Chaitanya

Improving Lives

ANNUAL REPORT
2010-2011

Chaitanya India Fin Credit Private Limited
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DIRECTORS REPORT

The Members,

Your Directors are pleased to present the Second 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 2011. The summarized financial results for the year ended 31st March 2011 are as under.

Financial Highlights

Amount in Rs.

Year Ended 31st March	**2011**	**2010**
Operating Income	13,342,101	582,649
Other Income	2,183,760	761,552
Total Income	**15,525,861**	**1,344,201**
Less Expenditure		
Finance Cost	1,528,310	4,616
Personnel Cost	7,208,496	1,065,752
Administrative Cost	4,070,940	1,473,930
Loan Loss Provision	242,642	0
Depreciation	787,270	180,521
Profit/(Loss) Before Tax	**1,688,205**	**(1,380,618)**
Less Income Tax	131,897	0
Less Deferred Tax	36,524	(51,022)
Profit/(Loss) After Tax	**1,519,784**	**(1,329,596)**

- The Company's gross income for the year ended 31st March 2011 has increased to Rs. 13.34 Mn from Rs. 0.58 Mn in the previous year.
- The Company has had a profitable year of operations and returned a profit after tax of Rs. 1.52 Mn.
- The Company has reached profitability in its second year of operations and has completely wiped out its initial accumulated losses of Rs. 1.32 Mn.

Operational Highlights

During the year, the Company has expanded operations from one geographic region in Jagalur to two more regions in Bailhongal and Koppal. The Company increased its equity base from Rs. 23.55 Mn to Rs. 123.43 Mn during the year. The company achieved month on month profitability in the month of September and by the end of the year we have wiped out all accumulated losses of the previous year and turned profitable. We have also reduced our interest rates to 26.5% and are well placed to work within the RBI stipulated guidelines of 26% interest rate. Most importantly in the course of the year we have built a high quality stable team of managers and officers ready to take us to the next level of growth.

The year that comes by promises to be less challenging on the regulatory front. The RBI has come out with guidelines for NBFC-MFIs and assured us continued classification of lending to MFIs as priority sector lending. The details of implementation and monitoring of compliance to guidelines are not yet clear, post which we expect banks to restart lending to the sector.

We are confident of doubling our total portfolio, maintaining profitability and high repayment rates during the next year. Although, a borrowing from banks is expected to be challenging, your Directors are confident of raising borrowings to meet the necessary fund requirements for the coming year.

Deposits
As on 31st March 2011 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.

Directors
During the financial year, Mr. R Nandakumar joined the Board of the Company as a non executive director. The Board of Directors of the Company consists of the following Directors as on 31st March 2011.

Sl. No.	Name of Director
1.	Samit Shetty
2.	Anand Rao
3.	K S Ravi
4.	A Narasimha
5.	R Nandakumar

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 Rs. 38,687,337, which was received towards share capital and share premium.

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 confirms 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, 17.05.2011

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

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Structure and Development

In India the market for micro credit is estimated to be upwards of Rs. 2000 Bn. A conservative estimate is that the average credit potential is Rs 25,000 per household for at least 100 Mn households. In this market, the formal channels account for only Rs. 900 Bn and the rest is by informal channels. Credit to low income households is channelized through the following formal channels

- Commercial banks direct lending under small loan accounts
- Regional Rural Banks (RRBs) lending of micro loans
- Cooperative societies in rural areas and urban cooperative banks
- Self help group bank linkage programme (SBLP) a scheme supported by NABARD and subsidised through various government schemes
- MFIs structured as NBFCs or as non profit's (Section 25 companies, societies and trusts)

NBFC-MFI's, the channel in which Chaitanya comes has a current estimated market of Rs. 200 Mn. The market for micro credit is large and will continue to grow in size as the Indian economy expands.

The New Regulatory Guidelines

The year 2010 was one of upheaval for the microfinance industry. The RBI constituted the Malegaon Committee in the aftermath of the crisis that hit the industry with the coming into force of the AP Micro Finance Ordinance and subsequently the AP Micro Finance Institutions Bill. The Bill was a culmination of a period of regulatory and political discomfort with the growth and success of the microfinance institutions. The Bill was preceded by widespread political and media backlash on the microfinance industry about usurious rates, over indebted customers, strong arm tactics of recovery and profiteering from the poor and succeeded in bringing the industry down from its high perch.

The Malegaon Committee and its recommendations provided a brilliant framework for discussions on major issues facing the industry and the regulator. It also brought into focus the failure of the non interventionist policy adopted by the RBI for the microfinance sector. It defined a broad framework under which the industry could operate. The committee also brought into forefront the real costs and challenges of running a microfinance institution. The RBI has now come out with its broad policy on the microfinance Industry. As part of its Monetary Policy Statement 2011-12 released by the RBI governor on the 3rd of May 2011 are chapters on Development and Regulatory Policies which include some policies towards MFIs. In these chapters and through a recently released notification to Banks on Loans to MFIs the RBI has communicated the broad essence of regulations and regulatory framework for the MFIs. The summary of these policy guidelines and notifications will give effect to the following guidelines.

1. RBI will regulate NBFC's involved in microfinance, NBFC-MFIs as a separate Category.

2. Bank Finance to NBFC-MFIs will be categorised as Priority Sector Lending under Indirect finance subject to certain conditions and No other Bank Financing to NBFC's will come under PSL

3. The conditions under which Priority Sector Lending Status is allowed for loans to MFIs are:
    - At least 85% of the NBFC's Business (loan) assets should be classified as under "Qualifying Assets" and

- More than 75% of the NBFC-MFIs loans should be for Income Generation purposes.
- The pricing guidelines prescribed by the RBI have to be followed by the NBFC.

Qualifying Assets are:

- Loans are given to Family with Incomes less than Rs. 60,000 per annum for rural households and Rs. 120,000 per annum for urban and semi-urban households.
- Loans are less than Rs. 35,000 in the first cycle of lending and Rs. 50,000 in subsequent rounds.
- Loans are given to borrowers whose total indebtedness is verified to be below Rs. 50,000.
- Loans are to be given without collateral.
- Loans to have tenure of at least 12 months for below 15,000 and 24 months for the rest. Flexible Option of Repayment being weekly, monthly or fortnightly.

Banks have to verify that for MFIs that avail the priority sector tag for loans are complying with **interest rate caps** and **pricing guidelines as indicated below**

- Interest rate to be capped at 26% p.a. Further the gross interest margin should not be more than 12% p.a. Fortnightly lending rates and borrowing rates are to be used for computation.
- Maximum Loan Processing fees of 1% and insurance premium is to be charged only at actual cost.
- Insurance admin charges have to follow the IRDA guidelines for Insurance.
- No penalty for delays and no security deposits are to be taken.

The Implications of the Guidelines for Chaitanya:

- Should ease access to Banking lines.
- Brings in a large degree of acceptability of the interest rate and pricing practised in the sector and ensure regulatory certainty. The guidelines serve to correct misplaced expectations about interest rates of micro loans.
- Restricts the business scope to non collateralised lending with new initiatives like gold loans / vehicle loans etc being limited to 10 %- 15% of the portfolio.
- Limits flexibility on Interest Rate and Interest Margins and makes operational performance very sensitive to costs of delivery and portfolio quality.
- Going with our understanding that cost economies at the field operation level are reached even at a portfolio size of around Rs. 500Mn, and savings in borrowing costs are not likely to improve margins, superior value should be derived by companies that have better portfolio quality and risk mitigation practices.
- It increases the break even period for start up MFIs compared to earlier, and hence should prevent newer ventures in the sector.
- Limits Lending only to the lowest Income Bracket, though other services can be offered to other Income segments
- The income level prescribed for the lowest Income of Rs.60,000 for rural areas restricts our lending predominantly to the unorganised business, labourers and small farmers. While we strongly believe that in the rural areas there is a vast middle who are un-served by Banks and other forms of formal credit, we would have to forsake participating in this segment.
- The restriction on overall borrowing limits for a borrower provides strong incentives to share information among MFIs and MFIs to jointly reduce the number of institutions working with the same customer and move towards usage of customer credit bureau.

The regulation implies that the CORE of the Credit Services of NBFC-MFIs is going to be non collateralized, small ticket, income generating loans while other credit offerings has to remain marginal and limited in scope. The regulation will not permit presence of other lending based businesses to cross 15% of the assets and if these opportunities are found to be of significant value, we will need to create a separate structure.

However there are no restrictions on other services a NBFC can provide to its customers and others. Hence advisory services, distribution services, insurance services, banking correspondent services (when permitted) etc which serve all customers in the geography of presence can become part of a comprehensive business model.

Further the regulation directs NBFC-MFIs to use creative strategies and operational innovation to bring down the total cost of the service which is the path to increased profitability.
The regulation when implemented in full has the potential to bring down the systemic risk and credit risk of the MFIs as under the regulations the value of a high quality portfolio significantly outweighs, any benefits size and scale could give and some of the guidelines will necessitate cooperation among the MFIs in information sharing.

We believe that the events starting from October and culminating in the RBI directives, gives us an opportunity to substantially differentiate from other MFI's through superior risk classification, prediction and mitigation processes. It gives us an opportunity to stabilize our operating structure and strategic plans to create a differentiated mid size microfinance institution without significant competitive pressures in the short term.

Operational Performance

The year 2010-11 was a challenging year for Chaitanya. The challenge was primarily from the credit supply side. In the lending business, a continuous source of funds is essential for growing the loan book, especially for a young company like ours. However, the Andhra Pradesh microfinance crisis completely stopped the flow of bank debt – the largest source of funds to microfinance companies, post October 2010. We started the year with an equity base of Rs. 23.5 Mn. Our plan was to reach a year end portfolio of Rs. 96 Mn with an equity base of Rs. 30 Mn and borrowings of Rs. 75 Mn. With fresh bank loans drying up after October and no signs of picking up for at least the next 6 months, we decided to raise fresh equity in December. We approached individual investors for equity and raised Rs. 70 Mn taking the equity base of the company to Rs.120 Mn by the end of the financial year. This increased equity helped us to end the year with an outstanding portfolio of Rs. 93 Mn. We also closed the year with a profit before tax of Rs. 1.68 Mn. After wiping out initial losses of Rs. 1.38 Mn, we ended the year with a pre tax surplus of Rs. 0.3 Mn.

Operationally, the AP crisis did not have any adverse impact with borrower repayments being normal for us. We expanded our operations to two new geographic locations during the year. One geographic region is Bailhongal region in Belgaum district of Karnataka and the other is Koppal region in Koppal district of Karnataka. We also increased the number of branches in operations from 3 to 8 branches. Our staff strength increased from 15 to 63 during the year. Operationally, the crisis in the sector was a blessing in disguise for us as lending from other microfinance institutions came down to a trickle, whereas we continued our lending helping us strengthen our position in our operating locations.

We follow the Grameen Bank's Joint Liability Group (JLG) lending approach and lent only to women. During the year, we strengthened our customer selection process which is now a well defined 10 step process. During the course of the year we moved further along on our regional approach. In our regional approach, we identify specific geographies (radius of 50 km.) where there is little or no presence of MFIs and penetrate deep in the region through a network of branches. A key aspect of the regional approach is to build strong local roots and operational depth. In Jagalur region, we increased our staff strength from the 11 to 32 with all hiring done locally. The local hiring has helped us have a stable base of employees. The portfolio in Jagalur increased from Rs. 10.8 Mn to Rs. 67.1 Mn during the year. Branches increased from 3 to 5. In 3 branches were the portfolio moved above the Rs. 15 Mn mark, we were able to achieve operational depth, by reaching to most villages within 25 km from the branch and being the dominant microfinance provider in our branch areas.

Financials

The company has an authorized share capital of Rs. 100 Mn, divided into 10 Mn equity shares of Rs. 10 each. The paid up share capital of the company stood at Rs. 80.8 Mn as on 31st March 11, an increase from Rs. 23.5 Mn a year ago. The increase in paid up share capital was on account of fresh equity the company raised during the year. The increased equity during the year came from existing shareholders as well as new individual investors. The number of investors increased from 7 to 39 during the year.

The company raised a total debt of Rs. 22.5 Mn during the year. The debt raising plans of the company were severely affected after the AP crisis. The company raised debt from 3 institutions - Ananya Finance (Rs. 10 Mn), SIDBI (Rs. 10 Mn) and Intellecash (Rs. 2.5 Mn) with all 3 sanctions happening before the AP crisis. At the end of year, the outstanding debt of the company stood at Rs. 19.1 Mn.

During the year the company disbursed loans to 12648 customers and the total amount disbursed was Rs. 149 Mn. The loan portfolio of the company grew from Rs. 10.5 Mn to Rs. 92.4 Mn during the year. The total income of the company increased from Rs. 1.34 Mn to Rs. 15.5 Mn during the year. The profit after tax was Rs. 1.51 Mn as against a loss of Rs. 1.3 Mn during last year. The company wrote off 3 loans during the year and amount written off was Rs. 11,614. These were loans where the customers were not in a position to repay the loans. Other than this, there were no overdues in the company.

Opportunities and Threats

The low income household market offers huge opportunities for credit and also for financial services beyond credit with a large informal market and also due to the expected growth of the market as the country grows. The main threats facing the sector are political risk, regulatory risk, catastrophic risks from weather and health related events and multiple & poor lending practices in the industry.

Our Strategy

Our broad strategy is based on four critical factors, which should help us take advantage of the opportunities in the industry, overcome the risks in the industry and differentiate us from competition in the long term.

1. Operational Efficiency Related Factors – These are cost oriented factors that determine the cost of delivering credit service to the customers.
2. Operational Effectiveness Related factors – These are factors that relate to the quality of service and the scope of products delivered to the customer.
3. Risk Management factors – These are factors that relate to ability to assess, eliminate, measure and mitigate credit and other risks in the business.
4. Leadership and Management Related Factors – These are factors that relate to the institutional ability to be agile, responsive, flexible and grow simultaneously.

In Chaitanya we believe that as a consequence of our geographical focus and lean HO structure, despite a smaller portfolio base we would be close to the better MFIs in the industry in relation to operational efficiency related factors by the end of 2013.

Owing to our structure of decentralized regions and conscious strategy of local differentiation in product and service delivery, we plan to be 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.

We hope to become the leader in best risk management practices in the microfinance industry. We currently believe that owing to the quality of process management, the risk management of Chaitanya is ahead of its competitors. However systemizing the process related parameters, interfacing the same with customer related risk factors, requires us to develop a robust IT-Risk System interface that is responsive and customer information centric. Hence a key objective for financial year 2011-2012, would be to deliver a comprehensive risk management system that would create significant comfort for Chaitanya to grow its business.

Lastly, Chaitanya sees itself adding a robust line of senior management only when it is planning to develop new business units outside the current geographical focus around Karnataka. Till that stage while the quality of the regional and branch management team will be constantly reinforced to remain outstanding, Chaitanya will pursue a conscious plan of keeping a lean HO with an eye on HO structural costs.

Human Resources

Strong Human Resources is a critical requirement for us. The business is characterized by: geographically disbursed operations; customer vulnerability to weather and health risks; a large proportion of customers financially illiterate; a politically sensitive customer base; and a large number of daily tiny transactions in cash across a wide geography. All these features make this business a people and management intensive business. The company operates through a regional approach with a regional manager heading a region. Other than the regional manager, most other employees in the region come from in and around the region. By giving a professional and stable work environment with decent salaries in local rural areas, the company is able to attract and retain local rural youth for its field operations. Employees are located such that they do not serve areas close to their homes but are sufficiently close to go to their homes on weekends. This approach has helped us keep our attrition rates under control. Local people also give another advantage as they are culturally aligned to customers helping build better relationships with customers in the long term. All field recruitments go through the Managing Director or Finance Director to better ensure fit of employees into the company. We have also consciously avoided taking employees from other microfinance institutions. This has helped us mould our employees to our unique Chaitanya culture and avoid the baggage that hiring from other companies brings in, which are unsustainable employee expectations and dangers of fraudulent people joining us.

Over the past year we have strengthened our training process for our employees, especially our field staff. All field employees undergo detailed training, are tested at the end of the training and only when their performance is satisfactory are they given full charge. We have a 6 monthly incentive for all employees in which every 6 months Key Result Areas for all employees is fixed and measured. Field staffs have a monthly incentive in addition to 6 monthly incentive. Customer targets are a small proportion of the overall incentive structure for all employees. For field staff, where customer numbers are the most sensitive, the weightage for customer numbers is around 30%. Other aspects covered in the field staff incentive system are: planning, customer quality and process quality. We are actively looking at the possibility of further reducing the weightage for customer numbers in field staff incentives.

Risk Management

Credit Risk

One of the major risks facing the industry is default by customers. AP has seen mass defaults since the AP Micro Finance Ordinance was passed in Oct 10. One of main reasons for customer default is customer over indebtedness and multiple lending to same customer. We have continuously worked to put processes in place to address this risk. Our branches are not located in large towns (district headquarters) as we believe that there is a higher risk of multiple lending in those areas. We focus on villages where the presence of other MFIs is less. We do not give loans to customers who have more than two other microfinance loans. In our second year of operations we have made our customer selection process for repeat customers more stringent with customers given loans only when they have met certain conditions during the 1st loan period. The main conditions are: repayment meeting discipline and repayment meeting attendance, not more than 2 other MFIs loans taken, utilization of the loan for the purpose taken and strength of the Joint Liability Group.

We divide our repayment centers into normal, problem and risk centers. Problem centers are centers with some probability of default and risk centers are centers with a high probability of overdues. Problem and Risk centers are immediately identified as they arise and followed up closely by the branch manager and regional manager.

Operational Risk

We have clearly defined limits for maximum overnight cash we carry in our office, maximum withdrawal from Bank, maximum cash transfer permitted, maximum disbursal in a day from a branch. Similarly we have defined individual and joint limits for maximum signing limits for each of the signing authorities. Through a process of internal audit all non compliance is brought to fore and corrective action is taken to mitigate future non adherence.

Bank limits in all branch accounts are strictly adhered to and fidelity coverage for all cash transactions is taken for all signatories up to the limits. All loans are disbursed only in the branch and in the presence of senior staff who is not involved in the customer acquisition process.

Funding Risk

A large part of our funding needs to come from other financial institutions especially loans from banks. Last year after the AP crisis, bank funding for the sector completely stopped. We made up our funding shortfall by raising equity. In this year bank funding should be back to normal as the RBI has come out with guidelines for bank funding to MFIs. We also plan to diversify our funding base during the year through securitization of loans and use of Non Convertible Debentures.

Industry Risk

As the, for profit microfinance sector has grown and also partly due to unsustainable lending in some areas by MFIs, the industry faced its biggest risk to date in 2010. We believe that the worst is behind us. The RBI's guidelines for the sector which includes interest rate caps should help the industry to further improve its official status. Interest rate caps should help the sector from unfair targeting from politicians as the viable interest rate necessary to run the business has been laid out by RBI. The industry is moving towards adopting a credit bureau which should help control the issue of multiple lending in the long term. Chaitanya is already part of the microfinance credit bureau and we have started submitting our customer data to the bureau.

Internal Audit
We carry out our internal audit process in two ways. We have a senior employee (level of Assistant Regional Manager) as a full time internal auditor. The internal auditor audits all branches once every 2 months. The internal auditor directly reports to the Finance Director who in turn reports to the Board on audit issues. As we expand, we will increase the team size of the internal audit team to ensure we maintain at least branch field process audit once every 2 months. Our internal audit is an objective score of each field process.

The company uses the services of an independent person to audit processes not covered by field internal audit. This includes, Finance & Accounts, Administration and Human Resources. The audits are carried out once a quarter.

SOCIAL IMPACT ANALYSIS

Chaitanya's Mission is *to improve lives of low income household's by providing financial services and ensuring sustainable shareholder return.* The two aspects to our mission are equally important to us.

To measure our social impact we are using Grameen Foundation's Progress out of Poverty Index (PPI) Survey. The PPI Survey is a ten-step field survey with a score. From the final score, one is able to estimate the poverty level of a household. The questions consist of details such as amount of children in the household, household occupation, and the types of durables owned by the household.

Currently, we use this tool to track PPI Scores of our customers over time by collecting scores at the beginning of each loan cycle. With this, we can see whether, on average, a Chaitanya customer's poverty level decreases or increases between each loan cycle. If a customer decides to take a 2nd cycle loan, we can see if there is correlation between our loan and changes in their poverty level from when they took the 1st cycle loan. With the PPI, we can now track if poverty levels increase and take appropriate steps to find out why and how to prevent this. We can also track if poverty levels decrease as a result of our loans, find out what we are doing successfully and then replicate it. Our plan now is to also review the average scores at the unit, branch and institution level on a quarterly basis.

We can also use the average poverty levels of our clients at the branch level, the unit level, and as an institution as a whole to give us a profile of our typical client. Below are the averages as of January 2011. In the future, we also plan to use the PPI Scores to segment customers and create tailored loan products.

JAGALUR TOTAL UNIT SUMMARY – 5% Sample of Customers

Branch Name	Average Disbursement (Rs.)	Average PPI Score (Max. 100)	Likelihood that Annual Household Income Is Under USD $2/day
JAGALUR	11466	40	78%
NAYAKANATTI	10235	32	88%
KHANAHOSAHALLY	11241	33	87%
HOLALKERE	11086	44	75%
KOTTUR	13000	35	84%
AVERAGE	**11406**	**37**	**82%**

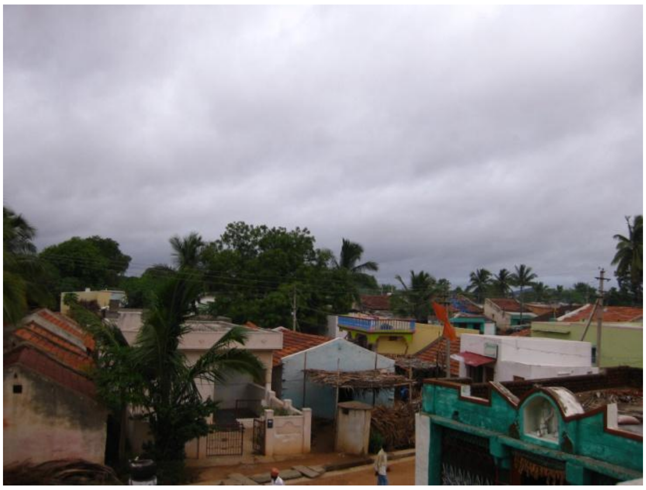
CHAITANYA TOTAL SUMMARY - 5% Sample of Customers

Unit Name	Average Disbursement (Rs.)	Average PPI Score (Max. 100)	Likelihood that Annual Household Income Is Under USD $2/day*
JAGALUR	11406	37	82%
BAILHONGAL	12397	34	86%
KOPPAL	10516	28	90%
AVERAGE	**11439**	**33**	**86%**

**Likelihood is based on the World Banks definition of moderate poverty – living on less than US $2 per day.*

Case Study of Raste Machikere Village

In the village Raste Machikere, we've had the unique opportunity to conduct in-depth interviews with our customers, providing us with a picture of the true impact of Chaitanya's loans on individuals and a community.



Raste Machikere is a small village of 180 households, situated 4 km north from the Jagalur taluka, where our first branch was founded. We can classify Raste Machikere as semi-rural. It is not remote, since it is nearby a taluka and only one hour away from two major cities, Chitradurga and Davangere. In Raste Machikere, we have 4 centres with a total of 42 customers, and a mix of first cycle and second cycle customers. The primary occupation in this village, as well as of most of our Raste Machikere customers, is agriculture and the main crops are maize and cotton. Many of the households draw income from other sources as well, but agriculture income remains the backbone of their finances with dairy production income, tailoring, and wage-labour income only supplementing this.

We have been able to conduct in-depth interviews in Raste Machikere, giving us a snapshot of how our loans are being used in an agriculture-based semi-rural community. We can divide our loan usage into three categories:

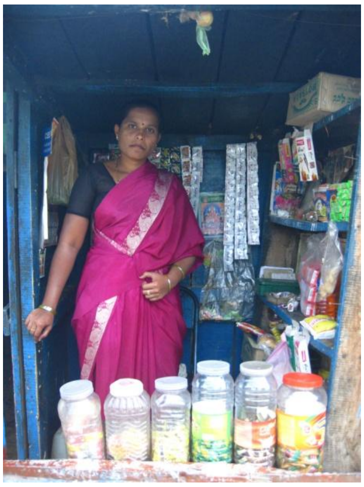
1. Investment into existing income-generating activities
2. Investment into new income-generating activities
3. Consumption purposes

Most of our customers fall into the first category. Most use the loan to invest into inputs for their farmland, usually for seeds, fertilizer, and tractor/oxcart rental, and in some cases for tube-wells. The other two categories make up smaller portions of our customers in Raste Machikere, with entrepreneurial women being slightly more in quantity than women using the loan for consumption. Some common uses for consumption are education purposes. For new activities, it ranges from buffalo purchases to investing in an auto-rickshaw. It should be noted that in all three categories, almost all used a small portion of the loan to cover household expenses.

Analyzing the cash flows of village households, reveal the following details. Income per acre for dry land averages around Rs. 10,000 and for irrigated averages around Rs. 20,000. Most families own at least 2 acres, resulting in the bulk of their annual income coming by their harvest sale. This income arrives in lump sums, usually only once a year. These lump sums are difficult to stretch throughout the year for several reasons. As soon as the lump sum arrives, much of it is used to pay off pending agricultural expenses. A household may have hired labourers for help and must pay them. They may have taken seeds and fertilizer on credit or promised to pay for the tractor rental after the harvest. However, what is most common is that the family borrowed from a moneylender at a flat rate of 2 – 3% and must pay it back immediately after the harvest. Inputs for agriculture can run as high as Rs. 4,000 per acre and even higher if the household wishes to irrigate their land. This money is borrowed months before the harvest, so in addition to the large principal payment, they pay a significant amount in interest. Once these expenses are paid off, very little is left for the household to stretch the agricultural income through the rest of the year. This results in the household borrowing yet again from the moneylender for other costs, such as medical and festival expenses.

Chaitanya has played a role by reducing the dependence of the Raste Machikere farmers on local moneylenders. Our interest rate is lower, resulting in less of their income being eaten by interest. Moreover, we have a structured repayment system and customers are comfortable with paying small amounts every 14 days and reducing their principal on a regular schedule. With the moneylender, the principal cannot be reduced with small regular payments. Only large one-time payments can reduce the principal, which means the farmer's only option is to wait until the harvest. With our structured repayment, less of the lump sum from the harvest goes to pay back borrowed money, leaving a larger amount for the household after the harvest is sold. Chaitanya's loan plays a part in easing the cash-flow problems for customers with an agricultural-based income cycle.

Other customers in the first category include women who invest into an existing hotel or petty shop. They are able to expand their inventory with our loan, and they use their shop income to make our repayments. Below is a case study of Manjamma, a second-cycle customer who has used our loan to invest into increasing the income generation of her hotel cum petty-shop.



Manjamma's first loan from Chaitanya was Rs. 8,000 and her second loan was Rs. 15,000. Both loans she invested into her hotel cum petty-shop. During festival season, particularly Karthika in the month of January, she needs to buy extra supplies because the turnover is much higher. To capitalize on the extra business, she must be prepared with extra supplies. Before, she used to buy all her supplies on credit and she was required to pay back the supplier in one lump sum. With the Chaitanya loan, she can buy the supplies outright and pay off her loan in small amounts. She and her family use lump sums of cash to purchase durables and assets, including gold and a bike, and invest part of the lump sum back into the shop. To pay for Chaitanya's fortnightly repayment, she keeps aside one day's income from the hotel cum petty-shop.

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

17th May 2011

AUDITORS' REPORT

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

We have audited the attached Balance Sheet of **CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED** as at 31st March 2011 and the Profit and Loss account of the Company for the year ended on that date annexed thereto. These financial statements are the responsibility of the management of the Company. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements. We believe that our audit provides a reasonable basis for our opinion.

1. As required by the Companies (Auditors Report) Order, 2003, issued by the Central Government of India, in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said order.

2. Further to our comments in the Annexure referred to in paragraph 1 above, 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, the Company has kept proper books of accounts as required by Law so far as appears from our examination of such books.

   c) The Balance Sheet and the Profit and Loss account dealt with by this report are in agreement with the books of accounts.

M/S. RAMESH ASHWIN & KARANTH
Bangalore
560 025
Chartered Accountants

d) In our opinion, the Balance Sheet and the Profit and Loss account dealt with this report comply with the Accounting standards referred to in sub-section (3C) of Sections 211 of the Companies Act, 1956.

e) On the basis of written representations received from the directors of the Company and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2011 from being appointed as a director in terms of clause (g) of sub section (1) of section 274 of the Companies Act, 1956.

In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and fair view in conformity with the accounting principles generally accepted in India:

i) in the case of Balance Sheet, of the state of affairs of the Company as at 31st March 2011; and

ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date.

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

ANNEXURE TO AUDITORS' REPORT

Annexure referred to in paragraph 3 of the Auditors' Report to the members of **CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED** on the accounts for the year ended 31st March 2011.

i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of 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) The Company has not granted any loans, secured or unsecured, to companies, firms and other parties covered in the Register maintained under section 301 of the Companies Act, 1956.

(b) This sub-clause is not applicable to the Company.

(c) This sub-clause is not applicable to the Company.

(d) This sub-clause is not applicable to the Company.

(e) The Company has taken loans from a Directors amounting to Rs. 2,38,51,000/-.The repayment of such loans back to the directors amounted to Rs 25,00,000 during the year. An amount of Rs 2,13,51,000 is transferred to share application money account.

(f) The Company is not paying any interest on the above loan. The Interest debited on such loan is Rs. 1,79,590. The rate of interest being 10% p.a.. The rate of interest and other terms and onditions of the loan are not prejudicial to the interest of the company.

(g) The Company has taken the above loan from Director to carry on the day to day activities of the Company. The same was converted into the equity during the year.

iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business, with regard to purchase of fixed assets. During the course of audit, we have not observed any continuing failure to correct major weaknesses in internal controls.

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.

M/S. RAMESH ASHWIN & KAPADIA Chartered Accountants Bangalore 560 025

(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.

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) The internal audit system is commensurate with the size of the Company and its activity level.

viii) Maintenance of cost records under section 209(1)(d) of the Companies Act, 1956 is not applicable to the Company.

ix) (a) According to the information and explanations given to us, the Company is generally regular in depositing all undisputed statutory dues with the appropriate authorities.

(b) According to the information and explanations given to us, there are no disputed amounts payable in respect of Income tax, Sales tax, Customs Duty, Wealth tax, Excise Duty and Cess, which are in arrears, as at 31st March 2011, for a period of more than six months from the date they became payable.

(c) According to information and explanations given to us, there are no pending disputed statutory dues.

x) The company has made profits in the current year even-though Company had incurred cash losses during the year preceding the year covered by the report.

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

xii) In our opinion, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Hence, maintenance of any such records is not applicable.

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

xiv) According to the information and explanations provided to us, the Company is not dealing in or trading in shares, debentures and other investments and accordingly, the provisions of clause 4(xiv) of the Order are not applicable to the Company.

xv) The Company has not given any guarantee for loans taken by others from banks or financial institutions.

xvi) The term loans taken by the company were applied for the purpose for which it is obtained. However as per the sanction orders the lending institutions there are certain

M/S. RAMESH ASHWIN & KAMATH Chartered Accountants Bangalore terms like micro credit should be given to the Borrowers who have not availed any credit from any Bank/MFI & company should give credit to individuals/groups, strictly for non-farm, income generating micro enterprises. It is not verifiable from the available records of the company whether the borrowers of the company have availed any credit from any other bank/MFI. While the company is giving credit to Individuals/groups it cannot be verified if such individuals/groups are engaged in Non farm activities or, income generating micro enterprises.

xvii) According to the information and explanations given to us and 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) According to the information and explanations given to us, the Company has made preferential allotment of shares during the year to parties and companies covered in the register maintained under section 301 of the Act and the price at which such shares have been issued are not prejudicial to the interest of the company.

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.

xx) The Company has not raised money from the public during the year.

xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year under review.

Date:17.05.2011
Place: Bangalore

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

Prashanth Karanth
Partner
M.No.214235

M/S. RAMESH ASHWIN & KARANTH
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

17th May 2011

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, 2011.

4. The Company has undertaken lending activity during the period 01.04.2010 to 31.03.2011. Since none of the advances have exceeded 180 days, no provisions as per prudential norms have been made during the year.

Date17.05.2011
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

CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED

NO. 443, 18TH MAIN, 4TH T BLOCK, JAYANAGAR,

BANGALORE - 560 041

BALANCE SHEET AS AT 31.03.2011

PARTICULARS	SCH. No.	AS AT 31.03.2011	AS AT 31.03.2010
SOURCES OF FUNDS			
Share holders Funds			
Share Capital	1	80,854,040	23,540,000
Share Application Money pending for Allotment		9,465,166	-
Reserves & Surplus	2	22,681,420	-
Loan Funds			
Secured Loan	3	11,988,866	-
(Due within 12 Months - Rs.4,889,068/-)			
Unsecured Loan	3A	7,499,998	10,923
(Due within 12 Months - Rs.4,165,998/-)			
TOTAL		**132,489,490**	**23,550,923**
APPLICATION OF FUNDS			
Fixed Assets	4		
Gross Block		3,319,237	1,566,547
Less: Accumulated Depreciation		967,791	180,521
Net Block		2,351,446	1,386,026
Investments	5	15,500,000	9,152,307
Current Assets, Loans & Advances			
Loan Portfolio		92,411,068	10,536,670
Deposits	6	1,549,585	287,740
Other Advances	7	931,093	340,483
Cash & Bank balances	8	20,848,666	711,779
Other Current Assets	9	864,726	241,638
		116,605,138	**12,118,310**
Less: Current Liabilities & Provisions			
Current Liabilities & Provisions	10	1,981,592	486,338
		1,981,592	**486,338**
Net Current Assets		**114,623,546**	**11,631,972**
Deferred Tax Asset		14,498	51,022
Miscellaneous Expenses			
Profit & Loss Account		0	1,329,596
TOTAL		**132,489,490**	**23,550,923**

Significant Accounting Policies & Notes to Accounts 16

Schedules referred to above form integral part of Balance Sheet

As per our report of even date
For Ramesh Ashwin & Karanth
Chartered Accountants

For and on behalf of Board of Directors

M/S. RAMESH ASHWIN & KARANTH 560 050 Bangalore

CHAITANYA INDIA FIN CREDIT PVT. LTD. Bangalore

Prashanth Karanth
Partner
M.No.214235
FR No.010680S
Place: Bangalore
Date : 17.05.2011

(Samit S Shetty)
Director

(Anand Rao)
Managing Director

CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED
NO. 443, 18TH MAIN, 4TH T BLOCK, JAYANAGAR,
BANGALORE - 560 041

PROFIT AND LOSS ACCOUNT FOR THE PERIOD 01.04.2010 TO 31.03.2011

PARTICULARS	SCH. No.	FOR THE PERIOD 01.04.10 TO 31.03.2011	FOR THE PERIOD 01.04.09 TO 31.03.2010
INCOME			
Operative Incomes			
Interest Received from Customers	11	13,342,101	582,649
Other Income	12	2,183,760	761,552
		15,525,861	**1,344,201**
EXPENDITURE			
Finance Cost	13	1,528,310	4,616
Personnel Expenses	14	7,208,496	1,065,752
Administrative Expenses	15	4,070,940	1,473,930
Bad debts written off		11,614	
Contingent Provision against Standard Assets		231,028	
Depreciation	4	787,270	180,521
		13,837,656	**2,724,819**
Net Profit / (Loss)		1,688,205	(1,380,618)
Less Provision for Taxes			
Current Tax		131,897	-
Deferred Tax		36,524	(51,022)
Net Profit / (Loss) carried forward to Balance sheet		**1,519,784**	**(1,329,596)**
Significant Accounting Policies & Notes to Accounts	16		

Schedules referred to above form integral part of Profit and Loss Account

As per our report of even date
For Ramesh Ashwin & Karanth
Chartered Accountants

RAMESH ASHWIN & KARANTH Bangalore 560 025 Chartered Accountants

Prashanth Karanth
Partner
M.No.214235
FR No.010680S
Place: Bangalore
Date : 17.05.2011

For and on behalf of Board of Directors

(Samit S Shetty)
Director

(Anand Rao)
Managing Director

CHAITANYA INDIA FIN CREDIT PVT. LTD. Bangalore

CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED
NO. 443, 18TH MAIN, 4TH T BLOCK, JAYANAGAR,
BANGALORE - 560 041

SCHEDULES FORMING PART OF BALANCE SHEET AS AT 31.03.2011

PARTICULARS	AS AT 31.03.2011	AS AT 31.03.2010
Schedule - 1		
Share Capital		
Authorized Share Capital		
1,00,00,000 Equity Shares of Rs. 10 each	100,000,000	50,000,000
Issued, Subscribed & Paid Up Share Capital		
80,85,404 Equity Shares of Rs. 10 each	80,854,040	23,540,000
Total	**80,854,040**	**23,540,000**
Schedule - 2		
Reserves & Surplus		
Share Premium	22,491,232	-
Profit & Loss Account	190,188	-
	22,681,420	**-**
Schedule - 3		
Secured Loans		
Term Loan from IntellCash	1,666,600	-
Term Loan from SIDBI	10,000,000	-
Vehicle Loan - HDFC Bank	322,266	-
	11,988,866	**-**
Schedule - 3A		
Unsecured Loans		
Term Loan from Ananya	7,499,998	10,923
	7,499,998	**10,923**
Schedule - 5		
Investments		
Canara Robeco - Folio no. 180639	-	5,152,307
Canara Fixed Deposit - 0408401005446/1	-	4,000,000
HDFC Mutual Fund	15,500,000	-
Total	**15,500,000**	**9,152,307**
Schedule - 6		
Deposits		
Telephone Deposit	26,985	12,740
Rent Deposit	522,000	275,000
Other Deposit	600	-
Deposit with SIDBI	1,000,000	-
Total	**1,549,585**	**287,740**

CHAITANYA INDIA FIN CREDIT PVT. LTD. ★ Bangalore

M/S RAMESH ASHWIN & KARANTH Chartered Accountants Bangalore 560 025

Schedule - 7		
Other Advances		
Advance for Motor Car	-	218,000
Advances Paid	169,397	34
Salary Advance to Employees	39,149	800
Vehicle Loan to Employees	500,096	121,649
Mobile phone Loan to Employees	8,625	-
Personal Loan to Staffs	213,826	-
Total	**931,093**	**340,483**
Schedule -9		
Other Current Assets		
TDS on Interest Received	91,384	90,370
TDS on Commission Received	1,569	-
Interest Accrued but not due	24,109	99,607
Interest Accrued on Loan Portfolio	404,743	42,404
Prepaid Expenses	26,475	9,257
Insurance Claims Receivable	103,450	-
MAT Credit Entitlement	212,996	-
Total	**864,726**	**241,638**
Schedule -10		
Current Liabilities & Provisions		
Salary Payable	459,678	32,742
EPF Payable	37,235	9,448
ESI Payable	553	3,279
Conveyance Charges Payable	-	742
Telephone & Internet Charges	38,000	13,962
Rent Payable	55,250	16,900
Profession Tax Payable	3,400	1,400
Electricity Charges Payable	6,347	2,687
TDS Payable	53,469	41,171
Service Tax Payable	41,426	-
Insurance Premium Payable	195,985	8,944
Internal Audit Fees Payable	7,500	59,562
Statutory Audit Fees Payable	24,817	16,545
Tax Audit Fees Payable	14,890	-
Interest Payable on Director's Loan	161,631	-
Interest Accrued on Loans	79,213	-
Insurance Claim Payable	10,328	-
Exgratia Payable	209,674	-
Travelling & Boarding Charges Payable	4,701	-
Professional Charges Payable	1,500	-
Interest Payable on Service Tax	74	
Contingent Provision against Standard Assets	231,028	
Income Tax Payable	344,893	
Sundry Creditors	-	278,956
Total	**1,981,592**	**486,338**

CHAITANYA INDIA FIN CREDIT PVT. LTD. Bangalore

M/S. RAMESH ASHWIN & KARANTH Bangalore 560 Chartered Accountants

SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT FOR THE PERIOD 01.04.2010 TO 31.03.2011		
Schedule - 11		
Operational Income		
Interest Received from Customers	13,342,101	582,649
Total	**13,342,101**	**582,649**
Schedule - 12		
Other Income		
Short term Capital Gain From Mutual Fund Investments	109,874	107,307
Interest on FD	39,997	519,541
Loan Processing Fees	1,615,025	125,630
Loan Processing Fees from employee loan	5,830	1,440
Fines Collected	4,856	628
Interest on employee loan	41,531	1,760
Margin on Insurance Premium Collected from Customers	350,350	5,246
Commission Received	15,685	-
Other Income	612	-
Total	**2,183,760**	**761,552**
Schedule - 13		
Finance Cost		
Interest on Director's Loan	179,590	-
Interest Paid on Loans	1,126,200	-
Loan Processing Fees Paid	175,692	-
Bank Charges	46,827	4,616
Total	**1,528,310**	**4,616**
Schedule - 14		
Personnel Expenses		
Staff Salary	5,191,068	745,104
Salary to Director	600,000	300,000
EPF Employer's Contribution	189,401	5,021
ESI Employer's Contribution	106,465	2,391
Staff Welfare Exps	334,819	13,236
Staff Medical & Accidental Insurance Premium	14,949	-
Exgratia Paid	771,794	-
Total	**7,208,496**	**1,065,752**

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

CHAITANYA INDIA FIN CREDIT PVT. LTD.
Bangalore

Schedule - 15		
Administrative Expenses		
Rent	736,015	161,900
Traveling Expenses	409,809	63,587
Printing & Stationary	290,791	97,618
News Papers & Periodicals	12,366	7,449
Training Expenses	75,098	58,834
Telephone & Internet Charges	498,055	80,080
Electricity Charges	62,247	11,845
Courier Charges	13,058	1,460
Vehicle Expenses	146,917	44,609
Repairs & Maintenance	62,352	33,488
Subscriptions	-	5,513
Membership Fees	111,268	-
Seminar & Conference	8,000	27,575
Commission & Brokerage Paid	1,166	11,000
Rates & Taxes	316,526	19,056
Professional Charges	314,672	185,540
Loan Consultancy Fees Paid	26,035	-
Stamp Duty Charges	-	21,474
Profession Tax	30,000	7,500
Water Charges	13,210	1,700
Conveyance Expenses	548,299	59,313
Business Promotion Expenses	33,214	8,864
Asset Insurance	11,016	1,037
Preliminary & Preoperative Expenses Written Off	-	468,626
Internal Audit Fees Paid	22,500	66,180
Statutory Audit Fees Paid	49,635	16,545
Tax Audit Fees Paid	16,545	-
Office Maintenance	110,466	10,672
Transportation Charges	6,620	2,465
Recruitment Expenses	23,417	-
Legal Charges	899	-
Repairs & Maintenance of Computer	26,219	-
Service Tax Paid	87,154	-
Interest on Service Tax	74	
Assets Written Off	7,296	-
Total	**4,070,940**	**1,473,930**

CHAITANYA INDIA FIN CREDIT PVT. LTD. Bangalore

M/S. RAMESH ASHWIN & KARANTH Bangalore 560 025 Chartered Accountants

CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED

NO. 443, 18TH MAIN, 4TH T BLOCK, JAYANAGAR,

BANGALORE - 560 041

SCHEDULES FORMING PART OF BALANCE SHEET AS AT 31.03.2011

Schedule -4 Fixed Assets

Particulars	Rate of Depreciation	Gross Block				Depreciation			Net Block	
		Cost as on 31.03.2010	Additions During the Period	Deductions During the Period	Cost as at 31.03.2011	Provision up to 31.03.2010	Provision for the Period	Total up to 31.03.2011	As at 31.03.2011	As at 31.03.2010
Computers	40%	460070	529770	0	989840	64417	288303	352720	637120.48	395653
Computer Software	40%	785100	72074	0	857174	99846	274654	374500	482674.00	685254
UPS	13.91%	139549	69558	1101	208006	6992	23128	30120	177886.00	132557
Furniture & Fixtures	18.10%	130357	254545	6195	378707	7585	52752	60337	318370.25	122772
Electrical Equipments	13.91%	18201	0	0	18201	666	2440	3106	15095.00	17535
Office Equipments	13.91%	33270	0	0	33270	1015	4487	5502	27768.00	32255
Motor Car	25.89%	0	802033	0	802033	0	133379	133379	668654.00	0
Motor Bike	25.89%	0	32005	0	32005	0	8127	8127	23878.00	0
		1566547	**1759986**	**7296**	**3319237**	**180521**	**787270**	**967791**	**2351446**	**1386026**

CHAITANYA INDIA FIN CREDIT PVT. LTD. Bangalore

M/S. RAMESH ASHWIN & KARANTH Chartered Accountants Bangalore 560 035

CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED
NO. 169, 1st FLOOR, 5th MAIN ROAD,CHAMRAJPET,
BANGALORE - 560 018, Ph.No. 080-26677690
Schedule - 7 Cash & Bank Balances

Cash in hand Details on 31.03.2011

Particulars	AS AT 31.03.2011	AS AT 31.03.2010
Cash in Hand		
Head Office	8,145	8,817
Jagalur Branch	27,916	1,348
Nayakanahty Branch	5,529	520
Khanahosahally Branch	21,591	1,025
Holalkere Branch	255	0
Bailhongal Branch	2,522	0
Koppal Branch	19,961	0
Kottur Branch	113	0
Hirevankulakunte Branch	8,223	0
Kukanur Branch	372	0
Khanapur Branch	1,982	0
	96608.50	**11,710**

Cash at Bank Details on 31.03.2011

Particulars	AS AT 31.03.2011	AS AT 31.03.2010
Cash at Bank		
Canara Bank , Jayanagar	22,452.98	253,128
HDFC Bank, Jayanagar	6,271,764.89	55,001
HDFC Bank, Jayanagar (FDI)	12,912,504.32	0
HDFC Loan Lein A/c, Jayanagar	10,862.12	0
State Bank of India, Chamrajpet	11,262.00	0
Indian Overseas Bank, Jayanagar	16,237.00	0
Karur Vysya Bank, Malleshwaram	10,515.42	0
State Bank of Mysore, Jagalur	318,263.81	109,597
Pragathi Grameena Bank, Jagalur	7,021.00	7,021
Canara Bank C.A/c 117, Nayakanahatti	217,446.00	188,282
Pragathi Grameena Bank, Khanahosahally	5,740.00	77,040
ICICI Bank, Bailhongal	283,329.82	10,000
Vijaya Bank A/c No. 1000008, Holalkere	570,983.00	0
State Bank of India, Koppal	15,239.00	0
State Bank of Mysore, Kottur	4,900.00	0
Pragathi Gramin Bank, Hirevankulakunte	3,045.00	0
State Bank of Hyderabad, Kukanur	9,250.00	0
Syndicate Bank, Khanapur	61,241.25	0
	20,752,058	**700,069**
Cash & Bank Balances	**20,848,666**	**711,779**

S. H. S6(h

CHAITANYA INDIA FIN CREDIT PVT. LTD. Bangalore

M/S. RAMESH ASHWIN & KARANTH Bangalore 560 035 Chartered Accountants

CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED

NO. 169, 1st FLOOR, 5th MAIN ROAD,CHAMRAJPET,

BANGALORE - 560 018, Ph.No. 080-26677690

Schedule of Institutional Loan

Loan Details on 31.03.2011

Sl. No.	Name of Bank/ Financial Institution	Amount Sanctioned (Rs.)	Amount Disbursed (Rs.)	Amount repayable within 12 months (Rs.)	Amount repayable after 12 months (Rs.)	Total Loan outstanding (Rs.)
1	Term Loan from IntellCash	5,000,000	2,500,000	832,900	833,700	1,666,600
2	Term Loan from Ananya	10,000,000	10,000,000	4,165,998	3,334,000	7,499,998
3	Term Loan from SIDBI	10,000,000	10,000,000	3,996,000	6,004,000	10,000,000
4	Vehicle Loan from HDFC Bank	392,000	379,370	60,168	262,098	322,266
	Total	**25,392,000**	**22,879,370**	**9,055,066**	**10,433,798**	**19,488,864**

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Schedules forming part of financial statements for the year ended 31.03.2011

Schedule 16

SIGNIFICANT ACCOUNTING POLICIES

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.

1. 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.

2. 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.

3. 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.

4. 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.

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5. 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.

6. 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.

7. CONTINGENT LIABILITIES

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

8. 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.

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NOTES TO ACCOUNTS:

1. The Deferred Tax Expense_for the period ended 31.03.2011 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.

2. 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, Director
ii)	Relatives of Directors and key management personnel and their enterprises where transactions have taken place	: a) Raghurama Rao b) Smitha Rao d) Shashikala

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
Share Capital	29314000	3300000
Share Application Money	37229000	3300000
Loan Received	23851000	0
Loan Repaid	2500000	0
Interest Paid	179590	0
Salary	600000	0

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3. **AUDITORS' REMUNERATION**

PARTICULARS	2010-2011
STATUTORY AUDIT FEES	45,000/-
TAX AUDIT FEES	15,000/-
SERVICE TAX	6,618/-

4. The Balances in Current liabilities & provisions, Loans, Deposits & Other advances, are subject to confirmation.

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

6. The borrowers' loans outstanding are less than 180 days and therefore no provision have been made towards bad and doubtful debts.

7. The Company is not having a whole time company secretary as required u/s 383A of the Companies Act, 1956.

8. 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.

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