

**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**

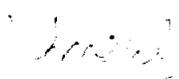
In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (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.

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- (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.

# **S.R. BATLIBOI & CO. LLP**

Chartered Accountants

SKS Microfinance Limited  
Independent Auditors' Report for the year ended March 31, 2014

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- (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

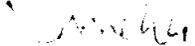
Mumbai  
April 28, 2014

**SKS Microfinance Limited**  
**Balance Sheet as at March 31, 2014**

	Notes	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
<b>Equity and liabilities</b>			
<b>Shareholders' funds</b>			
Share capital	4	1,082,129,620	1,082,126,980
Reserves and surplus	5	3,510,006,938	2,821,793,131
		<b>4,592,136,558</b>	<b>3,903,920,111</b>
<b>Non-current liabilities</b>			
Long-term borrowings	6	3,002,070,202	2,656,035,493
Long-term provisions	7	1,862,151,448	2,632,616,085
		<b>4,864,221,650</b>	<b>5,288,651,578</b>
<b>Current liabilities</b>			
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
		<b>15,515,604,422</b>	<b>15,921,940,268</b>
<b>TOTAL</b>		<b>24,971,962,630</b>	<b>25,114,511,957</b>
<b>Assets</b>			
<b>Non-current assets</b>			
<b>Fixed assets</b>			
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
		<b>2,735,011,098</b>	<b>3,305,131,707</b>
<b>Current assets</b>			
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
		<b>22,236,951,532</b>	<b>21,809,380,250</b>
<b>TOTAL</b>		<b>24,971,962,630</b>	<b>25,114,511,957</b>

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

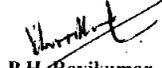
**For S. R. BATLIBOI & CO. LLP**  
**ICAI Firm registration number : 301003E**  
**Chartered Accountants**

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

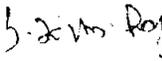


Place: Mumbai  
Date: **28 APR 2014**

**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



**SKS Microfinance Limited**

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

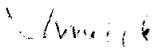
	Notes	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
<b>Income</b>			
Revenue from operations	18	5,189,918,403	3,321,975,446
Other income	19	258,434,910	203,661,636
<b>Total revenue (I)</b>		<b>5,448,353,313</b>	<b>3,525,637,082</b>
<b>Expenses</b>			
Employee benefit expenses	20	1,655,632,711	1,726,704,285
Finance 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
<b>Total expenses (II)</b>		<b>4,749,843,498</b>	<b>6,497,023,723</b>
<b>Profit / (Loss) before tax (III)=(I)-(II)</b>		<b>698,509,815</b>	<b>(2,971,386,641)</b>
<b>Tax expenses</b>			
Current tax		-	-
Deferred tax		-	-
<b>Total tax expense (IV)</b>		<b>-</b>	<b>-</b>
<b>Profit / (Loss) (III)-(IV)</b>		<b>698,509,815</b>	<b>(2,971,386,641)</b>
<b>Earnings per equity share</b>			
[nominal value of share Rs.10 (March 31, 2013: Rs.10)]	25		
<b>Basic (Computed on the basis of total profit / (loss) for the year)</b>		<b>6.45</b>	<b>(30.55)</b>
<b>Diluted (Computed on the basis of total profit / (loss) for the year)</b>		<b>6.44</b>	<b>(30.55)</b>

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

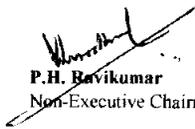
For S. R. BATLIBOI & CO. LLP  
ICAI Firm registration number : 301003E  
Chartered Accountants

  
per Viren H. Mehta  
Partner  
Membership No.048749

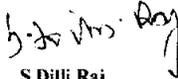


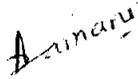
Place: Mumbai  
Date: 2 April 2014

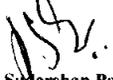
For and on behalf of the Board of Directors of  
SKS Microfinance Limited

  
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



**SKS Microfinance Limited**

**Cashflow statement for the year ended March 31, 2014**

	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
<b>Cash flow from operating activities</b>		
<b>Profit / (loss) before tax</b>	<b>698,509,815</b>	<b>(2,971,386,641)</b>
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
<b>Operating profit / (loss) before working capital changes</b>	<b>958,037,632</b>	<b>(377,062,856)</b>
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	<b>(1,129,375,504)</b>	<b>(6,443,113,728)</b>
Direct taxes paid (net of refunds)	(195,096,890)	7,805,189
<b>Net cash flow (used in) / from operating activities (A)</b>	<b>(1,324,472,394)</b>	<b>(6,435,308,539)</b>
<b>Cash flows from investing activities</b>		
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
<b>Net cash flow (used in) / from investing activities (B)</b>	<b>(235,492,368)</b>	<b>26,532,037</b>
<b>Cash flows from financing activities</b>		
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
<b>Net cash flow (used in) / from in financing activities (C)</b>	<b>(871,166,518)</b>	<b>8,470,673,923</b>
<b>Net decrease/(increase) in cash and cash equivalents (A + B + C)</b>	<b>(2,431,131,280)</b>	<b>2,061,897,421</b>
Cash and cash equivalents at the beginning of the year	6,583,260,401	4,521,362,980
<b>Cash and cash equivalents at the end of the year (refer note 17)</b>	<b>4,152,129,121</b>	<b>6,583,260,401</b>

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: 28 APR 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
<b>Non-performing assets</b>	
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%

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-MFI 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.



**SKS Microfinance Limited**
**Notes to financial statements for the year ended March 31, 2014**
*(Amount in Rupees unless otherwise stated)*

4. Share capital	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
<b>Authorized shares</b>		
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
<b>Issued, subscribed and fully paid-up shares</b>		
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
<b>Total issued, subscribed and fully paid-up share capital</b>	<b>1,082,129,620</b>	<b>1,082,126,980</b>

**(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	907,754	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
<b>Outstanding at the end of the year</b>	<b>108,212,962</b>	<b>1,082,129,620</b>	<b>108,212,698</b>	<b>1,082,126,980</b>

**(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	31-Mar-13
	No. of Shares	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.**


**SKS Microfinance Limited**
**Notes to financial statements for the year ended March 31, 2014**
*(Amount in Rupees unless otherwise stated)*

<b>5. Reserves and surplus</b>	<b>31-Mar-14</b>	<b>31-Mar-13</b>
	<b>(Rupees)</b>	<b>(Rupees)</b>
<b>Securities premium account</b>		
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)
<b>Closing Balance</b>	<b>15,325,687,947</b>	<b>15,325,589,911</b>
<b>Stock options outstanding</b>		
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)
<b>Closing Balance</b>	<b>196,926,761</b>	<b>207,320,805</b>
<b>Statutory reserve</b>		
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	-
<b>Closing Balance</b>	<b>912,941,921</b>	<b>773,239,958</b>
<b>Surplus/ (deficit) in the statement of profit and loss</b>		
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)	-
<b>Net surplus/ (deficit) in the statement of profit and loss</b>	<b>(12,925,549,691)</b>	<b>(13,484,357,543)</b>
<b>Total reserves and surplus</b>	<b>3,510,006,938</b>	<b>2,821,793,131</b>

6. Long-term borrowings	Non-current portion		Current maturities	
	31-Mar-14	31-Mar-13	31-Mar-14	31-Mar-13
	(Rupees)	(Rupees)	(Rupees)	(Rupees)
<b>Term loans</b>				
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
<b>Other loans and advances</b>				
Finance lease obligation (secured)	-	-	-	2,608,149
	<b>3,002,070,202</b>	<b>2,656,035,493</b>	<b>8,987,048,382</b>	<b>7,822,581,175</b>
<b>The above amount includes</b>				
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)
<b>Net amount</b>	<b>3,002,070,202</b>	<b>2,656,035,493</b>	<b>-</b>	<b>-</b>

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
<b>Total outstanding</b>	<b>11,989,118,584</b>	<b>10,478,616,668</b>



## 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)		
<b>Monthly repayment schedule</b>													
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
	13.50%-14%	4	83,333,335	-	-	-	-	-	-	-	-	-	83,333,335
		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
<b>Quarterly repayment schedule</b>													
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
		2	122,360,000	-	-	-	-	-	-	-	-	-	122,360,000
	Above 3 Yrs	12%-12.50%	3	125,000,000	4	166,666,667	4	166,666,667	1	41,666,667	-	-	500,000,000
			3	125,000,000	4	166,666,667	4	166,666,667	1	41,666,667	-	-	500,000,000
<b>Total</b>			<b>8,987,048,382</b>		<b>2,487,583,055</b>		<b>472,820,480</b>		<b>41,666,667</b>			<b>11,989,118,584</b>	



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)		
<b>Monthly repayment schedule</b>													
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	
		10	208,333,333	2	41,666,667	-	-	-	-	-	-	250,000,000	
	13% -13.50%	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	
<b>Quarterly repayment schedule</b>													
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	
		1	20,833,335	-	-	-	-	-	-	-	-	20,833,335	
	13% -14%		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	
<b>Total</b>			<b>7,819,973,026</b>		<b>2,441,384,761</b>		<b>171,854,976</b>		<b>42,795,756</b>			<b>10,476,008,519</b>	



**SKS Microfinance Limited**
**Notes to financial statements for the year ended March 31, 2014**
*(Amount in Rupees unless otherwise stated)*

7. Provisions	Long-term		Short-term	
	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
<b>Provision for employee benefits</b>				
Provision for gratuity (refer note 32)	69,870,588	50,269,944	-	-
Provision for leave benefits	-	-	36,306,945	29,471,510
	<b>69,870,588</b>	<b>50,269,944</b>	<b>36,306,945</b>	<b>29,471,510</b>
<b>Other provisions</b>				
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
	<b>1,792,280,860</b>	<b>2,582,346,141</b>	<b>349,245,787</b>	<b>244,774,714</b>
	<b>1,862,151,448</b>	<b>2,632,616,085</b>	<b>385,552,732</b>	<b>274,246,224</b>

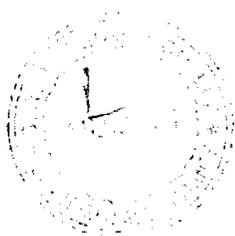
8. Short-term borrowings	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
<b>Loan repayable on demand</b>		
Cash credit from banks	970,276,117	1,646,879,453
<b>Other loans and advances</b>		
Indian rupee loan from banks (secured)	1,914,166,667	4,058,333,333
Indian rupee loan from non banking financial companies (secured)	439,061,968	-
	<b>3,323,504,752</b>	<b>5,705,212,786</b>
<b>The above amount includes</b>		
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
<b>Other liabilities</b>		
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
<b>Unamortized income</b>		
Unamortized fees income	209,127,694	154,875,921
	<b>11,806,546,938</b>	<b>9,942,481,258</b>



## SKS Microfinance Limited

## Notes to financial statements for the year ended March 31, 2014

(Amount in Rupees unless otherwise stated)

10. Tangible assets	Furniture and fixtures	Computers	Office equipments	Vehicles	Assets on lease (Computers)	Total
	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)
<b>Cost</b>						
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)
<b>At March 31, 2013</b>	<b>124,033,255</b>	<b>193,779,328</b>	<b>53,490,847</b>	<b>304,376</b>	<b>22,581,051</b>	<b>394,188,857</b>
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)
<b>At March 31, 2014</b>	<b>118,435,980</b>	<b>195,793,158</b>	<b>54,234,234</b>	<b>304,376</b>	<b>22,581,051</b>	<b>391,348,799</b>
<b>Depreciation</b>						
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)
<b>At March 31, 2013</b>	<b>102,363,988</b>	<b>161,911,313</b>	<b>22,183,776</b>	<b>67,443</b>	<b>20,159,646</b>	<b>306,686,166</b>
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)
<b>At March 31, 2014</b>	<b>100,379,522</b>	<b>174,044,667</b>	<b>25,757,554</b>	<b>128,785</b>	<b>22,581,051</b>	<b>322,891,579</b>
<b>Impairment loss</b>						
At April 1, 2012	-	-	-	-	-	-
Charge for the year	200,453	916,562	1,682,985	-	-	-
<b>At March 31, 2013</b>	<b>200,453</b>	<b>916,562</b>	<b>1,682,985</b>	<b>-</b>	<b>-</b>	<b>2,800,000</b>
Charge for the year	(17,625)	(968)	(184,546)	-	-	(203,139)
<b>At March 31, 2014</b>	<b>182,828</b>	<b>915,594</b>	<b>1,498,439</b>	<b>-</b>	<b>-</b>	<b>2,596,861</b>
<b>Net Block</b>						
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
<b>Gross block</b>		
At April 1, 2012	162,158,083	162,158,083
Addition	5,005,578	5,005,578
<b>At March 31, 2013</b>	<b>167,163,661</b>	<b>167,163,661</b>
Addition	20,145,044	20,145,044
<b>At March 31, 2014</b>	<b>187,308,705</b>	<b>187,308,705</b>
<b>Amortization</b>		
At April 1, 2012	119,546,973	119,546,973
Charge for the year	20,503,237	20,503,237
<b>At March 31, 2013</b>	<b>140,050,210</b>	<b>140,050,210</b>
Charge for the year	16,345,606	16,345,606
<b>At March 31, 2014</b>	<b>156,395,816</b>	<b>156,395,816</b>
<b>Net block</b>		
At March 31, 2013	27,113,451	27,113,451
At March 31, 2014	30,912,889	30,912,889



**SKS Microfinance Limited****Notes to financial statements for the year ended March 31, 2014***(Amount in Rupees unless otherwise stated)*

12. Non-current investments	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
<b>Non-trade investments (valued at cost)</b>		
<b>Investment in equity instruments (unquoted)</b>		
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
	<b>2,000,000</b>	<b>2,000,000</b>
Aggregate amount of unquoted investments	2,000,000	2,000,000

13. Deferred tax asset	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
<b>Deferred tax asset</b>		
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
<b>Deferred tax asset</b>	<b>5,578,556,855</b>	<b>5,552,464,941</b>
<b>Deferred tax asset recognised</b>	-	-

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



**SKS Microfinance Limited**
**Notes to financial statements for the year ended March 31, 2014**
*(Amount in Rupees unless otherwise stated)*

14. Loans and advances	Non-current		Current	
	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
<b>A. Portfolio Loans</b>				
<b>Joint liability group loans</b>				
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	-	-
	<b>1,955,225,318</b>	<b>2,491,753,859</b>	<b>13,929,800,736</b>	<b>11,767,367,028</b>
<b>Individual loans</b>				
Secured, considered good*	-	-	543,629,103	503,903,969
Secured, considered doubtful**	98,107,296	140,850,564	-	-
	<b>98,107,296</b>	<b>140,850,564</b>	<b>543,629,103</b>	<b>503,903,969</b>
	<b>2,053,332,614</b>	<b>2,632,604,423</b>	<b>14,473,429,839</b>	<b>12,271,270,997</b>
<b>Joint liability group loans placed as collateral towards asset assignment / securitisation transaction (refer note 26)</b>				
Unsecured, considered good*	-	-	679,663,334	404,892,002
Unsecured, considered doubtful**	111,766	-	-	-
	<b>111,766</b>	<b>-</b>	<b>679,663,334</b>	<b>404,892,002</b>
<b>(A)</b>	<b>2,053,444,380</b>	<b>2,632,604,423</b>	<b>15,153,093,173</b>	<b>12,676,162,999</b>
* 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)				
<b>B. Security deposits</b>				
Unsecured, considered good	37,990,516	36,887,513	-	-
<b>(B)</b>	<b>37,990,516</b>	<b>36,887,513</b>	<b>-</b>	<b>-</b>
<b>C. Advances recoverable in cash or kind</b>				
Unsecured, considered good	6,534,482	6,638,785	55,452,915	110,711,363
Unsecured, considered doubtful	31,442,728	36,236,310	-	-
	<b>37,977,210</b>	<b>42,875,095</b>	<b>55,452,915</b>	<b>110,711,363</b>
Provision for doubtful advances	(31,442,728)	(36,236,310)	-	-
<b>(C)</b>	<b>6,534,482</b>	<b>6,638,785</b>	<b>55,452,915</b>	<b>110,711,363</b>
<b>D. Other loans and advances (unsecured, considered good)</b>				
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
<b>(D)</b>	<b>194,715,181</b>	<b>149,614,270</b>	<b>26,467,534</b>	<b>29,095,426</b>
<b>Total (A+B+C+D)</b>	<b>2,292,684,559</b>	<b>2,825,744,991</b>	<b>15,235,013,622</b>	<b>12,815,969,788</b>



**SKS Microfinance Limited**
**Notes to financial statements for the year ended March 31, 2014**
*(Amount in Rupees unless otherwise stated)*

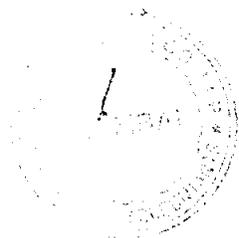
15. Other assets	Non Current		Current	
	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Non-current bank balances (refer note 17)	317,801,957	343,764,218	-	-
Interest accrued but not due on portfolio loans	-	-	73,961,540	60,258,448
Interest accrued and due on portfolio loans	-	-	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
	<b>328,513,303</b>	<b>364,262,574</b>	<b>553,791,948</b>	<b>381,976,959</b>

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

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

17. Cash and bank balances	Non-current		Current	
	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
<b>Cash and cash equivalents</b>				
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
	-	-	<b>4,152,129,121</b>	<b>6,583,260,401</b>
<b>Other bank balances</b>				
Margin money deposit (refer note (a) below)	317,801,957	343,764,218	2,244,945,962	2,022,616,814
	<b>317,801,957</b>	<b>343,764,218</b>	<b>2,244,945,962</b>	<b>2,022,616,814</b>
Amount disclosed under non-current assets (refer note 15)	<b>(317,801,957)</b>	<b>(343,764,218)</b>		
	-	-	<b>6,397,075,083</b>	<b>8,605,877,215</b>

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.



**SKS Microfinance Limited**
**Notes to financial statements for the year ended March 31, 2014**
*(Amount in Rupees unless otherwise stated)*

<b>18. Revenue from operations</b>	<b>31-Mar-14</b>	<b>31-Mar-13</b>
	<b>(Rupees)</b>	<b>(Rupees)</b>
<b>Interest income</b>		
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
<b>Other operating revenue</b>		
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
	<b>5,189,918,403</b>	<b>3,321,975,446</b>

\* 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.

<b>19. Other income</b>	<b>31-Mar-14</b>	<b>31-Mar-13</b>
	<b>(Rupees)</b>	<b>(Rupees)</b>
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
	<b>258,434,910</b>	<b>203,661,636</b>

<b>20. Employee benefit expenses</b>	<b>31-Mar-14</b>	<b>31-Mar-13</b>
	<b>(Rupees)</b>	<b>(Rupees)</b>
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
	<b>1,655,632,711</b>	<b>1,726,704,285</b>

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)

<b>21. Finance costs</b>	<b>31-Mar-14</b>	<b>31-Mar-13</b>
	<b>(Rupees)</b>	<b>(Rupees)</b>
<b>Interest</b>		
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
	<b>2,142,214,375</b>	<b>1,427,192,088</b>



**SKS Microfinance Limited**
**Notes to financial statements for the year ended March 31, 2014**
*(Amount in Rupees unless otherwise stated)*

<b>22. Other expenses</b>	<b>31-Mar-14 (Rupees)</b>	<b>31-Mar-13 (Rupees)</b>
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
	<b>765,527,459</b>	<b>834,543,903</b>

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

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

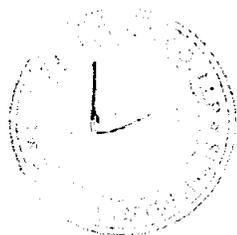
<b>24. Provisions and write-offs</b>	<b>31-Mar-14 (Rupees)</b>	<b>31-Mar-13 (Rupees)</b>
Contingent provision against standard assets (refer note 34)	132,325,317	(15,032,315)
Provision for non-performing assets (refer note 34)	(792,543,557)	2,189,143,759
Portfolio loans and other balances written off	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)
	<b>145,712,570</b>	<b>2,444,228,726</b>

**25. Earnings per share (EPS)**

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

	<b>31-Mar-14 (Rupees)</b>	<b>31-Mar-13 (Rupees)</b>
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)
	<b>No. of shares</b>	<b>No. of shares</b>
Weighted average number of equity shares in calculating basic EPS	108,212,728	97,266,721
<b>Effect of dilution:</b>		
Stock options granted under ESOP*	255,385	Nil
Weighted average number of equity shares in calculating diluted EPS	<b>108,468,113</b>	<b>97,266,721</b>

\*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
<b>Credit enhancements provided and outstanding (Gross):</b>		
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:**

S.No.	Particulars	For the year ended March 31, 2014		For the year ended March 31, 2013	
		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 securitisation 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)
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## b. Related party transactions

Particulars	Key Management Personnel	
	31-Mar-14	31-Mar-13
<b>Transactions during the year</b>		
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
<b>Balances as at year end</b>		
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



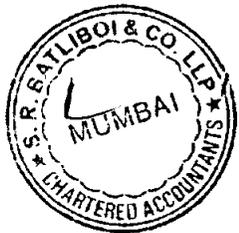
**SKS Microfinance Limited**

**Notes to financial statements for the year ended March 31, 2014**

*(Amount in Rupees unless otherwise stated)*

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.



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.

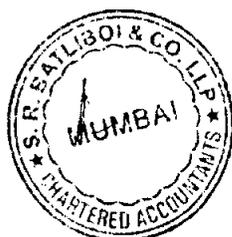
The details of **Plan II (d)** have been summarised below:

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	-	-



**SKS Microfinance Limited**

Notes to financial statements for the year ended March 31, 2014

(Amount in Rupees unless otherwise stated)

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

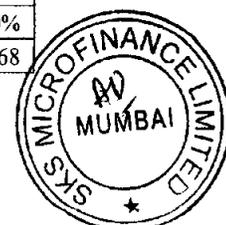
Series	Range of exercise prices	Number of options outstanding (31-Mar-14)	Number of options outstanding (31-Mar-13)	Weighted average remaining contractual life of options (in years) (31-Mar-14)	Weighted average remaining contractual life of options (in years) (31-Mar-13)	Weighted average exercise price
<b>Options outstanding as on 31-Mar-14 and 31-Mar-13:</b>						
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
<b>Options granted during the year and outstanding as on 31-Mar-14:</b>						
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
<b>Subtotal</b>	<b>(10,332,968)</b>	<b>28,610,744</b>
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	-	-
<b>Net employee benefit expense</b>	<b>19,600,644</b>	<b>9,041,272</b>
<b>Return on plan assets*</b>	<b>1,482,899</b>	<b>2,983,762</b>

\*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)
<b>Plan liability</b>	<b>69,870,588</b>	<b>50,269,944</b>

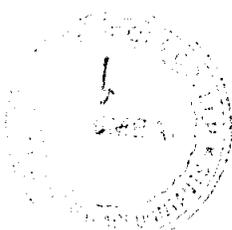
Changes in the present value of the defined benefit obligation are as follows:

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)
<b>Closing defined benefit obligation</b>	<b>87,519,363</b>	<b>78,251,840</b>

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)
<b>Closing fair value of plan assets</b>	<b>17,648,775</b>	<b>27,981,896</b>

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:

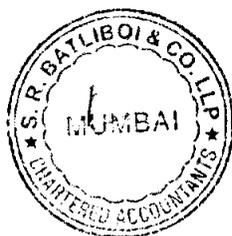
Particulars	Gratuity	
	March 31, 2014	March 31, 2013
Discount rate	9.14%	8.00%
Expected rate of return on assets	8.70%	8.70%
Salary escalation rate per annum	10% for the first two years and 7% there after	10% for the first two years and 7% there after
Rates of leaving service	15%	15%

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
<b>Total</b>	<b>7,927,667</b>	<b>27,087,814</b>



## 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	-	-
<b>Total</b>	<b>17,206,537,553</b>	<b>14,903,875,420</b>	<b>2,613,024,319</b>	<b>132,325,316</b>	<b>792,543,556</b>	<b>1,952,806,079</b>	<b>15,253,731,474</b>	<b>12,290,851,101</b>

**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	-	-
<b>Total</b>	<b>14,903,875,420</b>	<b>7,647,650,903</b>	<b>438,912,875</b>	<b>2,432,811,297</b>	<b>258,699,853</b>	<b>2,613,024,319</b>	<b>12,290,851,101</b>	<b>7,208,738,028</b>

**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.)	-	<b>2,127,174</b>
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
<b>Liabilities</b>									
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
<b>Assets</b>									
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:

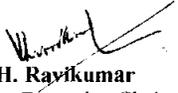
(Rs. in Crores)

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
<b>Liabilities</b>									
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
<b>Assets</b>									
Advances	136.1	123.0	116.0	382.8	524.3	19.9	20.0	243.3	1565.4
Investments	-	-	-	-	-	-	-	0.2	0.2

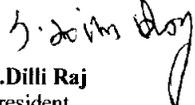
40. Previous year's figures have been regrouped where necessary to conform to this year's classification.

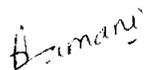
For and on behalf of the Board of Directors of

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

