the previous financial year and reduction in per seat rental costs, operating expenses were contained.

Interest costs grew by over 100 percent. Despite a significant increase in interest rates in the market, we could maintain cost of debt at the same level as the previous financial year, aided by the rating upgrade towards end FY 2013 and diversification of financing sources. Profit grew by 68 percent in the year, with EPS growth of 35 percent on an expanded equity base in FY 2014. We achieved significant diversification of financing sources, raising subordinated debt, increasing the base of public sector bank lenders, and issuing non-convertible debentures and commercial paper. Existing lenders continued to support our growth through significant increase in sanctioned limits. As a result of the above and the equity infusion, balance sheet grew by 87 percent in FY 2014. We were affected by the change in the Income Tax Act, introducing distribution tax for securitizations. We could manage the resultant impact on our balance sheet by actively sourcing new investors for mezzanine tranches and second loss credit enhancement, and through market making. During the year, we sold around INR 250 million of our investments (over three times the previous FY), recording a significant profit on sale. De-risking of operating revenues through new asset classes continued in FY 2014.

We launched several new products in FY 2014. We structured and arranged the first Collateralized Bond Obligation (CBO) of bonds in India, with 11 issuers contributing to an INR 980 million transaction. The structure was wrapped by a partial guarantee of 24 percent (shared by IFMR Capital). We also adapted the assignment structure to the new RBI guidelines and added our risk participation to improve the risk profile of the transaction. In the securitization space, we arranged the first multi originator in Small Business Loans, and closed multiple MBS for Affordable Housing Finance clients. We also arranged our first redeemable preference share for a microfinance client, and arranged short term financing in the form of commercial paper and ICDs for Microfinance and Affordable Housing Finance clients.

As a result of the above, together with continued business under the ADB guarantee structure, contingent liabilities (unfunded guarantees and risk participation) went up to INR 305 million in FY 2014. Our guarantee business has been very profitable in FY 2014.

With the equity raise complete, growth in the lender base, strong diversification in the client and investor base, and new products launched in FY 2014, we are in a strong position to achieve our targets for FY 2015. However, as we look towards the year ahead, we are cognizant of the challenges that await us - significant growth in balance sheet is required to meet the growth requirements of our clients. At the same time, given our increased foray into secured asset classes, we need to reduce our cost of funds. This will be a challenge given the current interest rate landscape. We also aim to enhance the guarantee business. This, together with the requirement to reduce cost of funds, will require re-rating of our balance sheet by rating agencies. Our relevance to our clients and investors will depend on our ability to continue to structure new products that meet their requirements.

Duration of assets has increased in FY 2014. We co-invested in mortgage backed securitizations, as well as small business loan and commercial vehicle finance securitizations - the tenor of these transactions was significantly longer than microfinance securitizations. This will require us to raise longer tenor liabilities in FY 2015 while maintaining our cost of fund targets in FY 2014. We managed to contain the impact of higher funding costs through diversification of funding sources. As a result, our spreads were not negatively impacted. However, we continue to carry interest rate risk and will need to actively manage this risk in FY 2015.

"The CBO product has opened up microfinance companies to a new set of lenders, much needed during the second growth phase of the microfinance industry. As a small microfinance company, Svasti appreciates the availability of a platform with benefits of a multi-originator securitisation transaction without the seasoning constraints. Svasti looks forward to participating in more CBO transactions during the year."

Narayanan,
CIO, Svasti Microfinance

Human Resources

IFMR Capital's strength remains its committed management and staff. The Company has put in place strong recruitment policies, clearly defined roles and responsibilities, individual performance management systems and performance-based compensation policies. We have been able to attract the best talent in the industry, and take pride in the number of hires who have progressed to key positions in management.

Most of our key hires were brought on board in the previous fiscal year, and this past year we focused on expanding teams under them. We now have employee strength of around 50, and take pride as our attrition levels remain below industry standards.

At the beginning of FY 2014, we committed to increase focus on training programs for employees, and we are happy to note that the uptake on this has been good, with several of our key employees availing the opportunity to hone their technical and leadership skills. Further, this year also marked the introduction of formalized internal training programs / workshops on specific clients, products and structures, which we hope to continue.

Human capital is our key strength, and investment in human capital will remain our focus for this year as well.

ANNUAL PARTNER MEET AND INVESTOR CONFERENCE

IFMR Capital held its Annual Partner Meet and Investor Conference on April 23, 2014 in Mumbai. The Partner Meet was meant to bring together our Originators across asset classes at a single forum to discuss trends and best practices in Governance and HR. The Investor Conference was meant to bring together institutional and other investors to provide a better understanding of the segments that IFMR Capital operates in.

IFMR Capital Annual Partner Meet 2014 saw an excellent participation from our Originator partners - across asset classes. The meet was designed to discuss common themes and challenges that our partners face in their everyday business. The morning began with a panel discussion on *Raising equity to scale new frontiers*. Due to capital adequacy constraints, NBFCs on the growth path are required to raise equity very frequently. This poses a significant challenge in terms of senior management time and efficiency. Though there has been significant equity interest in these sectors, there is still considerable information asymmetry in terms of asset quality and associated risks. The session was meant to address some of these issues. The afternoon session dealt with some of the challenges that our partners face on HR. Human capital is the most valuable asset for these companies. The session threw up some thought provoking ideas on building robust second-lines, optimizing human capital to manage scale and designing compensation. The final discussion was on the importance of governance and client protection as a building block towards ensuring long-term sustainability. All the sessions were structured to be interactive, and our Originator partners contributed to the discussions with great enthusiasm.

The theme of the Investor conference was 'Risk Management for Inclusive finance' and it presented several perspectives on managing risk in informal lending segments. Much of IFMR Capitals' efforts towards investors have been towards showcasing the asset classes it works in as a commercial and sustainable business / investment opportunity and thereby of great value from a risk-return perspective.

The backbone of IFMR Capital's work in these asset classes is its underwriting, risk analytics and risk modeling framework which ensures constant vigilance on each of its underlying clients and contracts. This is also the primary reason for consistently high quality asset performance across over USD 1 billion of financing enabled to over fifty institutions that help households gain access to finance across the length and breadth of the country.

The investor conference saw very good participation from not only existing investors of IFMR Capital (around forty in number spread across Development Finance Institutions (DFI), Banks, large NBFCs and Housing Finance companies, Mutual Funds Private wealth firms and individual HNIs) but also several prospective investors / potential buyers of IFMR's structured transactions.

The conference began with a short address by Dr.Kshama Fernandes, CEO, IFMR Capital who spoke about the latest developments in IFMR Capital's work in bringing informal asset classes closer to mainstream investors. Using innovative tools such as credit enhancements, guarantees, tranching and more. IFMR Capital has successfully brought to the market several 'first of its kind' transactions in asset classes that are lesser known among mainstream investors, but have huge potential for growth while making positive contributions to the socio economic development of the country.

The evening progressed with a panel discussion on Risk Management - moderated by Ms. Bama Balakrishnan, Chief Risk Officer, IFMR Capital. The discussion was designed to bring forth different perspectives and to seek inputs from the panelists represented by investors across the spectrum of financial institutions. The panelists included Mr. Amit Tripathi, CIO - Reliance Asset Management Company, Mr. Abraham Chacko - Executive Director, The Federal Bank Ltd, Mr. K V Srinivasan - CEO, Reliance Commercial Finance, Mr. Sunil Gulati - Chief Risk Officer, The Ratnakar Bank Limited. The discussion focused around understanding and managing risk in each of the asset classes stated above given that behavior of underlying loans is very different in each one. Some of the key topics discussed included:

- Early determinants of deteriorating asset quality
- Information requirements, in both public and private domains (such as ratings and credit bureau reports) to scope out areas of potential delinquency
- Risk differentiation across asset classes to design processes and policies to manage risk
- Correlation between asset quality and macro economic indicators in each asset class
- Idiosyncratic factors and their impact on risk

Risk and risk mitigation strategies remain a key concern and a very high priority among investors when they evaluate transactions and entities, especially in lesser known asset classes. Understanding how different financial institutions handle credit risk in reality and where they see room for improvement was a key goal of the panel discussion. The lively and engaging discussion yielded valuable insights.

It has and will remain IFMR Capital's endeavor to continually provide to its investors significant information in a timely, efficient and transparent manner. We believe this will help investors make decisions and manage exposures in a much more effective manner.




Representing IFMR Capital

IFMR Capital participated in various conferences including the 'Non-Banking Financial Companies - Road Map & Roadblocks' organised by FICCI, 'Scaling up Housing Microfinance' by NHB and DFID, UK, Family Office and Investment Management summit organized by VCCircle, 'Securitization Summit' organized by Vinod Kothari Consultants, and CRISIL's conference on microfinance.




MEDIA FOOTPRINTS

IFMR launches country's first collateral bond deal

Chennai Firm Aims For Financial Inclusion

> The CBO is rated BBB+, three notches above the credit ratings of individual issuers

IFMR Capital announces country's first collateral bond obligation

IFMR Capital, the Chennai-based non-banking finance company, on Monday announced collateralised bond obligation of comprising multi-issuer pooled debentures.

BS REPORTER

Kshama Fernandes
Chief executive officer
IFMR Capital

Historically, small-sized firms have found it ... funds, constraints for ratings ... instrument. IFMR ch... diversification offer...

IFMR Capital structures CBO deal of 11 issuers

Chennai, June 23: Chennai-based non-banking finance company IFMR Capital on Monday announced what it claimed to be India's first collateralised bond obligation (CBO) comprising multi-issuer pooled non-convertible debentures. CBO is a derivative security collateralised by a pool of high-yield bonds.

The CBO consisted of multi-issuer pooled NCDs totaling to ₹98 crore and 11 issuers had taken part namely Annapurna Microfinance, Asirvad Microfinance, Arohan Financial Services, ... Future Financial Services, India School Finance Company, Intrepid Finance and Leasing, Pahal Financial Services, Suryoday Microfinance, SV Credit Line and Svasti Microfinance.

Kshama Fernandes, CEO, IFMR Capital, said, "This transaction is an illustration of our efforts in developing scalable structures for meeting the requirements of our clients and investors. The diversification, credit enhancement and IFMR ... participation ...

MFIs join hands, pool NCDs to raise ₹98 crore debt capital

TRUSHNA UDGIRKAR
Hyderabad

> The CBO is rated BBB+, three notches above the credit ratings of individual issuers

Microcapital Brief

MONDAY, APRIL 7, 2014

LeapFrog Invests $29m in Equity in Institute for Financial Management and Research (IFMR) Capital of India

live mint

& THE WALL STREET JOURNAL

March 31, 2014

LEAPFROG INVESTS $29 MILLION IN IFMR CAPITAL

The deal is the first to be made from LeapFrog's Fund II

IFMR CAPITAL RAISES $29 MN FROM LEAPFROG

THE HINDU Business Line

JAYANTA MALLICK- March 31, 2014

LEAPFROG INVESTMENTS TO INVEST $29 MN IN IFMR CAPITAL

Kolkata, March 31:

THE TIMES OF INDIA

June 24, 2014

IFMR LAUNCHES COUNTRY'S FIRST COLLATERAL BOND DEAL

THE FINANCIAL EXPRESS

Chennai | Published: Jun 24 2014,

SUMMARY: CBO is a derivative security collateralised by a pool of high-yield bonds.

Chennai-based non-banking finance company IFMR Capital on Monday announced what it claimed to be India's first collateralised bond obligation (CBO) comprising multi-issuer pooled non-convertible debentures. CBO is a derivative security collateralised by a pool of high-yield bonds.

The CBO consisted of multi-issuer pooled NCDs totaling to ₹98 crore and 11 issuers had taken part namely Annapurna Microfinance, Asirvad Microfinance, Arohan Financial Services, Disha Microfin, Future Financial Services, India School Finance Company, Intrepid Finance and Leasing, Pahal Financial Services, Suryoday Microfinance, SV Credit Line and Svasti Microfinance.

Kshama Fernandes, CEO, IFMR Capital, said, "This transaction is an illustration of our efforts in developing scalable structures for meeting the requirements of our clients and investors. The diversification, credit enhancement and ... our clients could issue bonds for the very first time."

Business Standard

CHENNAI - June 23, 2014

IFMR Capital announces country's first collateral bond obligation

Eight investors including Hinduja Leyland finance and leading MFIs

FINANCIAL Chronicle

Mumbai, June 24, 2014

Non-banking lender IFMR Capital today said it has structured the first CBO (collateral bond obligation) deal in the micro-lending space in the country, involving 11 MFIs' non-convertible debentures (NCDs) totalling Rs 98 crore.

The deal will help these micro-lenders access the debt capital markets. The CBOs, rated BBB+, are at least three notches above the credit ratings of the individual issuers, the Chennai-based NBFC said in a statement here.

The CBO issuers include Annapurna Microfinance, Asirvad Microfinance, Arohan Financial Services, Disha Microfin, Future Financial Services, India School Finance Company, Intrepid Finance & Leasing, Pahal Financial Services, Suryoday Microfinance, SV Credit Line and Svasti Microfinance.

The CBOs issuers include 11 MFIs and small business lenders whose end-customers are either self-employed individuals from the financially excluded segment or the ones employed in informal sectors.

All participating companies are first-time issuers of NCDs, IFMR Chief Executive Kshama Fernandes said.

IFMR Capital previously pioneered the multi-originator securitisation. It has to date structured many such multi-issuer securitisation transactions in the microfinance and small business loans.

It has so far completed securitisation deals worth Rs 167 crore with four participating originators and 1,46,111 microloans.

"This transaction illustrates our efforts in developing scalable structures for meeting the requirements of our clients and investors. The diversification, credit enhancement and our participation ensured that a large number of our clients issued maiden bonds," Fernandes siad.

No single issuer accounted for more than 13 per cent of the deal size, and the NCDs have a common repayment date and frequency. The CBO transaction is partially guaranteed by two guarantors.

IFMR has raised over USD 1.3 billion for its clients till date and its institutional clients are active in over 370 districts across 24 States, reaching over 6.6 million active borrowers.

Directors' Report

Dear Shareholders,

Your directors have pleasure in presenting the annual report along with the audited accounts of the company for the year ended 31 March, 2014. The summarised financial results of the Company are given hereunder:

Financial Results

INR in Crores

Particulars	As on 31 March, 2014	As on 31 March, 2013
Income	75.96	43.93
Less: Expenditure	61.88	32.94
Gross profit before depreciation	14.08	10.99
Less: Depreciation for the year	0.15	0.20
PBT (Profit Before Tax)	13.93	10.79
Less: Provision for tax (Current year)	2.38	3.80
Less: Deferred tax	(0.52)	(0.19)
PAT (Profit After Tax)	12.07	7.18
Profit brought forward from previous year	9.74	3.98
Less: Transfer to reserve	2.41	1.44
Balance carried forward to balance sheet	19.40	9.74

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 31 March, 2014, the company achieved a Profit Before Tax of INR 13.93 Crores, a growth of over 29.10% over last year.

During the year, your company has enabled financing via Securitisation transactions valuing around INR 2,402 Crores, Loans to Originate (LTO) transactions worth INR 347 Crores, loan syndication worth INR 570 Crores. In addition to this, your company also issued guarantees of INR 185 Crores.

Credit Rating

The credit rating for the company's long-term facilities has been reaffirmed at ICRA A with an outlook of 'Stable' of INR 200 crores (last financial year INR 200 Crores) for fund based bank facilities and INR 7.5 Crores (last financial year - NIL) of subordinated debt issuances and NCD issuances amounting to INR 124 Crores (last financial year INR 52 crores). The credit rating for the company's short-term facilities for its Commercial Paper programme has been reaffirmed at CARE A1 for INR 25 crores (last financial year INR 50 crores) and ICRA A 1 for INR 25 crores (last financial year 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 31 March, 2014 is 33.70% as against 27.44% as on 31 March, 2013. The minimum capital adequacy ratio prescribed by RBI is 15%.

Outlook for 2014-15

Over the last few years, we have successfully demonstrated our ability to provide efficient and reliable access to capital at a much larger scale for our partners. This year we added commercial vehicles finance as the next asset class thus covering four asset classes including micro finance, affordable housing finance and small business loans finance.

During the year we also conducted a large number of due diligence visits and approved a large number of institutions across these four asset classes. Our list of approved partners includes a large number of small to mid-size originators. In addition, we also significantly deepened our investor outreach by bringing on board new investors who hitherto had no exposure to sectors we deal in.

The coming year will really be about scaling up significantly across these asset classes and doing more with our existing partners across different products. We would like to add to our pipeline a few large originators who see value in working with us. Significantly deepening our investor coverage and widening our breadth of investors will be the key. Emphasis on risk management and surveillance will continue with a focus on deepening risk analysis for non-microfinance as entity and transaction data accumulates. We will focus on maintaining the same quality of investments and portfolio performance while ensuring that we stay relevant to originators across products and sectors. We also have in place plans for employee training & development as well as for new recruitments. Substantial work on the ERP development will be completed during this year. We will add one new asset class and will close the year with investments across five asset classes.

Change in Ownership structure and Equity Investment

Your directors are pleased to inform you that the Company during the Financial Year 2013-14 raised equity capital to the tune of USD 12 million (INR 720 million) from Leapfrog Financial Inclusion India Holdings Ltd. and issued 1,332,141 equity shares of INR 10/- each at an issue price of INR 54.45.

Under the shareholders' agreement, the Company is to issue and allot an aggregate of 5,142,332 equity shares of INR 10 each at a premium of INR 44.45 to Leapfrog Financial Inclusion India Holdings Ltd. by the end of May 2014 for a total consideration of INR 280 million.

Further during the year, IFMR Trust, the company's existing promoters transferred 46,225,895 equity shares of INR 10 each to IFMR Holdings Private Limited.

As a result of the above transfer and equity investment, the resultant shareholding pattern of the Company is as under:

Name of Shareholder	Number of Shares	% of shareholding
IFMR Holdings Private Limited	46,225,895	63%
IFMR Trusteeship Services Private Limited (Trustee - IFMR Trust)	13,774,105	19%
Leapfrog Financial Inclusion India Holdings Private Limited	13,223,141	18%
	73,223,141	

Non-acceptance of deposits

Your Company has not accepted any public deposits during the financial year 2013-14.

Directors

During the year, Mr. Samir Shah was appointed as the Additional Director of the Company on 25 July, 2013.

Mr. Michael Fernandes and Dr. Jim Roth were appointed as Investor Directors of the Company at the Extraordinary General Meeting held on 28 March, 2014.

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 2012-13.

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 31 March, 2014 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 31 March, 2014 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 given in Annexure I of this Report.

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 financial year.

On behalf of the Board
For **IFMR Capital Finance Private Limited**

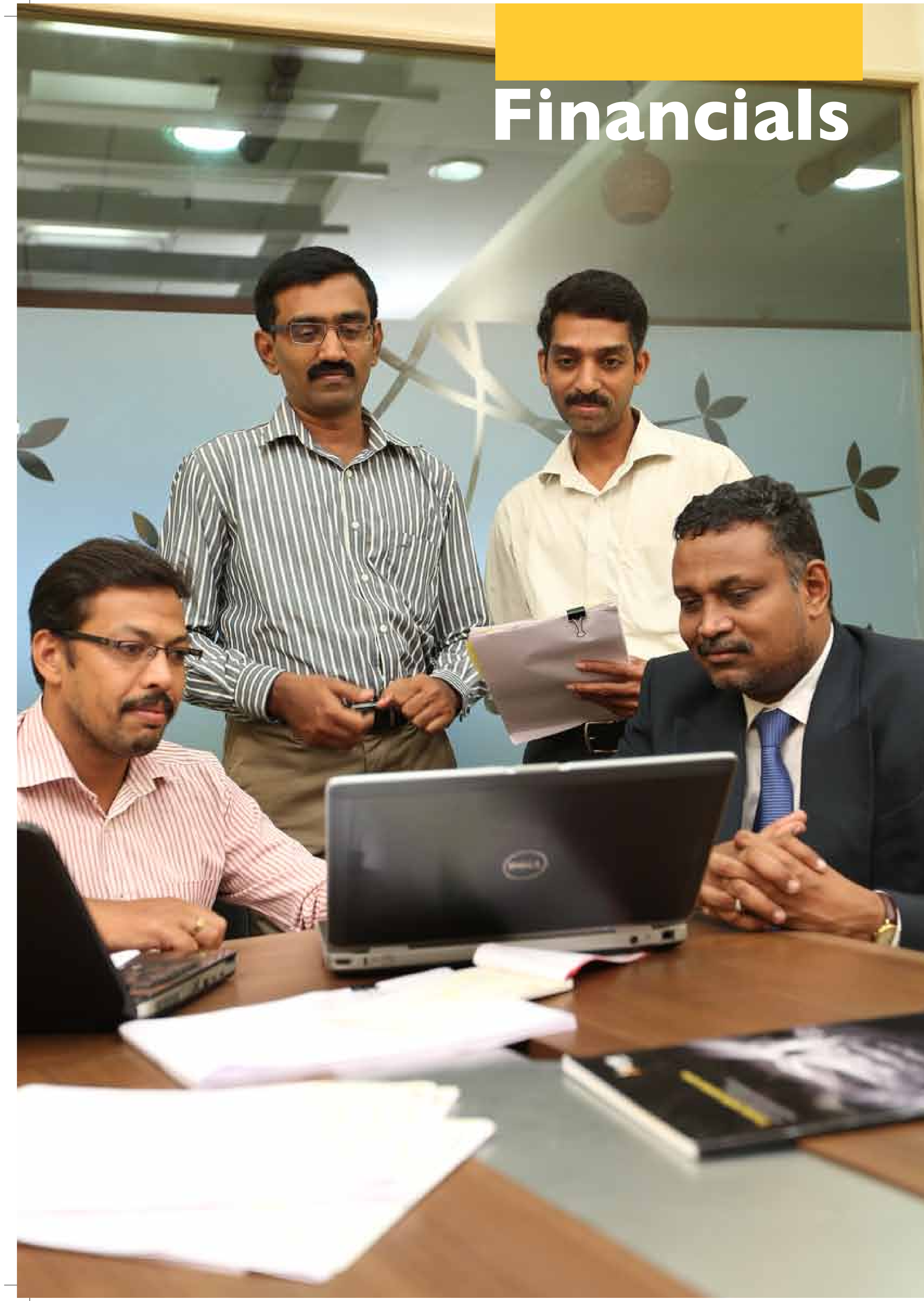
Bindu Ananth
Director

Kshama Fernandes
Director

Date: 5 May 2014
Place: Chennai

ANNEXURE-I TO DIRECTORS' REPORT

Name	Age (in years)	Qualifications	Designation and Nature of duties	Date of commencement of employment	Experience (in years)	Particulars of last employment, post & employer	Total Amount Paid (INR)
Dr. Kshama Fernandes	46 years	MBA, Ph.D	Senior Partner and CEO	01-Oct-09	19 years	Professor & Head of Finance at Goa Institute of Management	6,325,000



Financials

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF IFMR CAPITAL FINANCE PRIVATE LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of **IFMR CAPITAL FINANCE PRIVATE LIMITED** ("the Company"), which comprise the Balance Sheet as at 31st March, 2014, the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Company's Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards notified under the Companies Act, 1956 ("the Act") (which continue to be applicable in respect of Section 133 of the Companies Act, 2013 in terms of General Circular 15/2013 dated 13th September, 2013 of the Ministry of Corporate Affairs) and in accordance with the accounting principles generally accepted in India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2014;
(b) in the case of the Statement of Profit and Loss, of the profit of the Company for the year ended on that date; and
(c) in the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

Report on Other Legal and Regulatory Requirements

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

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

(a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the 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 comply with the Accounting Standards notified under the Act (which continue to be applicable in respect of Section 133 of the Companies Act, 2013 in terms of General Circular 15/2013 dated 13th September, 2013 of the Ministry of Corporate Affairs).

(e) On the basis of the written representations received from the directors as on 31st March, 2014 taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 2014 from being appointed as a director in terms of Section 274(1)(g) of the Act.

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

Bhavani Balasubramanian
(Partner)
(Membership No. 22156)

Chennai, May 5, 2014

ANNEXURE TO THE INDEPENDENT AUDITORS' REPORT

(Referred to in paragraph 1 under 'Report on Other Legal and Regulatory Requirements' section of our report of even date)

Having regard to the nature of the Company's business / activities / results during the year, clauses (ii), (vi), (viii), (x), (xii), (xiii), (xvi), (xviii) and (xx) of paragraph 4 of the Order are not applicable to the Company.

(i) In respect of its fixed assets:

(a) The Company has maintained proper records showing full particulars, including quantitative details and situation of 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) None of the fixed assets have been disposed off during the year.

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

(iii) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of fixed assets and for the sale of services and during the course of our audit we have not observed any continuing failure to correct major weaknesses in such internal control system.

(iv) To the best of our knowledge and belief and according to 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 Companies Act, 1956.

(v) In our opinion, the internal audit functions carried out during the year by firm of Chartered Accountants appointed by the Management have been commensurate with the size of the Company and the nature of its business.

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

(a) The Company has generally been regular in depositing undisputed statutory dues, including Provident Fund, Income-tax, Service Tax, Cess and other material statutory dues applicable to it with the appropriate authorities. The undisputed statutory dues relating to Investor Education and Protection Fund, Employees' State Insurance, Sales Tax, Wealth Tax, Customs Duty and Excise Duty are not applicable to the Company.

(b) There were no undisputed amounts payable in respect of Provident Fund, Income-tax, Service Tax, Cess and other material statutory dues in arrears as at 31st March, 2014 for a period of more than six months from the date they became payable.

(c) Details of dues of Income Tax, Sales Tax, Service Tax and Cess which have not been deposited as on 31st March, 2014 on account of disputes are given below:

Nature of Statute	Nature of Dues	Forum where Dispute is Pending	Period to which the Amount Relates	Amount Involved (Rs.)
Finance Act, 1994	Service Tax	Commissioner of Service Tax	Financial Year 2009-10 to 2011-12	Rs. 8,53,816 (Previous Year Rs 8,53,816)

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

(viii) Based on our examination of the records and evaluation 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.

(ix) In our opinion and according to the information and explanations given to us, the terms and conditions of the guarantees given by the Company for loans taken by others from banks and financial institutions are not, prima facie, prejudicial to the interests of the Company.

(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 Rs. 606,669,674.

(xi) According to the information and explanations given to us, during the period covered by our audit report, the Company had issued 720 secured debentures of Rs.10,00,000 each and 1500 unsecured debentures of Rs 50,000 each issued on private placement basis. The Company has created security in respect of the secured 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 material fraud on the Company has been noticed or reported during the year.

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

Bhavani Balasubramanian
(Partner)
(Membership No. 22156)

Chennai, May 5, 2014

IFMR Capital Finance Private Limited
Balance Sheet as at 31 March 2014

Amount in INR

Particulars	Note Reference	As at 31 March 2014	As at 31 March 2013
I. EQUITY AND LIABILITIES			
Shareholder's Funds			
Share Capital	3	732,231,410	600,000,000
Reserves and Surplus	4	813,679,724	121,788,130
		1,545,911,134	721,788,130
Non Current Liabilities			
Long Term Borrowings	5	1,540,125,938	873,084,990
Deferred Tax Liabilities (Net)	35	-	3,905,493
Other Long Term Liabilities	6	80,752,937	22,198,004
Long Term Provisions	7	20,490,073	9,918,474
		1,641,368,948	909,106,961
Current Liabilities			
Short Term Borrowings	8	625,038,213	411,080,486
Trade Payables	9	61,383,869	26,222,093
Other Current Liabilities	10	1,552,171,496	834,465,098
Short Term Provisions	11	7,031,986	6,945,618
		2,245,625,564	1,278,713,295
TOTAL		**5,432,905,646**	**2,909,608,386**
II. ASSETS			
Non Current Assets			
Fixed Assets			
Tangible Assets	12	3,160,567	1,866,428
Intangible Assets	12	32,933	82,333
Intangible Assets under development		8,640,884	-
		11,834,384	**1,948,761**
Non Current Investments	13	694,979,401	433,152,794
Deferred Tax Assets (Net)	35	1,310,477	-
Receivables under Financing Activity	17	860,126,544	205,311,931
Long-term loans and advances	14	34,681,271	-
Other Non Current Assets	15	159,032,647	72,144,775
		1,761,964,724	**712,558,261**
Current Assets			
Current Investments	16	934,929,596	896,511,289
Receivables under Financing Activity	17	1,623,192,945	722,301,108
Cash and Bank Balances	18	830,667,731	417,231,937
Short Term Loans and Advances	19	137,770,835	50,803,956
Other Current Assets	20	144,379,815	110,201,835
		3,670,940,922	2,197,050,125
TOTAL		**5,432,905,646**	**2,909,608,386**

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 Board of Directors

Bhavani Balasubramanian
Partner

Director | Director | Company Secretary

Place: Chennai
Date: 5 May 2014

IFMR Capital Finance Private Limited
Statement of Profit and Loss for the Year ended 31 March 2014

Amount in INR

Particulars	Note Reference	For the year ended 31 March 2014	For the year ended 31 March 2013
INCOME			
Revenue from Operations	21	741,172,147	436,413,620
Other Income	22	18,424,084	2,885,385
TOTAL REVENUE (I)		**759,596,231**	**439,299,005**
EXPENDITURE			
Finance costs	23	337,828,592	170,019,931
Employee Benefits Expense	24	103,590,083	85,672,078
Provision for Standard Assets	25	4,639,878	1,695,346
Depreciation/ Amortisation Expense	12	1,513,663	2,008,005
Other Expenses	26	172,691,479	71,999,213
TOTAL EXPENSES (II)		**620,263,695**	**331,394,573**
Profit before Tax (I - II)		**139,332,536**	**107,904,432**
Tax Expenses			
- Tax Expenses for Current Year		23,799,074	37,638,423
- Tax Expenses for Previous Year		-	392,048
- Deferred Tax	35	(5,215,970)	(1,940,811)
TOTAL TAX EXPENSES		**18,583,104**	**36,089,660**
Profit for the Year		**120,749,432**	**71,814,772**
Earnings Per Equity Share (of INR 10 each)	**34**		
a) Basic		2.01	1.20
b) Diluted		2.01	1.20
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 Board of Directors		
Bhavani Balasubramanian Partner	Director	Director	Company Secretary

Place: Chennai
Date: 5 May 2014

IFMR Capital Finance Private Limited

Cashflow Statement for the Year Ended 31 March 2014

Amount in INR

Particulars	For the year ended 31 March 2014		For the year ended 31 March 2013	
A. Cash flow from operating activities				
Net Profit before tax		139,332,536		107,904,432
Adjustments for:				
Depreciation/ Amortisation Expenses	1,513,663		2,008,005	
Amortisation of Processing Fees	14,367,905		11,170,757	
Finance costs	323,216,271		157,016,927	
Interest income from Bank on Deposits	(19,267,878)		(10,184,067)	
Dividend income	-		(184,994)	
Profit on sale of Mutual Fund Investments	(11,116,628)		(335,650)	
Provision for Standard Assets	4,639,878		1,695,346	
Provision for Gratuity	2,013,562		2,324,623	
Provision for earned leave	(143,419)		1,307,573	
Provision for Long term incentive	6,638,585		2,906,841	
		321,861,939		167,725,361
Operating profit before working capital changes		461,194,475		275,629,793
Changes in working capital and others:				
Adjustments for (increase) / decrease in operating assets:				
Receivable under financing activity (Current)	(900,891,837)		(198,162,062)	
Receivable under financing activity (Non Current)	(654,814,613)		(39,509,386)	
Short-term loans and advances	(130,912,318)		(64,171,257)	
Investments in securitisation (Current)	(38,418,307)		(170,297,425)	
Investments in securitisation (Non Current)	(261,826,606)		(270,169,181)	
Other Non current assets	(52,297,352)		(14,520,584)	
Other current assets	(31,003,326)		(43,897,594)	
Adjustments for increase / (decrease) in operating liabilities:				
Trade payables	35,161,776		3,895,092	
Payable towards cash collateral	(16,274,479)		(7,687,717)	
Other current liabilities	82,783,220		42,122,323	
Other Long term liabilities	58,554,934		4,368,132	
		(1,909,938,908)		(758,029,659)
		(1,448,744,433)		(482,399,866)
Cash flow from extraordinary items				
Cash used in operations		(1,448,744,433)		(482,399,866)
Net income tax paid		(15,571,912)		(2,270,091)
Interest received on collateral deposit		9,814,374		5,146,785
Interest paid on borrowings		(297,260,875)		(127,619,528)
Interest paid on security deposits		(8,216,733)		(5,939,579)
Net cash used in operating activities (A)		**(1,759,979,579)**		**(613,082,279)**
B. Cash flow from investing activities				
Capital expenditure on fixed assets, including capital advances	(11,399,286)		(1,417,654)	
Proceeds from sale of fixed assets	-		20,761	
Investment in Collateral deposits (net)	(80,636,786)		(38,085,517)	
Investment in Own deposits (net)	13,195,377		(82,794,670)	
Interest Income received from Banks	5,081,583		1,238,568	
Proceeds from sale of mutual funds (net)	11,116,628		335,650	
Dividend received				
- Others	-		184,994	
		(62,642,484)		(120,517,868)
Net cash used in investing activities (B)		**(62,642,484)**		**(120,517,868)**

IFMR Capital Finance Private Limited

Cashflow Statement for the Year Ended 31 March 2014 (Contd.)

Amount in INR

Particulars	For the year ended 31 March 2014		For the year ended 31 March 2013	
C. Cash flow from financing activities				
Proceeds from long-term borrowings	2,026,500,000		1,388,500,000	
Repayment of long term borrowings	(856,219,484)		(308,341,596)	
Proceeds from Short-term borrowings	1,050,123,185		574,348,445	
Repayment of short term borrowings	(722,220,518)		(681,136,135)	
Inflow from Share Capital	703,373,572		-	
Processing fees paid	(11,781,213)		(13,060,456)	
		2,189,775,542		960,310,258
Net cash flow generated from financing activities (C)		**2,189,775,542**		**960,310,258**
Net increase in Cash and cash equivalents (A+B+C)		**367,153,479**		**226,710,111**
Cash and cash equivalents at the beginning of the year		236,651,660		9,941,549
Cash and cash equivalents at the end of the year		**603,805,139**		**236,651,660**
Reconciliation of Cash and cash equivalents with the Balance Sheet:				
Cash and cash equivalents as per Balance Sheet (Refer Note 18)		830,667,731		417,231,937
Less: Bank balances not considered as Cash and cash equivalents as defined in AS 3 Cash Flow Statements (Refer note below)		23,962,196		7,687,717
Restricted balances placed in deposits account (Refer note below)		202,900,396		172,892,560
Net Cash and cash equivalents (as defined in AS 3 Cash Flow Statements) included in Note 18		603,805,139		236,651,660
Add: Current investments considered as part of Cash and cash equivalents (as defined in AS 3 Cash Flow Statements) (Refer Note (ii) to Note 16 Current investments)		-		-
Cash and cash equivalents at the end of the year *		**603,805,139**		**236,651,660**
*Comprises of:				
Balances with banks in current accounts		603,805,139		236,651,660
		603,805,139		**236,651,660**

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 Board of Directors

Bhavani Balasubramanian
Partner

Director

Director

Company Secretary

Place: Chennai
Date: 5 May 2014

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 develop access to debt-capital markets for institutions that impact financially excluded households and enterprises.

IFMR Capital, formerly known as Highland Leasing and Finance Private Limited, was acquired by IFMR Trust on 27 November 2008. During the year IFMR Trust has transferred 46,225,895 shares on 21st March, 2014 to IFMR Holdings Private Limited, consequent to which IFMR Capital is a subsidiary of IFMR Holdings Private Limited.

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 Section 211 (3C) of the Companies Act, 1956 ("the 1956 Act), which continue to be applicable in respect of Section 133 of the Companies Act 2013 ("the 2013 Act), in terms of the general circular 15/2013 dated 13 September, 2013 of the Ministry of Corporate Affairs and the relevant provisions of the 1956 Act / 2013 Act as applicable. 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).

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 by the management 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 year. 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 Operating Cycle

All assets and liabilities have been classified as current and non-current as per the company's normal operating cycle and the criteria set out in the Schedule VI of the companies Act 1956. Based on the nature of products and the time between the acquisition of assets for processing and their realisation in cash and cash equivalents, the company has ascertained its operating cycle as 12 months for the purpose of current, non-current classification of assets and liabilities.

2.4 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
Plant and Machinery	13.91%
Computer	60.00%
Furniture and Fittings	18.10%
Office Equipment	13.91%
Leasehold Improvements	20.00%

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

Intangible assets:

Asset Category	Depreciation Rate
Website Development Cost	60.00%

Capital Work in Progres: Projects under which tangible/intangible fixed assets or not yet ready for their intended use are carried at cost, comprising of direct cost and related incidental expenses.

2.5 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.

2.6 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.

2.7 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.

2.8 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 as under:

I. Interest income from financing activity is recognized under the internal rate of return method.
II. Income from securitization/ investment in Commercial Paper is recognized on straight line basis/ based on coupon rate, as per the terms of respective contracts
III. Income from guarantee facility is recognized on accrual basis in terms of underlying agreement.
IV. Incomes from other Financial Services are recognized upfront in the statement of profit and loss.
V. Interest on Deposits is recognized on accrual basis
VI. Dividend income on mutual fund investments is accounted for when the right to receive is established.

2.9 Employee Benefits:

Employee benefits include provident fund, gratuity and compensated absences.

Defined Contribution Plan:

Provident Fund

Contribution to Provident Fund and Family Pension Fund are considered as defined contribution plan and are charged as expenses based on the amount of contribution required to be made.

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. The company's gratuity plan is non-funded.

Compensated Absences

The benefits of compensated absences are accounted for when the employees render the services that increase their entitlement to future compensated absences. Such liability is accounted for based on actuarial valuation, as at the balance sheet date, determined by an Independent Actuary using the Projected Unit Credit Method.

Actuarial gains and losses are recognised in the Statement of profit and loss in the year in which they occur.

2.10 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 statement of profit and loss. 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 statement of profit and loss.

2.11 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.

2.12 Prepaid Finance Charges:

Prepaid finance charges represent 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. Unamortised borrowing costs remaining, if any, is fully expensed off as and when the related borrowing is prepaid/cancelled

2.13 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 on items other than unabsorbed depreciation and carried forward business losses 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.

2.14 Provisions and Contingencies:

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made. Provisions (excluding retirement benefits) are not discounted to their present value and are determined based on the best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Contingent liabilities are disclosed in the Notes. Contingent assets are not recognised in the financial statements.

The following is the Company's policy for classification of assets and provisioning thereon, which is in compliance with the Prudential Norms issued by RBI.

i. Classification of Assets

Asset Classification	Period of Over Due
Standard Assets	Not Overdue and Overdue for less than 180 days
Non-Performing Assets (NPA)	Overdue for 180 days or more
Sub Standard Assets	An asset that has been classified as Non-Performing Asset for a period not exceeding 18 months or an asset where the terms of agreement regarding interest and/or principal have been renegotiated or rescheduled or restructured after commencement of operations until the expiry of one year of satisfactory performance under the renegotiated or rescheduled or restructured terms
Doubtful Assets	Sub Standard assets for more than 18 months
Loss Assets	Assets that are identified as loss asset by the Company or the internal auditor or by the 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%

2.15 Share Issue Expenses

Share issue expenses are adjusted against the securities premium account as permissible under Section 78 (2) of the Companies Act, 1956 to the extent balance is available for utilization in Securities Premium Account.

Amount in INR

Particulars	As at 31 March 2014	As at 31 March 2013
Note 3		
Share Capital		
Authorised		
100,000,000 (Previous year - 65,000,000 shares) Equity Shares of INR 10/- each, with voting rights. (Refer note - (a) below)	1,000,000,000	650,000,000
Total	**1,000,000,000**	**650,000,000**
Issued, Subscribed & Fully Paid-up		
73,223,141 (Previous year - 60,000,000 shares) Equity Shares of INR 10/- each with voting rights	732,231,410	600,000,000
Total	**732,231,410**	**600,000,000**

Notes:

(a) Approved by the Board & Members on 13th March, 2014 the authorised Equity Share Capital has been increased from INR 650,000,000/-(65,000,000 shares of INR 10 Each)- to INR 1,000,000,000/-(100,000,000 shares of INR 10 Each)

(b) Reconciliation of Number of Shares and amount outstanding at the beginning and end of the reporting period

Particulars	As at 31 March 2014		As at 31 March 2013	
	No of Shares	Value of Shares Amount in INR	No of Shares	Value of Shares Amount in INR
Balance as at the beginning of the year	60,000,000	600,000,000	60,000,000	600,000,000
Add: Shares allotted during the year (Refer Note 'C')	13,223,141	132,231,410	-	-
Balance as at the end of the year	73,223,141	732,231,410	60,000,000	600,000,000

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

	As at 31 March 2014		As at 31 March 2013	
Name of the shareholder	No of Shares held	% of Shares	No of Shares held	% of Shares
IFMR Trust represented by IFMR Trusteeship Services Private Limited, Trustee - controlling entity of Holding Company	13,774,105	19%	60,000,000	100%
IFMR Holding Private Limited - Holding Company	46,225,895	63%	-	-
Leapfrog Financial Inclusion India Holdings Limited (Refer Note Below)	13,223,141	18%	-	-

During the year, the company allotted 13,223,141 equity shares of INR 10 each at a premium of INR 44.45 per share aggregating to INR 720,000,000 through private placement. Consequently the paid up equity share capital and securities premium has increased by INR 132,231,410 and INR 587,768,600 vide board resolution dated 28th March 2014.

(d) Disclosure of Rights

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."

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

(e) The Company would be alloting 5,142,332 equity shares of INR 10 each at a premium of INR 44.45 per share aggregating to INR 280,000,000 in the Financial Year 2014-15, to M/s Leapfrog Financial Inclusion India Holdings Limited in accordance with the terms of the Shareholders Agrement dated 26 March 2014.

Particulars	As at March 31 2014	As at March 31 2013
Note 4		
Reserves and Surplus		
Statutory Reserve*		
Opening Balance	24,359,475	9,996,520
Add : Transfer from surplus in Statement of Profit and Loss	24,149,886	14,362,955
Closing Balance	48,509,361	24,359,475
* Statutory Reserve represents the Reserve Fund created under Section 45IC of the Reserve Bank of India Act, 1934		
Securities Premium Account		
Opening balance	-	-
Add: Premium on shares issued during the year	587,768,600	-
Less: Utilised during the year for writing off share issue expenses - (Refer note below)	16,626,438	-
Closing balance	**571,142,162**	**-**
Note : Expenses of INR 16,626,438 incurred in connection with the equity raise through private placement have been adjusted against Securities Premium Account.		
Surplus in Statement of Profit and Loss		
Opening Balance	97,428,655	39,976,837
Add: Profit for the year	120,749,432	71,814,773
	218,178,087	111,791,610
Less:Transferred to Statutory Reserve	(24,149,886)	(14,362,955)
Closing Balance	**194,028,201**	**97,428,655**
Total	**813,679,724**	**121,788,130**
Note 5		
Long Term Borrowings - Secured		
Debentures		
Secured - (Refer Note i to iv)		
12.35% Non Convertible Debenture of INR 1,000,000 each	559,000,000	292,000,000
13% Non Convertible Debenture of INR 1,000,000 each	100,000,000	-
Unsecured - (Refer Note v)		
14.5% Non Convertible Debentures of INR 50,000 each	75,000,000	-
	734,000,000	**292,000,000**
Term Loan & Other Facility from Banks - Secured - (Refer Note vi to xvii)	723,484,807	486,815,844
Term Loan from Others - Secured - (Refer note xviii to xxi)	82,641,131	94,269,146
Total	**806,125,938**	**581,084,990**
Total	**1,540,125,938**	**873,084,990**
For the current maturities of long term debt, refer Note No.10		

IFMR CAPITAL FINANCE PRIVATE LIMITED
Notes Forming part of Financial Statements

Note 5 - Long Term Borrowings - Secured (Contd.)

Amount in INR

S.No	Particulars	Rate of interest	Date of loan taken	Date of maturity	Security/ Repayment details	As at 31 March 2014		As at 31 March 2013	
						Non current	Current	Non current	Current
Debentures - Secured									
i	Debentures	12.35%	23-Dec-11	30-Jun-15	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 2nd April, 2013 for which interest is payable every quarter beginning from March 2012. These debentures are secured by way of 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.	36,000,000	180,000,000	180,000,000	180,000,000
ii	Debentures	12.35%	5-Jun-12	30-Dec-15	The Company has issued 160, 12.35% Non Convertible Debentures (Listed) of INR 1,000,000 each redeemable at par in 10 quarterly instalments of INR 16,000,000 each beginning from 30th September, 2013 for which interest is payable every quarter beginning from September 2012. These debentures are secured by way of 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.	48,000,000	80,000,000	112,000,000	48,000,000
iii.	Debentures	12.35%	7-Oct-13	15-Apr-17	The Company has issued 570, 12.35% Non Convertible Debentures (Listed) of INR 1,000,000 each redeemable at par in 6 half yearly instalments of INR 95,000,000 each beginning from 15th October, 2014 for which interest is payable every quarter beginning from January 2014. These debentures are secured by way of 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 1.15 times.	475,000,000	95,000,000	-	-
iv	Debentures	13.00%	28-Mar-14	28-Apr-15	The company has issued 150, 13% Non Convertible Debentures (Listed) of INR 1,000,000 each redeemable at par in 2 installments of INR 5 crore and INR 10 crores in October, 2014 and April, 2015. Secured by way of First ranking and continuing charge over book debts and investments	100,000,000	50,000,000	-	-
					Total	**659,000,000**	**405,000,000**	**292,000,000**	**228,000,000**
Debentures - Unsecured									
v.	Debentures	14.50%	18-Sep-13	18-Dec-18	The Company has issued 1500, 14.5% Non Convertible Debentures (subordinated, listed) of INR 50,000 each redeemable at par in 8 half yearly installments commencing from Sep 2015 and ending December 2018. The debenture issued is unsecured	75,000,000	-	-	-
					Total	**75,000,000**	**-**	**-**	**-**

IFMR CAPITAL FINANCE PRIVATE LIMITED
Notes Forming part of Financial Statements
Note 5 - Long Term Borrowings - Secured (Contd.)

Amount in INR

S.No	Particulars	Rate of interest	Date of loan taken	Date of maturity	Security/ Repayment details	As at 31 March 2014		As at 31 March 2013	
						Non current	Current	Non current	Current
Term Loans from Banks - Secured									
vi	Ratnakar Bank Limited	13.25%	25-Jul-12	1-Jul-14	Repayable in 7 quarterly installments commencing from January 2013 and ending July 2014. Floating and exclusive charge over book debts and investments	-	57,214,640	56,997,663	114,285,716
vii	Ratnakar Bank Limited	13.25%	22-Feb-13	22-Oct-15	Repayable in 11 quarterly installments commencing from August 2013 and ending October 2015. Floating and exclusive charge over book debts and investments	54,545,455	90,909,091	129,818,182	48,681,818
viii	South Indian Bank Limited	13.00%	11-Feb-13	11-May-16	Repayable in 12 equal quarterly installments commencing from August 2013 and ending May 2016. Floating and exclusive charge over book debts and investments	104,166,620	83,333,360	187,500,000	62,500,000
ix	Central Bank of India	13.00%	28-Mar-13	28-Jun-16	Repayable in 12 quarterly installments commencing from September 2013 and ending June 2016. Floating and exclusive charge over book debts and investments	62,500,000	50,000,000	112,500,000	37,500,000
x	Federal Bank Limited	12.95%	19-Mar-12	18-Mar-14	Cash Credit is repayable in 8 quarterly instalments of INR 31,250,000 each beginning from June 2012. Cash Credit is secured by way of hypothecation charge on the book debts.	-	-	-	123,640,032
xi	Ratnakar Bank Limited	13.25%	31-Dec-13	31-Dec-16	Repayable in 11 equated quarterly installments commencing from June 2014 ending December 2016. Floating and exclusive charge over book debts and investments	95,454,548	54,545,452	-	-
xii	IDBI Bank	13.25%	6-Sep-13	6-Jun-16	Repayable in 10 equated quarterly installments commencing from March 2014 ending June 2016. Floating and exclusive charge over book debts and investments	75,000,000	60,000,000	-	-
xiii	Uco Bank	13.20%	29-Sep-13	30-Jun-16	Repayable in 10 equated quarterly installments commencing from March 2014 ending June 2016. Floating and exclusive charge over book debts and investments	75,000,000	75,000,000	-	-
xiv	Federal Bank Limited	14.00%	23-Sep-13	23-Sep-16	Repayable in 10 equated quarterly installments commencing from June 2014 ending September 2016. Floating and exclusive charge over book debts and investments	150,000,000	99,861,090	-	-
xv	HDFC Bank	12.75%	27-Sep-13	21-Mar-15	Repayable in 6 equated quarterly installments commencing from December 2013 ending March 2015. Floating and exclusive charge over book debts and investments	-	66,666,668	-	-
xvi	HDFC Bank	12.50%	28-Mar-14	30-Jun-15	Repayable in 4 equated quarterly installments commencing from September 2014 ending June 2015. Floating and exclusive charge over book debts and investments	25,000,000	75,000,000	-	-
xvii	Bank of Baroda	13.00%	27-Dec-13	30-Sep-16	Repayable in 11 equated quarterly installments commencing from March 2014 ending September 2016. Floating and exclusive charge over book debts and investments	81,818,184	54,545,456	-	-
					Total	**723,484,807**	**767,075,757**	**486,815,845**	**386,607,566**

IFMR CAPITAL FINANCE PRIVATE LIMITED

Notes Forming part of Financial Statements

Note 5 - Long Term Borrowings - Secured (Contd.)

Amount in INR

S.No	Particulars	Rate of interest	Date of loan taken	Date of maturity	Security/ Repayment details	As at 31 March 2014		As at 31 March 2013	
						Non current	Current	Non current	Current
Term Loans from Others - Secured									
xviii	Mahindra and Mahindra Financial Services Limited	14.00%	6-Dec-12	31-Dec-14	Repayable in 24 equated monthly installments commencing from January 2013 ending December 2014. Floating and exclusive charge over book debts and investments	-	40,775,747	40,775,747	48,115,974
Xix	Mahindra and Mahindra Financial Services Limited	13.75%	28-Mar-14	30-Sep-16	Repayable in 24 equated monthly installments commencing from April 2014 ending September 2016. Floating and exclusive charge over book debts and investments	38,427,257	21,572,743	-	-
xx	Mahindra and Mahindra Financial Services Limited	14.00%	30-Sep-13	31-Mar-16	Repayable in 31 equated monthly installments commencing from October 2013 ending March 2016. Floating and exclusive charge over book debts and investments	44,213,874	38,505,563	-	-
xxi	Mahindra and Mahindra Financial Services Limited	14.00%	26-Mar-13	31-Mar-15	Repayable in 31 equated monthly installments commencing from April 2013 ending March 2015. Floating and exclusive charge over book debts and investments	-	53,484,845	53,493,398	46,506,602
					Total	82,641,131	154,338,898	94,269,145	94,622,576
					Grand Total	1,540,125,938	1,326,414,655	873,084,990	709,230,142

Amount in INR

Particulars	As at 31 March 2014	As at 31 March 2013
Note 6		
Other Long Term Liabilities		
Collateral Deposits from Customers (Refer Note below)		
- From Related Parties	738,111	558,530
- Others	80,014,826	21,639,474
Note:		
Represents amounts received as security from the borrowers towards issue of Term Loans. Such deposits repayable within 31 March 2015 have been grouped under Note No.10 - Other Current Liabilities		
Total	**80,752,937**	**22,198,004**
Note 7		
Long Term Provisions		
Provision for Employee benefits		
For Compensated Absences	1,021,683	1,111,438
For Gratuity (Refer Note No.31)	5,292,133	3,560,967
For Long Term Incentive (Refer Note No.30)	10,288,492	3,649,907
Provision Standard Asset Provision (Refer Note 36)		
On Receivable under Financing Activity	2,150,316	513,280
On Investments	1,737,449	1,082,882
Total	**20,490,073**	**9,918,474**
Note 8		
Short Term Borrowings		
(i) Term Loan from Bank (Secured)		
Kotak Mahindra Bank (Refer (a) below)	125,000,000	62,500,000
HDFC Bank (Refer (b) below)	-	75,000,000
(ii) Loans repayable on demand		
Bank overdraft (Refer (c) below)	38,213	48,580,486
(iii) Term Loan from Others (Secured)		
Reliance Capital Limited - Term Loan (Refer (d) below)	-	100,000,000
Total	**125,038,213**	**286,080,486**
(iv) Commercial Paper (Unsecured) (Refer (e) below)	250,000,000	25,000,000
(v) Inter Corporate Deposit (Unsecured) (Refer (f) below)	250,000,000	100,000,000
Total	**625,038,213**	**411,080,486**

Notes:

(a) Term loan from Bank is repayable in 12 monthly instalments beginning from February 2013. The interest is payable at 2.7% above the base rate. The Loan is secured by way of hypothecation charge on book debts.

(b) Term loan is repayable in 4 quarterly installments beginning from June 2013 ending March 2014. Interest is charged at 12%. Loan is secured by way of hypothecation charge on receivables.

(c) Overdraft facility amounting to INR 600,000 is secured against Fixed Deposits with Kotak Mahindra Bank.

(d) Term loan is repayable in 2 quarterly installments beginning from November 2013 ending February 2014. Interest is charged at 14.25%. Loan is secured by way of hypothecation charge on book debts and investments.

(e) Commercial paper of face value of INR 500,000 each have been issued during the year. 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 20 Other Current Assets. The details of the Commercial Paper issued are given below:

Amount in INR

Particulars	As at 31 March 2014	As at 31 March 2013
Current Year		

No of units	Date of issue	Maturity Date	Amount in INR	Discount Rate
200	27-Mar-14	31-Oct-14	100,000,000	13.25%
300	27-Mar-14	28-Nov-14	150,000,000	13.25%

Previous Year

No of units	Date of issue	Maturity Date	Amount in INR	Discount Rate
50	22-Mar-13	20-Jun-13	25,000,000	12.25%

(f) Intercorporate deposit has been obtained from Indostar Capital Finance Private Limited at an interest of 12.25% with call option and 12.40% without call option repayable in 90 and 180 days from the date of disbursement, as the case may be.

Particulars	As at 31 March 2014	As at 31 March 2013
Note 9		
Trade Payables		
- Sundry Creditors	59,104,495	24,177,559
- Payable to Related parties (Refer Note No.33)	2,279,374	2,044,534
Total	**61,383,869**	**26,222,093**
Note 10		
Other Current Liabilities		
1. Current Maturities of Long Term Borrowings		
Debentures (Secured) (Refer Note 5)		
- 12.35% of Non Convertible Debenture of INR 1,000,000 each	355,000,000	228,000,000
- 13% Non Convertible Debenture of INR 1,000,000 each	50,000,000	-
	405,000,000	**228,000,000**
Term Loan and other facilities from Bank (Secured) (Refer Note 5)	767,075,757	386,607,566
Term Loan from Others (Secured) (Refer Note 5)	154,338,898	94,622,576
Collateral Deposits from Customers (Refer Note No.6)		
- From Related Parties	6,303,290	2,203,051
- Others	127,585,591	93,329,498
2. Interest Accrued but Not Due	42,740,356	25,001,691
3. Other Payables		
(i) Statutory Liabilities	44,717,088	4,497,319
(ii) Capital Creditors	1,500,000	-
(iii) Other Liabilities	2,910,516	203,397
Total	**1,552,171,496**	**834,465,098**

Amount in INR

Particulars	As at 31 March 2014	As at 31 March 2013
Note 11		
Short Term Provisions		
1. Provision for Employee benefits		
For Compensated Absences	142,471	196,135
For Gratuity (Refer Note No.31)	494,209	211,813
2. Provision for tax (CY - NIL, PY net of advance tax and tax deducted at source - INR 50,006,855 and MAT Credit entitlement - INR 3,770,386)	-	2,490,639
3. Provision for Standard Assets		
On Receivable under Financing Activity	4,057,982	1,805,753
On Investments	2,337,324	2,241,278
Total	**7,031,986**	**6,945,618**
Note 13		
Non Current Investments - At Cost		
Investment in Securitisation	694,979,401	433,152,794
Total	**694,979,401**	**433,152,794**
- Aggregate value of unquoted Investments	694,979,401	429,664,392
- Aggregate value of quoted Investments	-	3,488,402
Note 14		
Long term Loans and Advances		
Advance taxes and tax deducted at source (Net of provision for tax INR 79,814,919)	34,681,271	-
Total	**34,681,271**	**-**
Note 15		
Other Non Current Assets		
Non Current Bank Balances (Refer note (i) below)		
- Collateral Deposits (Refer note (ii) below)	73,214,389	22,198,004
- Other deposits	-	13,582,811
Prepaid Finance Charges (Refer Note No.28)	10,296,422	13,076,843
Interest Accrued but Not Due		
- On Collateral Deposits	2,252,720	598,985
- On Investments	73,269,116	22,625,500
- On Other Deposits	-	62,632
Total	**159,032,647**	**72,144,775**
Notes		
(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 16		
Current Investments - At cost		
Investments in Securitisation	908,929,596	896,511,289
Investment in Commercial Paper	26,000,000	-
Total	**934,929,596**	**896,511,289**
- Aggregate value of unquoted Investments	906,111,952	842,759,846
- Aggregate value of quoted Investments	28,817,644	53,751,443

IFMR CAPITAL FINANCE PRIVATE LIMITED
Notes Forming part of Financial Statements

Note 12 - Fixed Assets

Amount in INR

	Gross block				Accumalated Depreciation/Amortisation				Net Block	
Description	As at 1 April 13	Additions	Delitions	As at 31 March 14	As at 1 April 13	For the year	Deletions	As at 31 March 14	As at 31 March 14	As at 31 March 13
Tangible assets										
Plant and Machinery	10,700	279,737	-	290,437	1,138	11,873	-	13,011	277,426	9,562
Previous year	-	(10,700)	-	(10,700)	-	(1,138)	-	(1,138)	(9,562)	-
Computers	2,754,648	802,599	-	3,557,247	1,742,380	860,302	-	2,602,682	954,565	1,012,268
Previous year	(1,716,283)	(1,308,644)	(270,279)	(2,754,648)	(1,254,065)	(737,833)	(249,518)	(1,742,380)	(1,012,268)	(462,218)
Furniture and Fittings	90,684	-	-	90,684	17,714	13,208	-	30,922	59,762	72,970
Previous year	(10,687)	(79,997)	-	(90,684)	(4,106)	(13,608)	-	(17,714)	(72,970)	(6,581)
Leasehold improvements	-	1,676,066	-	1,676,066	-	123,983	-	123,983	1,552,083	-
Previous year	-	-	-	-	-	-	-	-	-	-
Office Equipment	18,313	-	-	18,313	782	2,438	-	3,220	15,093	17,531
Previous year	-	(18,313)	-	(18,313)	-	(782)	-	(782)	(17,531)	-
PMS Server	6,609,723	-	-	6,609,723	5,855,626	452,459	-	6,308,085	301,638	754,097
Previous year	(6,609,723)	-	-	(6,609,723)	(4,724,482)	(1,131,144)	-	(5,855,626)	(754,097)	(1,885,241)
Total	**9,484,068**	**2,758,402**	**-**	**12,242,470**	**7,617,640**	**1,464,263**	**-**	**9,081,903**	**3,160,567**	**1,866,429**
Previous year	8,336,693	1,417,654	270,279	9,484,068	5,982,653	1,884,505	249,518	7,617,640	1,866,429	2,354,040
Intangible Assets										
Website Development cost	789,834	-	-	789,834	707,501	49,400	-	756,901	32,933	82,333
Previous year	(789,834)	-	-	(789,834)	(584,001)	(123,500)	-	(707,501)	(82,333)	(205,833)
Total	**789,834**	**-**	**-**	**789,834**	**707,501**	**49,400**	**-**	**756,901**	**32,933**	**82,333**
Previous year	789,834	-	-	789,834	584,001	123,500	-	707,501	82,333	205,833
Grand Total	**10,273,902**	**2,758,402**	**-**	**13,032,304**	**8,325,141**	**1,513,663**	**-**	**9,838,804**	**3,193,500**	**1,948,762**
Previous year	9,126,527	1,417,654	270,279	10,273,902	6,566,654	2,008,005	249,518	8,325,141	1,948,762	2,559,873

Amount in INR

Particulars	As at 31 March 2014	As at 31 March 2013
Note 17		
Receivables Under Financing Activity*		
Secured and considered good		
Non Current		
Term Loans	854,069,810	199,726,627
Loan to Related Party (Refer Note No.33)	6,056,734	5,585,304
	860,126,544	**205,311,931**
Current		
Term Loans	1,548,613,892	710,885,674
Loan to Related Party (Refer Note No.33)	74,579,053	11,415,434
	1,623,192,945	**722,301,108**
Total	**2,483,319,489**	**927,613,039**
* 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 18		
Cash and Bank Balances		
Cash and cash equivalents as defined in AS - 3		
Balance in Current Account (Refer note (iii) and (iv) below)	627,767,335	244,339,377
Other Bank Balances		
Collateral Deposits (Refer note (i) below)	117,465,233	87,844,832
Own Deposits (Refer note (ii) and (iii) below)	85,435,163	85,047,728
Total	**830,667,731**	**417,231,937**
Of the above, the balances that meet the definition of Cash and Cash equivalents as per AS - 3 cashflow statement	603,805,139	236,651,160
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		
(iii) Includes collateral deposits of INR 10,712,195 (PY INR 7,687,717) matured as at Balance Sheet date, repaid subsequent to year end.		
(iv) Includes INR 13,250,000 (PY NIL) of collateral deposits created on 31st March, 2014, but value dated on 2nd April, 2014 by the bank		
Note 19		
Short Term Loans and Advances		
Staff Other advances	4,222,504	3,414,358
Rental & Caution Deposit	610,000	285,414
Receivable from other financial services		
- Related Party	1,704,934	-
- Others	128,203,059	44,681,689
Service Tax Input Credit	2,747,891	1,010,318
Prepaid Expenses	282,447	1,412,177
Total	**137,770,835**	**50,803,956**
Note 20		
Other Current Assets		
Prepaid Finance Charges (Refer Note No.28)	13,049,374	12,264,776
Unamortised Discount on Issue on Commercial Paper	19,295,912	651,555
Interest Accrued but Not Due		
On Receivable under Financing Activities	8,985,670	4,867,770
On Collateral Deposits	4,293,504	3,632,473
On Investments	95,825,097	88,245,060
On Other Deposits	2,930,258	540,201
Total	**144,379,815**	**110,201,835**

IFMR CAPITAL FINANCE PRIVATE LIMITED
Notes Forming part of Financial Statements

Amount in INR

Particulars	For the year ended 31 March 2014	For the year ended 31 March 2013
Note 21		
Revenue from Operations		
Interest Income from financing activity	220,307,390	119,562,836
Income from Securitisation	217,256,180	171,412,832
Income from Guarantee Facility	5,524,057	1,847,725
Income from other Financial Services		
- Processing Fee	33,155,390	14,003,825
- Professional Fee	232,323,220	120,671,821
Income from Investment in Commercial Paper	1,123,393	-
Interest Income from banks on Collateral Deposits from Customers	12,129,141	7,826,304
Profit on Sale of Investments	19,353,376	1,088,277
Total	**741,172,147**	**436,413,620**
Note 22		
Other Income		
Interest Income from banks on Deposits	7,138,738	2,357,764
Dividend Income from current investments	-	184,994
Profit on sale of Mutual Fund Investments	11,116,628	335,650
Compensated absences - Provision no longer required written back	143,419	-
Other Non Operating Income	25,299	6,977
Total	**18,424,084**	**2,885,385**

Amount in INR

Particulars	For the year ended 31 March 2014	For the year ended 31 March 2013
Note 23		
Finance Cost		
Interest Expenses on		
- Term Loan	215,339,867	49,457,898
- Debentures	91,494,444	60,578,511
- Cash Credits	1,532,004	16,136,129
- Overdraft Account	1,734,751	3,579,029
- On Collateral Deposits	12,129,141	7,826,304
- On Income Tax/ Service Tax	-	1,775,118
Discount on Commercial Paper	986,065	19,439,056
Amortisation of Processing Fees	14,367,905	11,170,757
Bank charges	244,415	57,129
Total	**337,828,592**	**170,019,931**
Note 24		
Employee Benefit Expenses		
Salaries and Wages	92,873,702	76,241,418
Contribution to Provident Fund	4,410,242	3,607,191
Staff Welfare Expenses	4,292,577	2,191,273
Gratuity	2,013,562	2,324,623
Compensated absences	-	1,307,573
Total	**103,590,083**	**85,672,078**
Note 25		
Provisions for Standard Assets (Refer Note 36)		
On Receivable under Financing Activities	3,889,266	594,180
On Investments	750,612	1,101,166
Total	**4,639,878**	**1,695,346**
Note 26		
Other expenses		
Rent	10,882,280	9,728,151
Rates and Taxes (Refer Note 30)	69,929,325	93,814
Travelling and Conveyance	19,370,544	14,132,272
Legal and Professional Charges	62,534,473	40,561,958
Communication Expenses	2,674,997	1,034,247
Consultancy Charges	238,601	716,805
Repairs and Maintenance - Others	410,952	205,203
Printing and Stationery	443,948	838,445
Advertisement and Business Promotion	85,696	184,061
Auditors' remuneration:		
- Statutory & Other Audit	2,000,000	1,400,000
- Certification	100,000	100,000
- Tax audit	100,000	100,000
- Out of pocket expenses	27,890	81,535
Miscellaneous Expenses	3,892,773	2,822,722
Total	**172,691,479**	**71,999,213**

Additional Information to the Financial Statements:

27. 1. Contingent Liabilities (to the extent not provided for)

i. The Company has entered into a Partial Guarantee Facility Agreement with a bank and has provided guarantees of INR 171,017,857 (Previous year – INR 195,000,000) favoring the bank, representing 10% of the loans provided by the bank to Microfinance Institutions.

ii. The Company has entered into Risk participation Agreements with banks and provided risk participation to the extent of INR 58,675,081 (Previous Year – NIL) favouring the bank with respect to loans provided by the bank to Microfinance Institutions.

iii. The Company has entered into Collateralized Bond Obligation with a Non Banking Finance Company (NBFC) and has provided guarantee to the extent of INR 65,200,000 (Previous Year - NIL) favouring the Non convertible Debentures issued by various NBFCs.

ii. Disputed demands:

Statute	Nature of dues	Forum where dispute is pending	Period to which the amount relates	Amount involved	
				Current year (in INR)	Previous year (in INR)
Finance Act 1994	Service Tax - Disallowance of input credit	Assistant Commissioner (Appeals)	AY 2010-11 to 2012-13	853,816	853,816
Income Tax Act	Disallowance under Sec 14 A read with rule 8 D	Deputy Commissioner (Appeals)	AY 2010-11	1,458,126	1,458,126

iii. Commitments

Amount in INR

Particulars	As at 31 March 2014	As at 31 March 2013
Capital Commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advance)	5,500,000	-
Other Commitments	4,900,000	-

27.2 Expenditure in Foreign Currency (on accrual basis)

Amount in INR

Particulars	YE 31 March 2014	YE 31 March 2013
Travel	964,932	1,395,466
Conference expenses	138,133	-
Legal and Professional charges	333,850	-
Books and Periodicals	457,721	-
Loan Processing Fees	1,266,667	-
Total	**3,161,303**	**1,395,466**

28. Prepaid Finance Charges

During the year the company borrowed INR 3,095,919,097 (Previous Year INR 1,963,500,000) by way of Term Loan, Commercial Paper and Non-convertible debentures, towards which an amount of INR 11,781,213 (Previous Year INR 13,060,456) 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 23,345,796 (Previous year INR 25,341,619) is included under Note 15 'Other Non-Current Assets' and Note 20 'Other Current Assets'.

29. Long Term Incentive Plan:

As per the plan, 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 the Grant Date.

Provision is made in books to the extent of shadow units vested as per the above vesting schedule. Accordingly the company made a provision for INR 6,638,585 (Previous Year INR 3,285,093) during the current year. Out of the total provision made an amount of INR 10,288,492 (Previous Year INR 3,649,907) is included under Note 7 'Long Term Provisions' and an amount of INR NIL (Previous Year INR 258,754) is included under Note 9 'Trade Payables', based on the option exercised by the eligible employees.

30. Distribution Tax on Securitisation Income

As per Section 115TA of Income Tax Act 1961, the securitization income distributed by the Trustee after 1st June, 2013 is subject to distribution tax at 30%, irrespective of the time of accrual of such income. Accordingly, the income from investment in securitization for the year ended 31st March, 2014 includes an amount of INR 211,447,322 which has been subjected to a distribution tax of INR 69,924,945 of which INR 38,362,234 has been accrued by the Company in respect of income to be collected in future periods. This distribution tax of INR 69,924,945 has been included under Rates and Taxes in Note 26.

Accounting Standard Disclosures:

31. Employee Benefits:

Defined Contribution Plan:

The Company makes Provident Fund Contribution which is a defined contribution plan for qualifying employees. Under the scheme, the company is required to contribute a specified percentage of the payroll costs to fund the benefits.

The Company recognizes INR 4,410,242 (Previous Year INR 3,607,191) for Provident Fund contributions in the statement of Profit and Loss. The contribution payable for the scheme by the Company is at the rate specified in the rates of the scheme.

Defined Benefit Plan

The company's obligation towards Gratuity is a defined benefit plan and no fund is being maintained. The details of actuarial valuation are given below:

Accrued Gratuity Labilility

Amount in INR

	2013-14	2012-13
Change in benefit obligation		
Accrued Liability as at beginning of the period:	**3,772,780**	**1,448,157**
Interest Cost	298,050	123,093
Current Service Cost	1,195,592	1,120,273
Actuarial gain / loss	519,920	1,081,257
Accrued Liability as at the end of the period:	**5,786,342**	**3,772,780**
Amounts to be recognized in the Balance Sheet		
Present Value of obligations as on the accounting date:	5,786,342	3,772,780
Fair Value of the Plan Assets:	Nil	Nil
Liability to be recognized in the Balance Sheet:	**(5,786,342)**	**(3,772,780)**
Expenses to be recognized in the Statement of Profit and Loss		
Interest Cost	298,050	123,093
Current Service Cost	1,195,592	1,120,273
Net Actuarial (gain) / loss	519,920	1,081,257
Net Expenses to be recognized in Statement of Profit and Loss	**2,013,562**	**2,324,623**

* Rate of Mortality:	Indian Assured Lives (2006-08) Mortality Table	
* Discount Rate:	8.60% per annum	7.90% per annum
* Rate of Salary Escalation:	12.00% per annum	12.00% per annum
* Rate of exit due to reasons other than death or retirement:	15.00% per annum	15.00% 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. Experience Adjustments:

Particulars	2013-14	2012-13	2011-12
On plan Liability (gain) / loss	519,920	1,081,257	(326,690)
On plan Assets (gain) / loss	Nil	Nil	Nil
Present Value of benefit obligations	5,786,342	3,772,780	1,448,157
Fair Value of Plan Assets	Nil	Nil	Nil
Excess of obligation over plan assets	5,786,342	3,772,780	1,448,157

Details of experience adjustments is given to the extent available

32. Segment Accounting:

(i) Business Segments:

The Company operates in only one business segment, namely arranging or facilitating or providing capital either in the form of Loans or Investments or guarantees.

(ii) Geographical Segment:

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

33. Related Party Disclosure

Information relating to related party transactions for the year ended 31 March 2014 (as identified by the management and relied upon by auditors)

Parties where control exists:
Controlling Entity: IFMR Trust – Represented by IFMR Trusteeship Services Private Limited (till 21 March 2014)
Holding Company: IFMR Holding Private Limited (from 21 March 2014)

Fellow Subsidiaries with whom the Company had transactions during the year:
Pudhuaaru Financial Services Private Limited
IFMR Mezzanine Finance Private Limited

Key Management Personnel:

a. Dr. Kshama Fernandes, Chief Executive Officer and Director
b. Ms. Sucharita Mukerjee, Chief Executive Officer and Whole Time Director (Upto 1st August, 2012)

Transactions with Related Parties:

Amount in INR

Related Party	Transaction	For the Year Ended 31 March 2014	For the Year Ended 31 March 2013
IFMR Trust	Reimbursement of Expenses Share of common expenses	17,303,577 9,574,655	2,074,125 11,348,138
Pudhuaaru Financial Services Private Limited	Term Loans disbursed Interest on Term Loan Cash Collateral Interest on Cash Collateral	136,000,000 10,331,558 10,200,000 216,764	30,000,000 3,828,226 3,000,000 15,343
IFMR Finance Foundation	Sale of laptop	-	2,531
IFMR Mezzanine Finance Private Limited	Sale of Investments	18,791,179	-
Dr. Kshama Fernandes	Remuneration	5,914,296	3,666,667
Ms. Sucharita Mukherjee	Remuneration	NIL	4,015,831

Outstanding Balances with Related Parties:

Amount in INR

Group Company	Nature of Balances Outstanding	As at 31 March 2014	As at 31 March 2013
IFMR Trust	Reimbursement of Expenses Share of common expenses	1,729,189 550,185	289,374 1,755,160
Pudhuaaru Financial Services Private Limited	Term Loan Cash Collateral	80,635,787 7,041,401	17,000,738 2,203,051
	Accrued Interest receivable on Term Loan	293,933	45,694
	Interest payable on Cash Collateral	291,467	74,222
Dr. Kshama Fernandes	Advances and Security Deposit	315,668	269,092

34. Earnings per share:

Amount in INR

Description	For the year ended 31 March 2014	For the year ended 31 March 2013
Profit after Tax attributable to equity shareholders	120,749,433	71,814,772
Weighted average Shares allotted & outstanding during the period	60,144,911	60,000,000
Earnings per Share – Basic & Diluted face value of INR 10/- each	2.01	1.20

35. Deferred Tax

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

Amount in INR

Particulars	As at 31 March 2014	As at 31 March 2013
Deferred Tax Liability:		
Unamortized Processing Charges	7,734,397	8,613,613
Depreciation	358,599	177,934
Deferred Tax Asset:		
Gratuity	1,966,778	1,282,368
Provision for Standard Assets	3,495,216	1,918,124
Provision for compensated absences	444,443	444,441
Provision for Long term incentive	3,497,036	1,240,581
Net Deferred Tax Liability	**(1,310,477)**	**3,905,493**

36. Provision for Standard Assets:

Amount in INR

Standard Asset Movement	As at 31 March 2014	As at 31 March 2013
Long Term		
Investments	1,737,449	1,082,882
Receivable under Financing Activities	2,150,316	513,280
Short Term		
Investments	2,337,324	2,241,278
Receivable under Financing Activities	4,057,982	1,805,753
Total Provision on Investments	4,074,773	3,324,160
Total Provision on Receivable under Financing activities	6,208,298	2,319,033
Total	**10,283,071**	**5,643,193**

Amount in INR

Particulars	Opening Balance	Additional provision	Utilization /Reversal	Closing Balance
Provision for standard assets under financing activity (Refer Note below)	2,319,033 (1,724,853)	3,889,266 (594,180)	NIL (NIL)	6,208,299 (2,319,033)
Provision for standard assets under Investments (Refer Note below)	3,324,160 (2,222,994)	750,612 (1,101,166)	NIL (NIL)	4,074,772 (3,324,160)

Note:

a. The Management has reviewed the loan portfolio and the Investments 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 relating to loan portfolio as required by RBI Norms.

b. The Management has made a provision at 0.25% on standard assets relating to investments as a matter of prudence.

c. Figures in brackets are for the previous year.

Disclosure in accordance with provisions of Reserve Bank of India:

37. 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

Particulars	As at 31 March 2014	As at 31 March 2013
Tier I Capital	1,544,616,474	721,705,797
Tier II Capital	51,208,299	2,319,033
Total Capital	**1,595,824,773**	**724,024,830**
Total Risk Weighted Assets	**4,735,847,561**	**2,638,429,473**
Capital Ratios		
Tier I Capital as a % of Total Risk Weighted Assets (%)	32.62	27.35
Tier II Capital as a % of Total Risk Weighted Assets (%)	1.08	0.09
Total Capital (%)	**33.70**	**27.44**

In Tier II Capital, the standard asset provision for Loan alone is included other than subordinated debt. The above details have been determined based on the financial statements of the Company as on 31 March 2014 and previous year as on 31 March 2013.

ii. Exposure to Real Estate Sector, both Direct and Indirect

Amount in INR

Category		As at 31 March 2014	As at 31 March 2013
(a)	**Direct Exposure** **(i) Residential Mortgages** Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented; (Individual housing loans up to Rs.15 lakh may be shown separately)	-	-
	(ii) Commercial Real Estate Lending secured by mortgages on commercial real estates (office buildings, retail space, multipurpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure would also include non-fund based (NFB) limits;	-	-
(iii)	Investments in Mortgage Backed Securities (MBS) and other Securitised exposures		
	a. Residential,	15,108,375	-
	b. Commercial Real Estate.	-	-
(b)	**Indirect Exposure** Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	401,512,569	93,115,821

IFMR CAPITAL FINANCE PRIVATE LIMITED
Notes Forming part of Financial Statements

38. 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 & Others	69,348,462	179,845,354	122,317,361	433,044,952	491,896,740	806,125,934	-	-	2,102,578,803
Market Borrowings	52,000,000	-	52,000,000	52,000,000	499,000,000	586,500,000	147,500,000	-	1,389,000,000
Assets:									
Advances	200,072,893	150,044,513	150,825,300	429,385,939	692,864,301	780,119,737	80,006,806	-	2,483,319,489
Investments	127,620,645	80,795,752	69,710,700	273,534,071	383,268,429	675,455,813	13,849,396	5,674,190	1,629,908,996

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, 2014.

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 & others	42,178,409	162,274,944	63,916,524	170,082,575	428,858,176	547,751,653	33,333,337	-	1,448,395,618
Market Borrowings	36,000,000	-	61,000,000	52,000,000	104,000,000	292,000,000	-	-	545,000,000
Assets:									
Advances	90,953,864	79,784,087	71,199,818	196,624,080	283,739,259	205,311,931	-	-	927,613,039
Investments	62,780,558	74,229,983	65,474,088	297,176,003	396,850,657	430,340,039	2,812,755	-	1,329,664,083

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, 2013.

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

As at 31 March 2014

S.No.	Particulars	Amount Outstanding in INR	Amount Overdue in INR
	Liabilities:		
(1)	**Loans and Advance availed by the NBFC inclusive of interest accrued thereon but not paid**		
(a)	Debentures		
	- Secured	1,064,000,000	-
	- Unsecured	75,000,000	-
	(Other than Falling within the meaning of public Deposits)		
(b)	Deferred Credits	-	-
(c)	Term Loans	2,102,540,590	-
(d)	Inter- Corporate Loans and Borrowings	-	-
(e)	Commercial Paper	250,000,000	-
(f)	Other Loans	38,213	-

S.No.	Particulars	Amount Outstanding as on 31 March 2014 in INR
(2)	**Break up of Loans and Advances including Bills Receivables (Other than those included in (3) below):**	
(a)	Secured	2,483,319,489
(b)	Unsecured	-

S.No.	Particulars	Amount Outstanding as on 31 March 2014 in INR
(3)	**Break up of Leased Assets and Stock on Hire and Other Assets counting towards AFC activities**	
(i)	Lease Assets including Least Rentals Accrued and Due:	
	a) Financial Lease	-
	b) Operating Lease	-
(ii)	Stock on Hire including Hire Charges under Sundry Debtors:	
	a) Asset on Hire	-
	b) Repossessed Assets	-
(iii)	Other Loans counting towards AFC Activities	
	(a) Loans where Assets have been Repossessed	-
	(b) Loans other than (a) above	-

S.No.	Particulars	Current Investment	Long Term Investment
(4)	**Break-up of Investments**		
I	**Quoted:**		
(i)	Shares :		
	(a) Equity	-	-
	(b) Preference	-	-
(ii)	Debentures and Bonds	-	-
(iii)	Government Securities	-	-
(iv)	Others (Please Specify)		-
II	**Unquoted:**		
(i)	Shares:	-	-
	Equity	-	-
	Preference	-	-
(ii)	Debentures and Bonds	-	-
(iii)	Government Securities	-	-
(iv)	Others (Investments in Pass Through Certificates and Other Rated Transactions)	1,629,908,996	-

Amount in INR

(5)	Borrower Group-wise Classification of Assets Financed as in (2) and (3) above			
S.No.	**Category**	**As at 31st March 2014 (Net of Provision) (Refer Note below)**		
		Secured	**Unsecured**	**Total**
1.	Related Parties			
	(a) Subsidiaries	-	-	-
	(b) Companies in the same Group	80,635,787	-	80,635,787
	(c) Other Related Parties	-	-	-
2.	Other than Related Parties	2,402,683,702	-	2,402,683,702

Note:
The amount of Assets financed represents the net owned portfolio outstanding after adjusting the provisions for standard assets amounting to INR 6,208,299/-

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	-	1,629,908,996
	Total		**1,629,908,996**

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 3,324,160/-

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 2014.

40. 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) in the name of Highland Leasing and Finance Private Limited to carry on the business of Non-Banking Financial Institution without accepting deposits. During the year the company has received the revised COR dated 8 August 2013, in the name of IFMR Capital Finance Private Limited.

41. Previous year's figures have been regrouped/ reclassified wherever necessary to correspond with the current year's classification/ disclosure.

For and on behalf of the Board of Directors

Director | Director | Company Secretary

Place: Chennai
Date: 5 May 2014