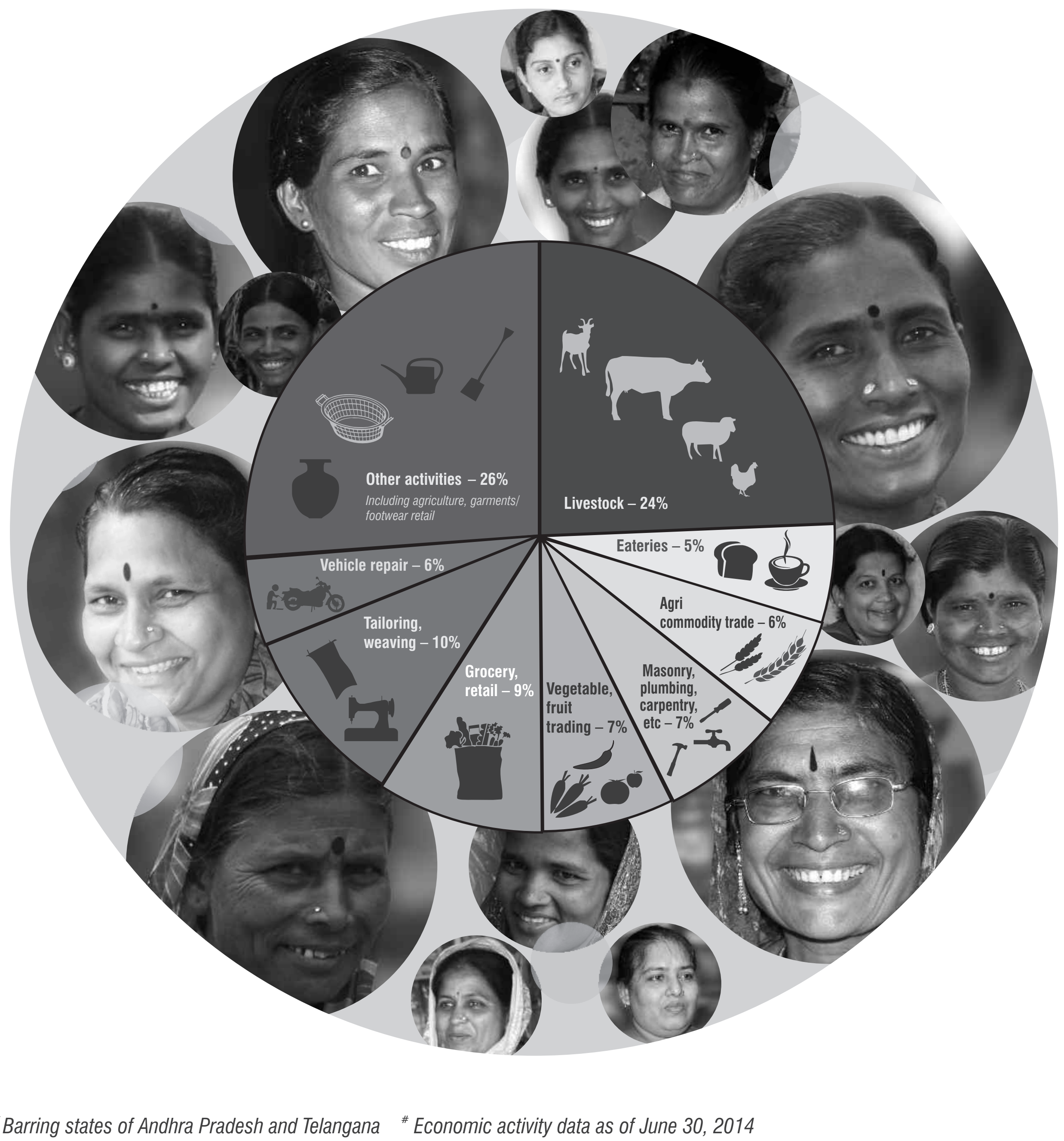
ANNUAL REPORT
2013-2014

SKS MICROFINANCE

Growing with micro enterprises

Portfolio outstanding* stood at Rs. 2,837 crore in FY14 with the number of loans disbursed increasing by 38% to 41,33,043 — average loan size of Rs. 11,584. Membership base of 5.8 million in 1,00,000 Indian villages across 16 states. Percentage of portfolio outstanding by economic activity# is:



*Barring states of Andhra Pradesh and Telangana   # Economic activity data as of June 30, 2014

Contents

Board of Directors*

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

M. R. Rao
Managing Director and
CEO

S. Balachandran
Additional Director

Geoffrey Tanner Woolley
Independent Director

P. Krishnamurthy
Nominee Director - SIDBI

Tarun Khanna
Independent Director

Paresh Patel
Non-Independent and
Non-Executive Director

Sumir Chadha
Non-Independent and
Non-Executive Director

* As on July 24, 2014

Directors' Report

Dear Members,

The Directors have pleasure in presenting the Eleventh Annual Report of your Company together with the audited statement of accounts for the year ended March 31, 2014.

FINANCIAL HIGHLIGHTS

The financial performance for the year ended March 31, 2014 has been summarized in the following table:

(Rs. in Crore)

Year ended March 31	2014	2013
Total revenue	544.8	352.6
Less: Total expenditure	475.0	649.7
Profit/ (Loss) Before Tax	69.9	(297.1)
Profit/ (Loss) After Tax	69.9	(297.1)
Surplus/ (Deficit) brought forward	(1,348.4)	(1,051.3)
Amount available for appropriation	-	-
Appropriation has been made as under:		
Add: Profit/ (Loss) for the financial year	69.9	(297.1)
Less: Transfer to Statutory Reserve	(14.0)	-
Net Surplus/ (Deficit) in the statement of profit & loss	(1,292.6)	(1,348.4)
Earnings Per Share (EPS)	6.5	(30.6)
Diluted EPS	6.4	(30.6)

- Your Company has posted a Profit After Tax (PAT) of Rs. 69.9 crore for FY14 as compared to a loss of Rs. 297.1 crore for FY13.
- Net worth of your Company as on March 31, 2014 was Rs. 459.2 crore with a capital adequacy of 27.2% (20.7% without the Reserve Bank of India (RBI) dispensation on the undivided Andhra Pradesh provisioning) as on March 31, 2014.
- RoA (including managed loans) and RoE for FY14 were 2.3% and 16.7% respectively.
- Incremental drawdowns stood at Rs. 3,503.1 crore for FY14 as compared to Rs. 2,874.7 crore for FY13, registering a growth of 21.9%.
- Gross loan portfolio grew by 32.0% to Rs. 3,112.8 crore.

OPERATIONAL HIGHLIGHTS

Year ended March 31	2014	2013	Change
Number of branches	1,255	1,261	(0.5%)
Number of Members (in lakh)	57.8	50.2	15.2%
Number of employees	8,932	10,809	(17.4%)
Amount disbursed (Rs. in crore)	4,787.6	3,319.6	44.2%
Portfolio outstanding (Rs. in crore)	3,112.8	2,359.0	32.0%

BUSINESS OVERVIEW

During the financial year 2013-14, your Company's total revenue and Profit After Tax were Rs. 544.8 crore and Rs. 69.9 crore respectively. As of March 31, 2014, your Company had 58 lakh (39 lakh outside the undivided Andhra Pradesh) Members, including 50 lakh (33 lakh outside the undivided Andhra Pradesh) Borrowers spread across 1,255 branches (1,139 branches outside the undivided Andhra Pradesh) with a gross loan portfolio of Rs. 3,112.8 crore (Rs. 2,836.8 crore outside the undivided Andhra Pradesh).

Please refer the Management Discussion and Analysis Report (on Page 24) for more information on your Company's Business Overview.

CAPITAL INFUSION

Your Company successfully completed its fund raising through Qualified Institutional Placement (QIP) of equity shares in May 2014, resulting in a capital infusion of Rs. 397.6 crore. Your Company has issued 1,76,70,534 equity shares at Rs. 225 per share. The QIP was oversubscribed multiple times.

The capital infusion has strengthened your Company's capital adequacy ratio to 41.7% as of June 30, 2014 from 27.2% as of March 31, 2014, which is way above the regulatory requirement of 15.0%. Further, the net worth of your Company had increased to Rs. 890.9 crore as of June 30, 2014 from Rs. 459.2 crore as of March 31, 2014 and this, if leveraged well, could fund your Company's growth over the next three years without any further infusion of equity capital. Such an overwhelming response to the QIP endorses investor confidence in your Company's turnaround and the improved business prospects.

DIVIDEND

In order to conserve the resources, the Directors have not recommended any dividend for the year under review.

THE COMPANIES ACT, 2013

The Companies Bill 2012 was passed by the Lok Sabha on December 18, 2012 and was ratified by the Rajya Sabha on August 8, 2013. The Bill received the assent of the Hon'ble President of India on August 29, 2013 and was notified in the Official Gazette on August 30, 2013 pursuant to which the Companies Act, 2013 (CA 2013) has come into effect. The Ministry of Corporate Affairs (MCA) has notified 282 sections of the CA 2013 in tranches in September 2013 and in March 2014 with a majority of the sections as well as rules being notified in March/ April 2014. The Companies Act, 1956 (CA 1956) continues to be in force to the extent of the corresponding provisions of the CA 2013, which are yet to be notified. The MCA, vide its Circular dated April 4, 2014, has clarified that the financial statements and documents annexed thereto, Auditor's Report and Board's Report in respect of financial years that have commenced earlier than April 1, 2014 shall be governed by the provisions of the CA 1956 and, in line with the same, your Company's financial statements, Auditors' Report and Directors' Report and attachments thereto have been prepared in accordance with the provisions of the CA 1956. With respect to other provisions of the CA 2013, appropriate references have been made in this report to the extent these provisions have become applicable effective April 1, 2014.

DIRECTORS

Changes in the Composition of the Board of Directors

Mrs. Ranjana Kumar, Independent Director of your Company, resigned from the Board effective September 10, 2013. The Board placed on record its appreciation for her contributions to the progress of the Company.

The Board, at its meeting held on July 24, 2014, appointed Mr. S. Balachandran as an additional Director effective July 24, 2014. Mr. Balachandran holds office up to the date of the forthcoming Annual General Meeting (AGM) and is eligible for appointment.

Classification of Directors as per CA 2013

Section 149 of the CA 2013, which defines the composition of the Board and the criteria for considering a director to be independent, was notified effective April 1, 2014. Nominee director, i.e., a director nominated by any financial institution/ Government/ other person in pursuance of the provisions of any law for the time being in force, or of any agreement to represent the interests of the said financial institution/ Government/ any other person is excluded from the definition of independent director.

As per the provisions of the CA 2013, the Companies (Appointment and Qualification of Directors), Rules 2014 and the clarification dated June 9, 2014 issued by the Ministry of Corporate Affairs, Non-Executive (Independent) Directors have to be appointed expressly under Section 149(10) and Section 149(5) of the CA 2013 read with Schedule IV of the CA 2013 within one year from April 1, 2014, otherwise the said Directors would continue to hold office till expiry of their term (based on the retirement period calculation) as per the resolution pursuant to which they were appointed as Non-Executive Directors. Therefore, the Board, at its meeting held on July 24, 2014, proposed the appointment of Mr. P. H. Ravikumar, Dr. Tarun Khanna and Mr. Geoffrey Tanner Woolley as Independent Directors at the ensuing AGM of the Company in September 2014, who, being eligible and seeking appointment, be considered by the Members for appointment for a term of up to five (5) consecutive years.

It is also proposed to appoint Mr. S. Balachandran as an Independent Director at the ensuing AGM of your Company for a period of five (5) consecutive years.

The Members are requested to consider the above proposals.

In classification of the aforesaid Directors as Independent Directors, your Company has relied on the declaration of independence provided by the said Directors as prescribed under Section 149(7) of the CA 2013 and placed at the Board Meeting of your Company held on July 24, 2014.

Retirement by Rotation

In accordance with the provisions of the CA 2013, Mr. Sumir Chadha is due to retire by rotation at the ensuing AGM and, being eligible, offered himself for re-appointment.

Directors' Responsibility Statement

Pursuant to the requirement under Section 217 (2AA) of the CA 1956, with respect to the Directors' Responsibility Statement, it is hereby confirmed that:

1. in the preparation of the accounts for the year ended March 31, 2014, the applicable accounting standards have been followed and there are no material departures from the same;
2. the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of your Company as at March 31, 2014 and of the profit of your Company for the year under review;
3. the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the CA 1956 for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities; and
4. the Directors had prepared the annual accounts of your Company on a 'going concern' basis.

AUDITORS

The Statutory Auditors of your Company, S. R. Batliboi & Co. LLP, Chartered Accountants, will retire at the ensuing AGM and have confirmed their eligibility and willingness to accept the office of the Auditors, if re-appointed. As recommended by the Audit Committee, the Board has proposed to the Members in the Notice of the ensuing AGM the re-appointment of S. R. Batliboi & Co. LLP, Chartered Accountants, as the Statutory Auditors of your Company for a period of three (3) years commencing from the ensuing AGM, subject to ratification by the Members every year. Members are requested to consider their re-appointment.

RESPONSE OF THE BOARD TO THE AUDITORS' COMMENTS

In terms of the provisions of Section 217(3) of the CA 1956, the Board would like to place on record an explanation to the Auditors' comments in their Audit Report dated April 28, 2014:

Auditors' Comments	Board's Response
The Company's accumulated losses at the end of the financial year are more than fifty percent of its net worth. The Company has not incurred cash loss during the year. In the immediately preceding financial year, the Company had incurred cash loss.	For FY14, the Company had a net profit of Rs. 69.9 crore as compared to a net loss of Rs. 297.1 crore for FY13 and a net loss of Rs. 1,360.6 crore for FY12. Your Company reported profits for six consecutive quarters and for FY14. Your Company had obtained incremental drawdowns (including securitizations and assignments) of Rs. 3,503.1 crore during FY14, an increase of 21.9% compared to FY13. This aided higher disbursements and your Company had registered a growth of 40.7% in its loan portfolio (barring undivided Andhra Pradesh) to Rs. 2,836.8 crore as of March 31, 2014. Your Company had a net worth of Rs. 459.2 crore after adjusting the accumulated losses and its capital adequacy was 27.2% (capital adequacy without RBI dispensation for the provisioning with respect to undivided Andhra Pradesh was 20.7%), as of March 31, 2014.

We have been informed that during the year there were instances of cash embezzlements by the employees of the Company aggregating Rs. 9,285,788; loans given to non-existent borrowers on the basis of fictitious documentation created by the employees of the Company aggregating Rs. 6,260,275; and misrepresentation by certain borrowers for obtaining loans aggregating Rs. 387,900. As informed, services of employees involved have been terminated and the Company is in the process of taking legal action against the employees and the borrowers. The outstanding balance (net of recovery) aggregating Rs. 8,423,073 has been written off.	Fraud has been an inherent risk in the business your Company operates in, since all the transactions are cash-based with the borrowers, given the customer segment your Company operates in. In case of cash embezzlements, your Company has recovered an amount of Rs. 54 lakh, including proceeds from insurance claims. Cash embezzlement was 0.02% of disbursement during FY14. To mitigate this risk to a large extent, your Company has put in place several preventive control measures as under: - Managerial staff conduct surprise visits during hours when employees are engaged in cash/ bank transactions. - Minimizing cash balances at various branches to the lowest level possible (Rs. 20,000 + cash required for next day disbursement). - Every bank transaction (deposit/ withdrawal) is required to be executed by a minimum of two employees, comprising a bank signatory and a confirmed staff. - The strongbox at every branch is controlled by two keys held by two different employees in the branch. - Procuring indemnity bond from every field staff, with personal guarantee of a third person. Your Company has instituted several other controls, such as: - Daily employee-wise reconciliation of cash balances by managerial employees at each branch. - Frequent surprise visits by accountants and internal auditors, including verification of physical cash and bank balances. Your Company undertook the following actions in cases pertaining to fraud: - Termination of service of all employees involved in cash embezzlements. - Appropriate legal action pursued against errant employees. - Recovering embezzled money from errant employees. - Fidelity insurance to minimize the losses against cash embezzlements. In the case of loans given to non-existent or fictitious borrowers, your Company has recovered an amount of Rs. 21 lakh, including proceeds from the insurance. These cases constitute 0.01% of disbursement during FY14. Your Company has instituted various preventive or control measures in the loan process to mitigate the risk of extending loans to non-existent borrowers or fictitious borrowers: - All disbursed loans are passed through a checker control system, where loans processed by a Sangam Manager are first approved by a Branch Manager or an Assistant Branch Manager. - In order to prevent collusion with the local residents, Sangam Managers are deployed away from their home towns. - Half yearly employee rotation ensures that Sangam Managers manage different centres at the end of every six months.

	- Sangam Managers are regularly transferred in a span of 12 months. - Development of internal processes to restrict loan disbursements to inactive Members. Further details of the preventive and other controls are set out below: - Managerial employees at the branch perform a Loan Utilization Check (LUC) for every loan disbursed. - The internal audit staff, on a test basis, verifies loan documents and performs random LUCs for loans disbursed. The net impact of frauds is approximately 0.02% (as compared to 0.06% in the previous year) of the total amount disbursed by your Company during FY14. Your Company is working towards further reducing this percentage by making process improvements, obtaining adequate insurance cover and by increasing engagements and opportunities for direct contact with the Members. During FY14, your Company has recovered an amount of Rs. 74 lakh against the fraud amount written off in previous years.

MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis Report for the year under review is presented on Page 24 in the Annual Report.

CORPORATE GOVERNANCE

The Company has adopted best corporate practices, and is committed to conducting its business in accordance with the applicable laws, rules and regulations. Your Company follows the highest standards of business ethics. A report on Corporate Governance is provided on Page 38 in the Annual Report.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Your Company has set up CSR Committee and details are available in the Corporate Governance Report.

INFORMATION TECHNOLOGY

Your Company has been a leader and innovator in the use of technology in the microfinance industry in India. Please refer Management Discussion and Analysis Report on Page 36 for information on your Company's IT initiatives.

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

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

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

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

PARTICULARS OF EMPLOYEES

The statement containing particulars of employees as required under Section 217 (2A) of CA 1956 forms part of this Report. In terms of Section 219(1)(b)(iv) of the CA 1956, the same is open for inspection at the Registered Office of your Company. A copy of the statement may be obtained by Members by writing to the Company Secretary of your Company.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO UNDER SECTION 217(1)(E) OF THE COMPANIES ACT, 1956

The provisions of Section 217(1)(e) of the Companies Act, 1956 relating to the conservation of energy and technology absorption do not apply to your Company. Your Company has, however, used information technology extensively in its operations.

During the year under review, your Company's earning and outgo in foreign exchange was Nil and Rs. 79.3 lakh respectively.

FIXED DEPOSITS

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

ACKNOWLEDGEMENTS

The Directors take this opportunity to express their deep and sincere gratitude to the Sangam Members for their confidence and patronage, as well as to the Reserve Bank of India, the Government of India and Regulatory Authorities for their co-operation, support and guidance. The Directors would like to express a profound sense of appreciation for the commitment shown by the employees in supporting your Company in its endeavour towards becoming a leading microfinance institution of the country. The Directors would also like to express their gratitude to shareholders, bankers and other stakeholders for their trust and support.

For and on behalf of the Board of Directors

Place: Mumbai	SD/-	SD/-
Date: August 27, 2014	**P. H. Ravikumar**	**M. R. Rao**
	Non-Executive Chairman	Managing Director and CEO

Annexure – 1 to the Directors' Report

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

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

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

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

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

The following table sets forth the particulars of the Equity Shares granted under the ESPS 2007 as on March 31, 2014:

Particulars	**Details of Tranche I**	**Details of Tranche II**	**Details of Tranche III**
Shares issued	8,18,000	5,14,250	5,17,500
Date of issue	March 31, 2007	November 20, 2007	August 25, 2008
Allotment price of share (Rs.)	10.00	49.77	70.67
Person-wise details of shares granted to			
i) Directors and key managerial employees	Refer below		
ii) Any other employee who was allotted Equity Shares amounting to 5% or more of the Equity Shares allotted during the year	Not Applicable	Not Applicable	Not Applicable
iii) Identified employees who were allotted Equity Shares, during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of your Company at the time of allotment	Not Applicable	Not Applicable	Not Applicable
Fully diluted EPS	Rs. 6.44 as on March 31, 2014		

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

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

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

** Mr. M. R. Rao holds 2,94,166 equity shares as on March 31, 2014.*

*** Mr. S. Dilli Raj holds 1,27,666 equity shares as on March 31, 2014.*

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

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

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

The following table sets forth the particulars of the options granted under the ESOP 2008 (ID) as on March 31, 2014:

Particulars	Tranche I	Tranche II	Tranche III	Tranche IV	Tranche V
Options granted	30,000	15,000	6,000	18,000	90,000
Pricing formula	The Exercise Price for the Shares to be issued pursuant to the Exercise of an Option shall be such price as is determined by the Compensation Committee (and set forth in the SKS Microfinance Stock Option Agreement) based on the Fair Market Value per Share on the date of grant of the option				
Date of Grant	February 1, 2008	February 1, 2008	November 10, 2008	July 29, 2009	February 1, 2010
Exercise price of options (in Rs.)	70.67	70.67	70.67	300.00	300.00
Total options vested	30,000	15,000	6,000	18,000	63,000
Options exercised	30,000	-	3,000	-	4,500
Total number of Equity Shares that would arise as a result of full exercise of options already granted	30,000	15,000	6,000	18,000	90,000
Options forfeited/ lapsed/ cancelled	-	-	-	-	36,000
Variation in terms of options	-	-	-	-	-
Money realized by exercise of options (in Rs.)	21,20,100	-	2,12,010	-	13,50,000
Options outstanding (in force)	-	15,000	3,000	18,000	49,500
Person-wise details of options granted to					
i) Directors and key managerial employees	30,000	15,000	6,000	18,000	90,000
ii) Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during the year	-	-	-	-	-

iii) Identified employees who are granted options, during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of your Company at the time of grant	-	-		-	-
Diluted EPS on issue of shares on exercise calculated as per AS 20	Rs. 6.44 as on March 31, 2014				
Method of calculation of employee compensation cost	Fair Value Method				
Weighted average exercise price of options	Rs. 70.67	Rs. 70.67	Rs. 70.67	Rs. 300.00	Rs. 300.00
Weighted average fair value of options	-	Rs. 17.72	Rs. 52.14	Rs. 21.57	Rs. 72.53

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	15,000	70.67	15,000	70.67
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	15,000	70.67	15,000	70.67
Exercisable at the end of the year	15,000	70.67	15,000	70.67
Weighted average remaining contractual life (years)*	1.8	-	2.8	-
Weighted average fair value of options granted	-	17.72	-	17.72

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

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	3,000	70.67	4,000	70.67
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	1,000	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,000	70.67	3,000	70.67
Exercisable at the end of the year	3,000	70.67	3,000	70.67

Weighted average remaining contractual life (years)*	1.8	-	2.8	-
Weighted average fair value of options granted	-	52.14	-	52.14

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

The weighted average share price on the date of exercise of 1,000 stock options was Rs. 154.55.

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

Particulars	**As at March 31, 2014**		**As at March 31, 2013**	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	18,000	300.00	18,000	300.00
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	18,000	300.00	18,000	300.00
Exercisable at the end of the year	18,000	300.00	18,000	300.00
Weighted average remaining contractual life (in years)*	0.3	-	1.3	-
Weighted average fair value of options granted	-	21.57	-	21.57

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

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

Particulars	**As at March 31, 2014**		**As at March 31, 2013**	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	49,500	300.00	49,500	300.00
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	49,500	300.00	49,500	300.00
Exercisable at the end of the year	49,500	300.00	36,000	300.00
Weighted average remaining contractual life (in years)	0.8	-	1.8	-
Weighted average fair value of options granted	-	72.53	-	72.53

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

Name of Director	**Plan**	**Total No. of Options Granted**	**No. of Options Exercised**	**Total No. of Options Outstanding**	**No. of Equity Shares Held**
Mr. Geoffrey Tanner Woolley	Tranche IV	18,000	-	18,000	-
	Tranche V	18,000	-	18,000	-
Mr. Gurcharan Das*	Tranche I	15,000	15,000	-	5,500
Mr. P. H. Ravikumar	Tranche I	15,000	15,000	-	13,400
	Tranche III	3,000	3,000	-	
	Tranche V	18,000	4,500	13,500	

Mr. Pramod Bhasin**	Tranche V	36,000	-	-	-
Dr. Tarun Khanna	Tranche II	15,000	-	15,000	-
	Tranche III	3,000	-	3,000	
	Tranche V	18,000	-	18,000	

** Resigned with effect from January 5, 2010*

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

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

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

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

The following table sets forth the particulars of the options granted under ESOP 2008 as on March 31, 2014:

Particulars	Tranche I	Tranche II	Tranche III
Options granted	17,69,537	9,00,000	4,49,897
Pricing formula	The Exercise Price for the Shares to be issued pursuant to the Exercise of an Option shall be such price as is determined by the Compensation Committee (and set forth in the SKS Microfinance Stock Option Agreement) based on the Fair Market Value per Share on the date of grant of the option but it shall not be lower than the face value of the Equity Shares to be issued.		
Date of grant	November 10 , 2008	December 8, 2008	September 7, 2011
Exercise price of options (in Rs.)	300.00	300.00	229.40
Total options vested	17,69,537	4,50,000	2,55,877
Options exercised	-	2,25,000	-
Total number of Equity Shares that would arise as a result of full exercise of options already granted	17,69,537	9,00,000	4,49,897
Options forfeited/ lapsed/ cancelled/ surrendered	17,69,537	6,75,000	2,44,486
Variation in terms of options	-	-	-
Money realized by exercise of options (in Rs.)	-	6,75,00,000	-
Options outstanding (in force)	-	-	2,05,411
Person-wise details of options granted to			
i) Directors and key managerial employees	17,69,537	9,00,000	-
ii) Any other employee who received a grant in any one year of options amounting to 5 % or more of the options granted during the year	-	-	-
iii) Identified employees who are granted options, during any one year equal to exceeding 1 % of the issued capital (excluding outstanding warrants and conversions) of your Company at the time of grant	-	-	-
Diluted EPS on issue of shares on exercise calculated as per AS 20	Rs. 6.44 as on March 31, 2014		
Method of calculation of employee compensation cost	Fair Value Method		
Weighted average exercise price of options	300.00	300.00	229.40
Weighted average fair value of options	2.92	1.81	146.37

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	17,69,537	300.00	17,69,537	300.00
Granted during the year	-	-	-	-
Forfeited during the year	17,69,537	300.00	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	-	-	17,69,537	300.00
Exercisable at the end of the year	-	-	17,69,537	300.00
Weighted average remaining contractual life (in years)	-	-	0.6	-
Weighted average fair value of options granted	-	-	-	2.92

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	-	-	2,25,000	300.00
Granted during the year	-	-	-	-
Forfeited during the year	-	-	2,25,000	300.00
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	-	-	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	-	-	-	-
Weighted average fair value of options granted	-	-	-	-

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	2,57,283	229.40	3,78,669	229.40
Granted during the year	-	-	-	-
Forfeited/ surrendered during the year	51,872	229.40	1,21,386	229.40
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	2,05,411	229.40	2,57,283	229.40
Exercisable at the end of the year	2,05,411	229.40	1,28,642	229.40
Weighted average remaining contractual life (in years)	2.4	-	3.4	-
Weighted average fair value of options granted	-	146.37	-	146.37

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

Tranche	Name of Director/ Key Managerial Personnel	Total No. of Options Granted	No. of Options Exercised	Total No. of Options Outstanding	No. of Equity Shares Held
I	Dr. Vikram Akula (*)	17,69,537	-	-	-
II	Mr. Suresh Gurumani (**)	9,00,000	2,25,000	-	-

** Mr. Vikram Akula resigned as Director with effect from November 23, 2011, consequent to which 17,69,537 vested options lapsed as on November 9, 2013.*

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

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

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

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

The following table sets forth the particulars of the options granted under ESOP 2009 as on March 31, 2014:

Particulars	**Tranche I**	**Tranche II**	**Tranche III**	**Tranche IV**
Options granted	5,14,750	18,81,160	10,340	4,70,332
Pricing formula	The Exercise Price for the Shares to be issued pursuant to the Exercise of an Option shall be such price as is determined by the Compensation Committee (and set forth in the SKS Microfinance Stock Option Agreement) based on the Fair Market Value per Share on the date of grant of the option.			
Date of grant	November 3, 2009	December 16, 2009	May 4, 2010	September 7, 2011
Exercise price of options	Rs. 300.00	(a) 13,13,160 at Rs. 150.00 per option; and (b) 5,68,000 at Rs. 300.00 per option	(a) 4,340 at Rs. 150.00 per option; and (b) 6,000 at Rs. 300.00 per option	Rs. 229.40
Total options vested	3,89,050	(a) 6,37,174 at Rs. 150.00 per option; and (b) 2,42,800 at Rs. 300.00 per option	(a) 1,968 at Rs. 150.00 per option; and (b) 1,800 at Rs. 300.00 per option	2,33,114
Options exercised	1,47,210	(a) 1,32,995 at Rs. 150.00 per option; and (b) 67,260 at Rs. 300.00 per option	(a) 652 at Rs. 150.00 per option	Nil
Total number of Equity Shares that would arise as a result of full exercise of options already granted	5,14,750	18,81,160	10,340	4,70,332
Options forfeited/ lapsed/ cancelled/ surrendered	2,06,950	(a) 7,72,798 at Rs. 150.00 per option; and (b) 3,75,500 at Rs. 300.00 per option	(a) 2,040 at Rs. 150.00 per option; and (b) 3,000 at Rs. 300.00 per option	2,91,054

Variation in terms of options	Nil	Nil	Nil	Nil
Money realized by exercise of options	4,41,63,000	4,01,27,250	97,800	Nil
Options outstanding (in force)	1,60,590	(a) 4,07,367 at Rs. 150.00 per option; and (b) 1,25,240 at Rs. 300.00 per option	(a) 1,648 at Rs. 150.00 per option; and (b) 3,000 at Rs. 300.00 per option	1,79,278
Person-wise details of options granted to				
i) Directors and key managerial employees	Nil	Nil	Nil	Nil
ii) Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during the year	Nil	Nil	Nil	Nil
iii) Identified employees who are granted options during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of your Company at the time of grant	Nil	Nil	Nil	Nil
Diluted EPS on issue of shares on exercise calculated as per AS 20	Rs. 6.44 as on March 31, 2014			
Method of calculation of employee compensation cost	Fair Value Method			
Weighted average exercise price of options	Rs. 300.00	(a) Rs. 300.00 (b) Rs. 150.00	(a) Rs. 300.00 (b) Rs. 150.00	Rs. 229.40
Weighted average fair value of options	Rs. 41.18	(a) Rs. 115.30 (b) Rs. 69.29	(a) Rs. 233.75 (b) Rs. 152.53	Rs. 146.37

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	1,92,190	300.00	2,60,640	300.00
Granted during the year	-	-	-	-
Forfeited/ surrendered during the year	31,600	300.00	68,450	300.00
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	1,60,590	300.00	1,92,190	300.00
Exercisable at the end of the year	1,60,590	300.00	1,59,170	300.00
Weighted average remaining contractual life (in years)	0.6	-	1.6	-
Weighted average fair value of options granted	-	41.18	-	41.18

The details of **Tranche II** for options granted at Rs. 150.00 have been summarized below:

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	5,56,319	150.00	7,88,363	150.00
Granted during the year	-	-	-	-
Forfeited during the year	1,48,952	150.00	2,32,044	150.00
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	4,07,367	150.00	5,56,319	150.00
Exercisable at the end of the year	3,15,101	150.00	2,80,593	150.00
Weighted average remaining contractual life (in years)	1.6	-	2.6	-
Weighted average fair value of options granted	-	115.30	-	115.30

The details of **Tranche II** for options granted at Rs. 300.00 have been summarized below:

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	1,53,540	300.00	2,84,540	300.00
Granted during the year	-	-	-	-
Forfeited/ surrendered during the year	28,300	300.00	1,31,000	300.00
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	1,25,240	300.00	1,53,540	300.00
Exercisable at the end of the year	1,04,040	300.00	83,580	300.00
Weighted average remaining contractual life (in years)	1.6	-	2.6	-
Weighted average fair value of options granted	-	69.29	-	69.29

The details of **Tranche III** for options granted at Rs. 150.00 have been summarized below:

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	2,704	150.00	2,704	150.00
Granted during the year	-	-	-	-
Forfeited during the year	792	150.00	-	-
Exercised during the year	264	150.00	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	1,648	150.00	2,704	150.00
Exercisable at the end of the year	964	150.00	849	150.00
Weighted average remaining contractual life (in years)	2.1	-	3.1	-
Weighted average fair value of options granted	-	233.75	-	233.75

The weighted average share price on the date of exercise of stock options was Rs.173.47.

The details of **Tranche III** for options granted at Rs. 300.00 have been summarized below:

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	3,000	300.00	3,000	300.00
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,000	300.00	3,000	300.00
Exercisable at the end of the year	1,800	300.00	1,200	300.00
Weighted average remaining contractual life (in years)	2.1	-	3.1	-
Weighted average fair value of options granted	-	152.53	-	152.53

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	2,39,874	229.40	3,74,522	229.40
Granted during the year	-	-	-	-
Forfeited/ surrendered during the year	60,596	229.40	1,34,648	229.40
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	1,79,278	229.40	2,39,874	229.40
Exercisable at the end of the year	1,79,278	229.40	1,19,937	229.40
Weighted average remaining contractual life (in years)	2.4	-	3.4	-
Weighted average fair value of options granted	-	146.37	-	146.37

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

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

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

Your Company has granted 8,66,100 options convertible into 8,66,100 Equity Shares of face value of Rs. 10 each on various dates as tabulated below and the following table sets forth the particulars of the options granted under ESOP 2010 as on March 31, 2014:

Particulars	Tranche I	Tranche II
Options granted	5,66,100	3,00,000
Pricing formula	The Exercise Price for the Shares to be issued pursuant to the Exercise of an Option shall be such price as is determined by the Compensation Committee (and set forth in the SKS Microfinance Stock Option Agreement) based on the Fair Market Value per Share on the date of grant of the option but it shall not be lower than the face value of the Equity Shares to be issued.	

Date of grant	September 7, 2011	November 23, 2011
Exercise price of options (in Rs.)	229.40	109.95
Total options vested	3,05,011	1,98,000
Options exercised	-	-
Total number of Equity Shares that would arise as a result of full exercise of options already granted	5,66,100	3,00,000
Options forfeited/ lapsed/ cancelled/ surrendered	3,32,306	-
Variation in terms of options	Nil	Nil
Money realized by exercise of options (in Rs.)	-	-
Options outstanding (in force)	2,33,794	3,00,000
Person-wise details of options granted to		
i) Directors and key managerial employees	Nil	Nil
ii) Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during the year	Nil	Nil
iii) Identified employees who are granted options during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of your Company at the time of grant	Nil	Nil
Diluted EPS on issue of shares on exercise calculated as per AS 20	Rs. 6.44 as on March 31, 2014	
Method of calculation of employee compensation cost	Fair Value Method	
Weighted average exercise price of options	Rs. 229.40	Rs. 109.95
Weighted average fair value of options	Rs. 146.37	Rs. 77.23

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

Particulars	**As at March 31, 2014**		**As at March 31, 2013**	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	3,08,942	229.40	4,62,944	229.40
Granted during the year	-	-	-	-
Forfeited/ surrendered during the year	75,148	229.40	1,54,002	229.40
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	2,33,794	229.40	3,08,942	229.40
Exercisable at the end of the year	2,33,794	229.40	1,54,471	229.40
Weighted average remaining contractual life (in years)	2.4	-	3.4	-
Weighted average fair value of options granted	-	146.37	-	146.37

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	3,00,000	109.95	3,00,000	109.95
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,00,000	109.95	3,00,000	109.95
Exercisable at the end of the year	1,98,000	109.95	99,000	109.95
Weighted average remaining contractual life (in years)	3.7	-	4.7	-
Weighted average fair value of options granted	-	77.23	-	77.23

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

Tranche	Name of Director/ Key Managerial Personnel	Total No. of Options Granted	No. of Options Exercised	Total No. of Options Outstanding	No. of Equity Shares Held
II	Mr. P. H. Ravikumar	1,00,000	-	1,00,000	-
II	Dr. Tarun Khanna	1,00,000	-	1,00,000	-
II	Mr. Geoffrey Tanner Woolley	1,00,000	-	1,00,000	-

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

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

The total number of shares (which mean Equity Shares of your Company and securities convertible into Equity Shares) that may be issued under ESOP 2011 are 13,50,000 Equity Shares. The ESOP 2011 came into effect on December 7, 2011 and shall remain in effect until all options granted under the ESOP 2011 have been exercised or have expired or such other date as may be decided by the Board of Directors.

Your Company has granted 6,04,436 options convertible into 6,04,436 Equity Shares of face value of Rs. 10 each on various dates as tabulated below and the following table sets forth the particulars of the options granted under ESOP 2011 as on March 31, 2014:

Particulars	**Tranche I**	**Tranche II**	**Tranche III**	**Tranche IV**	**Tranche V**
Options granted	4,00,000	1,19,112	15,760	11,564	58,000
Pricing formula	The Exercise Price for the Shares to be issued pursuant to the Exercise of an Option shall be such price as is determined by the Compensation Committee (and set forth in the SKS Microfinance Stock Option Agreement) based on the Fair Market Value per Share on the date of grant of the option but it shall not be lower than the face value of the Equity Shares to be issued.				
Date of grant	March 12, 2013	March 22, 2013	August 23, 2013	October 23, 2013	February 4, 2014
Exercise price of options (in Rs.)	150.00	150.00	113.00	160.45	174.95
Total options vested	99,000	35,491	-	-	-
Options exercised	-	-	-	-	-
Total number of Equity Shares that would arise as a result of full exercise of options already granted	4,00,000	1,19,112	15,760	11,564	58,000
Options forfeited/ lapsed/ cancelled	1,00,000	11,564	-	-	-

Variation in terms of options	Nil	Nil	Nil	Nil	Nil
Money realized by exercise of options (in Rs.)	-	-	-	-	-
Options outstanding (in force)	3,00,000	1,07,548	15,760	11,564	58,000
Person-wise details of options granted to					
i) Directors and key managerial employees	refer below #	Nil	Nil	Nil	Nil
ii) Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during the year	Nil	Nil	Nil	Nil	Nil
iii) Identified employees who are granted options during any one year equal to exceeding 1 % of the issued capital (excluding outstanding warrants and conversions) of your Company at the time of grant	Nil	Nil	Nil	Nil	Nil
Diluted EPS on issue of shares on exercise calculated as per AS 20	Rs. 6.44 as on March 31, 2014				
Method of calculation of employee compensation cost	Fair Value Method				
Weighted average exercise price of options	Rs. 150.00	Rs. 150.00	Rs. 113.00	Rs. 160.45	Rs. 174.95
Weighted average fair value of options	71.81	57.43	57.37	76.08	91.52

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

Particulars	**As at March 31, 2014**		**As at March 31, 2013**	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	4,00,000	150.00	-	-
Granted during the year	-	-	4,00,000	150.00
Forfeited during the year	1,00,000	150.00	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,00,000	150.00	4,00,000	150.00
Exercisable at the end of the year	99,000	150.00	-	-
Weighted average remaining contractual life (in years)	3.9	-	4.9	-
Weighted average fair value of options granted	-	71.81	-	71.81

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

Particulars	**As at March 31, 2014**		**As at March 31, 2013**	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	1,19,112	150.00	-	-
Granted during the year	-	-	1,19,112	150.00
Forfeited during the year	11,564	150.00	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	1,07,548	150.00	1,19,112	150.00
Exercisable at the end of the year	35,491	150.00	-	-
Weighted average remaining contractual life (in years)	4.0	-	5.0	-

Weighted average fair value of options granted	-	57.43	-	57.43

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	15,760	113.00	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	15,760	113.00	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	4.4	-	-	-
Weighted average fair value of options granted	-	57.37	-	-

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	11,564	160.45	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	11,564	160.45	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	4.6	-	-	-
Weighted average fair value of options granted	-	76.08	-	-

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	58,000	174.95	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	58,000	174.95	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	4.9	-	-	-

Weighted average fair value of options granted	-	91.52	-	-

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

Tranche	Name of Director/ Key Managerial Personnel	Total No. of Options Granted	No. of Options Exercised	Total No. of Options Outstanding	No. of Equity Shares Held
II	Mr. P. H. Ravikumar	1,00,000	-	1,00,000	-
II	Dr. Tarun Khanna	1,00,000	-	1,00,000	-
II	Mr. Geoffrey Tanner Woolley	1,00,000	-	1,00,000	-
II	Mrs. Ranjana Kumar*	1,00,000	-	-	-

** Mrs. Ranjana Kumar resigned as Director with effect from September 10, 2013, consequent to which 1,00,000 unvested options were lapsed during the financial year ended March 31, 2014.*

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

For and on behalf of the Board of Directors

Place: Mumbai
Date: August 27, 2014

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

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

Management Discussion and Analysis

SKS WELL-POISED FOR STABLE GROWTH

Full Year Profit, Loan Portfolio Growth and Capital Raise

Your Company has sustained and completed its turnaround with profits during six consecutive quarters and with the first full year profit of Rs. 69.9 crore in FY14, since the Andhra Pradesh Microfinance situation. Your Company's strategies of cleansing the balance sheet, managing supply side shock, resumption of credit growth and optimizing cost structure have ensured its return to growth and profitability. During FY14, incremental drawdowns (including securitizations and assignments) increased by 21.9% to Rs. 3,503.1 crore and the gross loan portfolio (GLP) barring undivided Andhra Pradesh grew by 40.7% to Rs. 2,836.8 crore as on March 31, 2014.

With the turnaround complete, your Company aims to further grow its share of the market barring the states of Andhra Pradesh and Telangana by serving new clients and by increasing its offerings to existing clients. To aid this, your Company has raised Rs. 397.6 crore of growth capital through a Qualified Institutional Placement (QIP) of Equity Shares in May 2014. The QIP was oversubscribed, which underscores investor confidence in your Company's achievements and prospects.

MICROFINANCE INDUSTRY

Broad-based Growth in FY14

Building on the revival of the sector in FY13 and a stable regulatory environment, the microfinance industry in India posted a broad-based growth in FY14 with an increase in new loan disbursements, gross loan portfolio, clients, employees and branches.

During FY14, the industry disbursed new loans of Rs. 34,968 crore, representing a 48% increase over the previous year. This resulted in 35% growth in the total GLP to Rs. 27,931 crore. In the same period, the number of clients increased by 20% to 28 million as of March 31, 2014, while the number of people employed by the industry grew by 10% and the number of branches rose by 7%.

(Source: MicroMeter March 2014 – quarterly analysis of the Indian microfinance industry's performance published by Microfinance Institutions Network or MFIN).

OVERVIEW OF THE REGULATORY FRAMEWORK AND RECENT REGULATORY DEVELOPMENTS

NBFC-MFI Directions

The Non-Banking Financial Company-Micro Finance Institutions (Reserve Bank) – Directions, 2011 (NBFC-MFI Directions) were issued in December 2011 by the Reserve Bank of India (RBI) pursuant to the Reserve Bank of India Act, 1934 (RBI Act). The NBFC-MFI Directions apply to all non-deposit taking Non-Banking Financial Companies (NBFCs) (other than companies registered under Section 25 of the Companies Act, 1956) that satisfy certain conditions.

Your Company satisfies these conditions and was re-classified as a Non-Banking Financial Company-Micro Finance Institution (NBFC-MFI) on November 18, 2013. As a result, your Company is required to comply with the NBFC-MFI Directions. These directions include guidelines on qualifying assets criteria, asset classification and provisioning, pricing of credit, capital adequacy and fair practices.

On February 7, 2014, the RBI decided that the interest rates charged by an NBFC-MFI from its borrowers will be the lower of the cost of funds plus a margin of 10% for large MFIs with loan portfolios exceeding Rs. 100 crore, and the average base rate of the five largest commercial banks by assets multiplied by 2.75 (for the quarter ending June 30, 2014, the number is 27.75%). The average of the base rates of the five largest commercial banks is advised by the RBI on the last working day of the previous quarter, which will determine interest rates for the succeeding quarter. NBFC-MFIs are required to comply with this change from April 1, 2014.

Guidelines on Use of Business Correspondents (BCs)

Based on the recommendations of the Nachiket Mor Committee, the RBI reviewed the existing guidelines on the appointment of Business Correspondents (BCs) and, on June 24, 2014, permitted banks to engage Non-Deposit Taking Non-Banking Financial Companies-(NBFC-NDs) as BCs, subject to certain conditions.

The MFI Bill 2012

The Government of India had presented the Micro Finance Institutions (Development and Regulation) Bill, 2012 (MFI Bill 2012) before the Parliament of India in May 2012. The MFI Bill 2012 provided for the development and regulation of microfinance institutions and envisaged empowering the RBI to issue directions to MFIs including in connection with prudential norms, corporate governance norms and operations of MFIs. The Indian Parliament had referred the MFI Bill 2012 to its Standing Committee on Finance for their recommendations. On February 11, 2014, the Standing Committee on Finance recommended that the MFI Bill 2012 be reviewed and reconsidered by the Indian Government and a new bill be introduced before the Indian Parliament. The MFI Bill 2012 consequently did not pass in the Indian Parliament.

Andhra Pradesh – The AP MFI Act

In January 2011, the Government of Andhra Pradesh enacted the Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Act, 2011 (the AP MFI Act) to regulate the activities of the microfinance institutions in the undivided Andhra Pradesh. The AP MFI Act had imposed significant restrictions on the business and operations of microfinance companies in the undivided Andhra Pradesh, and several companies, including your Company, challenged the validity of the AP MFI Act. The proceedings are pending before the Honourable Supreme Court of India and, pursuant to the interim orders of the Honourable Supreme Court in March 2013, your Company is required to comply with only Sections 9 and 16 of the AP MFI Act to carry on its business in the undivided Andhra Pradesh. These provisions limit the amount of interest recoverable on loans to no more than the principal amount loaned as well as prohibit coercive actions in connection with the conduct of microfinance business. Your Company complies with the interim orders of the Honourable Supreme Court and the two provisions of the AP MFI Act.

MFIs AND MARKET SHARE

Based on the gross loan portfolio figures reported by the Microfinance Information Exchange (MIX), a global provider of microfinance performance data and analysis, the top five MFIs in 2013 were Bandhan Financial Services Private Limited, your Company, Spandana Sphoorty Financial Services Limited, Share Microfin Limited and Ujjivan Financial Services Private Limited. However, both Spandana and Share have been affected by the repayment crisis in the undivided Andhra Pradesh, which caused their growth to stagnate and decelerate. Accordingly, these have been replaced with Equitas Microfinance India Private Limited and Janalakshmi Financial Services Private Limited, two MFIs based outside the undivided Andhra Pradesh, with the largest portfolios after your Company as at March 31, 2014. (Source: State of the Sector Report 2013 – An Annual Publication on Trends and Development of India's Microfinance Industry, published by Access Development Services and Sage Publications, and released at the Microfinance India Summit.)

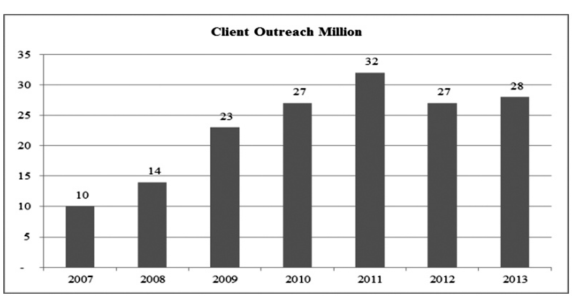
As of March 31, 2014, the top five MFIs accounted in aggregate for approximately 57% of the gross loan portfolio of all MFIs outside the undivided Andhra Pradesh.(Source: MicroMeter March 2014 – a quarterly analysis of the Indian microfinance industry's performance, published by Microfinance Institutions Network or MFIN.)

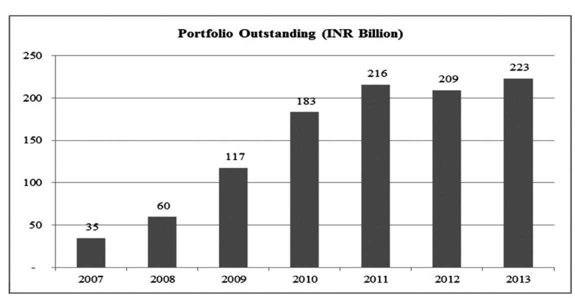
Post-Andhra Pradesh Microfinance Situation

More than three years after the Andhra Pradesh Microfinance situation, it is now acknowledged that the impact of the situation remained mainly within the undivided Andhra Pradesh, resulting in certain large MFIs with their headquarters and substantial portion of their businesses located within the undivided state being affected more significantly and adversely. In the 12 months following August 2012, several top NBFC-MFIs had recovered their confidence as the banks resumed funding to MFIs. Investors regained their interest in MFIs, primarily those located outside undivided Andhra Pradesh, resulting in a rise in the number of investments in MFIs. The guidelines issued by the RBI also brought about a more orderly manner of operation for MFIs, which improved the credibility of the MFI sector as an industry with greater transparency and less risk. (Source: State of the Sector Report 2013.)

Client Outreach and Portfolio Growth

The total client base of MFIs as of March 31, 2013 numbered 27.5 million. The growth in the outreach and loan outlay of MFIs is as set forth below.



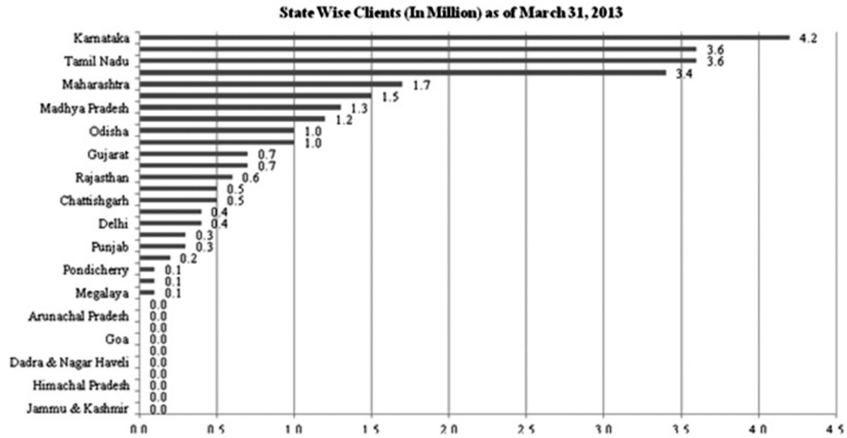


(Source: State of the Sector Report 2013.)

As of March 31, 2014, the number of clients of NBFC-MFIs were 28 million, according to MFIN MicroMeter.

Details of Client Outreach

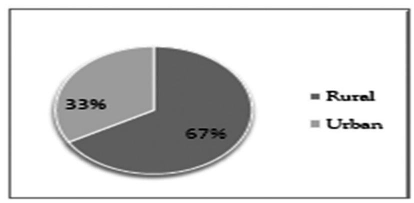
NBFC-MFIs and larger MFIs had accounted for the majority share of the total outreach. The state-wise distribution of client outreach as of March 2013 is as set forth below.



(Source: Sa-Dhan Report 2013.)

Rural Client Outreach

Approximately two-thirds of MFI clients are based out of rural and semi-urban areas. However, the size of this particular client base has remained quite constant in the last few years. (Source: Sa-Dhan Report 2013.)



DEMAND FOR CREDIT IN RURAL INDIA

Credit demand trends for rural areas of India should continue to be positive, primarily due to the following drivers:

Increase in Government Expenditure on Rural Projects

The Government of India has focused on rural development in the last few years, and that has served as an economic boon to such areas. Various schemes instituted by the Central Government had resulted in significantly higher disposable incomes for the rural population. In particular, a floor for wages of rural unskilled workers was put in place, which led to greater income and food demand in the rural economy, thereby increasing consumption and fuelling a need for enhanced credit.

Increase in Minimum Support Prices (MSP)

The Central Government had consistently raised the MSP for food grains which in turn resulted in an increase in agricultural income and spending. The MSP per quintal for items such as arhar, wheat and common paddy had experienced a substantial increase at CAGRs of 18.2%, 10.3% and 13.7% respectively, during the six-year period between crop year 2007 and crop year 2013 (on an advanced estimate basis). In comparison, the increase in MSP per quintal for arhar, wheat and common paddy between crop year 2001 and crop year 2007 was 2.7%, 3.5% and 2.2%, respectively, representing a significantly lower rate of growth. (Source: Ministry of Agriculture, Government of India, available at http://eands.dacnet.nic.in/MSP.htm, as of May 18, 2014.)

Record Food Production Output

In FY12, the highest ever production output for all food grains (including rice, wheat, coarse cereals and pulses) of approximately 257.4 million tonnes was recorded (based on advance estimates), due to a good monsoon that benefited the entire country. This production output surpassed the 2011 production. Advance estimates for 2013 projected a similar relatively high production output of 255.36 million tonnes. The growth in food production output helps to enhance cash flows in the rural economy, which in turn drives growth in businesses of borrowers. (Source: Ministry of Agriculture, Government of India, available at, http://agricoop.nic.in/imagedefault/whatsnew/4th_advest%202012-13.pdf, as of May 18, 2014.)

Increase in Food Inflation Supported by Agricultural Growth

The rural population accounts for nearly 75% of India's total population and constitutes approximately the same percentage of India's low-income groups. Approximately 70% of rural India's workforce remains primarily involved in agriculture and allied activities. Agriculture and allied activities contributed approximately 17.37% (at current prices) to India's GDP for the year ended March 31, 2013. Indian Government data prepared by the Union Ministry of Commerce and Industry showed that the food inflation rate (year-on-year) for the year ended March 31, 2013 was 9.9%. High food prices imply a considerable rise in disposable rural income. (Source:

Himanshu et al, Non-Farm Diversification and Rural Poverty Decline: A Perspective from Indian Sample Survey and Village Study Data, India Observatory, UK Department of International Development, Asia Research Centre, London School of Economics and Political Science, available at http://www.lse.ac.uk/asiaResearchCentre/_files/ARCWP44-HimanshuLanjouwMukhopadhyayMurgai.pdf, as of May 18, 2014, Key Economic Indicators prepared by the Ministry of Commerce and Industry, Government of India, available at http://eaindustry.nic.in/ (food articles section), as of May 18, 2014 and Planning Commission, available at http://planningcommission.nic.in/data/datatable/1203/table_39.pdf, as of May 18, 2014.)

SOURCES OF FUNDING FOR MFIs

According to the Sa-Dhan Report 2013, funding for MFIs was largely derived from two sources: borrowings, which accounted for 84.0% of total funds sourced, and 11% through securitization or portfolio sale. Other sources include subordinated debt, overdrafts, bonds, non-convertible debentures and External Commercial Borrowings. (Source: State of the Sector Report 2013.)

Borrowings by MFIs

According to the State of the Sector Report 2013, an analysis of the borrowings of the 50 largest MFIs showed that, as of June 2013, MFIs borrowed funds amounting to Rs. 12,117 crore in aggregate. Bank loans from public, private and foreign institutions accounted for 79%, or Rs. 9,546 crore, of such funds, of which public sector banks took up the highest share at 46%. This can be seen as an indication of the level of confidence shown by banks in the performance of MFIs, which brought about an infusion of fresh equity and debt into the sector.

During FY14, NBFC-MFIs received total funding of Rs. 15,030 crore from banks and FIs, up 49% compared to FY13. Securitization/asset sales during FY14 increased 54% to Rs. 5,146 crore.(Source: State of the Sector Report 2013 and MFIN-MicroMeter March 2014.)

PSL Funds

Historically, the microfinance industry has relied on PSL funds as a significant source. In early 2011, RBI accepted the recommendations of the Malegam Committee and in May of the same year, the banking regulator decided to maintain the eligibility of MFIs for PSL funds, subject to satisfaction of certain conditions by MFIs. However, certain other categories of NBFCs were no longer deemed eligible for PSL funds. The conditions relating to qualifying assets and pricing that MFIs had to fulfil in order to access PSL funds had been included in the NBFC-MFI Directions.

Assignment and Securitization

The Malegam Committee Report had suggested that a significant portion of MFI loan portfolios were assigned or securitized to banks, mutual funds and others. The securitization route has evolved as an important source of funding for the sector, with the total volume of rated securitization transactions increasing from approximately Rs. 582 crore in FY10 to approximately Rs. 3,386 crore in FY13. (Source: CARE Ratings' Indian Microfinance Sector Report dated March 7, 2014 or the CARE report[1].)

External Commercial Borrowings

As per the RBI Master Circular on External Commercial Borrowings and Trade Credits, dated July 1, 2014, as amended, MFIs are also allowed to obtain External Commercial Borrowings, subject to a maximum cap of US $10 million in a financial year for permitted end-use under the "automatic route". As stated in the Sa-Dhan Report 2013, External Commercial Borrowings could emerge as a strong source of capital for NBFC-MFIs in the near future.

Credit Rating

According to the CARE report, there has been an improvement in the credit profile of MFIs with better profitability, as stable margins are expected from 2014 onwards. The key players in the sector are also adequately capitalized with a moderate increase in overall gearing despite good growth in their loan portfolios in 2013. Overall gearing had remained at comfortable levels mainly due to equity infusion from private equity investors after the Andhra Pradesh Microfinance situation. CARE rating actions for MFIs were positive with six upgrades and two retentions since May 2011, when the regulatory environment improved.

[1] This report is prepared by the Banking and Finance Division of Credit Analysis & Research Limited (CARE). CARE has taken utmost care to ensure objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE is not responsible for any errors or omissions in analysis/ inference/ views or for results obtained from the use of information contained in this report and especially states that CARE (including all divisions) has no financial liability whatsoever to the user of this report.

CONSUMER PROTECTION PRACTICES

Credit Bureau Reporting

Avoiding multiple lending to prevent over-indebtedness has been keenly felt by MFIs after the Andhra Pradesh Microfinance situation and subsequent to RBI legislation prohibiting multiple lending. MFIs are also required to become a Member of at least one credit bureau, through which they will share client data periodically and generate client reports before making decisions on loan disbursements. The number of MFIs which have joined credit bureaus has been increasing, and there is a significant initiative to check the credit history of micro-credit borrowers and understand their credit behaviour, repayment patterns, existence of multiple borrowings and risk of over-indebtedness. Currently, almost all MFIs are reporting to credit bureaus which have over 100 million client records, and generate more than 1 million reports every month for MFIs prior to their approval of loans to borrowers. (Source: Sa-Dhan Report 2013)

Appropriate and Fair Pricing

Contrary to the global debate on appropriate pricing and balanced return, pricing in India is determined by relevant regulations. As stipulated by the NBFC-MFI Directions, pricing of loans must only consist of interest charges, processing charges and insurance premiums, with a ceiling on MFIs' aggregate margin of 10% for MFIs with loan portfolios exceeding Rs. 100 crore and 12% for MFIs with loan portfolios not exceeding Rs. 100 crore. MFIs track their margins to be in line with the RBI levels, and ensure compliance with the ceiling imposed by the RBI. Such compliance is mandatory for NBFC-MFIs whereas other categories of MFIs are often required by banks to comply as well. Clients are also educated on the effective interest rates, and adequate information is provided in the loan cards. (Source: Microfinance India Social Performance Report 2013.)

Grievance Redressal Mechanism

Grievance redressal has been an area of investment by MFIs in the past year. Measures taken by MFIs include launching a toll-free helpline handled by separate personnel, appointing ombudsmen who are usually senior executives not directly involved in operations in order to review serious issues, and formulating written policies and frameworks for clients' complaints to be investigated and resolved in a timely manner. In addition, MFIs have put in place procedures relating to recording of clients' complaints, escalation of complaints and complaint resolution.

Furthermore, MFIs have initiated better communication on the use of such mechanisms with customers. Periodic review of status of complaints, grievances registered, and the manner of resolution, has been carried out. Moreover, the RBI has also required MFIs to inform clients that the relevant nodal officer in the RBI's regional offices serves as an additional avenue for the receipt and resolution of complaints. (Source: Microfinance India Social Performance Report 2013.)

GLOBAL MICROFINANCE OUTLOOK - 2014

Assuming a more favourable macroeconomic environment in 2014, and considering advancement in market infrastructure, an analysis by responsAbility Investments AG, one of the world's leading independent asset managers specializing in development-related sectors of emerging economies, had forecast that the microfinance market will continue to grow at the rate of 15% to 20%. In particular, experts believe that the gradual improvement in market infrastructure has been aiding the expansion of the microfinance sector. These improvements include the emergence of credit bureaus that provide transparency on the credit- worthiness of borrowers. Tracking the portfolio of 100 key institutions that represented US $ 37 billion of assets and served 20 million borrowers, responsAbility Investments AG concluded that there would be further progress in several areas.

No Deterioration in Portfolio Quality

Experts did not anticipate any large shifts in portfolio quality. Level of non-performing loans was expected to increase slightly at the end of 2013 and slowly decrease in the course of 2014.

Profitable MFIs, Decreasing End-Client Prices

Return on assets was expected to cross 3% in 2014, which had proved to be the profitability threshold that allowed MFIs to reach out to more new clients and to invest in their own growth and development. In addition, experts did not expect interest rates in their respective markets to increase in 2014. The majority of them believed that prices for end-clients would continue to decrease, as had been the historical norm.

Notable Progress with Credit Bureaus

The need for credit referencing bureaus is now widely recognized in the microfinance sector. The expert survey revealed that in half of the markets assessed, there was a high level of coverage of lending and borrowing, and the coverage was increasing rapidly.

Savings on the Rise, Cross-border Funding Grows in Importance

Savings were expected to be the dominant financing source available to the microfinance sector in the near future. In several markets, however, regulations do not allow MFIs to accept deposits. Other sources of funding include local debt financing, which was growing in importance in more developed markets, and equity infusions by overseas investors. In particular, the volume of microfinance equity transactions, which had risen sharply in 2012 after the global financial crisis, was expected to continue to increase in 2014.

Strong Diversification and Risk Monitoring Will Remain a Priority

The microfinance markets are not directly affected by the speculation and volatility of the global capital markets and, consequently, are less crisis-prone. Performance depends primarily on specific factors such as quality of the portfolio and the operational efficiency of the MFIs in question. These factors have remained relatively constant despite strong movements in the capital markets over the last few years. The vast potential of this sector means that factors such as currency devaluations, interest rate rises or a hike in long-term financing costs cannot halt its growth, as the microfinance sector has repeatedly shown that it can produce reliable results even under difficult circumstances. (Source: Microfinance Market Outlook 2014 – an outlook published by responsAbility Investments AG and based on its comprehensive analysis and a broad survey of 30 microfinance experts from all the major markets worldwide.)

INDIA MICROFINANCE OUTLOOK - 2014

According to Barometer India 2013, a report by MIX and based on the survey responses of 54 institutions representing 83% of the Indian microfinance sector by gross loan portfolio as of March 31, 2013, excluding your Company (Mix Premium Services), Indian MFIs are projected to increase their client base of individual borrowers at the rate of 37.4% for the next 12 months. In the coming 12 months, individual MFI loan portfolio growth rate was expected to hit 44.0%, whereas the growth rate for the total national portfolio was anticipated to be 23.9%. In particular, NBFC-MFIs projected a 44.6% growth. As stated in Mix Premium Services, these growth rates were weighted average forecast figures. Funding had historically been most cited by the MFIs as one of the factors impacting outreach, followed by the political and regulatory framework. Both had seen a drop in the number of MFIs that considered them the most critical factors when surveyed in March 2014. In terms of risk, MFIs estimated their own portfolio-at-risk levels to be 2.9% and the country level to be 2.0%. MFIs stated that the leading factors contributing to risk continue to be client-indebtedness and the political and regulatory framework. (Source: Mix Premium Services.)

Microfinance Market Outlook 2014 included a specific update on India's microfinance industry, and stated that the national microfinance sector had emerged stronger after the Andhra Pradesh Microfinance situation. India's microfinance industry now serves 25 million clients and had been growing by 30% to 50% annually, and this rate appears to be sustainable. Certain effective measures taken in the wake of the Andhra Pradesh Microfinance situation that contributed to the sector's recovery have been highlighted, such as the RBI now being the supervising authority and greater transparency provided by well-functioning credit bureaus. Established MFIs also seemed to have successfully adapted their operations to the legally prescribed profit margin and interest rate limits, and undertaken efforts to enhance their operational efficiency. The outlook pointed out that such transformation of the MFIs' business models entail greater opportunities and should drive the expansion of the entire sector. (Source: Microfinance Market Outlook 2014.)

YOUR COMPANY'S BUSINESS

Overview

Your Company is one of the largest MFIs in India by gross loan portfolio and number of borrowers and branches as on March 31, 2014, and the only microfinance company to be publicly listed in India. Your Company is primarily engaged in providing microfinance to low-income individuals in India, who are classified by your Company, as its "Members". Further, your Company classifies its Members as "Borrowers", whose loans are outstanding.

Your Company's core business is providing small value loans and certain other basic financial services to its Members. Its Members are predominantly located in rural areas in India, and your Company extends loans to them mainly for use in small businesses or for other income-generating activities and not for personal consumption. These individuals often have no, or very limited, access to loans from institutional sources of financing. Your Company believes that non-institutional sources typically charge very high rates of interest.

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

In addition to its core business of providing micro-credit, your Company uses its distribution channel to provide certain other financial products and services that its Members may need. Your Company offers loans for the purchase of mobile phones. Your Company also operates a number of pilot programmes that it may consider to gradually convert into separate business verticals or operate through subsidiaries, subject to satisfactory results of pilot programmes and receipt of regulatory approvals. The existing pilot programmes primarily relate to giving loans to its Members for the purchase of certain productivity-enhancing products such as solar lamps and loans against gold as collateral. Your Company intends to expand its involvement in these other financial products and services to the extent consistent with its mission, client-focus and commercial viability.

In 2005, your Company registered with and has since been regulated by the RBI as a Non-Deposit Taking Non-Banking Financial Company (NBFC-ND). In 2009, your Company became a public limited company. Your Company completed its IPO and its equity shares were listed on BSE Limited and National Stock Exchange of India Limited in August 2010. In November 2013, RBI had re-classified your Company as NBFC-MFI permitting it to carry on the business of a Non-Banking Financial Company-Micro Finance Institution, a separate category of Non-Deposit Taking Non-Banking Financial Companies engaged in microfinance activities.

For the financial year 2014, your Company's total revenue and profit after tax was Rs. 544.8 crore and Rs. 69.9 crore respectively. As of March 31, 2014, your Company had 58 lakh (39 lakh outside the undivided Andhra Pradesh) Members, including 50 lakh (33 lakh outside the undivided Andhra Pradesh) Borrowers spread across 1,255 branches (1,139 branches outside the undivided Andhra Pradesh), with a gross loan portfolio of Rs. 3,112.8 crore (Rs. 2,836.8 crore outside the undivided Andhra Pradesh).

COMPETITIVE STRENGTHS

Your Company believes it has the following competitive strengths:

Market Leadership

According to the MFIN MicroMeter, as on March 31, 2014, your Company is the second largest MFI in India by gross loan portfolio and number of borrowers and branches. Your Company focuses its operations across 16 states in India.

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

Expertise in the Microfinance Industry and Ability to Adapt to the Changing Regulatory Environment

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

Your Company has developed skills in training its Members. Your Company uses its knowledge of its Members, including their culture, habits and education, to design customized financial products and pricing plans. Further, consultation and dialogue with regulators and policy-makers in the recent past has provided your Company with an opportunity to understand their concerns while growing its business in a prudent manner.

Improving Profitability, Stable Financial Condition and Emphasis on Asset and Liability Management

Although your Company's financial condition deteriorated in the aftermath of events in Andhra Pradesh and your Company incurred losses during FY12 and FY13, your Company believes it has maintained sufficient financial discipline as well as a relative degree of financial strength during these periods. For instance, your Company satisfied all its debt repayment obligations even during the Andhra Pradesh microfinance situation, that is, FY12 and FY13, and during FY14. Its revenues grew at a CAGR of 7.4% from FY12 to FY14, and its profits increased in the immediately preceding six quarters.

As of March 31, 2014, your Company's net worth was Rs. 459.2 crore and its debt to equity ratio was 3:3. Your Company's capital adequacy ratio was 27.2% (20.7% without the undivided Andhra Pradesh dispensation) of risk-weighted assets as of March 31, 2014, which is well above the requirement of 15% of risk-weighted assets prescribed by the RBI under the NBFC-MFI Directions. Moreover, your Company's gross NPA and net NPA were 10.9% and 0.1% (0.1% gross NPA and 0.1% net NPA on its portfolio outside the undivided Andhra Pradesh) as of March 31, 2014. Your Company believes that these factors provide it with a competitive advantage when borrowing funds for its operations.

In addition to traditional cash flow management techniques, your Company also manages its cash flows through an active asset and liability management strategy. Your Company has structured its model to primarily borrow on a long-term basis while lending on short-term basis and hence your Company has a positive asset liability management structure. As of March 31, 2014, the average maturity of its arrear-free gross loan portfolio as assets was 4.9 months, while the average maturity of its outstanding borrowings including principal amounts outstanding for securitization transactions was 6.3 months. Your Company believes this initiative allows it to better manage liquidity and meet the growing loan demands of an increasing Membership even if external borrowings and funding sources face temporary disruption.

Access to Several Sources of Capital and Cost-Effective Funding

Your Company constantly strives to diversify its sources of capital. During FY11, your Company raised Rs. 722.2 crore through its IPO, followed by a QIP and preferential allotment raising Rs. 263.5 crore in FY13 and another QIP raising Rs. 397.6 crore in May 2014. Its incremental borrowings from banks and financial and other institutions, including net proceeds from securitizations, between April 1, 2011 and March 31, 2014 were Rs. 7,862.3 crore. As on March 31, 2014, your Company had outstanding debt in principal amount of Rs. 1,531.3 crore (Rs. 2,736.3 crore outstanding in principal amount including securization transactions), from more than 15 banks and financial and other institutions. During the FY 14, your Company received net proceeds of Rs. 1,693.2 crore from securitization of loans.

Historically, the MFI sector has significantly relied on PSL funds from commercial banks. Your Company believes that the cost of such funds is considerably lower than the cost of other bank funds. Your Company is eligible to borrow PSL funds from banks as an NBFC-MFI.

CARE has provided your Company with a grading of "MFI 1" or "MFI One" as an MFI, which is the highest obtainable grading on an eight-point scale. Your Company has also obtained bank debt ratings for funding exposure of Rs. 2,000 crore which has been recently upgraded as CARE A1+ (for its short-term facilities) and CARE A+ (for its long-term facilities). Its securitized transactions during FY14 were provisionally rated by CARE at A1+(SO), A+(SO) or AA(SO) and CRISIL at AA(SO), signifying levels of safety regarding timely servicing of financial obligations and levels of credit risk.

Streamlined and Scalable Operating Model with Effective Use of Technology

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

- Capital: Historically, your Company has successfully obtained a variety of funds required to finance its lending operations.

- Capacity: With its pan-India presence and extensive distribution network, your Company believes it has the capacity to provide products and services to a large number of Members.

- Cost Reduction: Your Company believes it has implemented process-based systems and customized software that reduce the cost of conducting transactions across a widespread branch network and a substantial Member base. To manage its operating expenses and increase efficiency, your Company has deployed Portfolio Tracker, a customized and comprehensive software which simplifies data entry and targets to improve accuracy and efficiency of collections and fraud detection.

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

Pan-India Presence and Extensive Distribution Network

As of March 31, 2014, your Company had 58 lakh Members, including 50 lakh Borrowers and 1,255 branches. Your Company focuses its operations across 16 states in India. Further, as of March 31, 2014, your Company had 7,731 (6,699 outside undivided Andhra Pradesh) Branch Managers, Assistant Branch Managers and Sangam Managers, including Trainees, who comprise 86.6% (85.6% outside undivided Andhra Pradesh) of its total workforce. During FY14, each of its Sangam Managers managed 855 Members on an average in states other than undivided Andhra Pradesh. Your Company believes that its presence throughout India and its distribution network in rural India results in significant competitive advantages, particularly in the following areas:

- Distribution Platform: Your Company's pan-India presence allows it to lend across the country and enables it to mitigate its exposure to local economic factors and disruptions resulting from political circumstances or natural disasters. Furthermore, its well-developed distribution network in rural India gives it the capability to offer a variety of financial products nationally in areas that your Company believes most companies do not currently reach.

- Product Pricing Power: Your Company believes that its national presence and the ability to access a large Member base gives it the leverage to negotiate favorable terms with institutions which would like to distribute their products through its network, which results in lower pricing for the products that are distributed to its Members. For instance, your Company currently works with Nokia India Sales Private Limited for the financing of mobile phones for its Members. Your Company financed 2 lakh mobile phones during FY14.

Experienced Management Team and Board

Your Company's Board comprises experienced investors, industry experts and management professionals. Your Company believes that it has a strong Senior Management team to lead it, which includes its Chief Executive Officer and Managing Director, Mr. M. Ramachandra Rao as well as its President, Mr. S. Dilli Raj. Your Company's Senior Management team has Members who have significant experience in the microfinance and financial services industry. The team has developed the knowledge to identify and offer products and services that meet the needs of its Members, while maintaining effective risk management and competitive margins. Your Company's mid-level management personnel also have years of experience and in-depth industry knowledge and expertise.

BUSINESS STRATEGY

Target a Large Share of Industry's Portfolio Outside Undivided Andhra Pradesh

Industry sources estimate the total demand for micro-credit in India to be approximately Rs. 3,30,050 crore and, as of 2009, MFIs met only 3.6% of this demand. (Source: "Inverting the Pyramid Report", third edition, published by Intellecap in 2009).

In FY12, the total disbursements by MFIs fell to Rs. 22,635 crore, a three-year low (that is, 2010 to 2012) for MFI disbursements. (Source: Sa-Dhan 2012 Report). In FY13, loan disbursements increased by 14% to Rs. 25,796 crore. (Source: Sa-Dhan 2013 Report).

A large part of the MFI demand-and-supply gap is currently being met by informal sources, including moneylenders. Your Company believes this represents an attractive business opportunity for MFIs such as your Company. With the increase in demand for microfinance, your Company believes that, with its operating strength and focus on 16 states, it will be able to capture a significant share of the demand for micro-credit in India.

Continue to Strengthen Client Protection Initiatives

Your Company has been implementing several Client Protection initiatives to align its Client Protection and Customer Grievance Redressal with globally recognized benchmarks and it continues to invest in Client Protection Practices. Your Company has identified five elements of these initiatives:

- Strengthening privacy of its client data.
- Transparent and responsible pricing of loans.
- Redressal of grievances of its Members.
- Avoidance of over-indebtedness and multiple borrowing among its Borrowers.
- Establishing appropriate collection practices by its employees.

Your Company has been conducting Client Protection Member awareness programmes for its Members and staff pan-India in several vernacular languages, with a greater focus in the last two years. Your Company has also voluntarily adopted a ceiling of 3% Return on Assets (RoA) from its micro-credit business.

Your Company has also set up a three-pronged grievance redressal mechanism that is fully automated with well-defined turnaround times. Your Company has appointed Mr. Verghese Jacob as Independent Ombudsman with effect from January 1, 2012.

Your Company has also taken up several other initiatives such as conducting product surveys through the Member helpline to understand the needs of the Members, use of client feedback to improve its products and services, adhering to the RBI policy of using credit bureau reports for disbursing loans, disclosure of all the product-related information on the Member passbook in their vernacular languages and educating the Members on their right to submit a complaint through the Member helpline.

Diversification of Revenue Streams and Cross Selling of Products and Services

Your Company has built a large distribution network in rural India. Your Company believes it can leverage this network to distribute financial and non-financial products of other institutions to its Members at a cost lower than competition. Its network also allows such distributors to access a segment of the market, to which many do not otherwise have access.

While your Company continues to focus on its core business of providing micro-credit services, it continues to diversify into other businesses by scaling up certain pilot projects involving fee-based services and secured lending, and will gradually convert them into separate business verticals or operate them through subsidiaries. Its objective in these other businesses is to focus on lending that will allow it to maintain repayment rates, increase Member loyalty and also provide economic benefits to its Members and their families. Your Company believes that such other products and services may offer higher operating margins as compared to micro-credit under the new regulatory framework and will help it increase its overall RoA.

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

- Loans to its Members for the purchase of mobile handsets in association with Nokia India Sales Private Limited.
- Secured loans to its Members against gold as collateral, which is in pilot stage.
- Loans to its Members to facilitate the purchase of solar lamps in association with D.Light Energy Private Limited, which is in pilot stage.

Enhance Operating and Financial Leverage

Your Company provides collateral-free credit to a majority of its Members in their neighbourhood, and its Sangam Managers assist with the processes related to credit verification. While this helps its Borrowers save on travel costs, it results in high operating expenses for your Company, particularly personnel and administrative costs. Personnel costs accounted for 67.2% of its operating expenses during FY14.

Your Company has embarked on cost optimization initiatives by improving its ratio of Borrowers per Sangam Manager, while realizing the benefits of economies of scale. The Borrowers per Sangam Manager ratio was 411 (312 outside the undivided Andhra Pradesh) as of March 31, 2012 and has been improved to 944 (721 outside the undivided Andhra Pradesh) as of March 31, 2014. Further, your Company merged branches, both in the undivided Andhra Pradesh and states other than the undivided Andhra Pradesh. In addition, your Company intends to implement its growth objectives without adding a significant number of new branches or incurring additional capital expenditure. There was a net reduction of approximately 200 branches during FY13 and six branches during FY14. Its total headcount was reduced from 16,194 as of March 31, 2012 to 8,932 as of March 31, 2014.

Other factors that your Company continues to focus on to optimize its cost structure include enhancing the productivity of the employees, introducing technology for expedient reporting and re-engineering the internal processes. The results of cost optimization are evidenced by a 41.7% reduction in operating expenses between FY12 and FY14.

Its debt to equity ratio improved from 2.4 as of March 31, 2012 to 3.3 as of March 31, 2014. With its return to profitability, growth in its portfolio outside the undivided Andhra Pradesh and increase in the availability of financing to it, your Company aims to maximize the operating and financial leverage.

FY14 - Update

Operational and Financial Highlights

During FY14, your Company reported a profit after tax of Rs. 69.9 crore as compared to a loss of Rs. 297.1 crore in FY13. Your Company reported profits for six consecutive quarters and for the full year FY14 and revenue increased by 54.5% during FY14.

Your Company obtained incremental drawdowns (including securitization and assignments) of Rs. 3,503.1 crore in FY14, an increase of 21.9% compared to FY13. This aided higher disbursements and your Company registered growth in the loan portfolio in states outside undivided Andhra Pradesh during FY14. Gross loan portfolio in states outside undivided Andhra Pradesh increased by 40.7% from Rs. 2,015.5 crore as on March 31, 2013 to Rs. 2,836.8 crore as on March 31, 2014. Further, average loan recovery rates in non-Andhra Pradesh states were robust at 99.9% for FY14.

Operational Highlights	**Mar-10**	**Mar-11**	**Mar-12**	**Mar-13**	**Mar-14**
No. of branches	2,029	2,379	1,461	1,261	1,255
No. of districts	341	378	329	298	294
No. of employees	21,154	22,733	16,194	10,809	8,932
No. of Members (in lakh)	67.8	73.1	53.5	50.2	57.8
Disbursements for the year (Rs. in crore)	7,618	7,831	2,737	3,320	4,788
Gross loan portfolio (Rs. in crore)*	4,321	4,111	1,669	2,359	3,113

**Includes securitized, assigned and managed loan portfolio*

Financial Highlights	**Mar-10**	**Mar-11**	**Mar-12**	**Mar-13**	**Mar-14**
Incremental borrowings* (Rs. in crore)	5,132	5,338	1,823	3,149	3,703
Total revenue (Rs. in crore)	959	1,270	472	353	545
Profit after tax (Rs. in crore)	174	112	(1,361)	(297)	70

Total assets (Rs. in crore)	4,047	4,326	1,681	2,511	2,497
Return on average asset	4.9%	2.3%	(46.7%)	(15.8%)	2.9%
Return on average equity	21.5%	7.5%	(118.9%)	(74.4%)	16.7%

*Amount of sanctions received from banks and financial institutions

Financial Performance in 2013-14

Particulars	2013-14		2012-13		
	Rs. in Crore	Per cent to Revenue	Rs. in Crore	Per cent to Revenue	Increase/ Decrease
Income from operations	519.0	95.3%	332.2	94.2%	56.2%
Other income	25.8	4.7%	20.4	5.8%	26.9%
Gross revenue	544.8	100.0%	352.6	100.0%	54.5%
Employee benefit expenses	165.6	30.4%	172.7	49.0%	(4.1%)
Finance costs	214.2	39.3%	142.7	40.5%	50.1%
Other expenses	76.6	14.1%	83.5	23.7%	(8.3%)
Depreciation and amortization	4.1	0.7%	6.4	1.8%	(36.7%)
Provisions and write-offs	14.6	2.7%	244.4	69.3%	(94.0%)
Total expenditure	475.0	87.2%	649.7	184.3%	(26.9%)
Profit before tax	69.9	12.8%	(297.1)	(84.3%)	-
Tax expense	-	-	-	-	-
Profit after tax	69.9	12.8%	(297.1)	(84.3%)	-

Income from Operations

Income from operations increased by 56.2% to Rs. 519 crore in FY14 from Rs. 332.2 crore in FY13. This increase is primarily due to an increase in average (quarterly) gross loan portfolio by 40.1% from Rs. 1,832.4 crore in FY13 to Rs. 2,566.5 crore in FY14. The opening and closing gross loan portfolio for FY14 was Rs. 2,359.0 crore (March 2013) and Rs. 3,112.8 crore (March 2014) respectively.

Other Income

Other income increased by 26.9% to Rs. 25.8 crore in FY14 from Rs. 20.4 crore in FY13. The increase in other income was primarily due to an increase in your Company's other fee income. Other fee income relates to service provider fees with regard to managed loans and fee received from strategic alliance partners for financing their products, such as mobile phones and solar lamps.

Financial Expenses

Your Company's financial expenses represent 45.1% of the total expenses for FY14. Financial expenses increased by 50.1% from Rs. 142.7 crore in FY13 to Rs. 214.2 crore in FY14 due to an increase in average (quarterly) borrowings by 36.9% from Rs. 1,138 crore in FY13 to Rs. 1,557.5 crore in FY14.

Employee Benefit Expenses

Employee benefit expenses consist of salaries and other employee benefits. Employee benefit expenses decreased by 4.1% from Rs. 172.7 crore in FY13 to Rs. 165.6 crore in FY14, which was due to a decrease in headcount from 10,809 at the end of FY13 to 8,932 at the end of FY14, which was partially offset by an annual increase in salaries and bonuses for its employees.

Other Expenses

Other expenses decreased by 8.3% from Rs. 83.5 crore in FY13 to Rs. 76.6 crore in FY14. This decrease is due to a reduction primarily in travelling and conveyance expenses besides legal and professional fees.

Depreciation and Amortization

Depreciation and amortization decreased by 36.7% to Rs. 4.1 crore in FY14 from Rs. 6.4 crore in FY13. This was primarily due to lower opening balance of fixed assets for FY14, which was partially offset by depreciation and amortization expenses on net addition to fixed and intangible assets during FY14.

Provisions and Write-offs

Provisions and write-offs represented 3.1% of the total expenses for FY14 and decreased by 94.0% from Rs. 244.4 crore in FY13 to Rs. 14.6 crore in FY14. The decrease was due to lower provisions and write-offs on loan portfolio as the entire residual non-performing portfolio in the undivided Andhra Pradesh as of March 31, 2013 was provided for in FY13.

Auction of Pledged Gold

During FY14, your Company has conducted auction of pledged gold jewellery comprising 1,838 loan accounts with total outstanding amount of Rs. 5.11 crore (principal of Rs. 3.59 crore plus outstanding interest of Rs. 1.52 crore) and the value fetched was Rs. 4.78 crore.

Your Company does not have any sister concerns, who have participated in this auctions. Further, your Company has a policy on refund of any surplus that arises on auction of pledged gold and surplus, if any is refunded to the Borrowers after settling this amount due to your Company.

Risk Management

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

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

In order to mitigate the risk of concentrating in any particular state, district or branch, as well as to manage non-payment risk, your Company has implemented the following monthly limits:

- Disbursements: The disbursement limits comprise each state to entail less than 15% of the total disbursements for our Company (except the state of Karnataka which has a 20% limit); each district to entail less than 3% of the total disbursements for your Company (except districts in the state of Karnataka which have a 4% limit); each branch to entail less than 1% of the total disbursements for your Company (except branches in the state of Karnataka which have a 1.25% limit); no disbursements to be made by branches that have an NPA of more than 1% or collection efficiency of less than 95%.

- Gross Loan Portfolio: Each state to ensure that its gross loan portfolio will not exceed 50% of your Company's net worth (except the states of Karnataka and Odisha which have a 75% limit); each district to maintain that its gross loan portfolio will not exceed 5% of your Company's net worth (up to 5% of the operating districts may go up to 10% of your Company's net worth); each branch to maintain that its gross loan portfolio will not exceed 1% of your Company's net worth (up to 5% of the operating branches may go up to 2% of your Company's net worth).

- Loan Portfolio Outstanding: Each state to ensure that its gross loan portfolio will not exceed 15% of your Company's total portfolio (except the state of Karnataka which has a 20% limit).

Internal Audit and Internal Control

Your Company has a well-established Internal Audit Department in place, which looks at adherence to systems, policies and procedures. The guidelines received on various issues of Control from the Reserve Bank of India, the Government of India, your Company's Board of Directors and the Audit Committee of the Board have become part of the Internal Control System for better compliance at all levels.

The Internal Audit Department comprises 139 employees, headed by a Senior Management personnel with reporting lines to the Audit Committee of the Board and President. The Internal Audit Department carries out a regular independent appraisal of various activities undertaken by your Company through its branches and Regional Offices and also conducts various purpose-based audits as per the necessity/ periodicity, as decided by the Audit Committee of the Board from time to time. The scope of various audits is modified suitably on a continuous basis to cope with the ever-changing scenario of the microfinance industry.

The Internal Audit of the Head Office has been outsourced to KPMG with a view to having an external agency review the Internal Control Process of your Company. The Audit Committee of the Board reviews the performance of the Internal Audit function on a continuous basis, gives directions to its functionaries and reviews effectiveness of the Internal Control Systems. The Internal Audit Function has been certified with ISO 9001:2008.

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

Human Resources

Your Company has always believed in the ability of its field staff as key stakeholders in the organization's turnaround success story. During FY14, your Company continued to show signs of positivity and growth, giving the Management greater impetus to provide ample opportunity to enhance potential and invest in the growth and development of its people. Talent Engagement, Talent Management and Leadership Development were the key focus areas for the period.

Your Company sourced talent for Key leadership positions who could successfully drive the structural changes initiated in the organization. Equal emphasis was also given on developing Internal Leadership among middle-level managers. The Middle-Level Leadership Development Programmes have a multi-pronged approach combining psychometric tools for individual leadership profile assessment, leadership workshops, feedback and coaching. Every middle-level leader is provided the mandated 48 person-hours of Leadership & Skill training during the year and this covers various Leadership Development Programmes like LEAP – "Leadership Exploration through Action and Passion" for young managers who have grown from the field and aspire to take up next level leadership roles and UDAAN for first time leaders who have grown in the line purely based on their process expertise but need grooming on basic people skills for greater success in their roles.

Towards building an engaged workforce, your Company conducted an annual Engagement Survey and the results were used to guide the year's engagement plan. CARE - "Communicate, Appreciate, Reward and Energize" is the primary philosophy of employee engagement in your Company. Engagement plan for the year focused on creating transparent and trusted two-way channels of communication. All efforts aim to bring results in the direction of building credibility for the Management, pride and respect in one's job and fun at work.

Your Company focuses strongly on building process capabilities among the field staff. Annually around 2,71,964 man-hours of technical training for the field force in seven major Indian languages through a dedicated team of 90 trainers is delivered. Emphasis is laid on new methods of training which includes 'Gamification' to make learning fun and impactful.

In addition to the mandatory process trainings, your Company trained every employee on Client Protection Practices defined by Smart Campaign. All active customers (Members) of the organization have also been trained on customer rights and the grievance redressal mechanism. Members were also trained in Customer Protection Practices.

Cumulative coverage of ESOPs to employees stands at 59%, reflecting shared ownership and fairness as Company philosophy.

Your Company constantly strives to improve process excellence within the HR operations team. Your Company identifies gaps in processes, and bridges them primarily through capability building of every HR business partner. Constant efforts are directed by your Company to move from the manual system to the HRIS - SPARK (Systems for People Action, Rewards and Knowledge). Compliance with applicable acts and ensuring timely response to various statutory norms are minimum expectations fulfilled to avoid potential business risks.

Your Company implemented the Sexual Harassment Policy at Workplace, and completed training and awareness programmes for all employees adhering to the law and reinforcing the fact that your Company is a safe place to work for women.

During the FY14, your Company has received one complaint, pursuant to the above policy and timely action has been taken by the Internal Committee.

Overall employee strength of your Company was 8,932 as on March 31, 2014. The manpower distribution shows that the field staff in branch offices are 7,731 (86.6%) and Head Office & Regional Office staff are 1,201 (13.4%). Voluntary attrition rate during FY14 was 26.1%.

Information Technology

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

- Established robust connectivity across SKS branch and regional office network;
- Enhanced the core business systems to strengthen data quality and compliance;
- New real-time application systems have been rolled-out to enable cross-sell business to achieve higher growth levels;
- On-demand reporting platform launched to serve different business units;
- Mobile-based reporting application rolled-out for efficient data dissemination;
- Building a new, highly flexible and modularized lending platform to further strengthen core business; and
- Infrastructure has been scaled up to meet robust growth.

Fund Raising

In FY14, your Company received sanctions for Rs. 3,703 crore as compared to Rs. 3,149 crore during FY13. Your Company raised funds of Rs. 3,503.1 crore in FY14 as compared to Rs. 2,874.7 crore in FY13. Your Company has also raised funds of Rs. 1,693.1 crore through securitization/ assignment of portfolio loans. Your Company's debt funding sources are broad based and, as of March 31, 2014, its total outstanding borrowings and funds from securitization or assignment of loans from public sector banks, domestic private banks, foreign banks, and financial and other institutions were 33.7%, 57.1%, 1.5% and 7.7% of its total borrowed funds and funds from securitization or assignment of loans, respectively. As of March 31, 2013, its total outstanding borrowings and funds from securitization or assignment of loans from public sector banks, domestic private banks, foreign banks, and financial and other institutions were 36.7%, 53.2%, 1.9% and 8.2% of its total borrowed funds and funds from securitization or assignment of loans, respectively.

Furthermore, one of the key recommendations of the Malegam Committee was maintaining Priority Sector status for MFIs. In early 2011, the RBI accepted the recommendations of the Malegam Committee and, in May 2011, the RBI decided to maintain the eligibility of MFIs for Priority Sector Lending (PSL), subject to fulfilment of certain conditions in relation to qualifying assets and pricing by MFIs. The RBI withdrew the eligibility of certain other categories of NBFCs to obtain PSL funds. In addition, in December 2011, the RBI permitted NBFC-MFIs to access External Commercial Borrowings up to US $10 million (or its equivalent amount) in a financial year without requiring any prior approvals subject to satisfaction of certain conditions. The RBI, on July 20, 2012, issued revised guidelines on Priority Sector Lending confirming the PSL status of bank loans to MFIs, subject to MFIs meeting the specified criteria, which are the same as provided in the NBFC-MFI Directions. On June 27, 2013, the RBI relaxed the aggregate amount of loans extended by an MFI for income generating activity to 70% from 75%, for bank loans to MFIs to qualify as PSL. Your Company meets the requirements of PSL guidelines and regularly accesses bank financing that qualifies as PSL.

Cash Management

All of your Company's disbursements and collections from Borrowers are done in cash, making cash management an important element of the business. To reduce the potential risks of theft, fraud and mismanagement, your Company has been implementing an integrated cash management system since July 2009 which is operational in approximately 1,145 of its branches as of March 31, 2014. The system utilizes an Internet banking software platform that interfaces with various banks to provide your Company with real-time cash information for these branches and the loan activity therein. Your Company believes this integrated system augments its management information systems and facilitates its bank reconciliations, audits and cash flow management. The system also reduces errors. Your Company has adopted a cash investment policy that limits cash investments to interest-bearing fixed deposit accounts. Your Company does not invest cash in any other instruments or securities.

Distribution Network

Your Company's fund-based and fee-based products are distributed by its Branch Managers, Assistant Branch Managers and Sangam Managers, who use weekly Sangam meetings as a distribution platform. As of March 31, 2014, each of its Sangam Managers managed approximately 855 Members on an average in states outside undivided Andhra Pradesh. As of March 31, 2014, your Company had 7,731 Branch Managers, Assistant Branch Managers and Sangam Managers including Trainees, who comprised 86.6% of your Company's total workforce. As of March 31, 2013, your Company had 1,255 branches. Administrative support staff and management personnel at your Company's Area and Regional Offices providing support to its branches.

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

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

* Includes 44 Gold Loan Branches.

Report on Corporate Governance

COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

Your Company believes that governance principles of the highest standard would enhance its reputation as a leading microfinance institution and maintain the trust of its stakeholders. Your Company also believes that the observance of such governance standards provides legitimacy to a corporate, reduces its vulnerability to a financial crisis, and broadens and deepens its access to capital.

Your Company has been following the highest standards of corporate governance, and will continue to focus on raising it further and adopt best-in-class systems and procedures.

In India, corporate governance standards for listed companies are regulated by the Securities and Exchange Board of India (SEBI) through Clause 49 of the Listing Agreement (Clause 49) of the Stock Exchanges. In order to align its corporate governance standards with the provisions of the Companies Act, 2013, SEBI, through its circulars dated April 17, 2014, revised Clause 49 and mandated listed companies to comply with the revised Clause 49 by October 1, 2014.

Your Company believes in implementing corporate governance practices that go beyond meeting the letter of the law, and has comprehensively adopted practices mandated in the revised Clause 49 and the Companies Act, 2013 to fulfil its responsibility towards its stakeholders. These guidelines ensure that the Board of Directors (the Board) will have the necessary authority with processes in place to review and evaluate the operations, when required. Further, these guidelines allow the Board to make decisions that are independent of the Management. The Board may change these guidelines regularly to achieve your Company's stated objectives.

This chapter, along with the chapters on Management Discussion and Analysis on Page 24 and information in the notice of the Eleventh Annual General Meeting, reports the Company's compliance with the existing Clause 49.

BOARD OF DIRECTORS

Composition of the Board

As on March 31, 2014, your Company's Board comprised seven (7) Directors, including four (4) Independent Directors. The Chairman of the Board is a Non-Executive and Independent Director. The composition of the Board is in conformity with Clause 49 of the Listing Agreement, which stipulates that 50% of the Board should comprise Non-Executive Directors, and if the Chairman is Non-Executive and non-promoter, one-third of the Board should be Independent.

The Board met six (6) times during the year on May 8, 2013, May 20, 2013, July 25, 2013, October 23, 2013, January 24, 2014 and February 4, 2014. The time gap between any two meetings was less than four months. The names of the Members of the Board, their status, their attendance at the Board meetings and the last AGM, number of other Directorships and Committee Membership(s)/ Chairmanship(s) of each Director are as under:

Name of Director	Position	No. of Meetings Held in 2013-14	No. of Meetings Attended (Including Through Electronic Mode) in 2013-14	Whether Attended Last AGM on December 3, 2013	No. of Other Directo-rships held in Public Limited Companies	No. of Committee Member-ships	No. of Chair-manships of Committees
Mr. P. H. Ravikumar	Independent Director	6	6	Yes	9	4	4
Mr. Geoffrey Tanner Woolley	Independent Director	6	5	-	1	2	Nil
Mr. M. R. Rao	Managing Director and CEO	6	6	Yes	1	Nil	Nil
Mr. P. Krishna murthy	Independent Director (Nomi-nated by SIDBI)[7]	6	6	Yes	2	2	Nil
Mrs. Ranjana Kumar[8]	Independent Director	6	2	-	-	-	-
Mr. Paresh Patel	Director	6	3	-	1	1	Nil

Mr. Sumir Chadha	Director	6	2	-	1	1	Nil
Dr. Tarun Khanna	Independent Director	6	4	-	2	Nil	1

Notes:

1. *None of the Directors of your Company were Members in more than 10 Committees nor acted as Chairperson of more than five (5) Committees across all public limited companies in which they were Directors.*
2. *None of the Directors held Directorship in more than 15 public limited companies.*
3. *None of the Directors is related to any other Director.*
4. *None of the employees of your Company are related to any of the Directors.*
5. *None of the Directors has any business relationship with your Company.*
6. *None of the Directors has received any loans and advances from your Company during the year.*
7. *As per the provisions of the Companies Act, 2013 read with revised Clause 49 of the Listing Agreement, Mr. P. Krishnamurthy will be considered a Non-Executive Director instead of "Independent Director" with effect from October 1, 2014.*
8. *Mrs. Ranjana Kumar has ceased to be a Director of your Company with effect from September 10, 2013 and during her tenure three Board meetings were held.*

The Board, at its meeting held on July 24, 2014, to further augment your Company's growth strategy, accompanied by the best Board and Management governance practices adopted by your Company over a period of time, has inducted Mr. S. Balachandran into the Board of your Company as an Additional Director. He brings along with him vast experience in the fields of financial management, planning, capital budgeting and financial appraisal.

Information Supplied to the Board

The Board has complete access to all information with your Company, inter-alia, the following information is regularly provided to the Board as a part of agenda papers well in advance of the Board meetings or is tabled during the course of the Board meeting;

- Annual operating plans and budgets and any update thereof.
- Capital budgets and any updates thereof.
- Quarterly results for your Company and operating divisions and business segments.
- Minutes of the Meetings of the Audit Committee and other Committees of the Board.
- Information on recruitment and remuneration of senior officers just below the level of Board, including the appointment or removal of Chief Financial Officer and Company Secretary.
- Show-cause, demand, prosecution notices and penalty notices which are materially important.
- Fatal or serious accidents, dangerous occurrences, etc.
- Any material default in financial obligations to and by your Company.
- Non-compliance of any regulatory, statutory nature or listing requirements and shareholders service such as non-payment of dividend, delay in share transfer, etc.

The Board periodically reviews the compliance reports of all laws applicable to your Company as well as steps taken by your Company to rectify instances of non-compliances, if any.

Remuneration Paid to Directors

Details of Remuneration Paid to Directors for FY14 (Rs. in lakh)

Name of the Director	Sitting Fees	Salary and Perquisites	Contribution to Provident and Other Funds	Performance Linked Incentive	Other Benefits	Commission & Others#	Total
Mr. P. H. Ravikumar	4.00	-	-	-	-	10.00	14.00
Mr. Geoffrey Tanner Woolley	1.40	-	-	-	-	10.00	11.40
Mr. M. R. Rao*	Nil	117.97	7.73	32.40	-	-	158.10
Mr. P. Krishnamurthy	3.80	-	-	-		-	3.80
Mrs. Ranjana Kumar**	0.40	-	-	-		-	0.40
Mr. Paresh Patel	Nil	-	-	-		-	-
Mr. Sumir Chadha	Nil	-	-	-		-	-
Dr. Tarun Khanna	0.60	-	-	-		10.00	10.60

** Mr. M. R. Rao has been re-appointed as Managing Director and CEO for a period of five (5) years with effect from October 4, 2013.*

*** Mrs. Ranjana Kumar has ceased to be a Director of your Company with effect from September 10, 2013.*

 # Commission to Independent Directors for the FY14 was paid during the FY15.

During the FY14, your Company neither issued any stock options nor advanced loans to any of its Directors.

Code of Conduct

The Board has laid down a Code of Conduct for all the Board Members and Senior Management of your Company. The Code of Conduct is available on the website of your Company: www.sksindia.com. All Board Members and Senior Management personnel have affirmed compliance with the Code of Conduct. A declaration signed by the Chief Executive Officer to this effect is enclosed at the end of this report.

Risk Management

Your Company follows well-established and detailed risk assessment and minimization procedures. Your Company especially focuses on improving sensitivity to assessment of risks and improving methods of computation of risk weights. The risk assessment and mitigation procedures are reviewed by the Board periodically. Your Company's risk management framework is discussed in detail in the chapter on Management Discussion and Analysis on Page 35.

Additionally, your Company has a dedicated Board-level Committee that monitors risk management in your Company and the details of the said Committee are given on Page 42.

Committees of the Board

Your Company has constituted Board-level Committees to delegate particular matters that require greater and more focussed attention in the affairs of your Company. These Committees prepare the ground work for decision-making, and report to the Board.

All decisions pertaining to the constitution of Committees, appointment of Members and fixing of terms of reference for Committee Members are taken by the Board. The terms of reference of the Committees are available on the website of the Company: www.sksindia.com.

Details on the role and composition of these Committees, including the number of meetings held during the financial year and the related attendance, are provided below:

a) Audit Committee

Till July 24, 2014, the Audit Committee (the Committee) comprised four (4) Members including three (3) Independent Directors:

1. Mr. P. H. Ravikumar;
2. Mr. Paresh Patel;
3. Mr. P. Krishnamurthy; and
4. Dr. Tarun Khanna.

The Committee oversees the financial reporting process and reviews, with the Management, the financial statements, to ensure that the same are correct and credible. The Committee has the ultimate authority and responsibility to select and evaluate the statutory auditors in accordance with the law. The Committee also reviews the performance of Internal Auditors, adequacy of the internal control system and the whistle-blower mechanism.

During the year under review, the Committee met seven (7) times. These meetings were held on May 3, 2013, July 17, 2013, July 25, 2013, October 18, 2013, October 23, 2013, January 24, 2014 and February 4, 2014. The time gap between any two meetings was less than four months. The details of the attendance of the Directors at the Committee meetings are given below:

Attendance Record of the Audit Committee

Name of the Member	Position	Status	No. of Meetings Held	No. of Meetings Attended	Sitting Fees (Rs.)
Mr. Paresh Patel	Director	Member	7	4	Nil
Mr. P. H. Ravikumar	Independent Director	Chairman	7	7	1,40,000
Mr. P. Krishnamurthy	Independent Director	Member	7	7	1,40,000
Dr. Tarun Khanna*	Independent Director	Member	N. A.	N.A.	N.A.

**Appointed with effect from April 28, 2014.*

The President and the Chief Financial Officer, who are responsible for the finance function, the Head of Internal Audit and the representative of the Statutory Auditors are regularly invited to attend meetings of the Committee. The Company Secretary is the Secretary to the Committee.

All Members of the Committee have accounting and financial management expertise. Mr. P. H. Ravikumar, Chairman of the Committee, was present at your Company's Tenth Annual General Meeting (AGM) held on December 3, 2013 to answer shareholder queries.

b) Asset Liability Management Committee

Till July 24, 2014, the Asset Liability Management Committee (ALM Committee) comprised three (3) Members:

1. Mr. Paresh Patel;
2. Mr. M. R. Rao; and
3. Mr. P. H. Ravikumar.

The functions of the ALM Committee include addressing concerns regarding asset liability mismatches, interest rate risk exposure and achieving optimal return on capital employed while maintaining acceptable levels of risk including and relating to liquidity, market and operational aspects and adhering to the relevant policies and regulations.

During the year under review, the ALM Committee met once on May 8, 2013. The details of the attendance of the Directors at the ALM Committee meeting are given below:

Attendance Record of the Asset Liability Management Committee

Name of the Member	Position	Status	No. of Meetings Held	No. of Meetings Attended	Sitting Fees (Rs.)
Mr. M. R. Rao	Managing Director	Member	1	1	Nil
Mr. Paresh Patel	Director	Chairman	1	1	Nil
Mr. P. H. Ravikumar	Independent Director	Member	1	1	20,000
Mr. P. Krishnamurthy*	Independent Director	Member	1	1	20,000

** The Board has reconstituted the Committee at its meeting held on July 25, 2013 with Mr. Paresh Patel, Mr. P. H. Ravikumar and Mr. M. R. Rao as the Members of the Committee.*

c) Corporate Social Responsibility Committee

As per the Companies Act, 2013, all companies having a net worth of Rs. 500 crore or more, or turnover of Rs.1,000 crore or more or a net profit of Rs. 5 crore or more during any financial year are required to constitute a Corporate Social Responsibility Committee of the Board consisting of three or more Directors, at least one of whom will be an Independent Director.

Accordingly, the Board at its meeting held on July 24, 2014, constituted the Corporate Social Responsibility (CSR Committee) comprising Mr. Geoffrey Tanner Woolley, Mr. P. Krishnamurthy, Mr. S. Balachandran and Mr. M. R. Rao.

The purpose of the CSR Committee is to formulate and monitor the CSR policy of your Company.

The CSR Committee will oversee your Company's CSR activities, programmes and execution of initiatives as per predefined guidelines. The CSR Committee will also be assisted by the Management in reporting the progress of initiatives, and making appropriate disclosures (internal/ external) on a periodic basis.

d) Nomination Committee

Till July 24, 2014, the Nomination Committee comprised three (3) Members:

1. Dr. Tarun Khanna;
2. Mr. Geoffrey Tanner Woolley; and
3. Mr. Sumir Chadha;

The functions of the Nomination Committee include identification of persons qualified to become Directors on the Board of your Company.

During the year under review, the Nomination Committee did not meet.

e) Remuneration & Compensation Committee

Till July 24, 2014, the Remuneration & Compensation Committee (R & C Committee) comprised of four (4) Members:

1. Dr. Tarun Khanna;

2. Mr. Geoffrey Tanner Woolley;
3. Mr. P. H. Ravikumar; and
4. Mr. Sumir Chadha.

The functions of the R & C Committee include formulation of the criteria for determining qualifications, positive attributes and Independence of a Director and recommend to the Board a policy relating to the remuneration of the Directors, key managerial personnel and other employees, fixing the amount of sitting fees to be paid to the Members of the Board, recommendation to the Board about the salary, bonus to be paid to the key managerial personnel of your Company and framing guidelines/ criteria for the grant of options or shares under the Stock Option or Stock Purchase Scheme.

During the year under review, the R & C Committee met twice on October 23, 2013 and February 4, 2014. The details of the attendance of the Directors at the R & C Committee meetings are given below:

Attendance Record of the Remuneration & Compensation Committee

Name of the Member	Position	Status	No. of Meetings Held	No. of Meetings Attended	Sitting Fees (Rs.)
Mr. Geoffrey Tanner Woolley	Independent Director	Member	2	2	40,000
Mr. P. H. Ravikumar	Independent Director	Member	2	2	40,000
Mr. Sumir Chadha	Director	Member	2	1	Nil
Dr. Tarun Khanna	Independent Director	Chairman	2	2	40,000

f) Risk Management Committee

Till July 24, 2014, the Risk Management Committee (RMC) comprised three (3) Members:

1. Mr. Paresh Patel;
2. Mr. P. H. Ravikumar; and
3. Mr. P. Krishnamurthy.

The functions of the RMC include monitoring and reviewing the risk management plan, operational risk, information technology risk, integrity risk, etc. and taking strategic actions in mitigating risk associated with the business.

During the year under review, the RMC met four (4) times. The meetings were held on May 3, 2013, July 17, 2013, October 23, 2013 and January 24, 2014. The details of the attendance of the Directors at the RMC meetings are given below:

Attendance Record of the Risk Management Committee

Name of the Member	Position	Status	No. of Meetings Held	No. of Meetings Attended	Sitting Fees (Rs.)
Mr. M. R. Rao	Managing Director	Member	4	2	Nil
Mr. Paresh Patel	Director	Chairman	4	3	Nil
Mr. P. H. Ravikumar	Independent Director	Member	4	4	80,000
Mr. P. Krishnamurthy*	Independent Director	Member	4	4	80,000

** The Board has reconstituted the Committee at its meeting held on July 25, 2013 with Mr. Paresh Patel, Mr. P. H. Ravikumar and Mr. P. Krishnamurthy as the Members of the Committee.*

g) Stakeholders' Relationship Committee (earlier known as 'Shareholders'/ Investors' Grievances Committee')

At present, the **Stakeholders' Relationship Committee (SRC)** comprises three (3) Members:

1. Mr. P. H. Ravikumar;
2. Mr. Geoffrey Tanner Woolley; and
3. Mr. P. Krishnamurthy.

The functions and powers of the SRC include review and resolution of grievances of shareholders, debenture holders and other security holders, dealing with all aspects relating to the issue and allotment of shares, debentures and other securities, approve sub-division, consolidation, transfer and issue of duplicate shares and debentures.

The Board, at its meeting held on April 28, 2014, had renamed the 'Shareholders'/ Investors' Grievances Committee' as the 'Stakeholders' Relationship Committee'. The Committee met on October 23, 2013, and the details of the attendance are given below:

Attendance Record of the Stakeholders' Relationship Committee

Name of the Member	Position	Status	No. of Meetings Held	No. of Meetings Attended	Sitting Fees (Rs.)
Mr. Geoffrey Tanner Woolley	Independent Director	Member	1	1	20,000
Mr. P. H. Ravikumar	Independent Director	Chairman	1	1	20,000
Mr. P. Krishnamurthy*	Independent Director	Member	1	1	20,000

** The Board reconstituted the Committee at its meeting held on July 25, 2013 with Mr. P. H. Ravikumar, Mr. Geoffrey Tanner Woolley and Mr. P. Krishnamurthy as the Members of the Committee.*

The Company Secretary is the Secretary to the Committee.

Details of the queries and grievances received and attended by your Company during FY14 are given below:

Nature of Complaints Received and Attended to During FY14

Nature of Complaint	Pending as on April 1, 2013	Received During 2013-14	Answered During 2013-14	Pending as on March 31, 2014
1. Transfer/ transmission/ duplicate	0	38	38	0
2. Non-receipt of dividend	NA	NA	NA	NA
3. Dematerialization/ Rematerialization of shares	0	9	9	0
4. Complaints received through:				
- Securities and Exchange Board of India	0	0	0	0
- Stock Exchanges	0	2	2	0
- Registrar of Companies/ Ministry of Corporate Affairs	0	1	0	1*
- Company & Registrar	0	22	22	0
5. Legal	0	0	0	0

** Your Company has replied to this communication in FY15*

In addition to the aforesaid Committees, the Board has constituted three (3) non-mandatory Committees to oversee specific operational activities, namely ESOP Allotment Committee, Finance Committee and QIP Committee. The QIP Committee was dissolved with effect from July 24, 2014.

Terms of Reference of the aforesaid Committees are available on the website of your Company: www.sksindia.com.

Shares and Convertible Instruments Held by the Non-Executive Directors

Details of shares or convertible instruments of your Company held by the Non-Executive Directors as on March 31, 2014 are given below:

S. No.	Director's Name	No. of Stock Options	No. of Equity Shares
1.	Mr. P. H. Ravikumar*	2,13,500	13,400
2.	Mr. Geoffrey Tanner Woolley	2,36,000	0
3.	Dr. Tarun Khanna	2,36,000	8,080

** Mr. P. H. Ravikumar disposed of 9,000 Equity Shares in May 2014 and was allotted 15,000 Equity Shares on exercise of Stock Options in May 2014.*

The Board, at its meeting held on July 24, 2014, reconstituted the Committees and details of the revised composition of the Committees is given in Annexure A.

MANAGEMENT

Management Discussion and Analysis

The Annual Report has a detailed chapter on Management Discussion and Analysis on Page 24.

DISCLOSURES

Details of materially significant related party transactions, that is, transactions of your Company of material nature, with its promoters, Directors or the Management or relatives, etc., are provided in the Notes to the Accounts.

Whistleblower Mechanism

Your Company has adopted the Whistleblower Policy pursuant to which employees of your Company can raise their concerns relating to malpractices, inappropriate use of funds or any other activity or event which is against the interest of your Company. Further, the mechanism adopted by your Company encourages employees to report genuine concerns or grievances, and provides for adequate safeguards against victimization of employees who avail of such a mechanism and also provides for direct access to the Chairperson of the Audit Committee, in exceptional cases.

Disclosure of Accounting Treatment in Preparation of Financial Statements

The financial statements of your Company have been prepared in accordance with generally accepted accounting principles in India (Indian GAAP). Your Company has prepared these financial statements to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended), the relevant provisions of the Companies Act, 1956 read with General Circular 8/ 2014 dated April 4, 2014 issued by the Ministry of Corporate Affairs and the provisions of the Reserve Bank of India as applicable to a Non-Banking Financial Company – Micro Finance Institution (NBFC-MFI) and Non-Deposit Taking Non-Banking Financial Company (NBFC-ND). The financial statements have been prepared on an accrual basis and under the historical cost convention, except interest on loans which have been classified as non-performing assets and are accounted for on realization basis.

The accounting policies adopted in the preparation of financial statements are consistent with those of the previous year.

Details of Non-Compliance by your Company

Your Company has complied with all the requirements of regulatory authorities. No penalties/ strictures had been imposed on your Company by stock exchanges or SEBI or any statutory authority on any matter related to the capital market during the last three years.

Code for Prevention of Insider Trading Practices

In compliance with the SEBI Regulation on Prevention of Insider Trading, your Company has instituted a comprehensive Code of Conduct for its Management and staff. The Code lays down guidelines, advising them on procedures to be followed and disclosures to be made while dealing with shares of your Company, and cautioning them of the consequences in case of violations.

CEO/ CFO Certification

The CEO and the CFO certification of the financial statements for the year has been submitted to the Board.

SHAREHOLDERS

Re-appointment/ Appointment of Directors

Mr. S. Balachandran, who was appointed as Additional Director, holds the office of Director till the date of the ensuing Annual General Meeting and is eligible for appointment. Your Company has received notice from a Member of your Company under Section 160 of the Companies Act, 2013 proposing the candidature of Mr. Balachandran.

The Non-Executive (Independent) Directors of your Company were appointed as Directors, liable to retire by rotation under the provisions of the Companies Act, 1956. The Board has been advised that, as per the provisions of the Companies Act, 2013, the Companies (Appointment and Qualification of Directors), Rules 2014 and the clarification dated June 9, 2014 issued by the Ministry of Corporate Affairs, Non-Executive (Independent) Directors so appointed would have to be appointed expressly under Sections 149(10) and Section 149(5) of the Companies Act, 2013 read with Schedule IV of the Companies Act, 2013 within one year from April 1, 2014, otherwise the said Directors would continue to hold office till expiry of their term (based on the retirement period calculation) as per the resolution pursuant to which they were appointed as Non-Executive Directors. Therefore, the Board, at its meeting held on July 24, 2014, had proposed the appointment of Mr. P. H. Ravikumar, Mr. Geoffrey Tanner Woolley and Dr. Tarun Khanna as Non-Executive (Independent) Directors at the ensuing Annual General Meeting of your Company, who, being eligible and seeking appointment, be considered by the shareholders for appointment for a term of up to five consecutive years.

Two Directors are liable to retire by rotation. Of the retiring Directors, at least one-third retires every year and, if eligible, qualify for re-appointment. Mr. Sumir Chadha is retiring by rotation and, being eligible, offers himself for re-appointment at the ensuing Annual General Meeting.

The detailed profiles of the above directors are provided in the Notice convening the Annual General Meeting.

Means of Communication with Shareholders

All important information relating to your Company and its performance, including financial results and shareholding pattern are posted on your Company website: www.sksindia.com. The website also displays all official press releases and presentations made to analysts by your Company.

The quarterly, half yearly and annual results of your Company's performance are published in leading newspapers like The Financial Express (English), Andhra Prabha (Telugu), Vartha (Telugu) and Loksatta (Marathi).

General Body Meetings

Details of the Last Four General Meetings

Financial Year	Category	Location of the Meeting	Date	Time
2012-13	AGM	Mumbai	03.12.2013	11.00 a.m.
2011-12	AGM	Hyderabad	10.08.2012	10.00 a.m.
2011-12	EGM	Hyderabad	21.12.2011	10.00 a.m.
2010-11	AGM	Hyderabad	20.07.2011	10.00 a.m.

Note: AGM - Annual General Meeting; EGM - Extraordinary General Meeting.

The following Special Resolutions were taken up in the last three AGMs, and were passed with requisite majority:

FY11: Special Resolution passed at the Eighth Annual General Meeting

1. Ratification of SKS Microfinance Employee Stock Options Plans (ESOPs) instituted by your Company prior to Initial Public Offer (IPO) and listing of Equity Shares of your Company on Stock Exchanges

FY12: Special Resolutions passed at the Ninth Annual General Meeting

1. Payment of remuneration to Mr. M. Ramachandra Rao as the Managing Director & Chief Executive Officer of your Company
2. Issue of Equity Shares on Preferential Basis

FY13: Special Resolutions passed at the Tenth Annual General Meeting

1. Re-appointment of Mr. M. Ramachandra Rao as the Managing Director & Chief Executive Officer of your Company
2. Commission to Independent Directors

Postal Ballot

During the year, resolutions as proposed in the Postal Ballot notice dated February 27, 2014 were passed on April 12, 2014, with a requisite majority, for the following purposes.

1. Issue of Equity Shares under Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956.
2. Increase in the Authorized Capital of your Company from Rs. 135 crore (Rupees One Hundred and Thirty Five Crore Only) to Rs. 155 crore (Rupees One Hundred and Fifty Five Crore Only) and alteration of the existing Capital Clause in the Memorandum of Association of your Company.
3. Approval for borrowing monies in excess of the Paid-up Share Capital and Free Reserves of your Company under Section 180(1)(a) of the Companies Act, 2013.
4. Approval for the creation of charge to secure borrowings by your Company under Section 180(1)(c) of the Companies Act, 2013.

Mr. K. V. S. Subramanyam, Practicing Company Secretary, Partner of M/s. Ravi & Subramanyam Company Secretaries, was appointed as the Scrutinizer.

Your Company has complied with the procedures for the Postal Ballot in terms of Companies (Passing of the Resolution by Postal Ballot) Rules, 2011 and amendments thereto made from time to time.

None of the businesses proposed to be transacted in the ensuing Annual General Meeting requires passing of a special resolution through Postal Ballot.

COMPLIANCE

Mandatory Requirements

Your Company is fully compliant with the applicable mandatory requirements of the Clause 49.

Compliance Report as on March 31, 2014

Particulars	Clause of Listing Agreement	Compliance Status
I. Board of Directors		
(A) Composition of Board	49(IA)	Compliant
(B) Non-Executive Directors Compensation & Disclosures	49(IB)	Compliant
(C) Other provisions as to Board and Committees	49(IC)	Compliant
(D) Code of Conduct	49(ID)	Compliant
II. Audit Committee		
(A) Qualified & Independent Audit Committee	49(IIA)	Compliant
(B) Meeting of Audit Committee	49(IIB)	Compliant
(C) Powers of Audit Committee	49(IIC)	Compliant
(D) Role of Audit Committee	49(IID)	Compliant
(E) Review of Information by Audit Committee	49(IIE)	Compliant
III. Subsidiary Companies	49(III)	-NA-
IV. Disclosures		
(A) Basis of related party transactions	49(IVA)	Compliant
(B) Disclosure of Accounting Treatment	49(IVB)	Compliant
(C) Board Disclosures	49(IVC)	Compliant
(D) Proceeds from public, rights, preference issues, etc.	49(IVD)	-NA-
(E) Remuneration of Directors	49(IVE)	Compliant
(F) Management	49(IVF)	Compliant
(G) Shareholders	49(IVG)	Compliant
V. CEO/ CFO Certification	49(V)	Compliant
VI. Report on Corporate Governance	49(VI)	Compliant
VII. Compliance	49(VII)	Compliant

Adoption of Non-Mandatory Requirements

Although it is not mandatory, the Board has appointed a Non-Executive (Independent) Director as the Chairman of the Board. Your Company also adopted a Whistle Blower Policy in the year 2009.

General Shareholder Information

Annual General Meeting

Date : September 29, 2014
Time : 11:00 a.m.
Venue : Y. B. Chavan Auditorium, General Jagannath Bhosle Marg, Mumbai - 400 021, Maharashtra

Financial Calendar

Financial year: 1 April to 31 March

For the year ended March 31, 2014, results were announced on:

- July 25, 2013: First quarter.
- October 23, 2013: Half yearly.
- January 24, 2014: Third quarter.
- April 28, 2014: Fourth quarter and annual.

For the year ending March 31, 2015, results were announced on/ will be announced by:

- July 24, 2014: First quarter.
- Last week of October 2014: Half yearly.
- Last week of January 2015: Third quarter.
- First week of May 2015: Fourth quarter and annual.

Book Closure

The dates of book closure are from September 22, 2014 to September 29, 2014 inclusive of both days.

Listing on Stock Exchanges

At present, the Equity Shares of your Company are listed on BSE Limited (BSE) and National Stock Exchange of India Limited (NSE). The annual listing fees for the financial year 2014-15 to NSE and BSE have been paid.

Stock Exchange Codes

Name of the Stock Exchange	Stock Code
National Stock Exchange of India Limited	SKSMICRO
BSE Limited	533228

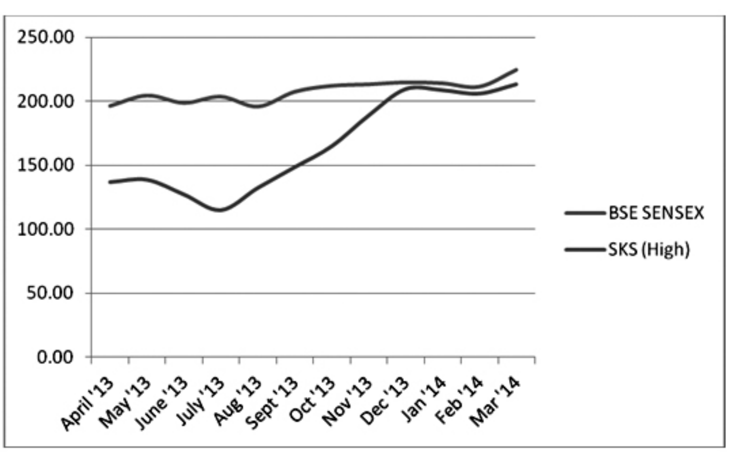
Stock Market Data

High, Lows and Volumes of your Company's Shares for 2013-14 at BSE and NSE

	BSE			NSE		
	High	Low	Volume	High	Low	Volume
Apr 2013	137.00	116.50	37,15,104	136.90	115.10	1,29,96,394
May 2013	138.80	95.60	58,08,018	138.70	95.50	1,36,50,036
Jun 2013	127.25	97.00	29,89,306	127.50	97.10	71,70,968
July 2013	115.00	97.50	25,79,376	115.00	97.55	69,80,293
Aug 2013	132.45	102.00	21,01,323	132.15	102.20	61,43,294
Sep 2013	148.70	111.50	1,21,15,224	148.60	111.10	92,37,199
Oct 2013	165.00	128.15	27,75,553	165.00	128.00	74,01,119
Nov 2013	189.10	140.75	49,06,567	189.00	140.00	1,30,08,016
Dec 2013	209.85	167.40	54,26,970	209.90	167.00	1,32,91,295
Jan 2014	209.00	163.70	70,78,164	209.00	163.30	1,90,05,592
Feb 2014	206.30	169.30	59,09,862	206.40	165.00	1,59,40,054
Mar 2014	213.60	184.00	54,00,596	213.50	182.50	1,43,59,655

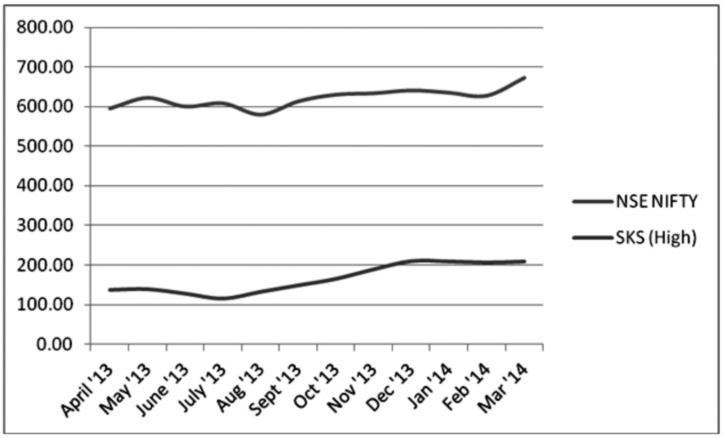
Note: High and low are in rupees per traded share
Volume is the total monthly volume of trade in number of SKS' shares

SKS' Share Performance on BSE Versus BSE Sensex



Note: SKS share prices at the BSE and the BSE Sensex have been indexed to 100 as on the first working day of 2013-14

SKS' Share Performance on NSE Versus Nifty



Note: SKS share prices at the NSE and the NSE S&P Nifty have been indexed to 10 as on the first working day of 2013-14

Distribution of Shareholding

Details of the distribution of the shareholding of the Equity Shares of your Company by size and by ownership class as on March 31, 2014 are as follows:

Shareholding Pattern by Size

Number of Shares	No of Shareholders	% of Shareholders	Total Shares	% of Shares
Up to 5000	43,905	95.11	26,62,306	2.46
5001-10000	1,118	2.42	8,76,790	0.81
10001-20000	493	1.07	7,37,495	0.68
20001-30000	145	0.31	3,64,458	0.34
30001-40000	98	0.21	3,53,921	0.33
40001-50000	67	0.15	3,12,781	0.29
50001-100000	129	0.28	9,59,499	0.89
100001 and above	200	0.44	10,19,45,712	94.21
Total	46,155	100.00	10,82,12,962	100.00

Shareholding Pattern by Ownership

	March 31, 2013		March 31, 2014	
	No. of Equity (Face Value of Sharehold-ing Rs. 10/- Each)	Shares Held Percentage	No. of Equity (Face Value of Sharehold-ing Rs. 10/- Each)	Shares Held Percentage
A. Promoter's Holding				
Promoters				
Indian Promoters	92,61,383	8.56	1,35,29,968	12.50
Foreign Promoters	1,89,01,247	17.47	1,66,58,723	15.39
Persons acting in concert				
B. Non-Promoter's Holding				
a) President of India	-	-	-	-
b) Banks, Financial Institutions, Insurance Companies (Central/ State Government Institutions/ Non-Government, Institutions)	27,17,216	2.51	16,74,945	1.55
c) Foreign Institutional Investors (FIIs)	3,88,91,153	35.94	4,20,01,346	38.81
d) Foreign Direct Investment (FDI)	1,60,06,842	14.79	1,48,81,842	13.75
e) Mutual Funds	37,84,001	3.50	34,42,367	3.18
f) Corporate Bodies	49,43,357	4.57	30,23,123	2.79

g) Indian Public	83,07,662	7.67	77,29,783	7.14
h) NRIs	45,35,719	4.19	45,54,004	4.21
i) Any other - Trusts - Non-Resident Directors - Resident Directors	 3,66,355 8,080 3,10,566	 0.34 0.01 0.29	 67,874 8,080 3,07,566	 0.06 0.01 0.28
Clearing Member	1,79,117	0.17	3,33,341	0.31
Grand Total	1,08,21,698	100%	10,82,12,962	100%

Dematerlization of Shares

As on March 31, 2014, over 95.32% shares of your Company were held in dematerialized form.

Outstanding GDRs/ ADRs/ Warrants/ Options

Nil

Details of Public Funding Obtained in the Last Three Years

S. No.	Month and Year	Nature of Public Funding	Amount (Rs. in Crore)
1.	July 2012	Qualified Institutional Placement	230.0
2.	August 2012	Preferential Allotment to Promoter Group	33.6
3.	May 2014	Qualified Institutional Placement	397.6

Shifting of Registered Office

The Members, vide special resolution dated August 27, 2012, passed through a Postal Ballot, approved the shifting of the Registered Office from the Andhra Pradesh to Maharashtra, by amendment to the Situation Clause of the Memorandum of Association of your Company. The Regional Director, Ministry of Corporate Affairs vide his order dated August 31, 2013, had confirmed the shifting of the Registered Office to the state of Maharashtra, Mumbai.

Further, the Registrar of Companies, Mumbai had issued a certificate of registration for change of registered office on December 10, 2013.

Share Transfer System

Your Company has appointed Karvy Computershare Private Limited (Karvy) as its Registrar and Transfer Agent. All share transfers and related operations are conducted by Karvy, which is registered with the SEBI as a Category 1 Registrar. Your Company has constituted a Stakeholders' Relationship Committee (earlier known as Shareholders'/ Investors' Grievances Committee) for redressing shareholder and investor complaints.

Investor correspondence should be addressed to:

1) **Registrar and Transfer Agent.**
   (Unit: SKS Microfinance Limited)
   Karvy Computershare Private Limited
   Plot No. 17 to 24,
   Vithalrao Nagar,
   Madhapur,
   Hyderabad 500 081, Telangana
   Tel: 040 23420815

2) **The Company Secretary**
   SKS Microfinance Limited
   Registered Office Address:
   Unit No. 410, 'Madhava',
   Bandra-Kurla Complex,
   Bandra (East),
   Mumbai – 400 051, Maharashtra
   Phone: 022-26592375

CEO Certification on Code of Conduct

I, M. Ramachandra Rao, Managing Director and CEO, SKS Microfinance Limited, hereby certify that all the Board Members and senior managerial personnel (Core Management Team) have affirmed compliance with the Code of Conduct of your Company for the year ended March 31, 2014.

SD/-
M. Ramachandra Rao
Managing Director and CEO

Annexure A

<table>
<tr><th>Committee</th><th>Revised Constitution Approved by the Board at its Meeting Held on July 24, 2014</th></tr>
<tr><td>Asset Liability Management Committee</td><td>1. Mr. P. H. Ravikumar (Chairman);
2. Mr. M. R. Rao;
3. Mr. Paresh Patel; and
4. Mr. P. Krishnamurthy;</td></tr>
<tr><td>Audit Committee</td><td>1. Mr. P. H. Ravikumar (Chairman);
2. Mr. P. Krishnamurthy; and
3. Mr. S. Balachandran;</td></tr>
<tr><td>Corporate Social Responsibility Committee</td><td>1. Mr. Geoffrey Tanner Woolley (Chairman);
2. Mr. M. R. Rao;
3. Mr. P. Krishnamurthy; and
4. Mr. S. Balachandran;</td></tr>
<tr><td>Nomination Committee</td><td rowspan="2">Nomination Committee and Remuneration and Compensation Committee have been merged and the Committee has been renamed as ‘Nomination and Remuneration Committee’.

1. Dr. Tarun Khanna (Chairman);
2. Mr. S. Balachandran (Alternate Chairman);
3. Mr. Geoffrey Tanner Woolley;
4. Mr. Paresh Patel;
5. Mr. P. H. Ravikumar; and
6. Mr. Sumir Chadha;</td></tr>
<tr><td>Remuneration and Compensation Committee</td></tr>
<tr><td>Risk Management Committee</td><td>1. Mr. P. H. Ravikumar (Chairman);
2. Mr. M. R. Rao;
3. Mr. P. Krishnamurthy; and
4. Mr. S. Balachandran;</td></tr>
<tr><td>Stakeholders’ Relationship Committee</td><td>1. Mr. P. H. Ravikumar (Chairman);
2. Mr. Geoffrey Tanner Woolley; and
3. Mr. P. Krishnamurthy;</td></tr>
</table>

CORPORATE GOVERNANCE CERTIFICATE

To,
The Members
SKS Microfinance Limited
Mumbai

We have examined all relevant records of **SKS MICROFINANCE LIMITED** (the Company) for the purpose of certifying the compliance of the conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreements with BSE Limited (Formerly known as Bombay Stock Exchange Limited) and National Stock Exchange of India Limited for the financial year ended March 31, 2014 (i.e. from April 1, 2013 to March 31, 2014). We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of certification.

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

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

For BS & Company
Company Secretaries

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

Place: Hyderabad
Date : August 7, 2014

INDEPENDENT AUDITORS' REPORT

To the Members of SKS Microfinance Limited

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with accounting principles generally accepted in India, including the Accounting Standards notified under the Companies Act, 1956 ('the Act'), read with General Circular 8/2014 dated April 4, 2014 issued by the Ministry of Corporate Affairs. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Opinion

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

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2014;

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

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

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

(d) In our opinion, the Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement comply with the Accounting Standards notified under the Act, read with General Circular 8/2014 dated April 4, 2014 issued by the Ministry of Corporate Affairs; and

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

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

per Viren H. Mehta
Partner
Membership No.: 048749

Mumbai
April 28, 2014

Annexure referred to in paragraph 1 under the heading "Report on other legal and regulatory requirements" of our report of even date

Re: SKS Microfinance Limited ('the Company')

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

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

(c) There was no disposal of a substantial part of fixed assets during the year.

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

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

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

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

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

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

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

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

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

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

(c) According to the information and explanations given to us, the dues outstanding of income tax, sales-tax, wealth tax, service tax, customs duty, excise duty and cess on account of dispute, are as follows:

Name of the Statute	Nature of dues	Amount under dispute (Rs.)	Amount paid* (Rs.)	Period to which its relates	Forum where dispute is pending
Income Tax Act, 1961	Income Tax	2,312,820	Nil	Financial Year 2006-07	The Additional Commissioner of Income Tax (Appeals)
Income Tax Act, 1961	Income Tax	235,044,690	150,000,000 #	Financial Year 2010-11	The Commissioner of Income Tax (Appeals)
Chapter V of the Finance Act, 1994	Service Tax	460,522,537	Nil	Financial years 2006-07 to 2011-12	Customs Excise & Service Tax Appellate Tribunal
	Interest on service tax dues mentioned above	323,148,403			
	Penalty on service tax dues mentioned above	460,537,537			

* The Company has paid the amount under protest.

\# Stay order received from the Commissioner of Income Tax for payment of the balance amount of Rs.85,044,690 till September 30, 2014.

(x) *The Company's accumulated losses at the end of the financial year are more than fifty percent of its net worth.* The Company has not incurred cash loss during the year. *In the immediately preceding financial year, the Company had incurred cash loss.*

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

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

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

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

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

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

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

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

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

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

(xxi) We have been informed that during the year there were instances of *cash embezzlements by the employees of the Company aggregating Rs.9,285,788; loans given to non-existent borrowers on the basis of fictitious documentation created by the employees of the Company aggregating Rs.6,260,275; and misrepresentation by certain borrowers for obtaining loans aggregating Rs.387,900*. As informed, services of employees involved have been terminated and the Company is in the process of taking legal action against the employees and the borrowers. The outstanding balance (net of recovery) aggregating Rs.8,423,073 has been written off.

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

per **Viren H. Mehta**
Partner
Membership No.: 048749

Mumbai
April 28, 2014

Balance Sheet as at March 31, 2014

	Notes	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Equity and liabilities			
Shareholders' funds			
Share capital	4	1,082,129,620	1,082,126,980
Reserves and surplus	5	3,510,006,938	2,821,793,131
		4,592,136,558	**3,903,920,111**
Non-current liabilities			
Long-term borrowings	6	3,002,070,202	2,656,035,493
Long-term provisions	7	1,862,151,448	2,632,616,085
		4,864,221,650	**5,288,651,578**
Current liabilities			
Short-term borrowings	8	3,323,504,752	5,705,212,786
Other current liabilities	9	11,806,546,938	9,942,481,258
Short-term provisions	7	385,552,732	274,246,224
		15,515,604,422	**15,921,940,268**
TOTAL		**24,971,962,630**	**25,114,511,957**
Assets			
Non-current assets			
Fixed assets			
Tangible assets	10	65,860,359	84,702,691
Intangible assets	11	30,912,889	27,113,451
Intangible assets under development		15,039,988	1,308,000
Non-current investments	12	2,000,000	2,000,000
Deferred tax assets	13	-	-
Long-term loans and advances	14	2,292,684,559	2,825,744,991
Other non-current assets	15	328,513,303	364,262,574
		2,735,011,098	**3,305,131,707**
Current assets			
Trade receivables	16	51,070,879	5,556,288
Cash and bank balances	17	6,397,075,083	8,605,877,215
Short-term loans and advances	14	15,235,013,622	12,815,969,788
Other current assets	15	553,791,948	381,976,959
		22,236,951,532	**21,809,380,250**
TOTAL		**24,971,962,630**	**25,114,511,957**

Summary of significant accounting policies 2.1

The accompanying notes are an integral part of the financial statements

As per our report of even date

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

per Viren H. Mehta
Partner
Membership No.048749

Place: Mumbai
Date: April 28, 2014

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

P.H. Ravikumar
Non-Executive Chairman

M.R. Rao
Managing Director and
Chief Executive Officer

S. Dilli Raj
President

Ashish Damani
Chief Financial Officer

Sudershan Pallap
Company Secretary

Place: Mumbai

Statement of profit and loss for the year ended March 31, 2014

	Notes	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Income			
Revenue from operations	18	5,189,918,403	3,321,975,446
Other income	19	258,434,910	203,661,636
Total revenue (I)		**5,448,353,313**	**3,525,637,082**
Expenses			
Employee benefit expenses	20	1,655,632,711	1,726,704,285
Finance costs	21	2,142,214,375	1,427,192,088
Other expenses	22	765,527,459	834,543,903
Depreciation and amortization expenses	23	40,756,383	64,354,721
Provisions and write-offs	24	145,712,570	2,444,228,726
Total expenses (II)		**4,749,843,498**	**6,497,023,723**
Profit/ (Loss) before tax (III)=(I)-(II)		**698,509,815**	**(2,971,386,641)**
Tax expenses			
Current tax		-	-
Deferred tax		-	-
Total tax expense (IV)		-	-
Profit/ (Loss) (III)-(IV)		**698,509,815**	**(2,971,386,641)**

"Earnings per equity share [nominal value of share Rs.10 (March 31, 2013: Rs.10)]"	25		
Basic (Computed on the basis of total profit / (loss) for the year)		**6.45**	**(30.55)**
Diluted (Computed on the basis of total profit/ (loss) for the year)		**6.44**	**(30.55)**

Summary of significant accounting policies 2.1

The accompanying notes are an integral part of the financial statements

As per our report of even date

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

per Viren H. Mehta
Partner
Membership No.048749

Place: Mumbai
Date: April 28, 2014

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

P.H. Ravikumar
Non-Executive Chairman

M.R. Rao
Managing Director and
Chief Executive Officer

S. Dilli Raj
President

Ashish Damani
Chief Financial Officer

Sudershan Pallap
Company Secretary

Place: Mumbai

Cashflow statement for the year ended March 31, 2014

	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Cash flow from operating activities		
Profit/ (loss) before tax	**698,509,815**	**(2,971,386,641)**
Adjustments to reconcile profit / (loss) before tax to net cash flows:		
Interest on shortfall in payment of advance income tax	16,358,708	13,452,511
Depreciation and amortization	40,756,383	64,354,721
Provision for employee benefits	26,436,079	1,104,422
Profit / (loss) on sale of fixed assets	(319,996)	4,862,388
Employee stock compensation expense	(10,332,968)	28,610,744
Contingent provision against standard assets	132,325,317	(15,032,315)
Provision for non-performing assets	(792,543,557)	2,189,143,759
Portfolio loans and other balances written off	696,936,611	313,295,041
Loss from assignment of loans	108,994,199	(43,177,759)
Other provisions and write offs	40,917,041	37,710,273
Operating profit/ (loss) before working capital changes	**958,037,632**	**(377,062,856)**
Movements in working capital:		
Increase/ (decrease) in other current liabilities	698,865,577	159,211,226
Decrease/ (increase) in trade receivables	(45,514,591)	(3,452,686)
Decrease/ (increase) in loans and advances	(2,578,736,143)	(6,432,518,530)
Decrease/ (increase) in other current assets	(171,814,989)	218,990,049
Decrease/ (increase) in other non-current assets	9,787,010	(8,280,931)
Cash generated from/ (used in) operations	**(1,129,375,504)**	**(6,443,113,728)**
Direct taxes paid (net of refunds)	(195,096,890)	7,805,189
Net cash flow (used in)/ from operating activities (A)	**(1,324,472,394)**	**(6,435,308,539)**
Cash flows from investing activities		
Purchase of fixed assets, including capital work in progress and capital advances	(40,738,404)	(7,911,298)
Proceeds from sale of fixed assets	1,612,923	22,421,879
Margin money deposit (net)	(196,366,887)	12,021,456
Net cash flow (used in)/ from investing activities (B)	**(235,492,368)**	**26,532,037**
Cash flows from financing activities		
Proceeds from issuance of equity share capital (including share application money)	39,600	2,635,155,073
Share issue expenses	-	(135,288,978)
Long-term borrowings (net)	1,510,501,916	1,574,651,043
Short-term borrowings (net)	(2,381,708,034)	4,396,156,785
Net cash flow (used in)/ from in financing activities (C)	**(871,166,518)**	**8,470,673,923**
Net decrease/(increase) in cash and cash equivalents (A + B + C)	**(2,431,131,280)**	**2,061,897,421**
Cash and cash equivalents at the beginning of the year	6,583,260,401	4,521,362,980
Cash and cash equivalents at the end of the year (refer note 17)	**4,152,129,121**	**6,583,260,401**

Summary of significant accounting policies	2.1

The accompanying notes are an integral part of the financial statements
As per our report of even date

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

per Viren H. Mehta
Partner
Membership No.048749

Place: Mumbai
Date: April 28, 2014

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

P.H. Ravikumar
Non-Executive Chairman

M.R. Rao
Managing Director and
Chief Executive Officer

S. Dilli Raj
President

Ashish Damani
Chief Financial Officer

Sudershan Pallap
Company Secretary

Place: Mumbai

1. Corporate information

SKS Microfinance Limited ('the Company') is a public company domiciled in India and incorporated under the provision of the Companies Act, 1956 ('the Act'). The Company was registered as a non-deposit accepting Non-Banking Financial Company ('NBFC-ND') with the Reserve Bank of India ('RBI') and has got classified as a Non-Banking Financial Company - Micro Finance Institution ('NBFC-MFI') with effect from November 18, 2013. Its shares are listed on two stock exchanges in India.

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

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

2. Basis of preparation-

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in India (Indian GAAP). The Company has prepared these financial statements to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended), the relevant provisions of the Companies Act, 1956 read with general circular 8/ 2014 dated April 4, 2014 issued by the Ministry of Corporate Affairs and the provisions of the RBI as applicable to a NBFC-MFI and NBFC-ND. The financial statements have been prepared on an accrual basis and under the historical cost convention except interest on loans which have been classified as non-performing assets and are accounted for on realisation basis.

The accounting policies adopted in the preparation of financial statements are consistent with those of previous year.

2.1. Summary of significant accounting policies

a. Use of estimates

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

b. Revenue recognition

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

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

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

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

iv. Profit/ premium arising at the time of securitisation of loan portfolio is amortised over the life of the underlying loan portfolio/ securities and any loss arising therefrom is accounted for immediately. Income from interest strip is recognized in the statement of profit and loss account net of any losses.

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

c. Tangible fixed assets

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

d. Intangible assets

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

e. Depreciation

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

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

f. Impairment

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's net selling price and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining net selling price, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

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

g. Leases (where the Company is the lessee)

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

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

h. Investments

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

i. Borrowing costs

All borrowing costs are expensed in the period they occur. Borrowing cost includes interest and other costs incurred in connection with the arrangement of borrowings.

j. Foreign currency transactions

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

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

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

k. Retirement and other employee benefits

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

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

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

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

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

l. Income taxes

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

ii. Deferred income taxes reflect the impact of timing differences between taxable income and accounting income originating during the current year and reversal of timing differences for the earlier years. Deferred tax is measured using the tax rates and the tax laws enacted or substantively enacted at the reporting date. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit and loss.

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

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

m. Earnings per share

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

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

n. Provisions

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

o. Contingent liabilities

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

p. Cash and cash equivalents

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

q. Share based payments

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

r. Classification of loan portfolio

i. Loans to JLG are classified as follows:

Asset classification	**Arrear period**
Standard assets	Overdue for less than 8 weeks
Non-performing assets	
Sub-standard assets	Overdue for more than 8 weeks upto 25 weeks
Loss assets	Overdue for more than 25 weeks

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

The above classification is in compliance with Non-Banking Financial Company-Micro Finance Institutions (NBFC-MFIs Directions, December 02, 2011, as amended from time to time.

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

s. Provisioning policy for loan portfolio

i. Provisioning policy for loans to JLG

Asset classification	**Arrear period**	**Provisioning percentage**
Standard assets	Overdue for less than 8 weeks	Refer note 1 and 2
Sub-standard assets	Overdue for more than 8 weeks upto 25 weeks	50%
Loss assets	Overdue for more than 25 weeks	Written off

Note 1: The above mentioned provision for standard assets is linked to the Portfolio at Risk (PAR) as shown below:

Portfolio at Risk	**Provisioning percentage** (% of Standard Assets)
0 – 1%	0.25%
Above 1% to 1.5%	0.50%
Above 1.5% to 2%	0.75%
Above 2%	1.00%
Above 2%	1.00%

Note 2: The overall provision for JLG determined as per the above mentioned provisioning policy is subject to the provision prescribed in the Non-Banking Financial Company – Micro Finance Institutions (Reserve Bank) Directions, 2011 ('NBFC-MFI Directions'). These Directions require the total provision for JLG loans to be higher of (a) 1% of the outstanding loan portfolio or (b) 50% of the aggregate loan installments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan installments which are overdue for 180 days or more.

Such additional provision created in order to comply with the NBFC-MFI Directions is classified and disclosed in the Balance Sheet alongwith the contingent provision for standard assets.

ii. Outstanding loan portfolio in the state of Andhra Pradesh prior to April 1, 2013, being the date of applicability of the asset classification and provisioning norms laid down in the NBFC-MFI Directions, has been fully provided for and these loans are not included for calculation of portfolio at risk as referred in note 1 above.

iii. Loans and advances other than loans to JLG are provided for at the higher of management estimates and provision required as per NBFC-ND Directions.

iv. Provision for losses arising under securitisation arrangements is made as higher of the incurred loss and provision as per the Company's provisioning policy for JLG loans mentioned in (i) above and subject to the maximum guarantee given in respect of these arrangements.

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

3. Change of Estimates

In current year, the Company has got classified as an NBFC-MFI and accordingly has made an additional provision of Rs. 109,940,626 towards its Joint Liability Group (JLG) loan portfolio to maintain provisioning required by the NBFC-MFI Directions issued by the Reserve Bank of India vide its circular dated December 2, 2011 as amended vide circular dated March 20, 2012. These Directions require the provision to be higher of (i) 1% of the outstanding loan portfolio or (ii) 50% of the aggregate loan installments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan installments which are overdue for 180 days or more. The entire additional provision of Rs. 109,940,626 made relates only to standard assets.

4. Share capital	**31-Mar-14 (Rupees)**	**31-Mar-13 (Rupees)**
Authorized shares		
122,000,000 (March 31, 2013: 122,000,000) equity shares of Rs.10/- each	1,220,000,000	1,220,000,000
13,000,000 (March 31, 2013: 13,000,000) preference shares of Rs.10/- each	130,000,000	130,000,000
Issued, subscribed and fully paid-up shares		
108,212,962 (March 31, 2013: 108,212,698) equity shares of Rs.10/- each fully paid up	1,082,129,620	1,082,126,980
Total issued, subscribed and fully paid-up share capital	**1,082,129,620**	**1,082,126,980**

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

Equity shares

	31-Mar-14		**31-Mar-13**	
	No. of Shares	**(Rupees)**	**No. of Shares**	**(Rupees)**
At the beginning of the year	108,212,698	1,082,126,980	72,356,895	723,568,950
Issued during the year - Stock options	264	2,640	907,734	9,077,340
Issued during the year - Qualified Institutional Placement	-	-	30,498,069	304,980,690
Issued during the year - Preferential allotment	-	-	4,450,000	44,500,000
Outstanding at the end of the year	108,212,962	1,082,129,620	108,212,698	1,082,126,980

(b) Terms/ rights attached to equity shares

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

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

Share capital includes Nil (March 31, 2013: 21,453,217) equity shares that are locked-in.

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

The Company has issued 2,462,755 shares (March 31, 2013: 2,462,511) during the period of five years immediately preceding the reporting date on exercise of options granted under stock option plans wherein part consideration was received in the form of services rendered to the Company.

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

Equity shares of Rs.10 each fully paid	**As at March 31, 2014**	
	No. of Shares	**% holding in the class**
Sandstone Investment Partners I	8,341,792	7.71%
Westbridge Ventures II, LLC (Formerly Sequoia Capital India II, LLC)	6,573,914	6.07%
Merriall Lynch Capital Markets Espana S.A S.V	6,112,173	5.65%
Kismet Microfinance	5,634,809	5.21%
Equity shares of Rs.10 each fully paid	**As at March 31, 2013**	
	No. of Shares	**% holding in the class**
CLSA (Mauritius) Limited	9,494,771	8.77%
Sandstone Investment Partners, I	8,341,792	7.71%
Kismet Microfinance	5,634,809	5.21%

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

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

Name of the Trust	31-Mar-14 No. of Shares	31-Mar-13 No. of Shares
SKS Mutual Benefit Trust, Narayankhed	3,030,547	1,705,585
SKS Mutual Benefit Trust, Medak	2,658,186	1,662,266
SKS Mutual Benefit Trust, Sadasivpet	2,658,177	1,662,266
SKS Mutual Benefit Trust, Jogipet	2,602,707	1,662,266
SKS Mutual Benefit Trust, Sangareddy	2,580,341	1,662,266

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

5. Reserves and surplus	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Securities premium account		
Balance as per the last financial statements	15,325,589,911	13,132,493,470
Add: additions on Qualified Institutional Placement	-	1,994,573,713
Add: additions on Preferential allotment	-	291,030,000
Add: additions on stock option exercised (cash premium)	36,960	36,121,481
Add: transferred from stock options outstanding (non-cash premium)	61,076	6,660,225
Less: share issue expenses	-	(135,288,978)
Closing Balance	**15,325,687,947**	**15,325,589,911**
Stock options outstanding		
Gross stock compensation for options granted in earlier years	272,293,052	342,766,256
Add: gross compensation for options granted/modified during the year	7,092,129	35,918,473
Less: gross compensation for options lapsed/forfeited/surrendered during the year	(61,495,511)	(99,731,452)
Less: deferred employee stock compensation	(20,901,833)	(64,972,247)
Less: transferred to securities premium on exercise of stock options	(61,076)	(6,660,225)
Closing Balance	**196,926,761**	**207,320,805**
Statutory reserve		
Balance as per the last financial statements	773,239,958	773,239,958
Add: amount transferred from surplus balance in the statement of profit and loss	139,701,963	-
Closing Balance	**912,941,921**	**773,239,958**
Surplus/ (deficit) in the statement of profit and loss		
Balance as per last financial statements	(13,484,357,543)	(10,512,970,902)
Add: Profit/ (Loss) for the year	698,509,815	(2,971,386,641)
Less: Transferred to Statutory Reserve [@ 20% of profit after tax as required by section 45-IC of Reserve Bank of India Act, 1934]	(139,701,963)	-
Net surplus/ (deficit) in the statement of profit and loss	**(12,925,549,691)**	**(13,484,357,543)**
Total reserves and surplus	**3,510,006,938**	**2,821,793,131**

	Non-current portion		Current maturities	
6. Long-term borrowings	**31-Mar-14 (Rupees)**	**31-Mar-13 (Rupees)**	**31-Mar-14 (Rupees)**	**31-Mar-13 (Rupees)**
Term loans				
Indian rupee loan from banks (secured)	2,519,523,795	1,994,260,033	7,807,813,149	6,718,497,286
Indian rupee loan from financial institutions (secured)	476,190,482	645,857,084	1,169,666,607	1,093,142,897
Indian rupee loan from non banking financial companies (secured)	6,355,925	15,918,376	9,568,626	8,332,843
Other loans and advances				
Finance lease obligation (secured)	-	-	-	2,608,149
	3,002,070,202	**2,656,035,493**	**8,987,048,382**	**7,822,581,175**

The above amount includes				
Secured borrowings	3,002,070,202	2,656,035,493	8,987,048,382	7,822,581,175
Amount disclosed under the head "other current liabilities" (note 9)	-	-	(8,987,048,382)	(7,822,581,175)
Net amount	**3,002,070,202**	**2,656,035,493**	**-**	**-**

Nature of security	**31-Mar-14**	**31-Mar-13**
a) Loans secured by hypothecation (exclusive charge) of portfolio loans	6,247,761,512	5,214,786,316
b) Loans secured by hypothecation (exclusive charge) of portfolio loans and margin money deposits	5,741,357,072	5,261,222,203
c) Financial lease obligation is secured by hypothecation of computers and laptops taken on lease.	-	2,608,149
Total outstanding	**11,989,118,584**	**10,478,616,668**

6. Long-term borrowings (Contd.)

Terms of repayment of long term borrowings (term loans) as on March 31, 2014

Original maturity of loan	Interest rate	Due within 1 year		Due between 1 to 2 Years		Due between 2 to 3 Years		Due between 3 to 4 Years		Due between 4 to 5 Years		Total
		No. of installments	Amount (in Rupees)	No. of installments	Amount (in Rupees)	No. of installments	Amount (in Rupees)	No. of installments	Amount (in Rupees)	No. of installments	Amount (in Rupees)	
Monthly repayment schedule												
1-3 Yrs	11.50%-12%	4	307,692,308	-	-	-	-	-	-	-	-	307,692,308
		5	192,307,692	-	-	-	-	-	-	-	-	192,307,692
	12% -13%	1	12,500,000	-	-	-	-	-	-	-	-	12,500,000
		11	157,142,857	3	42,857,143	-	-	-	-	-	-	200,000,000
		12	1,285,714,286	2	214,285,714	-	-	-	-	-	-	1,500,000,000
		10	125,000,000	-	-	-	-	-	-	-	-	125,000,000
		10	66,666,667	12	80,000,000	2	13,333,333	-	-	-	-	160,000,000
		2	41,666,667	-	-	-	-	-	-	-	-	41,666,667
		3	50,000,000	-	-	-	-	-	-	-	-	50,000,000
		11	392,857,143	-	-	-	-	-	-	-	-	392,857,143
		8	923,076,923	-	-	-	-	-	-	-	-	923,076,923
	13%-13.50%	5	83,333,335	-	-	-	-	-	-	-	-	83,333,335
		3	500,000,000	-	-	-	-	-	-	-	-	500,000,000
		7	875,000,000	-	-	-	-	-	-	-	-	875,000,000
		8	88,900,030	-	-	-	-	-	-	-	-	88,900,030
		4	83,333,336	-	-	-	-	-	-	-	-	83,333,336
		4	83,333,335	-	-	-	-	-	-	-	-	83,333,335
	13.50%-14%	9	150,000,000	-	-	-	-	-	-	-	-	150,000,000
		12	625,000,004	-	-	-	-	-	-	-	-	625,000,004
		11	523,809,524	10	476,190,476	-	-	-	-	-	-	1,000,000,000
Above 3 Yrs	11% - 11.50%	5	41,666,635	-	-	-	-	-	-	-	-	41,666,635
		5	41,666,635	-	-	-	-	-	-	-	-	41,666,635
	13%-15%	1	3,000,000	-	-	-	-	-	-	-	-	3,000,000
		12	7,452,800	4	2,758,250	-	-	-	-	-	-	10,211,050
		12	2,115,826	12	2,443,853	5	1,153,813	-	-	-	-	5,713,492

6. Long-term borrowings (Contd.)

Terms of repayment of long term borrowings (term loans) as on March 31, 2014

Quarterly repayment schedule												
1-3 Yrs	11.5%-12%	4	360,000,000	4	360,000,000	1	90,000,000	-	-	-	-	810,000,000
		4	40,000,000	4	40,000,000	1	10,000,000	-	-	-	-	90,000,000
	12% -13%	4	166,666,667	4	166,666,667	1	41,666,667	-	-	-	-	375,000,000
		2	125,000,000	-	-	-	-	-	-	-	-	125,000,000
		3	187,500,000	-	-	-	-	-	-	-	-	187,500,000
		3	107,142,857	4	142,857,143	-	-	-	-	-	-	250,000,000
		3	107,142,857	4	142,857,143	-	-	-	-	-	-	250,000,000
		3	150,000,000	4	200,000,000	3	150,000,000	-	-	-	-	500,000,000
	13% -14%	4	125,000,000	3	93,750,000	-	-	-	-	-	-	218,750,000
		4	75,000,000	3	56,250,000	-	-	-	-	-	-	131,250,000
		4	75,000,000	4	75,000,000	-	-	-	-	-	-	150,000,000
		4	60,000,000	4	60,000,000	-	-	-	-	-	-	120,000,000
		4	165,000,000	4	165,000,000	-	-	-	-	-	-	330,000,000
		2	50,000,000	-	-	-	-	-	-	-	-	50,000,000
	14% -15%	2	83,000,000	-	-	-	-	-	-	-	-	83,000,000
		2	100,000,000	-	-	-	-	-	-	-	-	100,000,000
		2	100,000,000	-	-	-	-	-	-	-	-	100,000,000
Above 3 Yrs	12% -12.50%	2	122,360,000	-	-	-	-	-	-	-	-	122,360,000
		3	125,000,000	4	166,666,667	4	166,666,667	1	41,666,667	-	-	500,000,000
Total			**8,987,048,382**		**2,487,583,055**		**472,820,480**		**41,666,667**		**-**	**11,989,118,584**

6. Long-term borrowings (Contd.)

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

Original maturity of loan	Interest rate	Due within 1 year		Due between 1 to 2 Years		Due between 2 to 3 Years		Due between 3 to 4 Years		Due between 4 to 5 Years		Total
		No. of installments	Amount (in Rupees)	No. of installments	Amount (in Rupees)	No. of installments	Amount (in Rupees)	No. of installments	Amount (in Rupees)	No. of installments	Amount (in Rupees)	
Monthly repayment schedule												
1-3 Yrs	12% -12.50%	10	125,000,000	2	25,000,000	-	-	-	-	-	-	150,000,000
		12	2,000,000,000	-	-	-	-	-	-	-	-	2,000,000,000
	12.50% -13%	8	222,222,222	-	-	-	-	-	-	-	-	222,222,222
	13% -13.50%	10	208,333,333	2	41,666,667	-	-	-	-	-	-	250,000,000
		12	200,000,000	3	50,000,000	-	-	-	-	-	-	250,000,000
		10	357,142,857	11	392,857,143	-	-	-	-	-	-	750,000,000
	13.50% -14%	10	1,666,666,672	2	333,333,329	-	-	-	-	-	-	2,000,000,001
		12	500,000,000	4	166,666,671	-	-	-	-	-	-	666,666,671
		12	133,333,320	8	88,900,031	-	-	-	-	-	-	222,233,351
	14% - 15%	12	624,999,996	12	625,000,004	-	-	-	-	-	-	1,250,000,000
Above 3 Yrs	11% - 12%	12	200,000,040	5	83,333,270	-	-	-	-	-	-	283,333,310
	13% - 14%	12	36,000,000	1	3,000,000	-	-	-	-	-	-	39,000,000
	14% -15%	12	6,485,059	12	7,471,990	4	2,735,318	-	-	-	-	16,692,367
		12	1,847,784	12	2,128,990	12	2,452,991	5	1,129,089	-	-	7,558,854

6. Long-term borrowings (Contd.)

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

Quarterly repayment schedule												
1-3 Yrs	9% -10%	3	124,999,985	-	-		-		-	-	-	124,999,985
	12% -13%	3	125,000,000	4	166,666,666	4	166,666,667	1	41,666,667	-	-	500,000,000
		1	20,836,200	-	-	-	-	-	-	-	-	20,836,200
	13% -14%	1	20,833,335	-	-	-	-	-	-	-	-	20,833,335
		3	31,249,998	-	-	-	-	-	-	-	-	31,249,998
		4	100,000,000	2	50,000,000	-	-	-	-	-	-	150,000,000
		1	83,333,336	-	-	-	-	-	-	-	-	83,333,336
		2	125,000,000	-	-	-	-	-	-	-	-	125,000,000
	14% -15%	4	166,800,000	2	83,000,000	-	-	-	-	-	-	249,800,000
		4	400,000,000	2	200,000,000	-	-	-	-	-	-	600,000,000
Above 3 Yrs	10% -11%	2	95,168,889	-	-	-	-	-	-	-	-	95,168,889
	12% -13%	4	244,720,000	2	122,360,000	-	-	-	-	-	-	367,080,000
Total			**7,819,973,026**		**2,441,384,761**		**171,854,976**		**42,795,756**		**-**	**10,476,008,519**

7. Provisions	Long-term 31-Mar-14 (Rupees)	Long-term 31-Mar-13 (Rupees)	Short-term 31-Mar-14 (Rupees)	Short-term 31-Mar-13 (Rupees)
Provision for employee benefits				
Provision for gratuity (refer note 32)	69,870,588	50,269,944	-	-
Provision for leave benefits	-	-	36,306,945	29,471,510
	69,870,588	**50,269,944**	**36,306,945**	**29,471,510**
Other provisions				
Provision for taxation (Net of advance tax)	-	-	61,800,924	195,438,195
Contingent provision against standard assets (refer note 34)	2,478,275	-	160,525,219	30,678,178
Provision for non-performing assets (refer note 34)	1,789,802,585	2,582,346,141	-	-
Provision on securitised/ managed portfolio (refer note 2s (iv))	-	-	126,919,644	18,658,341
	1,792,280,860	**2,582,346,141**	**349,245,787**	**244,774,714**
	1,862,151,448	**2,632,616,085**	**385,552,732**	**274,246,224**

8. Short-term borrowings	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Loan repayable on demand		
Cash credit from banks	970,276,117	1,646,879,453
Other loans and advances		
Indian rupee loan from banks (secured)	1,914,166,667	4,058,333,333
Indian rupee loan from non banking financial companies (secured)	439,061,968	-
	3,323,504,752	**5,705,212,786**
The above amount includes		
Secured borrowings	3,292,311,203	5,705,212,786

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

9. Other current liabilities	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Employee benefit payable	70,957,108	45,418,193
Payable towards asset assignment / securitisation transactions	1,798,361,121	1,409,033,824
Expenses payable	26,993,857	37,543,161
Other payable	252,157,889	88,000,325
Other liabilities		
Current maturities of long-term borrowings (refer note 6)	8,987,048,382	7,819,973,026
Current maturities of finance lease obligation (refer note 6)	-	2,608,149
Interest accrued but not due on borrowings	62,356,608	74,770,631
Interest accrued and due on borrowings	15,569,907	16,993,232
Statutory dues payable	12,469,960	23,615,285
Unrealised gain on securitisation transactions	371,504,412	269,649,511
Unamortized income		
Unamortized fees income	209,127,694	154,875,921
	11,806,546,938	**9,942,481,258**

10. Tangible assets	Furniture and fixtures	Computers	Office equipments	Vehicles	Assets on lease (Computers)	Total
	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)
Cost						
At April 1, 2012	164,903,304	302,037,169	65,830,533	2,791,150	22,581,051	558,143,207
Additions	749,238	128,515	2,018,362	261,551	-	3,157,666
Disposals	(41,619,287)	(108,386,356)	(14,358,048)	(2,748,325)	-	(167,112,016)
At March 31, 2013	**124,033,255**	**193,779,328**	**53,490,847**	**304,376**	**22,581,051**	**394,188,857**
Additions	779,651	3,283,536	2,798,185	-	-	6,861,372
Disposals	(6,376,926)	(1,269,706)	(2,054,798)	-	-	(9,701,430)
At March 31, 2014	**118,435,980**	**195,793,158**	**54,234,234**	**304,376**	**22,581,051**	**391,348,799**
Depreciation						
At April 1, 2012	130,209,192	229,808,893	22,013,222	1,553,672	12,632,628	396,217,607
Charge for the year	5,389,705	24,195,771	6,663,150	75,840	7,527,018	43,851,484
Disposals	(33,234,909)	(92,093,351)	(6,492,596)	(1,562,069)	-	(133,382,925)
At March 31, 2013	**102,363,988**	**161,911,313**	**22,183,776**	**67,443**	**20,159,646**	**306,686,166**
Charge for the year	4,070,280	13,195,287	4,662,463	61,342	2,421,405	24,410,777
Disposals	(6,054,746)	(1,061,933)	(1,088,685)	-	-	(8,205,364)
At March 31, 2014	**100,379,522**	**174,044,667**	**25,757,554**	**128,785**	**22,581,051**	**322,891,579**
Impairment loss						
At April 1, 2012	-	-	-	-	-	-
Charge for the year	200,453	916,562	1,682,985	-	-	-
At March 31, 2013	**200,453**	**916,562**	**1,682,985**	**-**	**-**	**2,800,000**
Charge for the year	(17,625)	(968)	(184,546)	-	-	(203,139)
At March 31, 2014	**182,828**	**915,594**	**1,498,439**	**-**	**-**	**2,596,861**
Net Block						
At March 31, 2013	**21,468,814**	**30,951,453**	**29,624,086**	**236,933**	**2,421,405**	**84,702,691**
At March 31, 2014	**17,873,630**	**20,832,897**	**26,978,241**	**175,591**	**-**	**65,860,359**

The Company does not have any other assets on lease except as disclosed above.
All assets have been recognized at cost

11. Intangible assets	**Computer software**	**Total**
Gross block		
At April 1, 2012	162,158,083	162,158,083
Addition	5,005,578	5,005,578
At March 31, 2013	**167,163,661**	**167,163,661**
Addition	20,145,044	20,145,044
At March 31, 2014	**187,308,705**	**187,308,705**
Amortization		
At April 1, 2012	119,546,973	119,546,973
Charge for the year	20,503,237	20,503,237
At March 31, 2013	**140,050,210**	**140,050,210**
Charge for the year	16,345,606	16,345,606
At March 31, 2014	**156,395,816**	**156,395,816**
Net block		
At March 31, 2013	**27,113,451**	**27,113,451**
At March 31, 2014	**30,912,889**	**30,912,889**

12. Non-current investments	**31-Mar-14 (Rupees)**	**31-Mar-13 (Rupees)**
Non-trade investments (valued at cost)		
Investment in equity instruments (unquoted)		
200,000 (March 31, 2013 : 200,000) Equity shares of Rs.10/- each fully paid-up in Alpha Micro Finance Consultants Private Limited	2,000,000	2,000,000
	2,000,000	**2,000,000**
Aggregate amount of unquoted investments	2,000,000	2,000,000

13. Deferred tax asset	**31-Mar-14 (Rupees)**	**31-Mar-13 (Rupees)**
Deferred tax asset		
Impact of expenditure charged to the statement of profit and loss in the current year but allowed for tax purposes on payment basis	12,340,731	9,562,031
Impact of difference between tax depreciation and depreciation/ amortization charged for the financial reporting	17,452,366	16,186,013
Impact of accumulated tax losses and unabsorbed depreciation	4,803,425,269	4,608,875,567
Impact of amortisation of share issue expenses	26,784,729	51,134,484
Impact of provision for standard and non performing assets	718,468,830	866,514,770
Others	84,930	192,076
Deferred tax asset	**5,578,556,855**	**5,552,464,941**
Deferred tax asset recognised	-	-

The deferred tax asset amounting to Rs. 5,578,556,855 as at March 31, 2014 has not been recognized (refer note 2 (l)). The said sum of Rs. 5,578,556,855 will be available to offset tax on future taxable income.

14. Loans and advances	Non-current 31-Mar-14 (Rupees)	Non-current 31-Mar-13 (Rupees)	Current 31-Mar-14 (Rupees)	Current 31-Mar-13 (Rupees)
A. Portfolio Loans				
Joint liability group loans				
Unsecured, considered good*	247,827,496	-	13,929,800,736	11,767,367,028
Unsecured, considered doubtful**	1,707,397,822	2,491,753,859	-	-
	1,955,225,318	**2,491,753,859**	**13,929,800,736**	**11,767,367,028**
Individual loans				
Secured, considered good*	-	-	543,629,103	503,903,969
Secured, considered doubtful**	98,107,296	140,850,564	-	-
	98,107,296	**140,850,564**	**543,629,103**	**503,903,969**
	2,053,332,614	**2,632,604,423**	**14,473,429,839**	**12,271,270,997**
Joint liability group loans placed as collateral towards asset assignment/ securitisation transaction (refer note 26)				
Unsecured, considered good*	-	-	679,663,334	404,892,002
Unsecured, considered doubtful**	111,766		-	-
	111,766	**-**	**679,663,334**	**404,892,002**
(A)	**2,053,444,380**	**2,632,604,423**	**15,153,093,173**	**12,676,162,999**

* Represents standard assets in accordance with Company's asset classification policy (refer note 2(s) & 34)
** Represents non-performing assets in accordance with Company's asset classification policy (refer note 2(s) & 34)

	Non-current 31-Mar-14	Non-current 31-Mar-13	Current 31-Mar-14	Current 31-Mar-13
B. Security deposits				
Unsecured, considered good	37,990,516	36,887,513	-	-
(B)	**37,990,516**	**36,887,513**	**-**	**-**
C. Advances recoverable in cash or kind				
Unsecured, considered good	6,534,482	6,638,785	55,452,915	110,711,363
Unsecured, considered doubtful	31,442,728	36,236,310	-	-
	37,977,210	**42,875,095**	**55,452,915**	**110,711,363**
Provision for doubtful advances	(31,442,728)	(36,236,310)	-	-
(C)	**6,534,482**	**6,638,785**	**55,452,915**	**110,711,363**
D. Other loans and advances (unsecured, considered good)				
Loans to SKS Microfinance Employees Benefit Trust (refer note 36)	54,168,606	54,168,606	-	-
Advance fringe benefit tax (net of provision)	937,183	937,183	-	-
Advance income tax (net of provision)	139,609,392	94,508,481	-	-
Prepaid expenses	-	-	26,467,534	29,095,426
(D)	**194,715,181**	**149,614,270**	**26,467,534**	**29,095,426**
Total (A+B+C+D)	**2,292,684,559**	**2,825,744,991**	**15,235,013,622**	**12,815,969,788**

	Non-current		Current	
15. Other assets	**31-Mar-14 (Rupees)**	**31-Mar-13 (Rupees)**	**31-Mar-14 (Rupees)**	**31-Mar-13 (Rupees)**
Non-current bank balances (refer note17)	317,801,957	343,764,218	-	-
Interest accrued but not due on portfolio loans	-	-	73,961,540	60,258,448
Interest accrued and due on portfolio loans	-	-	12,351,702	3,738,490
Interest accrued but not due on deposits placed with banks	10,711,346	20,498,356	86,749,281	40,364,110
Interest strip on securitisation transactions	-	-	371,504,412	269,649,511
Others-unsecured, considered good	-	-	9,225,013	7,966,400
	328,513,303	**364,262,574**	**553,791,948**	**381,976,959**

	Current	
16. Trade receivables	**31-Mar-14 (Rupees)**	**31-Mar-13 (Rupees)**
Outstanding for a period less than six months from the date they are due for payment		
Unsecured, considered good	51,070,879	5,556,288
	51,070,879	**5,556,288**

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

	Non-current		Current	
17. Cash and bank balances	**31-Mar-14 (Rupees)**	**31-Mar-13 (Rupees)**	**31-Mar-14 (Rupees)**	**31-Mar-13 (Rupees)**
Cash and cash equivalents				
Balances with banks				
On current accounts	-	-	4,012,334,365	4,366,489,403
Deposits with original maturity of less than three months	-	-	-	2,110,000,000
Cash on hand	-	-	139,794,756	106,770,998
	-	**-**	**4,152,129,121**	**6,583,260,401**
Other bank balances				
Margin money deposit (refer note (a) below)	317,801,957	343,764,218	2,244,945,962	2,022,616,814
	317,801,957	**343,764,218**	**2,244,945,962**	**2,022,616,814**
Amount disclosed under non-current assets (refer note 15)	**(317,801,957)**	**(343,764,218)**		
	-	**-**	**6,397,075,083**	**8,605,877,215**

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

18. Revenue from operations	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Interest income		
Interest income on portfolio loans	3,930,491,268	2,199,496,606
Income from securitisation/ assignment of loans (refer note 2b (iv) & 26)	557,013,966	583,050,865
Other operating revenue		
Loan processing fees	337,535,323	229,585,028
Recovery against loans written off	178,265,915	161,486,889
Interest on margin money deposits*	186,611,931	148,356,058
	5,189,918,403	**3,321,975,446**

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

19. Other income	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Interest on fixed deposits	67,835,277	96,120,041
Other fee income	188,217,521	101,093,474
Profit on sale of assets	319,996	-
Miscellaneous income	2,062,116	6,448,121
	258,434,910	**203,661,636**

20. Employee benefit expenses	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Salaries and bonus/ incentives	1,493,262,322	1,517,530,958
Leave benefits	19,285,668	12,804,004
Contribution to provident fund	51,527,132	57,931,578
Contribution to Employee State Insurance Corporation	26,359,199	29,835,904
Gratuity expenses (refer note 32)	19,600,644	9,041,272
Staff welfare expenses	68,474,015	84,019,456
Stock option expenditure	(22,876,269)	15,541,113
	1,655,632,711	**1,726,704,285**

Employee benefit expenses include termination benefits of Rs.20,821,941 for the period ended March 31, 2014 (March 31, 2013: Rs.57,878,423)

21. Finance costs	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Interest		
On term loans from banks	1,649,564,916	958,087,512
On term loans from financial institutions	175,896,250	161,069,844
On term loans from non banking financial companies	37,677,525	7,290,764
On bank overdraft facility	58,349,933	130,460,325
On shortfall in payment of advance income tax	16,358,708	13,452,511
Finance charges for leased assets	103,834	1,003,526
Other finance costs	201,672,841	153,436,610
Bank charges	2,590,368	2,390,996
	2,142,214,375	**1,427,192,088**

22. Other expenses	**31-Mar-14 (Rupees)**	**31-Mar-13 (Rupees)**
Rent	135,279,346	141,234,225
Rates and taxes	2,613,066	3,089,041
Insurance	16,968,504	25,867,029
Repairs and maintenance		
Plant and machinery	12,538,367	8,574,145
Others	70,300,785	76,639,189
Electricity charges	24,338,218	26,403,222
Travelling and conveyance	254,613,158	291,320,165
Communication expenses	46,185,348	46,852,545
Printing and stationery	37,492,756	37,392,451
Legal and professional fees	78,104,323	91,250,682
Directors' sitting fees	1,020,000	710,000
Directors stock option expenditure	12,543,301	13,069,631
Auditors' remuneration (refer details below)	9,290,875	8,612,820
Other provisions and write off	40,917,041	37,710,273
Loss on sale of fixed assets	-	4,862,388
Miscellaneous expenses	23,322,371	20,956,097
	765,527,459	**834,543,903**

Payment to auditors	**31-Mar-14 (Rupees)**	**31-Mar-13 (Rupees)**
As auditor:		
Audit fee	4,950,000	4,550,000
Limited review	2,850,000	2,550,000
In other capacity:		
Other services (certification fees)	580,000	400,000
Reimbursement of expenses	910,875	1,112,820
	9,290,875	**8,612,820**

23. Depreciation and amortization expense	**31-Mar-14 (Rupees)**	**31-Mar-13 (Rupees)**
Depreciation of tangible assets	24,410,777	43,851,484
Amortization of intangible assets	16,345,606	20,503,237
	40,756,383	**64,354,721**

24. Provisions and write-offs	**31-Mar-14 (Rupees)**	**31-Mar-13 (Rupees)**
Contingent provision against standard assets (refer note 34)	132,325,317	(15,032,315)
Provision for non-performing assets (refer note 34)	(792,543,557)	2,189,143,759
Portfolio loans and other balances written off	696,936,611	313,295,041
Provision and loss on securitized/ assigned/ managed portfolio (refer note 2 b & s (iv))	108,994,199	(43,177,759)
	145,712,570	**2,444,228,726**

25. Earnings per share (EPS)

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

	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Net Profit/ loss for calculation of basic EPS	698,509,815	(2,971,386,641)
Net Profit/ loss for calculation of diluted EPS	698,509,815	(2,971,386,641)

	No. of shares	No. of shares
Weighted average number of equity shares in calculating basic EPS	**108,212,728**	**97,266,721**
Effect of dilution:		
Stock options granted under ESOP*	255,385	Nil
Weighted average number of equity shares in calculating diluted EPS	**108,468,113**	**97,266,721**

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

26. Securitisation/ Assignment of loans

Disclosure as per RBI circular DBOD.NO.BP.BC.60/ 21.04.048/2005-06 dated February 1, 2006:

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

Particulars	**For the year ended March 31, 2014**	**For the year ended March 31, 2013**
Total number of loans securitized/assigned	2,089,215	1,632,773
Total book value of loans securitized/assigned	16,931,480,950	11,946,724,765
Total book value of loans securitized/assigned including loans placed as collateral	18,173,425,001	12,569,264,979
Sale consideration received for loans securitized/ assigned	16,931,480,950	11,946,724,765
Income recognised in the statement of profit and loss	557,013,966	583,050,865
Particulars	**As at March 31, 2014**	**As at March 31, 2013**
Credit enhancements provided and outstanding (Gross):		
Interest subordination*	371,504,412	21,611,770
Principal subordination	679,775,100	404,892,002
Cash collateral	1,567,780,869	1,842,356,809
Corporate Guarantee	-	50,000,000

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

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

		For the year ended March 31, 2014		For the year ended March 31, 2013	
S.No.	**Particulars**	**Numbers**	**Amount**	**Numbers**	**Amount**
1.	No. of SPVs sponsored by the NBFC for securitisation transactions during the year	13	16,931,480,950	12	11,446,732,730
2.	Total amount of securitised assets as per the books of the SPVs sponsored by the NBFC as on the date of balance sheet:		12,050,400,392		8,252,044,752
3.	Total amount of exposures retained by the NBFC to comply with minimum retention requirement ('MRR') as on the date of balance sheet:		679,775,100		404,892,002
	a) Off balance sheet exposures				
	-First loss		-		-
	-Others		-		-
	b) On balance sheet exposures				
	-First loss		679,775,100		404,892,002
	-Others		-		-
4.	Amount of exposures to securtisation transactions other than MRR:		1,939,285,281		1,738,524,902
	a) Off-balance sheet exposures				
	i) Exposure to own securitisations				
	-First loss		-		-
	-Others		-		-
	ii) Exposure to third party securitisations				
	-First loss		-		-
	-Others		-		-
	a) On-balance sheet exposures				
	i) Exposure to own securitisations				
	-First loss		1,939,285,281		1,738,524,902
	-Others		-		-
	ii) Exposure to third party securitisations				
	-First loss		-		-
	-Others		-		-

27. Segment information

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

28. Related parties

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

Key Management Personnel	Mr. M.R.Rao, Managing Director and Chief Executive Officer Mr. S. Dilli Raj, President (Chief Financial Officer till February 4, 2014)

b. Related party transactions

Particulars	Key Management Personnel	
	31-Mar-14	31-Mar-13
Transactions during the year		
Salary, incentives & perquisites – Mr. M.R. Rao (refer note 1 below)	15,810,800	16,226,936
Salary, incentives & perquisites – Mr. S. Dilli Raj	12,341,674	6,922,122
Balances as at year end		
Incentive payable – Mr. M.R. Rao	-	-
Incentive payable – Mr. S. Dilli Raj	-	-

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

29. Capital and other commitments

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

Particulars	March 31, 2014	March 31, 2013
For development of computer software	8,551,012	943,000
For purchase of computer peripherals	1,380,000	-

30. Contingent liabilities not provided for

Particulars	March 31, 2014	March 31, 2013
Credit enhancements provided by the Company towards securitisation (including cash collaterals, principal and interest subordination)	2,317,185,220	2,050,236,250
Performance security provided by the Company pursuant to service provider agreement	327,026,873	20,000,000
Tax on items disallowed by the Income Tax department not acknowledged as debt by the Company*	9,578,882	42,346,628

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

31. Stock option scheme

The Company has provided various share-based payment schemes to its Directors and Employees. The plans in operation are Plan I (Managing Director), Plan II (Other Independent Directors) and Plan III (Employees) while 'a', 'b', 'c', 'd', 'e', 'f', 'g', 'h', 'i', 'j' are the different grants made under these plans. During the year ended March 31, 2014, the following series were in operation:

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

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

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

*** Exercise period extended upto February 1, 2016.

**** Exercise period extended upto July 29, 2014

Particulars	**Plan III (a)**	**Plan III (b)**	**Plan III (c)**	**Plan III (d)**	**Plan III (e)**
Date of grant	Nov 3, 2009	Dec 15, 2009	Dec 15, 2009	May 4, 2010	May 4, 2010
Date of Board approval	July 29, 2009	Nov 4, 2009	Nov 4, 2009	May 4, 2010	May 4, 2010
Date of shareholder's approval	Sep 30, 2009	Dec 10, 2009	Dec 10, 2009	Dec 10, 2009	Dec 10, 2009
Number of options granted	514,750	1,313,160	568,000	4,340	6,000
Exercise price	Rs.300	Rs.150	Rs.300	Rs.150	Rs.300
Method of settlement	Equity	Equity	Equity	Equity	Equity
Vesting period	End of year 1 – 40% End of year 2 – 25% End of year 3 – 25% End of year 4 – 10%	20 % equally at the end of each year	20 % equally at the end of each year	20 % equally at the end of each year	20 % equally at the end of each year
Exercise period	60 months from the date of grant	72 months from the date of grant	72 months from the date of grant	72 months from the date of grant	72 months from the date of grant
Vesting conditions	Refer note 1	Refer note 1	Refer note 1	Refer note 1	Refer note 1
Name of the plan	ESOP 2009	ESOP 2009	ESOP 2009	ESOP 2009	ESOP 2009

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

(Amount in Rupees unless otherwise stated)

Particulars	**Plan III (f)**	**Plan III (g)**	**Plan III (h)**	**Plan III (i)**	**Plan III (j)**
Date of grant	Sep 7, 2011	Mar 22, 2013	Aug 23, 2013	Oct 23, 2013	Feb 04, 2014
Date of Board approval	Sep 7, 2011	Mar 22, 2013	Aug 23, 2013	Oct 23, 2013	Feb 04, 2014
Date of shareholder's approval	Nov 8, 2008, Sep 30, 2009, July 16, 2010	Dec 07, 2011	Dec 07, 2011	Dec 07, 2011	Dec 07, 2011
Number of options granted	1,486,329	119,112	15,760	11,564	58,000
Exercise price	Rs.229.40	Rs. 150	Rs.113	Rs.160.45	Rs.174.95
Method of settlement	Equity	Equity	Equity	Equity	Equity
Vesting period	50 % equally at the end of each year	End of year 1 – 33% End of year 2 – 33% End of year 3 – 34%	25 % equally at the end of each year	25 % equally at the end of each year	25 % equally at the end of each year
Exercise period	36 months from the date of vesting	On or before Mar 21, 2018	On or before Aug 22, 2018	On or before Oct 22, 2018	On or before Feb 03, 2019
Vesting conditions	Refer note 1	Refer note 1	Refer note 1	Refer note 1	Refer note 1
Name of the plan	ESOP 2008 ESOP 2009 ESOP 2010	ESOP 2011	ESOP 2011	ESOP 2011	ESOP 2011

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

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

Particulars	**As at March 31, 2014**		**As at March 31, 2013**	
	Number of options	**Weighted average exercise price (Rs.)**	**Number of options**	**Weighted average exercise price (Rs.)**
Outstanding at the beginning of the year	1,769,537	300.00	1,769,537	300.00
Granted during the year				
Forfeited during the year	1,769,537	300.00	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	-	-	1,769,537	300.00
Exercisable at the end of the year	-	-	1,769,537	300.00
Weighted average remaining contractual life (in years)	-	-	0.6	-
Weighted average fair value of options granted	-	-	-	2.92

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

Particulars	**As at March 31, 2014**		**As at March 31, 2013**	
	Number of options	**Weighted average exercise price (Rs.)**	**Number of options**	**Weighted average exercise price (Rs.)**
Outstanding at the beginning of the year	-	-	225,000	300.00
Granted during the year	-	-	-	-
Forfeited during the year	-	-	225,000	300.00
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	-	-	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	-	-	-	-
Weighted average fair value of options granted	-	-	-	-

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

Particulars	**As at March 31, 2014**		**As at March 31, 2013**	
	Number of options	**Weighted average exercise price (Rs.)**	**Number of options**	**Weighted average exercise price (Rs.)**
Outstanding at the beginning of the year	15,000	70.67	15,000	70.67
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	15,000	70.67	15,000	70.67
Exercisable at the end of the year	15,000	70.67	15,000	70.67
Weighted average remaining contractual life (years)*	1.8	-	2.8	-
Weighted average fair value of options granted	-	17.72	-	17.72

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

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

Particulars	**As at March 31, 2014**		**As at March 31, 2013**	
	Number of options	**Weighted average exercise price (Rs.)**	**Number of options**	**Weighted average exercise price (Rs.)**
Outstanding at the beginning of the year	3,000	70.67	4,000	70.67
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	1,000	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,000	70.67	3,000	70.67
Exercisable at the end of the year	3,000	70.67	3,000	70.67
Weighted average remaining contractual life (years)*	1.8	-	2.8	-
Weighted average fair value of options granted	-	52.14	-	52.14

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

The weighted average share price on the date of exercise of 1,000 stock options was Rs.154.55.

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

Particulars	**As at March 31, 2014**		**As at March 31, 2013**	
	Number of options	**Weighted average exercise price (Rs.)**	**Number of options**	**Weighted average exercise price (Rs.)**
Outstanding at the beginning of the year	18,000	300.00	18,000	300.00
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	18,000	300.00	18,000	300.00
Exercisable at the end of the year	18,000	300.00	18,000	300.00
Weighted average remaining contractual life (in years)*	0.3	-	1.3	-
Weighted average fair value of options granted	-	21.57	-	21.57

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

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	49,500	300.00	49,500	300.00
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year*	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	49,500	300.00	49,500	300.00
Exercisable at the end of the year	49,500	300.00	36,000	300.00
Weighted average remaining contractual life (in years)	0.8	-	1.8	-
Weighted average fair value of options granted	-	72.53	-	72.53

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	300,000	109.95	300,000	109.95
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	300,000	109.95	300,000	109.95
Exercisable at the end of the year	198,000	-	99,000	-
Weighted average remaining contractual life (in years)	3.7	-	4.7	-
Weighted average fair value of options granted	-	77.23	-	77.23

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	400,000	150.00	-	-
Granted during the year	-	-	400,000	150.00
Forfeited during the year	100,000	150.00	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	300,000	150.00	400,000	150.00
Exercisable at the end of the year	99,000	150.00	-	-
Weighted average remaining contractual life (in years)	3.9	-	4.9	-
Weighted average fair value of options granted	-	71.81	-	71.81

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	192,190	300.00	260,640	300.00
Granted during the year				
Forfeited / surrendered during the year	31,600	300.00	68,450	300.00
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	160,590	300.00	192,190	300.00
Exercisable at the end of the year	160,590	300.00	159,170	300.00
Weighted average remaining contractual life (in years)	0.6	-	1.6	-
Weighted average fair value of options granted	-	41.18	-	41.18

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	556,319	150.00	788,363	150.00
Granted during the year	-	-	-	-
Forfeited during the year	148,952	150.00	232,044	150.00
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	407,367	150.00	556,319	150.00
Exercisable at the end of the year	315,101	150.00	280,593	150.00
Weighted average remaining contractual life (in years)	1.6	-	2.6	-
Weighted average fair value of options granted	-	115.30	-	115.30

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	153,540	300.00	284,540	300.00
Granted during the year	-	-	-	-
Forfeited / surrendered during the year	28,300	300.00	131,000	300.00
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	125,240	300.00	153,540	300.00
Exercisable at the end of the year	104,040	300.00	83,580	300.00
Weighted average remaining contractual life (in years)	1.6	-	2.6	-
Weighted average fair value of options granted	-	69.29	-	69.29

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	2,704	150	2,704	150
Granted during the year	-	-	-	-
Forfeited during the year	792	150	-	-
Exercised during the year	264	150	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	1,648	150	2,704	150
Exercisable at the end of the year	964	150	849	150
Weighted average remaining contractual life (in years)	2.1	-	3.1	-
Weighted average fair value of options granted	-	233.75	-	233.75

The weighted average share price on the date of exercise of stock options was Rs.173.47.

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	3,000	300	3,000	300
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,000	300	3,000	300
Exercisable at the end of the year	1800	300	1200	300
Weighted average remaining contractual life (in years)	2.1	-	3.1	-
Weighted average fair value of options granted	-	152.53	-	152.53

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	806,099	229.40	1,216,135	229.40
Granted during the year	-	-	-	-
Forfeited / surrendered during the year	187,616	229.40	410,036	229.40
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	618,483	229.40	806,099	229.40
Exercisable at the end of the year	618,483	229.40	403,050	-
Weighted average remaining contractual life (in years)	2.4	-	3.4	-
Weighted average fair value of options granted	-	146.37	-	146.37

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

Particulars	**As at March 31, 2014**		**As at March 31, 2013**	
	Number of options	**Weighted average exercise price (Rs.)**	**Number of options**	**Weighted average exercise price (Rs.)**
Outstanding at the beginning of the year	119,112	150.00	-	-
Granted during the year	-	-	119,112	150.00
Forfeited during the year	11,564	150.00	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	107,548	150.00	119,112	150.00
Exercisable at the end of the year	35,491	150.00	-	-
Weighted average remaining contractual life (in years)	4.0	-	5.0	-
Weighted average fair value of options granted	-	57.43	-	57.43

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

Particulars	**As at March 31, 2014**		**As at March 31, 2013**	
	Number of options	**Weighted average exercise price (Rs.)**	**Number of options**	**Weighted average exercise price (Rs.)**
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	15,760	113.00	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	15,760	113.00	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	4.4	-	-	-
Weighted average fair value of options granted	-	57.37	-	-

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	11,564	160.45	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	11,564	160.45	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	4.6	-	-	-
Weighted average fair value of options granted	-	76.08	-	-

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

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	58,000	174.95	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	58,000	174.95	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	4.9	-	-	-
Weighted average fair value of options granted	-	91.52	-	-

Details of exercise price for stock options outstanding as at March 31, 2014:

Series	Range of exercise prices	Number of options outstanding (31-Mar-14)	Number of options outstanding (31-Mar-13)	Weighted average remaining contractual life of options (in years) (31-Mar-14)	Weighted average remaining contractual life of options (in years) (31-Mar-13)	Weighted average exercise price
Options outstanding as on 31-Mar-14 and 31-Mar-13:						
Plan I (b)	300.00	-	1,769,537	-	0.6	300.00
Plan II(b)	70.67	15,000	15,000	1.8	2.8	70.67
Plan II (c)	70.67	3,000	3,000	1.8	2.8	70.67
Plan II (d)	300.00	18,000	18,000	0.3	1.3	300.00
Plan II (e)	300.00	49,500	49,500	0.8	1.8	300.00
Plan II (f)	109.95	300,000	300,000	3.7	4.7	109.95
Plan II (g)	150.00	300,000	400,000	0.6	1.6	150.00
Plan III (a)	300.00	160,690	192,190	1.6	2.6	300.00

Plan III (b)	150.00	407,367	556,319	1.6	2.6	150.00
Plan III (c)	300.00	125,140	153,540	2.1	3.1	300.00
Plan III (d)	150.00	1,648	2,704	2.1	3.1	150.00
Plan III (e)	300.00	3,000	3,000	2.4	3.4	300.00
Plan II (f)	229.40	618,483	806,099	3.9	4.9	229.40
Plan III (g)	150.00	107,548	119,112	4.0	5.0	150.00
Options granted during the year and outstanding as on 31-Mar-14:						
Plan III (h)	113.00	15,760	-	4.4	-	113.00
Plan III (i)	160.45	11,564	-	4.6	-	160.45
Plan III (j)	174.95	58,000	-	4.9	-	174.95

Stock options granted during the year:

Plan III (h): The weighted average fair value of stock options granted during the year was Rs.57.37. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

Particulars	**Tranche vesting in FY 2014-15**	**Tranche vesting in FY 2015-16**	**Tranche vesting in FY 2016-17**	**Tranche vesting in FY 2017-18**
Share price on the date of grant (Rs.)	113.90	113.90	113.90	113.90
Exercise price (Rs.)	113.00	113.00	113.00	113.00
Expected volatility (%)	54.10	54.10	54.10	54.10
Life of the options granted (years)	3.0	3.5	4.0	4.5
Risk-free interest rate (%)	9.27	9.19	9.11	9.05
Expected dividend rate (%)	0%	0%	0%	0%
Fair value of the option	51.66	55.71	59.38	62.73

Plan III (i): The weighted average fair value of stock options granted during the year was Rs.76.08. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

Particulars	**Tranche vesting in FY 2014-15**	**Tranche vesting in FY 2015-16**	**Tranche vesting in FY 2016-17**	**Tranche vesting in FY 2017-18**
Share price on the date of grant (Rs.)	155.40	155.40	155.40	155.40
Exercise price (Rs.)	160.45	160.45	160.45	160.45
Expected volatility (%)	55.06	55.06	55.06	55.06
Life of the options granted (years)	3.0	3.5	4.0	4.5
Risk-free interest rate (%)	8.45	8.47	8.49	8.51
Expected dividend rate (%)	0%	0%	0%	0%
Fair value of the option	68.01	73.71	78.93	83.68

Plan III (j): The weighted average fair value of stock options granted during the year was Rs.91.52. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

Particulars	**Tranche vesting in FY 2014-15**	**Tranche vesting in FY 2015-16**	**Tranche vesting in FY 2016-17**	**Tranche vesting in FY 2017-18**
Share price on the date of grant (Rs.)	178.30	178.30	178.30	178.30
Exercise price (Rs.)	174.95	174.95	174.95	174.95
Expected volatility (%)	55.90	55.06	55.06	55.06
Life of the options granted (years)	3.0	3.5	4.0	4.5
Risk-free interest rate (%)	8.82	8.84	8.87	8.89
Expected dividend rate (%)	0%	0%	0%	0%
Fair value of the option	82.37	88.83	94.75	100.13

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

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

Particulars	**For the year ended March 31, 2014**	**For the year ended March 31, 2013**
Directors stock option expenditure	12,543,301	13,069,631
Employees stock option expenditure	(22,876,269)	15,541,113
Subtotal	**(10,332,968)**	**28,610,744**
Total compensation cost pertaining to equity-settled employee share based payment	**(10,332,968)**	**28,610,744**

Particulars	**As at March 31, 2014**	**As at March 31, 2013**
Stock options outstanding (gross)	217,828,594	272,293,052
Deferred compensation cost outstanding	(20,901,833)	(64,972,247)
Stock options outstanding (net)	196,926,761	207,320,805

32. Retirement benefits

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

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

Statement of profit and loss

Net employees benefit expense (recognised in employees benefit expense):

Particulars	**For the year ended March 31, 2014**	**For the year ended March 31, 2013**
Current service cost	14,823,396	19,320,701
Interest cost on benefit obligation	6,260,147	6,750,819
Expected return on plan assets	(2,434,425)	(3,193,877)
Net actuarial (gain) / loss recognised in the year	951,526	(13,836,371)
Past service cost	-	-
Net employee benefit expense	**19,600,644**	**9,041,272**
Return on plan assets*	**1,482,899**	**2,983,762**

**Represents expected return as determined by the actuary for financial year 2013-14.*

Balance Sheet

Details of provision for gratuity:

Particulars	**Gratuity**	
	March 31, 2014	**March 31, 2013**
Defined benefit obligation	87,519,363	78,251,840
Fair value of plan assets	(17,648,775)	(27,981,896)
Plan liability	**69,870,588**	**50,269,944**

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

Particulars	Gratuity	
	March 31, 2014	**March 31, 2013**
Opening defined benefit obligation	78,251,840	79,421,404
Interest cost	6,260,147	6,750,819
Current service cost	14,823,396	19,320,701
Benefits paid	(11,827,411)	(13,194,598)
Actuarial (gains) / losses on obligation	11,391	(14,046,486)
Closing defined benefit obligation	**87,519,363**	**78,251,840**

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

Particulars	Gratuity	
	March 31, 2014	**March 31, 2013**
Opening fair value of plan assets	27,981,896	37,575,021
Expected return	2,434,425	3,193,877
Contributions by employer	-	617,711
Benefits paid	(11,827,411)	(13,194,598)
Actuarial gains / (losses)	(940,135)	(210,115)
Closing fair value of plan assets	**17,648,775**	**27,981,896**

The Company expects to contribute Rs.12,649,458 (March 31, 2013: Rs. 1,500,000) to gratuity in the next year.

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

Particulars	Gratuity	
	March 31, 2014	**March 31, 2013**
Investment with insurer	100%	100%

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

The principal assumptions used in determining gratuity:

Particulars	Gratuity	
	March 31, 2014	**March 31, 2013**
Discount rate	9.14%	8.00%
Expected rate of return on assets	8.70%	8.70%
Salary escalation rate per annum	10% for the first two years and 7% there after	10% for the first two years and 7% there after
Rates of leaving service	15%	15%

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

Particulars	Gratuity				
	31-Mar-14	**31-Mar-13**	**31-Mar-12**	**31-Mar-11**	**31-Mar-10**
Defined benefit obligation	87,519,363	78,251,840	79,421,404	68,883,615	36,483,997
Plan assets	17,648,775	27,981,896	37,575,021	39,825,147	34,887,552
Surplus/ (deficit)	(69,870,588)	(50,269,944)	(41,846,383)	(29,058,468)	(1,596,445)
Experience adjustments on plan liabilities	11,391	(14,046,486)	(17,347,115)	4,648,214	4,582,747
Experience adjustments on plan assets	(940,135)	(210,115)	(1,148,560)	(2,044,673)	(1,549,280)

33. Expenditure in foreign currency (on accrual basis)

Particulars	**For the year ended March 31, 2014**	**For the year ended March 31, 2013**
Professional fees	7,325,755	25,059,000
Travelling expenses	278,009	1,601,768
Membership and subscriptions	190,500	240,999
Software maintenance	133,403	186,047
Total	**7,927,667**	**27,087,814**

34. Loan portfolio and provision for standard and non performing assets as at March 31, 2014:

Asset classification	Portfolio loans outstanding (Gross)		Provision for standard and non performing assets				Portfolio loans outstanding (Net)	
	As at March 31, 2014	As at March 31, 2013	As at March 31, 2013	Provision made during the year	Provision written back during the year	As at March 31, 2014	As at March 31, 2014	As at March 31, 2013
Standard assets	15,400,920,668	12,271,270,996	30,678,178	132,325,316	-	163,003,494	15,237,917,174	12,240,592,818
Sub-standard assets*	16,635,844	199,793,127	149,534,844	-	146,655,699	2,879,145	13,756,700	50,258,283
Doubtful assets*	2,572,000	27,894,437	27,894,437	-	27,380,037	514,400	2,057,600	-
Loss assets*	1,786,409,040	2,404,916,860	2,404,916,860	-	618,507,820	1,786,409,040	-	-
Total	**17,206,537,553**	**14,903,875,420**	**2,613,024,319**	**132,325,316**	**792,543,556**	**1,952,806,079**	**15,253,731,474**	**12,290,851,101**

Note: Figures as at March 31, 2013 in the above table does not include loans placed as collateral towards securitisation / assignment transaction amounting to Rs.404,892,002, as the provisioning thereof is done collectively alongwith the loan asset securitized/ assigned .

Figures as at March 31, 2014 in the above table includes loans placed as collateral towards securitisation / assignment transaction amounting to Rs.679,775,100 and provision thereon of Rs. 6,797,751.

*Non-performing assets include amount of Rs. 1,786,409,040 representing portfolio in the state of Andhra Pradesh which has been fully provided for.

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

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

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

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

35. Leases

Finance Lease:

The Company had obtained computers on finance lease for three years with no escalation clause in the lease agreement. There were no restrictions imposed by lease arrangements. There is no finance lease outstanding as at March 31, 2014.

Description	March 31, 2014	March 31, 2013
Total minimum lease payments at the year end	-	2,231,008
Less : amount representing finance charges	-	103,834
Present value of minimum lease payments (Rate of interest: 13% p.a.)	**-**	**2,127,174**
Contingent rent recognised in the statement of profit and loss		
Minimum Lease Obligations		
Not later than one year [Present value of Rs. Nil as on March 31, 2014 (Rs. 1,567,868 as on March 31, 2013)]	-	2,231,008
Later than one year but not later than five years year [Present value of Rs.Nil as on March 31, 2014 (Rs. Nil as on March 31, 2013)]	-	-
Later than five years	-	-

Operating Lease

Office Premises:

Head office, registered office and branch office premises are obtained on operating lease. The branch office premises are generally rented on cancellable term ranging from twelve months to thirty six months with or without escalation clause, however none of the branch lease agreement carries non-cancellable lease periods. The registered office premise has been obtained on a lease term of thirty six months with an escalation clause of five percent after every twelve months. There are no restrictions imposed by lease arrangements. There are no subleases. Lease payments during the year are charged to statement of profit and loss.

Description	March 31, 2014	March 31, 2013
Operating lease expenses recognised in the statement of profit and loss	135,279,346	141,234,225
Minimum lease obligations		
Not later than one year	2,042,490	16,416,445
Later than one year but not later than five years	3,297,102	-
Later than five years	-	-

Vehicles:

The Company has taken certain vehicles on cancellable operating lease. Total lease expense under cancellable operating lease during the year was Rs. 8,989,979 (Previous year: Rs. 9,225,353).

36. The Company has given interest free collateral free loan to an employee benefit trust under the Employee Stock Purchase Scheme to provide financial assistance to its employees to purchase equity shares of the Company under such scheme. The loan is repayable by the Trust under a back to back arrangement by the Trust with the employees of the Company. The year-end balance for the total loan granted is Rs. 54,168,606 (March 31, 2013: Rs. 54,168,606).

37. During the year, the Company received two demand orders from service tax authorities against the show-cause notices received in earlier years. The orders pertain to applicability of service tax on various items like income from asset assignment transactions, administration charges collected by the Company on distribution of insurance products to its borrowers, reimbursement of certain expenses from an insurance company, etc. The amount of service tax demanded aggregates to Rs.460,522,457 (plus penalty and interest, as applicable). The Company has filed appeals and stay petition against these demand orders with The Customs, Excise and Service Tax Appellate Tribunal ('CESTAT').

Based on the merits of the case, the Company and its tax advisors believe that its position is likely to be upheld in the appellate process for the above matters. Accordingly, no provision has been made for the amounts mentioned above as at March 31, 2014.

38. Dues to micro, small and medium enterprises

There are no amounts that need to be disclosed in accordance with the Micro Small and Medium Enterprise Development Act, 2006 (the 'MSMED') pertaining to micro or small enterprises.

For the year ended March 31, 2014, no supplier has intimated the Company about its status as micro or small enterprises or its registration with the appropriate authority under MSMED.

39. Additional disclosures required by the RBI

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

Item	March 31, 2014	March 31, 2013
CRAR (%)	27.19%	33.85%
CRAR – Tier I Capital (%)	27.19%	33.85%
CRAR – Tier II Capital (%)	0.00%	0.00%

The modifications to the NBFC-MFI directions issued by RBI vide its circular no.RBI/2012-13/161 DNBS (PD) CC.No.300 /03.10.038/2012-13 dated August 3, 2012 have specified that provision made towards portfolio in the state of Andhra Pradesh should be in accordance with extant NBFC prudential norms and such provision should be added back notionally to the net owned funds for the purpose of calculation of the capital to risk assets ratio ('CRAR') and would be progressively reduced by 20% each year, over 5 years i.e. from March 31, 2013 to March 31, 2017. As per the progressive reduction 80% of provisioning made towards portfolio in the state of Andhra Pradesh has been notionally reckoned as a part of net own funds. Had the amount of provision mentioned above not been added back to the net owned funds, the CRAR as at March 31, 2014 would have been 20.66% (March 31, 2013: 20.65%).

b. The Company has no exposure to the real estate sector directly or indirectly in the current and previous year.

c. Information on instances of fraud

Instances of fraud for the year ended March 31, 2014:

Nature of fraud	No. of cases	Amount of fraud	Recovery	Amount written-off
Cash embezzlement	49	9,285,788	5,384,962	3,900,826
Loans given against fictitious documents	20	6,260,275	2,113,545	4,146,730
Fraud by borrowers	8	387,900	12,383	375,517

Instances of fraud for the year ended March 31, 2013:

Nature of fraud	No. of cases	Amount of fraud	Recovery	Amount written-off
Cash embezzlement	120	12,762,403	1,743,054	11,019,349
Loans given against fictitious documents	43	8,332,870	948,664	7,384,206
Fraud by external party*	1	455,000	-	-

*This amount has been provided for in financial year 2013-14.

d. Information on Net Interest Margin during the year:

Particulars	For the year ended March 31, 2014
Average interest (a)	20.98%
Average effective cost of borrowing (b)	13.98%
Net interest margin (a-b)	7.00%

e. Outstanding of loans against security of gold as a percentage to total assets is 2.24% (March 31, 2013: 2.23%).

f. Maturity pattern of assets and liabilities:

Maturity pattern of assets and liabilities as on March 31, 2014:

(Rs. in Crores)

Particulars	Upto 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Liabilities									
Borrowings from banks	219.2	108.4	132.6	283.4	321.1	252.3	4.2	-	**1,321.2**
Market borrowings	15.2	19.7	18.8	46.7	61.4	48.3	-	-	**210.1**
Assets									
Advances	179.6	164.3	138.1	433.5	607.9	48.1	2.4	178.9	**1,752.8**
Investments	-	-	-	-	-	-	-	0.2	**0.2**

Maturity pattern of assets and liabilities as on March 31, 2013:

(Rs. in Crores)

Particulars	Upto 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Liabilities									
Borrowings from banks	346.1	53.1	113.6	310.3	419.2	195.3	4.2	-	**1,441.8**
Market borrowings	6.2	6.2	9.8	29.3	58.7	66.1	0.1	-	**176.4**
Assets									
Advances	136.1	123.0	116.0	382.8	524.3	19.9	20.0	243.3	**1565.4**
Investments	-	-	-	-	-	-	-	0.2	**0.2**

40. Previous year's figures have been regrouped where necessary to conform to this year's classification.

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

P.H. Ravikumar
Non-Executive Chairman

M.R. Rao
Managing Director and Chief Executive Officer

S. Dilli Raj
President

Ashish Damani
Chief Financial Officer

Sudershan Pallap
Company Secretary

Notes

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SKS Microfinance Limited
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Email: skscomplianceofficer@sksindia.com I www.sksindia.com