Chaitanya

Improving Lives

ANNUAL REPORT
2012-2013

Chaitanya India Fin Credit Private Limited
Regd.Office: No. 443, 18th Main, 4th T Block, Jayanagar, Bangalore – 560041.
Phone / Fax: +91-80-26677690, , Email: admin@chaitanyaindia.in

CORPORATE INFORMATION

Board of Directors

1. **K. S. Ravi**
   Independent Director

2. **R. Nanda Kumar**
   Independent Director

3. **Samit S. Shetty**
   Executive Director

4. **A. Narasimha**
   Executive Director

5. **Ramesh Sundaresan**
   Nominee Director

6. **Anand Rao**
   Managing Director

Registered Office

443, 18th Main, 32nd Cross,
4th 'T' Block, Jayanagar,
Bangalore – 560041
Tel: 080 – 26677690
Email: admin@chaitanyaindia.in
Website: www.chaitanyaindia.in

Auditors

M/s Ramesh Ashwin & Karanth
Premier Presidency, #35/17,
1st Floor, Langford Road,
Opp. St. Joseph College,
Bangalore – 560025
Tel: 080 – 41464630

Bankers and Lenders

HDFC Bank	Dena Bank
Axis Bank	State Bank of India
State Bank of Mysore	South Indian Bank
State Bank of Hyderabad	IFMR Capital
Syndicate Bank	Karnataka State Finance Corporation
Indian Overseas Bank	MAS Financial Services Ltd.
Vijaya Bank	Ananya Finance for Inclusive Growth Pvt. Ltd.
Corporation Bank	Small Industries Development Bank of India
Canara Bank	Karnataka Bank
Pragathi Gramin Bank	Union Bank of India

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DIRECTORS REPORT

The Members,

Your Directors are pleased to present the Fourth Annual Report of your Company together with the Audited Statement of Accounts and the Auditors' Report of your Company for the financial year ending 31st March 2013. The summarized financial results for the year ended 31st March 2013 are as under.

Financial Highlights **Amount in Rs.**

Year Ended 31st March	2013	2012
Operating Income	5,48,09,461	3,48,50,174
Other Income	32,55,213	19,34,290
Total Income	**5,80,64,674**	**3,67,84,464**
Less Expenditure		
Finance Cost	1,73,66,199	35,42,808
Personnel Cost	2,05,45,205	1,43,47,034
Administrative Cost	1,15,60,297	81,07,255
Depreciation	12,83,062	10,57,848
Profit/(Loss) Before Tax	**73,09,911**	**97,29,519**
Less Income Tax	23,09,986	27,39,000
Less Deferred Tax	(1,30,090)	19,135
Profit/(Loss) After Tax	**51,30,015**	**69,71,384**

- The Company's Total Income for the year ended 31st March 2013 has increased to Rs. 5.80 Crores from Rs. 3.67 Crores in the previous year.

- The Company has had a profitable year of operations and returned a profit after tax of Rs. 51.3 lakhs.

Operational Highlights

Year Ended 31st March	2013	2012
Number of Branches	24	14
Number of Borrowers	28,062	18,268
Number of Employees	156	100
Portfolio Outstanding (in Rs. Crores)	31.80	16.82

During the year, the Company delivered a Profit After Tax(PAT) of Rs. 51.3 lakhs, lower than the 2011-12 PAT of 69.7 lakhs, but higher than the projection of Rs. 34 lakhs made at the beginning of the year. The lower PAT was on account of three main reasons. First, during the year the Company added Branches and built its manpower structure, in preparation of growth in the current year and next year, but did not reap the benefits in terms of income in current year. Second, was high cost of funds during the first half of 2012-13. Third, was slow growth in portfolio in the first three quarters and only faster growth in the last quarter of the year due to availability of funds only towards the end of the year. The overall portfolio of the company grew by 87% to 31.80 crores during the year. The portfolio quality has been good with good repayment rate during the year and overall portfolio at risk of less than 0.1% of overall portfolio.

Deposits

As on 31st March 2013 the Company does not have any public deposits.

Dividends

The Company has not made any provision for payment of dividend for the year under consideration.

Code of Conduct, Transparency & Client Protection

The Company has fully implemented the Reserve Bank of India's Fair Practice Code and adopted the Microfinance Institutions Network's (MFIN) Code of Conduct.

Personnel

Information required to be furnished u/s 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) rules 1975 is not applicable as there are no employees drawing remuneration beyond the amounts prescribed under this section.

Energy, Technology & Foreign Exchange

Since the Company does not own any manufacturing facility, the other particulars prescribed under section 217 (1) (c) read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are NIL.

The Foreign Exchange Inflow for the Company during the year was NIL.

The Foreign Exchange outflow during the year towards revenue expenses was NIL.

Directors Responsibility Statement

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, Board of Directors confirm that:

1. In the preparation of the annual accounts, the applicable accounting standards have been followed.

2. The Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period.

3. The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

4. The Directors have prepared the annual accounts of the Company on a 'going concern' basis.

Statutory Auditors

M/s. Ramesh Ashwin & Karanth, Chartered Accountants, Bangalore retire as Auditors of the Company at the forthcoming AGM and have expressed their willingness to continue as Auditors, if re-appointed. The shareholders will be required to appoint the Auditors and fix their remuneration.

Acknowledgment

Your Directors take this opportunity to offer their sincere thanks to Bankers, Investors and Independent Directors for their unstinted support and assistance received from them during the year. The Directors would also like to place on record their appreciation of the dedicated efforts put in by the employees of the Company.

By order of the Board

Bangalore, 10.05.2013

Sd/-	Sd/-
Samit S. Shetty	Anand Rao
Director	Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Environment

The industry has seen its way out of what was a near death experience. After having shrunk in the year 2011-12, the overall industry is climbing back towards its pre crisis size in terms of assets under management and has seen a growth of 23% in the this fiscal. The Pan India Portfolio of NBFC-MFIs is above Rs. 21,200 Crores, (212Bn) and in Karnataka the state where we operate the overall NBFC-MFI portfolio is above Rs 2000 Crores (20BN). The emphasis for the last year (2011-12) for most players was to improve operational efficiencies and return to profitability. Availability of sufficient liquidity in the form of both debt and equity changed the emphasis from consolidation towards growth in the second half of this year 2012-13.

In this last phase of consolidation of the industry that lasted two and a half years there have been numerous gains.

The Important Gains of the Sector Over The Last Two Years

1. ***Improvement in Credit Information Sharing*:** Evolution of a well used credit bureau and sharing of information amongst players (100MFIs at last count) has brought in significant control over multiple borrowing from customers. Though not fully reliable due to non implementation by some NGO MFIs and incomplete implementation by some small MFIs, it is quite common to see customers themselves self restricting their borrowing from not more than two MFIs. The future challenge is more in preventing customer's and loan officer's collaborating to create multiple identities and incorrect data and much lesser towards accessing the information.
2. ***Communication and Engagement with Public Stakeholders:*** Improved communication strategy of the industry with key stake holders including the media, bureaucracy and politicians has helped the industry handle a few stressful situations that arose in the past year and has given the industry a blue print which it can use to handle crises that may come about in future.
3. ***Increase in Regulatory Involvement and Interest in the Sector:*** The hope of the sector to see the Microfinance Bill through Parliament in this financial year was belied but there has been positive engagement of the sector with representatives from the political class and the Government. Further, the intervention of the RBI in fine tuning guidelines for the industry and in providing continued support has been the principal factor behind the renewal of the sector from the serious blow dealt by the Andhra Pradesh government's Microfinance Law.
4. ***Moderation in Growth and Return Expectations of Both Promoters and Investors:*** The stratospheric growth prior to the crisis had created unjustified valuations for assets in the sector and an expectation of rapid profitable growth. With various measures taken by the regulator, the return expectations have been quite unambiguously defined. The growth expectations in the sector is likely to be muted as all companies in the sector have to abide by norms of controlling multiple lending and overall lending norms set by the regulator. This means that though there is growth available, it needs industry players to go deeply rural or move to difficult geographies all of which have lead to moderation in growth expectations.
5. ***Reduced Interest in Entry of New Players and/or Established Players from the Financial Sector:*** The Microfinance sector was earlier dominated by NGOs until SKS and some of the other early starters demonstrated the commercial scalability and simplicity of the model. This combined with support from the private banking system drove the growth of the Microfinance industry and it attracted a host of new entrepreneurs. At the peak of its success in 2010 after the SKS IPO, Microfinance was a profitable business with low entry barriers and seemingly great growth prospects. The entry barriers have since been reset with substantially high capital requirement reducing the possibility of new entrants. Also the regulatory guidelines on pricing and business scope have reduced the growth and profitability prospects reducing the chance of entry of new entities into the sector. From the perspective of innovation and improvement in the sector, this would count as a step backward but is a significant boost for the incumbent players to establish and consolidate their position in the next 3 years.

6. ***Understanding of the Unique Position of the Microfinance Industry Amongst Most of the Financial Service Players:*** The narrow scope defined for the sector is one of the negative impacts of the new regulatory environment, but it has also helped sharply define the role of the sector. The sector is seen as an effective low cost intermediary to reach customers below the poverty line and engage with these customers in reasonably complex transactions. This unique position of the Microfinance industry is likely to stand it good stead is it fully integrates into the financial sector and give it other opportunities to commercially engage with customers.
7. ***A Defining and Influential Role Carved Out for the Industry Self Regulatory Organisations:*** MFIN(Microfinance Institution Network) and Sa-Dhan, the industry's two Self Regulatory Organisations(SRO), have played stellar roles in presenting the view points of the sector to the regulator and the world at large. The success of MFIN in engaging the regulator and softening / delaying some of the norms has created a great legitimacy for the SRO. The SRO is now in a good position to ensure compliance of even the larger players and hence is well positioned and capable to represent the interests and concerns of the sector at all forums.
8. ***Importance of Corporate Governance:*** Since the crisis, corporate governance among players has come to the forefront. MFIs, with high levels of corporate governance have been rewarded with easier bank funding as well as equity from committed investors resulting in all serious players needing to focus on improving their corporate governance practices.

The Major Headwinds Faced by the Sector are Listed Below

1. ***Delays in passing of Microfinance Institutions Bill:*** The importance of a central bill covering the Microfinance activity is firstly in giving protection against interventionist and adverse state government regulation. More importantly it is the path of acceptance for Microfinance companies to become integral to the financial architecture in India and being able to deliver multiple products and services to their customer segment. Delays in the passing of this bill beyond the tenure of this government would effectively reopen the uncertainty surrounding the industry's future.
2. ***Continuing Instances of Governments to Waive Loans and Subsidize Credit:*** There have been increasing instances of state governments waiving farmer's loans taken from cooperatives and banks. Increasing occurrence of such instances reduces the value of loan performance that Microfinance has instilled in low income customers. Though such practices are also leading banks to withhold lending to the farming sector, on the whole unhealthy lending environment created by loan waivers and political interference is a threat to the industry.
3. ***Over Reliance on Bank Funding:*** The continuation of bank funding being the principal source of financing to the sector could hurt the sector as banks and Microfinance firms could be potential competitors to the same income stream. While the current situation in India is of grossly under represented banking sector, entry of new banks and rapid growth of existing banks could potentially bring the two sectors into conflict.
4. ***Impasse Over the AP Crisis:*** With the AP High court refusing to annul the state government's Microfinance Law, and the Supreme Court giving only temporary relief, AP MFIs have not been able to resume operations normally further putting the 6000 crores of bank loans given to them before the crisis at risk. Banks had been allowed a temporary period by RBI to classify AP MFI loans in default as standard assets. It is unlikely that this can continue, which would mean write off of such loans by banks and a setback to the sector.

Summary of Last Year's Performance

In the year 2012-13 CIFCPL made substantial strategic gains with very moderate financial results. It was a year where majority of our income and portfolio was generated outside our first region of Jagalur, demonstrating our ability to scale the business outside the area of commencement. We made progress towards our strategy of delivering other financial service offerings beyond JLG lending. We ran successful pilots of gold loans, two wheeler loans and livestock insurance in areas where we have established operations. It was also a year when we were able to borrow sufficiently from the banking system, and closed with year at debt close to 2 times equity. The past year has hence been a year of substantial strategic gains.

Business Growth in 2012-13

The support of the regulator and the resilience of the sector in the preceding year led to restoration of lender's confidence in the sector and also return of equity investors. Chaitanya also was a beneficiary of lenders taking exposure to the sector, however a large part of our borrowings became available only in the last quarter of the year. For the first time in over a year and half, in the last quarter of the fiscal year we tested our capacity for growth and the demand for Microfinance loans in our areas of operation as ample funds where available. In the **last quarter of the year** we grew the portfolio by more than 50% over the Dec 2012 portfolio and grew more than 60% over the March 2012 Portfolio. In comparison the portfolio grew by around 26% in the first 3 quarters over its base in March 2012. The structure and the network required to drive the growth had been built for more than 8-9 months, while the rewards of the portfolio growth were not adequately reaped in the current year. Hence the income growth has been a moderate **57%** and this incremental income growth has been much lower in proportion to the portfolio growth. The income benefits of the portfolio growth in 2012-13 hence should be accrued to us in the coming year.

Operating Cost Improvement

The incremental portfolio growth of the year has come at an incremental operational cost of 6.6% of the incremental portfolio indicating the improved economies of scale for the company. (i.e in the last year for every Rs 1 crore of portfolio increase we have increased annual overheads by Rs 6.6 lakhs). We currently have a cost of operations of 13.58% on our average portfolio for the year (numerical average of month end portfolios) down from the 17.7% we had in the last year. The 12 month moving average of monthly operating cost ratio (OCR) has reduced from 19.2% in 2011-12 to 15.4% in March 2013. Also the monthly operation cost for March was below 12% while the average for last quarter of the year was 13.4%. While the minimum scale of operations in microfinance to ensure adequate return to shareholders is in the order of Rs. 100 crores. The drop in the month on month OCR number below 12% is the first critical milestone for us in achieving scale benefits and achieving financial sustainability.

Risk Management in 2012-13

The year ended with a portfolio at risk (PAR >0 days) of Rs 1.22 lakhs which is less than 0.1% of our portfolio. A total of Rs. 48,659/- was written off and provision against loan losses of Rs. 60,412/- was made for Non Performing Loans, making the total losses on account of non repayment equal to Rs. 109,071/- which again is less than 0.1% of our portfolio. The total repayment rate for the last year thus has been in excess of 99.9%. Accompanying the increase in portfolio by 87%, there has been a reduction in the absolute loan losses and write offs from above Rs 3 lakhs of last year to around Rs. 1 lakh in the current year. Our Internal control mechanisms of classifying centres in normal, problem and risky centres and ensuring sharp focus on improving these problem and risky centres before they become overdue has been the key factor in maintaining a high repayment rate. In the current year we have also developed suitable software and operational mechanism to start the process of risk rating of centres and customers and in the coming fiscal we should use it to support decision making on customer selection, and size of loans for different customers.

Outreach and End Use of Lending

In the last three and half years as a NBFC, Chaitanya has focused on the Grameen Bank Joint Liability Group model for its growth. Chaitanya has disbursed to over 50,000 customers in 8 districts of Karnataka and currently has 29,000 active customers. The Main Purpose for which microcredit loans have been taken by Chaitanya's borrowers as of 31 March 2013 is given below

Live Stock Investments	**31.20%**
Agriculture Related	**19.10%**
House Repair / Construction	**10.80%**
Working Capital in Small Businesses	**7.70%**
Working Capital for Small Shops	**7.30%**
Repairs and Investment in Business	**3.90%**
Investments in Masonry Items and Carpentry	**3.30%**
Vehicle / Auto Purchase, Maintenance	**3.20%**
Working Capital for Hotels / Food Vending	**2.90%**
Consumption and Household Purchases	**2.90%**
Repayment of Old Loans and Education	**1.90%**
Others	**5.80%**

While Agriculture and live stock investments are the principal end uses for our outstanding portfolio just above 50%, the increase in allocation for housing related and construction related activities has been substantial over the years. The increase in borrowings for housing is linked to the **ASHRAYA** subsidy scheme provided by the government for rural housing with the Microfinance loans topping up the government subsidy, it also is a reflector of increasing aspirations and income levels as a large number of our customers are moving from the earlier houses to better quality houses. The rest of the end use is related to myriad of different businesses that flourish in the rural areas.
Over the years while we have grown, we have seen that a significant number of our customers opt out of our lending. There are number of reasons for the same starting from a genuine non requirement of a loan. We have had a drop our rate of above 35% and this is an area where we need to improve in the current year.

Human Resources

The total manpower strength of the company has gone up from a 100 to 156 by the end of year. It has been a mixed year from a human resource perspective. Our search for senior managers in both function and operational area has not been successful. However, we have had great success in retention in the middle management and lower management levels. We now have 24 branch managers (entry level managers) and 9 middle management managers, most of them who have been with us for a considerable length of time creating a robust base of employees which should help us as we emphasize on growth this year.

Audit and IT Systems

In the last year there has been considerable refinement done to our audit processes and systems. The internal audit department now has 4 auditors and the company hires an outside Chartered Accountant for periodic accounting and documentation check. The reporting and follow up procedures on audit findings has got streamlined leading to informed corrective and preventive action.

Our transaction system has always been very stable and has been well implemented in our operations. The transactional reporting system is now fully automated with most regular reporting being auto e-mailed to different levels of management. In this year we directed our IT system improvement efforts towards credit analysis and customer related information capturing. We implemented a risk management system that aids us in collateral management, attendance and loan utilization tracking, household Income and Expense capture, centre wise risk assessment. While the software implementation is complete we hope to start using the risk management system in operational decision making in the year 2013-14.

SWOT Analysis of Chaitanya

Strengths of Chaitanya

1. Strong process oriented business development methodology that is well suited for rural areas and has helped us to achieve penetration and reach to customers currently not serviced by formal financial institutions in our region of operation. This success in reaching un served customers in Karnataka which is traditionally looked upon as a high penetration zone for Microfinance strengthens our belief that there is a long way to go in rural Micro finance penetration.
2. Reliability in implementation of JLG process based credit risk management by adhering to sound JLG principles have led to good control of credit risk.
3. A robust and reliable low cost IT architecture with flexibility to develop improvements and enhancements around the robust core.
4. Stabilized management processes for audit, performance assessment, training and risk mitigation.
5. Good credibility as a financial services company in our operational area and very good quality of rural penetration.

Weakness of Chaitanya

1. Poor leadership processes both for recruitment and training of new leaders.
2. Modest size of the company and corresponding higher operations cost ratios which will take another 1-2 years to improve.
3. Limited experience and exposure of senior management to financial services before starting Chaitanya. This increases the time in operationalising the strategy to increase the scope of the product and service delivery.
4. Focus on one particular geography and limited to North and Central Karnataka.

Opportunities for Chaitanya

1. Chaitanya is currently a small, flexible, geographically focused and tightly managed entity. This allows Chaitanya to adapt well to changes in the sector. In a scenario where the scope of services and products that it can offer could open up, Chaitanya would be a player that would be well placed to benefit from this opening up.
2. Increasing rural incomes and increasing investments in commercial activities like diary, vegetable and fruit cultivation in the rural side has given Chaitanya more avenues to deploy credit and also gives it the comfort that customers are able to viably deploy loans and ensure repayment of the same.
3. There are very few Pan India rural focussed Microfinance companies. Most Microfinance operators have started with a rural, semi rural geography driven focus and morphed into doing business with the urban and rural low income population in their chosen geographies. Most of them are still predominantly regional. The principal PAN INDIA players are more recent entrants and the big three among them are urban focussed Microfinance institutions. Hence a truly pan India model for rural Microfinance is yet to be implemented and this is a space worth occupying as rural prosperity is set to improve.
4. Microfinance institutions establish customer relationships but also build institutional credibility in their geography of operations. Hence, there is an opportunity to enter into allied businesses like lending against gold, micro insurance services and even non finance businesses such as milk collection for diary etc.
5. Even with more than a decade after the Microfinance commercialization movement large rural parts of the country do not still have adequate coverage of Microfinance institutions and this is by far the most easily reachable opportunity that is awaiting Chaitanya as it stabilizes in operations and man power structure in Karnataka.

Threats

1. **Threat of Irrelevance:** As the industry consolidates and scales up, Chaitanya faces the threat of losing out on key relationships with banks and other partners by being too small and too focussed. There is a perception amongst bankers and equity investors that MFIs need to be large and geographically diverse. Also from the point of view of bankers they would like to handle a limited number of Microfinance customers and ensure that they deeply understand their businesses dynamics. It is quite conceivable that banks may be intent on strategic relationships with some of these MFIs. Additionally for tie ups for other financial services and products it is quite important that Chaitanya reach the right size and geographical spread to attain the right amount of visibility.
2. **Delay or Inability to Achieve Economies of Scale**. While we have seen various arguments in favour of economies of scale, our understanding consistently has been that because of the people intensive nature of Microfinance there are significant diseconomies of scale which are not being sufficiently talked about. We think economies of scale truly help dilute the central control office costs but these economies of scale will have a marginal impact in our business once our portfolio crosses Rs. 100 crores. We have seen that a basic central office control structure and systems for Microfinance is in the whereabouts of Rs 1 crore per annum and hence think portfolio size in excess of Rs 100 crores in a reasonably contiguous geography would help any company obtain most of the economies of scale it is seeking. Further from that better control and risk management smaller organisations should compensate for the marginal higher costs. We currently operate **under the assumption** that most of the cost benefits will accrue to us in the next two year and the validity of this assumption is to be fully tested. Further till we reach this size, we will have cost disadvantages compared to our larger sized contemporaries.
3. Political factors in the areas of our operations and in other parts of India and weather factors in Karnataka could adversely affect the performance of our portfolio and continue to be the most important threats to our success.

Critical Success Factors in Microfinance

Based on our understanding of various factors that determine success in the Microfinance industry, we have distilled the following critical factors or areas that would differentiate between the successful organisations and the not so successful ones.

1. Operational Efficiency – These refer to the organisation’s ability to have lower (lowest) full and marginal cost of delivering credit service to the customers.
2. Operational Effectiveness – These relate to the quality of service and the diversity in scope of products delivered to the customers by the organisation.
3. Risk Management – This relates to ability to assess, eliminate, measure and mitigate credit and other risks in the business at the multitudes of points were transactions are done and risk created for the company.
4. Technology Adaptation - This relates to the ability of organisations to be smart with regards to adapting to technological changes that may significantly impact the sector.
5. Leadership and Management strength to increase size and scope - These would determine institutional ability to be agile, responsive, flexible and grow simultaneously. These relate to the ability of the institution to have capable management and leadership strength to manage the people related complexity that is inherent in the business of Microcredit and risk management that is fundamental to financial services business.

In Chaitanya we believe that as a consequence of our geographical focus and lean HO structure we are better placed than other smaller MFIs with respect to operational efficiency. However this efficiency would improve significantly in the coming years and we hope to reach an operating cost ratio of less than 8% in another two years time.

Owing to our structure of decentralised regions and conscious strategy of local differentiation in product and service delivery, we would be on par if not ahead of most of the current stream of MFIs in terms of product and service quality effectiveness by 2014. The operational effectiveness would be a major aspect of Chaitanya's ability to differentiate from other players in the next year.

We hope to become the leader in risk management practices in the Microfinance industry and have already taken significant steps in that direction. We currently believe that owing to the quality of field process administration and management, the risk management of Chaitanya is ahead of its competitors. In the current fiscal we have developed a robust IT-Risk system that captures the key process related parameters and interfaces the same with customer related risk factors required. A key objective for financial year 2013-2014, would be to use feedback from our risk management system in processing all loans above Rs. 15,000. If this is successfully put in place, we would use the right mix of information based decision making coupled with sound field level processes and judgment.

We have demonstrated our ability to be able to meet the technology requirements in our business in a cost effective manner and without getting stuck with large investments and IT support structure, however is it is an area for us to keep our pulse on.

Lastly, though we have good quality of regional and branch management team, our pursuit of a lean HO with an eye on HO structural costs have kept our leadership team limited. Building senior management band width was one of the strategic deliverables which were not accomplished in the last financial year and this is the most important area to work on in coming year or two. While this factor is not very critical in the next two years, it assumes greater importance as we endeavor to build our business.

The Company's Future Outlook

Vision for Chaitanya to be Achieved by End of the Year 2015

1. Chaitanya will be a robust midsized Financial Services Business with the Joint Lending Group (Grameen) based micro lending to low income customers at the core with a Portfolio size of over Rs. 100 crore and average return on Equity above 15%.
2. Chaitanya will generate at least 15% of its income from non JLG activities
3. Chaitanya will be the industry leader in risk management procedures and processes demonstrated by its effectiveness in capturing, measuring risk and making credit decisions based on risk profile of customers.

Strategic Goals for Chaitanya for The Year 2013-14

Focus Area for 2013-14

The strategic mandate of 2011-12 was to build risk management process and culture, the strategic business mandate in 2012-13 was to expand the scope of product and services. The principal strategic mandate of the year 2013-14 is to ensure return of assets of above 2% with business profitability driven by efficient fund utilization and operations control.

Geographical Expansion

Chaitanya will continue to be geographically focused on Karnataka for one more year, to reap the benefits both in cost and effectiveness. However in the current year, Chaitanya will finalize its geographical expansion plan and start its preparation to expand out of the state of Karnataka. In the current geography, the company will identify and commence JLG operations in 2 new regions and achieve minimum size of operations in these regions. In these two new regions a minimum of one large branch and one small branch would be setup with a portfolio of more than 5 crores planned from the new regions.

Increase Size and Scope of Current Regions: The key elements of Strategy in existing regions of Jagalur, Holalkere, Belgaum and Koppal

- Ensure above 85% of villages within 25 Kms. of radius of current branches (23) is penetrated
- Use mobile technology to systemize and improve the control and planning of business development process
- Ensure that the Operating cost of the four older regions is jointly less than 6.5% of portfolio
- Begin implementing gold backed lending and vehicle loan finance in existing regions.
- Focus on Robust Risk Management using information based analysis for larger loan sizes
- Introduce Live Stock Insurance in all regions
- Improve Customer drop-out rate by 5% in all branches

Other Strategic Deliverables for the Fiscal Year 2013- 2014

- Grow the portfolio to 55 crores including securitized assets
- Build pipeline of bank loans to the tune of 50 crores in preparation of growth targets for 2014-15 and avail disbursement of more than 35 crores in 2013-14
- Keep repayment rates above 99.5%
- Use robust risk classification process and centre assessment process to offer differentiated products and loan sizes to different classes of customers and types of centres.
- Build a portfolio higher than Rs.10 crores in existing regions and Rs 5 crores in new regions
- Add new variants to non collateralised loans in the form of men's groups, mixed group loans, working capital loans, live stock loans etc in established regions.
- Explore and study opportunities for one non financial business which has distribution synergies with microfinance
- Prepare and take all strategic steps to start operations in the new geography in another part of the country

M/s Ramesh Ashwin & Karanth | CHARTERED ACCOUNTANTS

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35/17, 1st Floor
Langford Road
Opp. St. Joseph College
Bangalore - 560 025
Phone: 080 41464630

INDEPENDENT AUDITOR'S REPORT

To the Members of **CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED**

We have audited the accompanying financial statements of **CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED**, which comprise the Balance Sheet as at March 31, 2013, 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 is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956. 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.

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. 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.

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, 2013;
b) in the case of the Profit and Loss Account, 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.

M/s. Ramesh Ashwin & Karanth Chartered Accountants BANGALORE 560 025.

1. As required by the Companies (Auditor's Report) Order, 2003 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, Statement of Profit and Loss, and Cash Flow Statement comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956;
   e) on the basis of written representations received from the directors as on March 31, 2013, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2013, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
   f) Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the Company.

For Ramesh Ashwin & Karanth
Chartered Accountants
F.R.No.010680S

Prashanth Karanth
Partner
M.No.214235.

M/s. RAMESH ASHWIN & KARANTH
BANGALORE
560 025.
Chartered Accountants

Date: 10.05.2013
Place: Bangalore

The Annexure referred to in paragraph 1 of the Our Report of even date to the members of CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED. on the accounts of the company for the year ended 31st March, 2013.

On the basis of such checks as we considered appropriate and according to the information and explanation given to us during the course of our audit, we report that:

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

(b) All fixed assets have been physically verified by the management during the year and the material discrepancies noticed during the visit have been properly dealt in books of accounts.

(c) During the year, the Company has not disposed-off any Fixed Assets.

ii) (a) The Company is not manufacturing or trading in goods and does not deal with stores, spare parts and raw materials. Hence, clauses 4(ii) (a), 4(ii) (b) & 4(ii) (c) are not applicable.

iii) (a) According to the information and explanations given to us and on the basis of our examination of the books of account, the Company has not granted any loans, secured or unsecured, to companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956. Consequently, the provisions of clauses iii (b), iii(c) and iii (d) of the order are not applicable to the Company.

(e) As per the information and explanations provided to us, during the financial year the company has taken unsecured loans, from companies, firms and other parties covered in the register maintained under Section 301of the Companies Act, 1956 as stated herein.

Details of Loan Taken

Sl. No.	Name of the Party	Relation With the Company	Amount (Rs)	Year End Balance
1	Ramesh Sundareshan	Director	72,00,000	0

f) The terms & conditions for repayment of principal & interest are not specified. However no interest was paid on the above loan taken by the company.

g) The Loan taken was repayable on demand and payment was regular.

iv) In our opinion and according to the information and explanations given to us, there is generally an adequate internal control procedure commensurate with the size of the company and the nature of its business, with regard to purchase of fixed assets and payment for expenses. During the course of our audit, no major instance of continuing failure to correct any weaknesses in the internal controls has been noticed.

v) a) According to the information and explanations given to us, we are of the opinion that the particulars of contracts or arrangements that need to be entered into a register maintained in pursuance of section 301 of the Companies Act, 1956 have been so entered.

b) In our opinion and according to the information and explanations given to us, there are no transactions exceeding the value of Rs. five lakhs towards contracts or arrangements which requires entry in Register maintained under section 301 of the Companies Act, 1956.

M/s. RAMESH ASHWIN & KARANTH
BANGALORE 560 025.
Chartered Accountants

vi) According to the information and explanation given to us the Company has not accepted any deposits from the public and hence, the directives issued by the Reserve Bank of India and provisions of sections 58A and 58AA of the Companies Act, 1956 and the rules framed thereunder, are not applicable to the Company.

vii) As per information & explanations given by the management, the Company has an internal audit system commensurate with its size and the nature of its business.

viii) Maintenance of cost records has been prescribed by the Central Government under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 is not applicable to the Company.

ix) (a) According to the records of the company, undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, cess to the extent applicable and any other statutory dues have generally been regularly deposited with the appropriate authorities. According to the information and explanations given to us there were no outstanding statutory dues as on 31st of March, 2013 for a period of more than six months from the date they became payable.

(b) According to the information and explanations given to us, there is no amounts payable in respect of income tax, wealth tax, service tax, sales tax, customs duty and excise duty which have not been deposited on account of any disputes.

x) The Company does not have any accumulated loss and has not incurred cash loss during the financial year covered by our audit and in the immediately preceding financial year.

xi) Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that, the Company has not defaulted in repayment of dues to a financial institution or bank.

xii) According to the information and explanations given to 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) The Company is not a chit fund or a nidhi /mutual benefit fund/society. Therefore, the provision of this clause of the Companies (Auditor's Report) Order, 2003 (as amended) is not applicable to the Company.

xiv) According to information and explanations given to us, the Company is not dealing in or trading in Shares, Mutual funds & other Investments. and 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 guarantees for loan taken by others from a bank or financial institution.

xvi) The term loans taken by the company were applied for the purpose for which it is obtained.

xvii) Based on the information and explanations given to us and on an overall examination of the Balance Sheet of the Company as at 31st March, 2013, we report that no funds raised on short-term basis have been used for long-term investment by the Company.

xviii) Based on the audit procedures performed and the information and explanations given to us by the management, we report that the Company has not made any preferential allotment of shares during the year.

xix) According to the information and explanations given to us, the Company has not issued any debenture and therefore, the provisions of clause 4(xix) of the Order are not applicable to the Company.

M/s. RAMESHWAR & KAMATH ★ Chartered Accountants ★ BANGALORE 560 025.

xx) The Company has not raised any money by public issue during the year.

xxi) Based on the audit procedures performed and the information and explanations given to us, we report that no fraud on or by the Company has been noticed or reported during the year, nor have we been informed of such case by the management.

For Ramesh Ashwin & Karanth
Chartered Accountants
F.R.No.010680S

Prashanth Karanth
Partner
M.No.214235.

M/s. RAMESH ASHWIN & KARANTH
BANGALORE
560 025.
Chartered Accountants

Date: 10.05.2013
Place: Bangalore

M/s Ramesh Ashwin & Karanth

CHARTERED ACCOUNTANTS

Premier Presidency
35/17, 1st Floor
Langford Road
Opp. St. Joseph College
Bangalore - 560 025
Phone: 080 41464630

AUDITORS' REPORT

To,
The Board Directors,
Chaitanya India Fin Credit Private Limited.

In terms of Reserve Bank of India, Department of Financial Companies Notification No.DNBS 201 /DG(VL)-2008 dated September 18, 2008, we report that:

1. The Company has received Registration Certificate, as provided in section 451A of the Reserve Bank of India Act, 1934 (2 of 1934) from Reserve Bank of India on 25.09.2009.

2. A resolution for non-acceptance of any public deposits was passed in the 4th meeting of the Board of Directors for the financial year held on 7th May 2009.

3. The Company has not accepted any public deposits for the year ended 31st March, 2013.

4. The Company has undertaken lending activity during the period 01.04.2012 to 31.03.2013. The Company has made suitable provisions on Non performing advances as suggested by the prudential norms prescribed by the Reserve Bank of India.

Date: 10.05.2013
Place: Bangalore

For Ramesh Ashwin & Karanth
Chartered Accountants
F.R.No.010680S

Prashanth Karanth
Partner
M.No.214235

M/s. RAMESH ASHWIN & KARANTH
BANGALORE
560 025.
Chartered Accountants

M/s Ramesh Ashwin & Karanth	CHARTERED ACCOUNTANTS
Premier Presidency # 35/17, 1st Floor Langford Road Opp. St. Joseph College Bangalore - 560 025 Phone: 080 41464630	

AUDITORS' REPORT

To,
The Board Directors,
Chaitanya India Fin Credit Private Limited.

In terms of Reserve Bank of India, circular DNBS(PD) CC.NO.79/03.05.002/2006-07 dated September 21, 2006, we report that:

1. The company continues to undertake the business of NBFI requiring holding of COR under section 45-IA of RBI Act, 1934 as on 31.03.2013.
2. The Company has not accepted any public deposits for the year ended 31st March, 2013.

Date: 10.05.2013
Place: Bangalore

For Ramesh Ashwin & Karanth
Chartered Accountants
F.R.No.010680S

Prashanth Karanth
Partner
M.No.214235

M/s. RAMESH ASHWIN & KARANTH
BANGALORE
560 025.
Chartered Accountants

Notes forming part of financial statements for the year ended 31.03.2013

1. **CORPORATE INFORMATION**
   The Company was incorporated on March 31, 2009, to carry on the business of Lending, Installment Financing, Bill discounting, Providing Working Capital and Term Loan Facilities to Small and Medium Business Enterprises including Individual loans, with or without all or any types of securities. And the Company act as facilitator for provision of micro finance, savings and other financial services by acting as intermediaries between Bank, Financial Institutions, Individuals, Corporate bodies or other entities (whether incorporated or not), of one part, with The Self Help Groups (SHG), Members of SHGs, discrete individuals or small groups which are in the process of forming SHGs and / or other micro-credit aspirants, And to assist, execute, provide consultancy service and promote and finance such programmes, either directly or through an independent agency and/or in any other manner.

2. **SIGNIFICANT ACCOUNTING POLICIES**

   a. **Basis of Accounting**
   The financial statements have been prepared to comply in all material respects with the notified Companies (Accounting Standards) Rules, 2006 and the relevant provisions of the Companies Act, 1956('the Act"). The financial statements have been prepared under the historical cost convention on an accrual basis in accordance with accounting principles generally accepted in India.

   b. **Revenue Recognition**
   The Company being an NBFC recognizes income on accrual basis except for loans outstanding for more 180 days which will be recognized only on receipt basis. Short term capital gains on sale of investment instruments (treasury operations) are recognized on actual sale of instruments.

   c. **Use Of Estimates**
   The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the results of operations at the end of reporting period. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates. Any revision to accounting estimates is recognized prospectively.

   d. **Fixed Assets**
   Fixed assets are stated at cost of acquisition less accumulated depreciation. The cost of an asset comprises its purchase price and any cost directly attributable to bringing the asset to its present condition for intended use.

   e. **Depreciation**
   Depreciation on fixed assets is provided under the WDV method at rates, which are equal to the corresponding rates prescribed in Schedule XIV of the Companies Act, 1956.

   f. **Investments**
   Idle funds are temporarily parked in short term investments as part of treasury operations of the Company. Such investments are carried at book value and not marked to market.

M/s. RAMESH ASHWIN & KARANTH BANGALORE 560 025. Chartered Accountants

CHAITANYA INDIA FIN CREDIT PVT. LTD. Bangalore

g. **Employee Benefits**
The Company has not completed the minimum statutory period for making a provision towards gratuity. In the absence of any policy towards employee benefits, no provision has been made towards gratuity or other employee benefits. However, the Company has subscribed to Employees' Provident Fund scheme as per the statutory requirements.

h. **Contingent Liabilities**
Contingent liabilities are not usually provided for unless it is probable that future outcome may be detrimental to the Company.

i. **Taxes**
Tax expense comprises of current and deferred tax.

Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized 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 realized. In situations where the Company has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that they can be realized against future taxable profits.

At each balance sheet date the Company re-assesses unrecognized deferred tax assets. It recognizes unrecognized deferred tax assets to the extent that it has become reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which such deferred tax assets can be realized.

The carrying amount of deferred tax assets are reviewed at each balance sheet date. The Company writes-down the carrying amount of a 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 realized.

j. **Securitisation Income**
There has been change in accounting policy in the recognition of securitisation income. During the financial year 2011-12 the company had adopted a policy of charging securitisation income to profit & loss account in proportion to the outstanding tenure of the loan portfolio securitised. However during the current financial year the entire securitisation income has been charged to profit & loss account irrespective of the outstanding tenure of the loan portfolio securitised. The change in accounting policy has resulted in profits being increased by Rs. 11,12,275/-.

M/s. RAMESH ASHWIN & KARANTH
BANGALORE 560 025.
Chartered Accountants

CHAITANYA INDIA FIN CREDIT PVT. LTD.
Bangalore

k. Deferred Tax Expense/Income

The Deferred Tax Expense /Income for the period ended 31.03.2013 is worked out by considering the difference between depreciation under the Companies Act, 1956 and the Income Tax Act, 1961, recognition of preliminary expenses to the extent permitted under section 35D of the Income Tax Act, 1961 and difference in treatment of provision for standard assets under Income Tax act,1961 and Companies Act, 1956

l. Related Party Disclosures

As required by AS -18: ' Related Party Disclosures' are given below:

A: Relationships

i) Directors.	a) Anand Rao, Managing Director b) Samit S. Shetty, Executive Director c) K S Ravi, Director d) Ane Narasimha e) Nanda Kumar, Director f) Ramesh Sundaresan, Director
ii) Relatives of Directors and key management personnel and their enterprises where transactions have taken place.	-

S. S. Shetty

M/s. RAMESH ASHWIN & KARANTH ★ BANGALORE 560 025. ★ Chartered Accountants

CHAITANYA INDIA FIN CREDIT PVT. LTD. ★ Bangalore

Transactions carried out with related parties referred in (A) above in the ordinary course of business:

NATURE OF TRANSACTION	RELATED PARTIES	
	DIRECTORS	RELATIVES OF DIRECTORS AND KEY MANAGEMENT PERSONNEL
Loans received from Directors	72,00,000	0
Loan Repayment to Director	72,00,000	0
Salary	30,85,200	0
Sitting Fees	90,000	0

m. AUDITORS' REMUNERATION

PARTICULARS	2012-2013
STATUTORY AUDIT FEES	55,000/-
TAX AUDIT FEES	20,000/-
SERVICE TAX	9,270/-

n. The Balances in Trade payable, short term provisions, Long Term Loans & Advances, short term Loans & Advances and Other Current assets are subject to confirmation.

o. The company does not have a distinguishable and reportable business or geographical segment. As such disclosure requirements stated in Accountant Standard -17(Segment reporting) are not applicable to the company.

p. Provisions for all known liabilities are adequate in the opinion of the Management.

q. Previous year figures have been regrouped wherever necessary

r. The company has adopted prudential norms as specified **"RBI/2012-13/37 DNBS (PD) CC No. 279 / 03.02.001 / 2012-13"**. The Provision created by the company on sub-standard assets amounted to Rs. 63,612/-. The same has been reduced from Gross Advances. Also company has written off Bad debts to the tune of Rs 48,659/- as the company feels that the chances of recovery of the said advances are remote.

s. A provision of 0.25% of the Outstanding amount of the Standard Asset is provided as ' Contingent Provision against Standard Assets' as required by RBI Notification No. RBI/2010-11/370-DNBS.PD.CC.No.207/ 03.02.002/2010-11.

t. The company has Qualifying assets of Rs. 26,00,98,457/- the qualifying assets is as defined in RBI Notification no. **RBI/2011-12/290 DNBS.CC.PD.No.250/03.10.01/2011-12** the percentage of qualifying assets to total assets is **89.47%.**

M/s. RAMESH ASHWIN & KARANTH ★ Chartered Accountants ★ BANGALORE 560 025.

CHAITANYA INDIA FIN CREDIT PVT. LTD. Bangalore

CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED

Balance Sheet as at March 31, 2013

Particulars	Note No.	March 31, 2013 (Rupees)	March 31, 2012 (Rupees)
I. EQUITY AND LIABLITIES			
(1) Share holder's fund			
(a) Share capital	3	9,26,69,260	9,26,69,260
(b) Reseves and surplus	4	4,42,34,994	3,91,04,979
		13,69,04,254	13,17,74,239
(2) Share application money pending allotment		-	-
(3) Non-current Liabilities			
(a) Long term borrowings	5	**12,77,55,271**	70,36,033
(b) Long-term provision	6	8,977	5,862
		12,77,64,248	70,41,895
(4) Current Liablities			
(a) Short term borrowings	7	4,08,92,113	3,02,95,890
(b) Trade payables	8	22,94,637	42,53,379
(c) Other current liablities	9	8,10,39,797	3,36,557
(d) Short-term provisions	10	30,55,524	22,98,047
		12,72,82,071	3,71,83,873
TOTAL		**39,19,50,573**	**17,60,00,007**
II. ASSETS			
(1) NON-CURRENT ASSETS			
(a) Fixed assets			
(i) Tangible Assets (Net)	11	45,64,558	26,98,436
(ii) Intangible Assets	12	4,53,265	7,18,558
		50,17,823	**34,16,994**
(b) Deferred tax assets (Net)	13	1,25,453	(4,637)
(c) Long term loans and advances	14	45,98,659	32,50,107
(d) Other non-current assets	15	2,14,21,470	79,97,695
		3,11,63,404	1,46,60,159
(2) CURRENT ASSETS			
(a) Current Investments	16	-	70,02,367
(b) Cash and cash equivalents	17	7,98,78,156	92,48,636
(c) Short term loans and advances	18	27,98,14,110	14,43,91,907
(d) Other Current Assets	19	10,94,903	6,96,939
		36,07,87,169	16,13,39,848
TOTAL		**39,19,50,573**	**17,60,00,007**
See accompanying notes to the financial statements			

In terms of our report of even date attached

RAMESH ASHWIN & KARANTH
CHARTERED ACCOUNTANTS
(REGN No.: 010680S)

M/s. RAMESH ASHWIN & KARANTH BANGALORE 560 025. Chartered Accountants

PRASHANTH KARANTH
a Partner
Membership No.: 214235

Place: Bangalore
Date: 10.05.2013

For and on behalf of
CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED

ANAND RAO
Managing Director

SAMIT S. SHETTY
Director

CHAITANYA INDIA FIN CREDIT PVT. LTD. Bangalore

Place: Bangalore
Date: 10.05.2013

CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED

Statement of Profit and Loss for the year ended March 31, 2013

(Amount in Rupees)

	Particulars	Note No.	Year ended March 31, 2013 (Rupees)	Year ended March 31, 2012 (Rupees)
I.	Revenue from Operations	20	5,48,09,461	3,48,50,174
II.	Other Income	21	32,55,213	19,34,290
IV.	**TOTAL REVENUE (I+II)**		**5,80,64,674**	**3,67,84,464**
V.	Expenses			
	(a) Finance Cost	22	1,73,66,199	35,42,808
	(b) Employee benefits expenses	23	2,05,45,205	1,43,47,035
	(c) Depreciation and amortisation expense	11 & 12	12,83,062	10,57,848
	(d) Other Administrative expense	24	1,15,60,297	81,07,255
	TOTAL EXPENSES		**5,07,54,763**	**2,70,54,946**
VI.	**Profit / (loss) before exceptional and extraordinary items and tax (III-IV)**		73,09,911	97,29,518
VII.	Exceptional items		-	-
VIII.	**Profit / (loss) before extraordinary items and tax (V - VI)**		**73,09,911**	**97,29,518**
IX.	Extraordinary items		-	-
X.	**Profit / (loss) before tax (VII - VIII)**		**73,09,911**	**97,29,518**
XI.	**Provision for taxation:**			
	(a) Current tax		**23,09,986**	27,39,000
	(b) Deferred tax provision / (write back)		(1,30,090)	19,135
XII.	**Profit / (loss) for the period from continuing Operations**		51,30,015	69,71,383
XIII.	**Profit / (loss) for the period from discontinuing Operations**		-	-
XV.	**Tax expence of discontinuing operations**		-	-
XVI.	**Profit / (loss) for the period from discontinuing Operations (after tax)**		-	-
XVII.	**Profit / (loss) for the period**		**51,30,015**	**69,71,383**
	Earnings Per Share			
	Basic		0.55	0.75
	Diluted		0.55	0.75

See accompanying notes to the financial statements
In terms of our report of even date attached

RAMESH ASHWIN & KARANTH
CHARTERED ACCOUNTANTS
(REGN No.: 010680S)

M/s. RAMESH ASHWIN & KARANTH BANGALORE 560 025. Chartered Accountants

PRASHANTH KARANTH
a Partner
Membership No.: 214235

Place: Bangalore
Date: 10.05.2013

For and on behalf of
CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED

ANAND RAO
Managing Director

SAMIT S. SHETTY
Director

CHAITANYA INDIA FIN CREDIT PVT. LTD. Bangalore

Place: Bangalore
Date: 10.05.2013

CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED

3 SHARE CAPITAL

(Amount in Rupees)

Particulars	As at March 31, 2013	As at March 31, 2012
Authorized capital		
1,00,00,000 (Previous year - 2011-12) equity shares of Rs.10 each	10,00,00,000	10,00,00,000
Issued, subscribed and paid up capital		
92,66,926 (Previous year - 2012-13) equity shares of Rs. 10 each fully paid-up	9,26,69,260	9,26,69,260
	9,26,69,260	9,26,69,260

3.1 Reconciliation of shares outstanding at the beginning and at the end of the reporting period:

Particulars	Financial year 2012-13 (Units in Nos.)	Financial year 2012-13 (Amount in rupees)	Financial year 2011-12 (Units in Nos.)	Financial year 2011-12 (Amount in rupees)
Number of shares outstanding as at the beginning of the financial year (April 01)	92,66,926	9,26,69,260	80,85,404	8,08,54,040
Add: Increase in number of shares during the year				
- Fresh issue of shares	-	-	11,81,522	1,18,15,220
	92,66,926	9,26,69,260	92,66,926	9,26,69,260
Less: Reduction in number of shares during the year				
- Redemption of shares	-	-	-	-
- Forfeiture of shares	-	-	-	-
Number of shares outstanding as at the Close of the financial year (March 31)	92,66,926	9,26,69,260	92,66,926	9,26,69,260

M/s. RAMESH ASHWIN & KARANTH Chartered Accountants BANGALORE 560 025.

CHAITANYA INDIA FIN CREDIT PVT. LTD. Bangalore

H. S. Sheth

Disclosures to made:

3.2 The Company has only one class of equity share having a par value of Rs.10 per share. Each holder of equity shares is entitled to one vote per share.

In the event of liquidation of Companies, the holders of equity shares will be entitiled 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 share holders.

3.3 Details of shareholders holding more than 5% shares in the Company

Name of Shareholder	As at 31 March 2013		As at 31 March 2012	
	No. of Shares held	% of Holding	No. of Shares held	% of Holding
Samit Shankar Shetty	4365635	47.11	4365635	47.11
Anand Rao	532256	5.74	526700	5.68
U. Raghurama Rao	590000	6.37	590000	6.37

3.4 The Company has not issued bonus shares, shares issued for consideration other than cash and shares bought back during the period of five years immediately preceding the reporting date.

M/s. RAMESH ASHWIN & KARANTH Chartered Accountants BANGALORE 560 025.

CHAITANYA INDIA FIN CREDIT PVT. LTD. Bangalore

CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED

4 RESERVES AND SURPLUS

(Amount in Rupees)

Particulars	As at March 31, 2013	As at March 31, 2012
a. Securities Premium Account		
Opening Balance	3,19,43,408	3,19,43,408
Add : Securities premium credited on Share issue	-	-
Less : Premium Utilised for various reasons	-	-
Premium on Redemption of Debentures	-	-
For Issuing Bonus Shares	-	-
Closing Balance	3,19,43,408	3,19,43,408
b. Statutory Reserve		
Opening Balance	16,98,234	3,03,957
(+) Current Year Transfer	10,26,003	13,94,277
(-) Written Back in Current Year	-	-
Closing Balance	**27,24,237**	**16,98,234**
c. Surplus		
Opening balance	54,63,337	1,90,188
(+) Net Profit/(Net Loss) For the current year	51,30,015	69,71,383
(+) Transfer from Reserves	-	-
(-) Proposed Dividends	-	-
(-) Interim Dividends	-	-
(-) Transfer to Reserves	10,26,003	16,98,234
Closing Balance	**95,67,349**	**54,63,337**
Total	4,42,34,994	3,91,04,979

5 LONG TERM BORROWINGS

(Amount in Rupees)

Particulars	As at March 31, 2013	As at March 31, 2012
LONG TERM BORROWINGS		
Secured		
(a) Term loans		
From Banks		
Small Industrial Development Bank of India	-	60,04,000
(Secured By Book Debts and 100% is guaranteed by Promoter Directors)		
(Repayable in 30 equal monthly instalments together with interest)		
State Bank Of India	1,19,68,022	-
(Secured By Book Debts and 100% is guaranteed by Promoter Directors)		
(Repayable in 30 equal monthly instalments together with interest)		
Karnataka State Financial Corporation	2,45,00,000	-
(Secured By Book Debts and 100% is guaranteed by Promoter Directors)		
(Repayable in 43 monthly instalments together with interest)		
Dena Bank	8,04,99,985	-
(Secured By Book Debts and 100% is guaranteed by Promoter Directors)		
(Repayable in 30 equal monthly instalments together with interest)		
HDFC Bank	-	1,98,703
(Secured By Hypothecation of Motor Car)		
(Repayable in 36 equal monthly instalments together with interest)		
ICICI Bank	4,00,948	-
(Secured By Hypothecation of Motor Car)		
(Repayable in 60 equal monthly instalments together with interest)		
ICICI Bank	3,86,312	-
(Secured By Hypothecation of Motor Car)		
(Repayable in 60 equal monthly instalments together with interest)		
From Financial Institutions		
MAS Financial Services Ltd	1,00,00,004	-
(Repayable in 24 equal monthly instalments together with interest)		
(Secured By Book Debts and 100% is guaranteed by Promoter Directors)		
	12,77,55,271	62,02,703
Unsecured		
(a) Term loans		
From Other Financial Institutions		
Ananya Finance for Inclusive Growth	-	8,33,330
(Repayable in 18 equal monthly instalments together with interest)		
(of the above, 100% is guaranteed by Promoter Directors)		
	-	8,33,330
Total	12,77,55,271	70,36,033

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6 LONG TERM PROVISIONS

(Amount in Rupees)

Particulars	As at March 31, 2013	As at March 31, 2012
LONG TERM PROVISIONS		
Others	8,977	5,862
	8,977	**5,862**

7 SHORT TERM BORROWINGS

(Amount in Rupees)

Particulars	As at March 31, 2013	As at March 31, 2012
Secured		
From Financial Institutions		
MAS Financial Services Limited	1,25,58,094	3,02,95,890
(Secured By Book Debts and 100% is guaranteed by Promoter Directors)		
(Repayable in 12 equal monthly instalments together with interest)		
IFMR Capital	2,83,34,019	-
(Secured By Book Debts and 100% is guaranteed by Promoter Directors)		
(Repayable in 12 equal monthly instalments together with interest)		
	4,08,92,113	3,02,95,890
Unsecured	-	-
Total	**4,08,92,113**	**3,02,95,890**

8 TRADE PAYABLES

(Amount in Rupees)

Particulars	As at March 31, 2013	As at March 31, 2012
Sundry creditors:		
Dues to others	22,94,637	42,53,379
	22,94,637	**42,53,379**

9 OTHER CURRENT LIABILITIES

(Amount in Rupees)

Particulars	As at March 31, 2013	As at March 31, 2012
(a) Current maturities of long-term debt	8,06,43,133	-
(b) Interest accrued but not due on borrowings	-	47,528
(c) Other payables	3,96,664	2,89,029
Total	**8,10,39,797**	**3,36,557**

10 SHORT TERM PROVISIONS

(Amount in Rupees)

Particulars	As at March 31, 2013	As at March 31, 2012
(a) Provision for employee benefit	1,08,616	54,874
(b) Provision for Payment to Auditor	1,09,593	60,674
(c) Provision for Expenses	2,52,008	1,52,614
(d) Provision for Income Tax	8,11,445	2,04,120
(e) Contingent Provision against Standard Assets	6,92,461	3,58,383
(f) Others	10,81,401	14,67,383
	30,55,524	**22,98,047**

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FIXED ASSETS

(Amount in Rupees)

TANGIBLE ASSETS

Particulars	Gross Block					Accumulated Depreciation				Net block	
	As at April 1, 2012	Addition during the year	Disposals during the year	Other adjusments	Balance as at March 31, 2013	As at April 1, 2012	For the year	Adjustment during the year	Balance as at March 31, 2013	As at March 31, 2013	As at March 31, 2012
Computers & Computer Equipments	12,91,341	10,93,306	-	-	23,84,647	6,83,903	3,77,475	-	10,61,378	13,23,269.48	6,07,438
Furniture and fixtures	6,19,628	3,90,759	16,987	-	9,93,400	1,42,336	1,12,104	5,872	2,48,568	7,44,832.25	4,77,292
Motor Car	15,39,954	10,15,042	-	-	25,54,996	4,53,450	4,00,193	-	8,53,643	17,01,353.00	10,86,504
Motor Bike	77,430	49,508	-	-	1,26,938	17,841	16,164	-	34,005	92,933.00	59,589
UPS	2,73,473	1,95,567	-	-	4,69,040	60,516	39,790	-	1,00,306	3,68,734.00	2,12,957
Office equipments	1,00,109	43,972	-	-	1,44,081	16,820	14,167	-	30,987	1,13,094.00	83,289
Godrej Safe	1,72,480	82,798	-	-	2,55,278	14,109	32,014	-	46,123	2,09,155.00	1,58,371
Electrical Equipments	18,201		-	-	18,201	5,206	1,808	-	7,014	11,187.00	12,995
Total	40,92,617	28,70,952	16,987	-	69,46,582	13,94,181	9,93,715	5,872	23,82,024	45,64,557.73	26,98,436
Previous period	24,62,063	16,30,554	-	-	40,92,617	5,93,291	8,00,890	-	13,94,181	26,98,436	

INTANGIBLE ASSETS

(Amount in Rupees)

Particulars	Gross Block					Accumulated Depreciation				Net block	
	As at April 1, 2012	Addition during the year	Disposals during the year	Other adjusments	Balance as at March 31, 2013	As at April 1, 2012	For the year	Adjustment during the year	Balance as at March 31, 2013	As at March 31, 2013	As at March 31, 2012
Computer software	13,50,016	24,054	-		13,74,070	6,31,458	2,89,347	-	9,20,805	4,53,265	7,18,558
Total	13,50,016	24,054	-		13,74,070	6,31,458	2,89,347	-	9,20,805	4,53,265	7,18,558
Previous period	8,57,174	4,92,842	-		13,50,016	3,74,500	2,56,958	-	6,31,458	7,18,558	

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13 DEFERRED TAX ASSET

(Amount in Rupees)

Particulars	As at March 31, 2013	As at March 31, 2012
(a) Opening balance as at the beginning of the year (April 01)		
- Depreciation on tangible fixed assets	(1,76,100)	(1,43,773)
- on Preliminary expenses	57,922	86,883
- on Asset Provisioning	1,13,541	71,388
	(4,637)	**14,498**
(b) Adjustments during the financial year		
- Depreciation on tangible fixed assets	36,191	(32,327)
- on Preliminary expenses	(28,961)	(28,961)
- on Asset Provisioning	1,22,860	42,153
	1,30,090	**(19,135)**
(c) Closing balance as at the end of the year (March 31)		
- Depreciation on tangible fixed assets	(1,39,909)	(1,76,100)
- on Preliminary expenses	28,961	57,922
- on Asset Provisioning	2,36,401	1,13,541
	1,25,453	**(4,637)**

14 LONG TERM LOANS AND ADVANCES

(Amount in Rupees)

Particulars	As at March 31, 2013	As at March 31, 2012
(a) Security deposits - Unsecured, considered good		
Rental deposits	9,69,650	8,72,500
Other deposits	38,135	32,635
	10,07,785	**9,05,135**
(b) Loans and advances to employees		
Loans to employees - Unsecured, considered good	6,91,232	7,82,442
(c) Other loans and advances		
Two wheeler Loan to Customers, Secured and Considered Good	21,35,603	-
Micro Finance Loan to Customers, unsecured and Considered Good	7,64,039	15,62,530
	28,99,642	**15,62,530**
Total	**45,98,659**	**32,50,107**

15 OTHER NON-CURRENT ASSETS:

(Amount in Rupees)

Particulars	As at March 31, 2013	As at March 31, 2012
Other bank balances		
Fixed deposits account with maturity more than 12 months	1,05,850	-
Margin money with maturity more than 12 months	2,13,15,620	79,97,695
Total	**2,14,21,470**	**79,97,695**

16 CURRENT INVESTMENTS

(Amount in Rupees)

Particulars	As at March 31, 2013	As at March 31, 2012
Investments in Mutual Funds	-	70,02,367
Total	-	**70,02,367**

17 CASH AND CASH EQUIVALENTS

(Amount in Rupees)

Particulars	As at March 31, 2013	As at March 31, 2012
(a). Cash on hand	2,87,533	92,902
(b) Balances with banks		
In current account	6,35,73,358	46,33,542
Margin Money with maturity less than 12 months	1,60,17,265	45,22,192
	7,95,90,623	**91,55,734**
Total	**7,98,78,156**	**92,48,636**

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18 SHORT TERMS LOANS AND ADVANCES

(Amount in Rupees)

Particulars	As at March 31, 2013	As at March 31, 2012
(a) Prepaid expenses	1,13,287	1,17,108
(b) Other short term loans and advances		
Gold Loan to Customers, Secured and Considered Good	74,85,143	17,49,013
Micro Finance Loans to Customer, Unsecured and Considered Good	27,00,75,071	14,16,28,850
Interest Accrued on Loan Portfolio	21,40,609	8,96,936
	27,97,00,823	14,42,74,799
Total	27,98,14,110	14,43,91,907

19 OTHER CURRENT ASSETS

(Amount in Rupees)

Particulars	As at March 31, 2013	As at March 31, 2012
Interest accrued on fixed deposits but not Due	4,471	99,061
Advances to Others	5,39,826	96,550
Advance to Staffs	5,700	28,161
CENVAT Credit	2,781	1,08,485
Income Tax Refund Receivable	-	2,100
Insurance Claim Receivable	5,40,107	3,62,582
Training & Support Fees Receivable	2,018	-
	10,94,903	6,96,939

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20 REVENUE FROM OPERATIONS

(Amount in Rupees)

Particulars	As at March 31, 2013	As at March 31, 2012
Other operating revenues		
Interest Received from Customers	4,51,56,051	3,12,96,515
Loan Processing Fees	48,87,087	29,96,363
Securitization Income	47,66,323	5,57,296
	5,48,09,461	**3,48,50,174**

21 OTHER INCOME

(Amount in Rupees)

Particulars	As at March 31, 2013	As at March 31, 2012
OTHER INCOME:		
Interest income		
On Bank Deposits	21,14,613	3,32,951
Dividend income		
On Current Investments	4,18,208	8,77,181
Short Term Capital gain on Mutual Fund	-	2,59,564
Loan Processing Fees on employee loan	9,350	6,450
Interest on employee loan	1,30,085	1,12,993
Training & Support Fees Received	5,69,204	2,27,705
Interest Received on IT Refund	1,140	6,320
Bad Debt Recovered	2,800	-
Prior Period Income	-	3,822
Other Income	9,814	1,07,304
	32,55,213	**19,34,290**

22 FINANCE COSTS

(Amount in Rupees)

Particulars	As at March 31, 2013	As at March 31, 2012
FINANCE COST:		
Interest expense	1,29,04,620	26,79,842
Bank charges	87,082	72,939
Loan Processing Expenses	4,99,860	-
Other borrowing costs	38,74,637	7,90,027
	1,73,66,199	**35,42,808**

23 EMPLOYEE BENEFIT EXPENSES

(Amount in Rupees)

Particulars	As at March 31, 2013	As at March 31, 2012
(a) Salary, Wages, Allowances & other Benefits	1,86,27,590	1,30,33,289
(b) Contributions to P.F., ESI & Others	8,82,057	5,68,565
(c) Staff welfare expenses	10,35,558	7,45,181
	2,05,45,205	**1,43,47,035**

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24 OTHER EXPENSES

(Amount in Rupees)

Particulars	As at March 31, 2013	As at March 31, 2012
Conveyance Exp.	27,74,358	14,62,760
Professional Charges	10,99,354	12,03,974
Rent	13,96,732	11,14,077
Remuneration to Auditors	2,47,270	1,01,208
Service Tax Paid	6,04,018	3,09,828
Tour & Travelling Exp.	6,18,943	5,91,258
Printing, Books & Other Stationary	8,29,178	5,20,069
Communication and internet charges	8,30,638	6,79,346
Director's Sitting Fees	90,000	45,000
Meeting & Training Exps.	4,95,003	2,61,877
Office & Other Maintanence Expenses	7,19,583	5,02,011
Vehicle Running & Maintenance	5,61,117	4,12,895
Membership Fee & Subscription	3,12,177	1,43,551
Rates & Taxes	1,87,673	1,70,778
Income Tax Short Provision 2010 - 11 (Prior Period Exps.)	-	47
Miscellaneous expenses	3,47,990	1,08,944
Bad Debts Written Off	48,659	3,43,216
Provision for Bad & Doubtful Debts	60,412	3,200
Contingent Provision against standard assets	**3,37,193**	1,33,217
	1,15,60,297	**81,07,255**

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CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED

Cash Flow Statement

		For the Year Ended 31.03.2013	
A	**CASH FLOW FROM OPERATING ACTIVITIES**		
	Net Profit Before Tax		**73,09,911**
	Adjustments for:		
	Add:Depreciation	12,83,062	
	Dividend Income	(4,18,208)	
	Interest & Finance Charges Paid	1,68,66,339	1,77,31,193
	Operating Profit before Working Capital Changes		**2,50,41,104**
	Adjustments for:		
	Decrease/ (Increase) in Cash Margin & Deposits	(2,50,21,498)	
	Decrease/(Increase) in Loans & Advances	(13,70,92,741)	
	Decrease /(Increase) in Other Current Assets	26,672	
	Increase/(Decrease) in Payables & Others	(11,38,044)	(16,32,25,611)
	Cash generated from operations		**(13,81,84,507)**
	Income Tax paid		(21,84,533)
	Net Cash flow from Operating activities		**(14,03,69,040)**
B	**CASH FLOW FROM INVESTING ACTIVITIES**		
	Purchase of Fixed Assets	(28,78,019)	
	(Increase)/ Decrease in Current Investments	-	
	Dividend Income	4,18,208	
	Net Cash used in Investing activities		**(24,59,811)**
C	**CASH FLOW FROM FINANCING ACTIVITIES**		
	(Decrease)/Increase in Borrowings	21,19,58,595	
	Increase in Share Capital	-	
	Increase/(Decrease) in Share Application Money	-	
	Increase in Share Premium	-	
	Interest & Finance Charges paid	(1,68,66,339)	
	Net Cash used in financing activities		**19,50,92,256**
	Net increase in cash & Cash Equivalents		5,22,63,405
	Cash and Cash equivalents Opening Balance		1,17,28,810
	Cash and Cash equivalents Closing Balance		6,38,60,891
	Cash & Cash Equivalents	As on 31.03.2013	
	Cash in Hand		2,87,533
	Cash at Bank		6,35,73,358
	Current Investment in Debt Funds		-
	Cash & Cash equivalents as stated		**6,38,60,891**

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