Chaitanya

Improving Lives

ANNUAL REPORT
2011-2012

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	Registered Office
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	# 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	
HDFC Bank Limited	Canara Bank
State Bank of India	Central Bank of India
State Bank of Mysore	Pragathi Gramin Bank
State Bank of Hyderabad	
Syndicate Bank	**Non – Bank Term Lenders**
Indian Overseas Bank	Small Industries Development Bank of India
Vijaya Bank	Ananya Finance for Inclusive Growth Pvt. Ltd.
Corporation Bank	MAS Financial Services Ltd.

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DIRECTORS REPORT

The Members,

Your Directors are pleased to present the Third Annual Report of the Company together with the Audited Statement of Accounts and the Auditors' Report of the Company for the financial year ending 31st March 2012. The summarized financial results for the year ended 31st March 2012 are as under.

Financial Highlights

Amount in Rs.

Year Ended 31st March	2012	2011
Operating Income	3,48,50,174	1,49,57,126
Other Income	19,34,290	5,68,735
Total Income	**3,67,84,464**	**1,55,25,861**
Less Expenditure		
Finance Cost	35,42,808	15,28,310
Personnel Cost	1,43,47,034	72,08,496
Administrative Cost and other Expenses	81,07,255	43,13,582
Depreciation	10,57,848	7,87,270
Profit/(Loss) Before Tax	**97,29,519**	**16,88,205**
Less Income Tax	27,39,000	1,31,897
Less Deferred Tax	19,135	36,524
Profit/(Loss) After Tax	**69,71,384**	**15,19,784**

- Company's Total Income for the year ended 31st March 2012 has increased to Rs. 3.67 Crores from Rs. 1.55 Crores in the previous year.
- Company has had a profitable year of operations and returned a profit after tax of Rs. 69.7 lakhs.

Operational Highlights

Year Ended 31st March	2012	2011
Number of Branches	14	9
Number of Borrowers	18,268	12,648
Number of Employees	100	62
Portfolio Outstanding (in Rs. Crores)	16.82	9.24

During the year, the Company delivered a Profit After Tax of Rs. 69.7 lakhs, close to our internal expectations of Rs. 75 lakhs. However our portfolio grew only to Rs 16.82 Crores against the expected Rs. 24 Crores as a result of failure in accessing debt funds. The portfolio quality has been good with good repayment rate during the year aided by a further strengthening of the customer acquisition process. The Company has started using the common industry wide credit bureau check before giving each and every loan as is required by RBI's guidelines for microfinance institutions. The company successfully piloted lending against gold in one of the branches during the year. The Company has also started Livestock insurance for its borrower livestock loans in one of its branches during the year.

Deposits
As on 31st March 2012 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 Rs. 1,08,90,582, 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 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, 30.05.2012

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

MANAGEMENT DISCUSSION AND ANALYSIS

External Developments

Regulations by RBI: During the year, the RBI actively intervened and brought in several important regulations to the sector. Some important regulations introduced were: a separate class of NBFC-MFIs was created for Microfinance Institutions (MFIs); a credit information bureau was created to check multiple lending position and debt level of borrowers; restriction of not more than 2 MFI loans to a borrower; maximum MFI loan outstanding for a borrower of Rs. 50,000 and maintaining the Priority Status category for bank loans lend to NBFC-MFIs.

Lack of Bank Funding: The year was another difficult one for the sector with banks not coming forward to lend to MFIs. Larger and established MFIs found it easier to get bank funding compared to smaller and newer MFIs. This was quite disappointing for the sector as the expectation was of improved fund flow with continued regulatory clarity coming from RBI.

Usage of Credit Bureau by MFIs: Most players in the industry registered as NBFCs have started using the credit bureau to check the multiple lending position as well as outstanding debt levels of every borrower before giving loans. Usage of the credit bureau is a big positive step for the industry as it addresses the core issue of checking over indebtedness and multiple lending by MFIs to the same borrower. However accurate submission of data and usage of credit bureau checks to strictly comply with the RBI guidelines still needs substantial improvement in the industry.

Industry Landscape: Earlier to the crisis, the major MFIs in rural Karnataka where we operate were the Andhra MFIs. Since the crisis, the AP MFIs have been in retreat and other MFIs are taking their place. Many of these MFIs are general large NBFCs expanding into microfinance. With the new regulations, it is unlikely that newer players, especially smaller entities, focused solely on microfinance will enter the sector. On the other hand, regulatory clarity might make the sector attractive for large established NBFCs.

Role of the Government: Both central and many state governments are actively promoting Self Help Groups(SHGs). The central government is proposing to start the National Rural Livelihood Mission which involves promoting livelihoods through formation and support of SHGs. Increased intervention of the government through the promotion of SHGs does raise the possibility of friction between MFIs and the government. However, as of now the central government is keen on promoting the microfinance movement as it is working on passing a central microfinance bill which will eliminate the possibility of state government's to arbitrarily act against MFIs.

Role of Industry Associations: The RBI has recommended that industry associations play an active role in monitoring the compliance by NBFC-MFIs with the regulations. At the central level there are two main industry associations, Sa-dhan and MFIN(Microfinance Institutions Network) and in the state of Karnataka there is AKMi (Association of Karnataka Microfinance Institutions). Both the central level industry associations have played an active role in representing the industry with RBI and the central government. The effectiveness with which the industry associations can perform the self regulatory role will be crucial for the sector.

Operational Performance

The financial year 2011-12 ends as a year of operational consolidation for Chaitanya. The regulatory uncertainty of 2010-2011 came to an end in May 2011, when the first set of guidelines where issued and it brought home the message that the sector would be supported but very closely monitored and actively regulated. The basis of regulation has shifted from principle based regulation to rule based regulation. The guidelines and their subsequent acceptance by the sector and the banks have improved the flow of funds to the sector. Banks have started lending to the sector though the beneficiaries have predominantly been the bigger MFIs.

For Chaitanya the year has been one were we have operated cautiously and not added new regions or any significant overheads to our operations. Even in the existing regions we started increasing the number of branches only towards the end of the year. The approach for us was to expand operations only after debt funding from banks had materialized. The focus shifted to significantly improving the quality of operations and quality of our manpower. By the end of the year with some optimism about debt funding in the horizon we added four new branches.

A key measure of efficiency for the company is the Operating Cost Ratio (OCR), which is the ratio of the operating costs to the average outstanding loan portfolio. In March 11, the OCR was 24.79% and in March 12 it reduced to 17.62%. To give reasonable returns to investors this ratio should be less than 10%.

Profitability Close to Earlier Projected Numbers: Chaitanya ended the year 2011-12 with a Profit after Tax of Rs. 69.7 lakhs, marginally above our profitability projections made last year. The profits have been achieved despite a very slow growth in the total portfolio. The portfolio held in our books and managed for other institutions grew only to Rs 16.8 crores against the expected Rs. 24 crores. The lower growth in the portfolio size is a result of our failure in getting debt funds and due to a conscious strategy to consolidate the operations and avoid geographical expansion till further clarity was available on the debt funding side.

Robust Operations and Consolidated Branches: We today have more than 18,000 active borrowers and serve them through 14 branches. Out of these 14 branches, 8 branches have had operations of more than one year and these 8 branches have a combined portfolio of around Rs. 12.8 crores. We currently have 50 operational field staff of which 35 have been in the company for more than one year. With the current spread of three regions we should comfortably set up close to 20 branches and have a portfolio of above 30 crores in the coming years.

Confidence in Risk Management through Joint Liability Group (JLG) Process: As of March 2012, we complete around 30 months of operations as a NBFC and in this period we have evolved our customer assessment, training and other JLG lending processes to a stage where we feel confident of the efficacy of the process. Our process has had various changes and improvements and shows signs of stabilizing. We believe that good quality implementation of stabilized processes should give us repayment rates above 99.5%. We believe that our process is rightly suited to the specificities of the rural customer base in Karnataka.

System Stabilization and Improvement: IT System for transaction handling was bought and implemented during the inception stages of the company. However in the last year significant upgrades were made both in system functions and automated reports, which have made the system very useful for daily operational use. Further a collateral management, risk management and audit system was conceptualized and is in the final stages of software testing. We believe that our web based system with automated report generator and a robust risk system will together give us a systemic advantage if we were to look at non JLG based loans to our existing customer set.

Successful Deployment of Gold Loans in Jagalur: Our first branch is now a fully functional gold loan branch. It should take us one more year to profitably deploy gold loan in all our key branches. We have used the last six months of gold loan operations to stabilize the operating procedures for gold and also to bridge the skill gap that we had as an organization in managing gold loans.

Securitisation with MAS Financials: Of our total portfolio of Rs. 16.8 crores, Rs. 14.5 crores is our own portfolio and Rs. 2.3 crores is our managed portfolio, which was through a securitisation deal with MAS Financials. The securitisation deal with MAS Financials has been a good learning experience and has given us the space to grow our business further. MAS financial services has worked with multiple micro finance institutions and has a good grasp of the business dynamics. Hence their confidence in our business model, operational control and portfolio quality is very valuable as we seek out newer funding partners.

Human Resources

Stability in Key Roles: Our understanding of roles, expectations of the loan officers, branch managers, regional mangers, regional accountants etc. have grown and become complete. The personnel manning key roles have been with us for more than a couple of years and we see a robust team shaping up.

Improvement in Employee Training: We have developed and implemented a set of training modules for various staff roles over the last one year. The key modules currently being used are Induction Program, Loan Officer Improvement Program, Outstanding Loan Officer's grooming program, Branch Manager's Improvement Program, Communication and Management Skills Program and Personality Development Program. These programs have evolved in the course of the year into robust training programs and were administered multiple times during the course of the year in different locations. The quality of field processes and efficiency in office administration has improved as a result of these training programs.

Livestock Insurance

During the year, we introduced livestock insurance in one of our branches. Insurance is provided to borrowers who invest in milch animals. With close to 20% of our loans going to purchase of milch animals we believe it is important to provide our borrowers with insurance to protect them from financial shocks arising from death of milch animals. The insurance provider for livestock insurance is Royal Sundaram. Providing livestock insurance in an effective manner is challenging. Premiums are high due to issues of adverse selection and moral hazard. There is no ready willingness to pay due to lack of knowledge about insurance which is compounded by high premium rates. A subsidized insurance program of the government, although not very effective, further distorts the market. We are looking at a model of combining insurance with fee based livestock health service to make it viable for us.

Measuring Social Impact

To measure if our borrowers' lives are improving, we use the Grameen Foundation's Progress Out of Poverty Index (PPI). The index was designed to help MFIs such as ours to better identify and target low income families and track their movement out of poverty. A higher PPI score indicates higher income or a lower poverty level. We collect the PPI score of every borrower and record it in our database. Every quarter we determine the average PPI scores across all our branches and regions. If people are getting better off, the PPI index should be gradually rising quarter by quarter. We check to see if this is the case. If the PPI score of any branch is the same

Location	Average PPI score	
	2012	2011
JAGALUR	42.03	37.05
BELGAUM	37.41	34.03
KOPPAL	35.88	28.44
COMPANY	**38.44**	**33.18**

or falling, then it is an indication for us to check if people are getting economically worse off. This is possible if loans are making people indebted and people are forced to sell assets to meet their debt obligations.

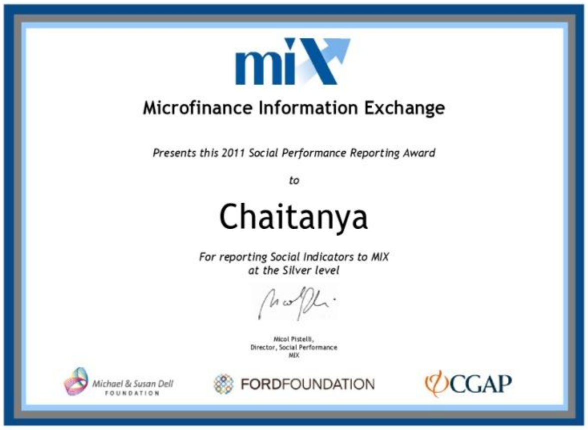
The table indicates the average PPI score of our three regions and the company in 2011 and 2012. In all the three regions, the average PPI scores of the borrowers has increased this year (from March 2011 till March 2012) compared to last year. This indicates that there is improvement in the economic lives of our borrowers. Although, this improvement cannot be entirely attributed to our loans as we are only one part of our borrowers' economic lives, it still gives us the satisfaction that our borrowers' lives are improving and we are being part of it.

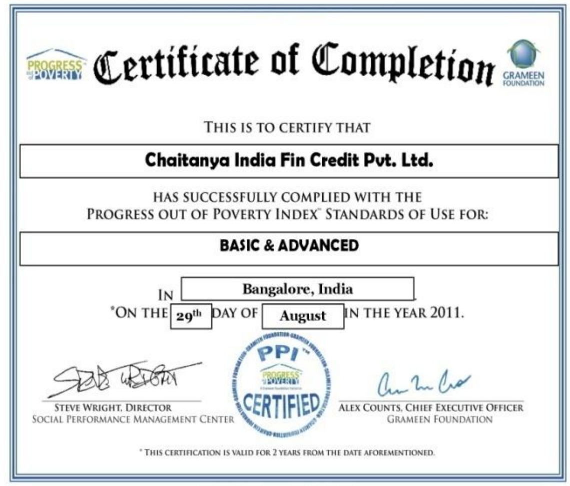
Chaitanya's Community Services

Livestock Health Camps at Hanumantapura and Rastemachikere villages

We see a scope for providing community services through our community reach. We believe that the community service should be synergistic to our financial services business. It is also important for us to first stabilize our microcredit operations and build our institutional capabilities before undertaking such activities. We have identified providing health support services to livestock as our focus area. With a sizeable portion of our loans going for investment in livestock, providing livestock insurance with livestock health support services looks to be a good area for providing community service. In this year we organized two livestock health camps in association with the government veterinary department. In the health camps, livestock were provided with essential vaccinations, de-worming pills and routine health checkups with free medicines. The health camps were conducted in Rastemachikere village and Hanumantapura village in Jagalur region. The two camps serviced over 400 livestock. The health camps also helped build the credibility of Chaitanya in the Jagalur region.

Awards and Recognition





The company was awarded the Silver Award for Social Performance Reporting on MIX Market during the year We were one of six MFIs in India to get this recognition. The award is sponsored by CGAP(Consultative Group to Assist the Poor), Michael & Susan Dell Foundation (MSDF), Ford Foundation and Social Performance Task Force (SPTF). The award recognizes microfinance providers who provide reports on a set of social performance indicators, that were developed through a process involving global industry leaders and led by SPTF.

As mentioned earlier, Chaitanya uses Grameen Foundation's Progress Out of Poverty Index (PPI). We have received the PPI certification on Basic and Advanced Standards of use of PPI from Grameen Foundation.

Opportunities and Challenges

Unfavorable Bank Funding Environment: Since the AP crisis, bank funding to the sector has dried up and is still to get back to pre crisis levels. Although, there are other sources of funding such as securitisation, External Commercial Borrowings (ECBs) and funding from other NBFCs, bank funding will continue to be a crucial source of funding for MFIs. Smaller MFIs such as our company have had far more difficulty in getting bank funding since the crisis. The best case scenario is that with regulatory clarity coming to the sector through the efforts of RBI and the central government, banks again resume normal lending to the sector and the industry gets back to its normal growth path. A less optimistic scenario is that banks see lending to the sector as too risky, or decide to work only with larger MFIs. An unfavorable bank funding climate might force us to look at other business models such as become a Banking Correspondent (BC) to banks or merge/tie up with other MFIs to get scale. How the bank funding scenario evolves in the coming year will be very crucial for the future direction we take.

Operational Nature of Business: The business model of microfinance is built on borrower group guarantee which has historically ensured high repayment rates. The group-guarantee approach helped the operational process to be made transactional and less personal between the MFI and the borrower and helped rapid scale up of the business. However, repeated crisis has shown us that the operations do not always remain transactional. Inappropriate field staff behavior with borrowers, inability of field staff to handle unfair practices from the borrower side such as commission agents emerging between the MFI and the borrower has the potential to severely disrupt operations. For operations to be well run on a sustained manner, field staff have to be well trained, well managed and closely monitored. The span of managerial control has to be structured taking this into consideration. Our geographical focus in the state of Karnataka till date has been done with this consideration. Any expansion into other regions of India will be done as an operationally independent setup managed by a senior person to ensure that operations are closely managed and monitored.

Leveraging our Operational Strength: Our operational focus is reflected in our regional approach where the regional manager leads a team of around 50 staff and is closely monitoring the field operations in his/her region. The cost of a geographically focused operation has to be justified by ensuring superior reach into villages. Our operational reach should also give us a strong local identity, help build relationship with the community and give us superior local knowledge of the community. We hope to use these advantages by expanding into other lending opportunities in the community. We have taken the first steps in this direction by starting lending against gold in our Jagalur branch. In the coming year, we will fully scale the gold loan business in the Jagalur region. We also plan to introduce variants to the JLG lending to more closely meet the needs of our existing borrowers. With the restriction of a maximum of only two MFIs and the maximum outstanding loan amount of Rs. 50,000 per borrower, finding ways of attracting good borrowers and retaining them will also be another reason to move beyond the normal JLG lending. We also believe that our operational strength should help us expand into related non credit businesses such as the diary business, Banking Correspondent(BC) of banks, contract farming etc.

Risk Management

Credit Risk: Since microfinance loans are unsecured, non repayment by customers is one of the primary risks faced by the company. The JLG lending model provides the basic framework for covering this risk. JLG group customers play an important role in credit screening, monitoring credit behavior, in addition to providing group guarantee for each other's loan. Defaults can happen when the JLG is not formed correctly and in turn the customers do not do the right credit screening and monitoring of other customers in their JLG. The company has a well defined customer acquisition and JLG formation process. This process was further strengthened during the year.

Defaults can also happen due to multiple borrowing and over borrowing by customers. To avoid this, we operate in areas where the concentration of MFIs is less, which is mostly away from cities and large towns, which make us a predominantly rural microfinance player. In our customer acquisition process we ensure that the debt levels of potential customers are probed in detail before loans are sanctioned. We also do a credit bureau check before giving every loan to avoid cases of multiple borrowing as per RBI's guideline of not more than two MFI loans for a customer. Loans are also given only for productive purposes. A loan utilization check is done for each and every loan taken and non utilization of loans is taken up seriously with customers and subsequent loans are not given to customers who do not utilize their loans as per their stated purpose. To eliminate risky customers in every subsequent cycles, JLGs and customers coming for repeat loans are assessed on the basis of repayment meeting discipline, repayment meeting attendance, loan utilization, multiple borrowings and strength of the JLG.

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 comes from other financial institutions, especially banks. After the AP crisis, bank funding has still not picked up. We have covered part of the risk this year by raising funds through securitisation of loans. With the new RBI's guidelines, we are hopeful that bank funding is expected to commence in the coming year. In addition, we are exploring other sources of raising funds such as through ECBs.

Sector Risk: The sector risk has considerably come down after the RBI's revised guidelines. The effect of the guidelines has been to make the operational environment more difficult than before, in turn increasing the entry level barrier in the sector and make it difficult for non serious entities to enter the sector. To reduce the sector risk we are looking at moving into secured lending in the areas where we operate. A balance of secured and unsecured loans should help us in addressing the sector risk. State government intervention through the money lenders act is another potential area of risk. The state government of Karnataka has indicated that it does not intent to regulate MFIs. The central government has proposed a microfinance bill which will remove the possibility of state government's intervening in the sector. If the bill is passed, the sector risk will significantly come down.

CORPORATE GOVERNANCE

Chaitanya's Board members come with extensive experience in the banking, finance and social sectors. One of the key objectives of the Board is to bring in the best corporate governance practices into the company.

Board Composition

The Board consists of a combination of executive, non-executive and independent directors to ensure the independent functioning of the Board.

The Composition of the Board members is as below:

	Name	Category of Directorship		Position
		Executive/ Non Executive	Independent/ Non Independent	
1	Samit Shetty	Executive	Non Independent	Chairman
2	Anand Rao	Executive	Non Independent	Managing Director
3	K S Ravi	Non Executive	Independent	Director
4	A Narasimha	Executive	Non Independent	Director
5	R Nandakumar	Non Executive	Independent	Director
6	Ramesh Sundaresan	Non Executive	Non Independent	Director

During the financial year, Mr. Ramesh Sundaresan joined the Board of the Company as a non executive director.

Board Process

The Board meets atleast once a quarter to review the quarterly performance and financial results. The Board meetings are generally scheduled well in advance. The notes and agenda of each Board meeting are given in writing to each director well in advance. All the deliberations and discussions of every meeting of the Board are minuted. The minutes are confirmed and signed in the immediately succeeding Board meeting.

The day to day management of the affairs of the company is entrusted with the senior management, which is headed by the Managing Director who functions under the overall supervision, direction and control of the Board. The Board meets to discuss, review and decide upon the matters such as policy formulation, setting up of goals, reviewing performance with respect to the goals and control function.

Committees of the Board

The Board has currently three committees, which are: Compensation Committee, Risk Management Committee and Audit Committee. The Board is responsible for constituting, assigning and co-opting the members of the committee.

Compensation Committee:

Committee Composition: R Nandakumar, K S Ravi, Ramesh Sundaresan, A Narasimha

Terms of Reference: Ensuring that the senior management of the company are compensated and motivated effectively, consistent with industry practices

Meetings Held: Committee meetings have been held in conjunction with the Board meetings during the year

Risk Management Committee

Committee Composition: R Nandakumar, Ramesh Sundaresan, Anand Rao

Terms of Reference: Review the procedures related to risk assessment and risk minimization in the areas of credit, operations and funding for the company

Meetings Held: Committee meetings have been held in conjunction with the Board meetings during the year.

Audit Committee

Committee Composition: Samit Shetty, K S Ravi, A Narasimha

Terms of Reference: Oversight of the company's financial reporting process and the disclosures of its financial information to ensure that the financial statement is correct. Review the performance of statutory and internal auditors

Meetings Held: Committee meetings have been held in conjunction with the Board meetings during the year. In addition, the audit committee met separately on 13th October 2011

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

1. We have audited the attached Balance Sheet of **CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED** as at 31st March 2012 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.

2. 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.

3. 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.

4. 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.

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

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

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, 2012 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 2012; and

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

Date: 30.05.2012
Place: Bangalore

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

Prashanth Karanth
Partner
M.No.214235

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 2012.

i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of Fixed Assets. However the reconciliation of the value appearing in fixed asset register with the books of accounts of the company is yet to be done.

(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 not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Act.

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

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

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.

(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

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

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 regular in depositing all undisputed statutory dues with the appropriate authorities.

(b) According to the information and explanations given to us, there are no undisputed 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 2012, 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) This clause is not applicable to the Company.

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 of one of the lending institutions there are certain terms like company should give credit to individuals/groups, strictly for non-farm, income generating micro enterprises. While the company is giving credit to

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BANGALORE
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Chartered Accountants

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) This clause is not applicable to 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: 30.05.2012
Place: Bangalore

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

Prashanth Karanth
Partner
M.No.214235

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, 2012.

4. The Company has undertaken lending activity during the period 01.04.2011 to 31.03.2012. The Company has made suitable provisions on Non performing advances as suggested by the prudential norms prescribed by the Reserve Bank of India.

Date: 30.05.2012
Place: Bangalore

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

Prashanth Karanth
Partner
M.No.214235

CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED
NO. 443, 18TH MAIN,4TH 'T' BLOCK,JAYANAGAR,
BANGALORE - 560 041

Balance Sheet

Particulars	Note	As at 31st March, 2012	As at 31st March, 2011
I. EQUITY AND LIABILITIES			
(1) Shareholder's Funds			
(a) Share Capital	1	9,26,69,260	8,08,54,040
(b) Reserves and Surplus	2	3,91,04,979	2,26,81,420
(2) Share application money pending allotment		-	94,65,166
(3) Non-Current Liabilities			
(a) Long-term borrowings	3	70,36,033	1,94,88,864
(b) Deferred tax liabilities (Net)	4	4,637	-
(c) Long term provisions	5	5,862	-
(4) Current Liabilities			
(a) Short-term borrowings	6	3,02,95,890	-
(b) Trade payables	7	42,53,379	-
(c) Other current liabilities	8	3,36,557	3,77,001
(d) Short-term provisions	9	22,98,047	16,04,591
Total		**17,60,04,644**	**13,44,71,082**
II. Assets			
(1) Non-current assets			
(a) Fixed assets	10		
(i) Tangible assets		26,98,436	18,68,772
(ii) Intangible assets		7,18,558	4,82,674
(b) Deferred tax assets (net)	11	-	14,498
(c) Long term loans and advances	12	23,44,972	7,13,922
(d) Other non-current assets	13	89,02,830	15,49,585
(2) Current assets			
(a) Current investments	14	70,02,367	1,55,00,000
(d) Cash and cash equivalents	15	47,26,444	2,08,48,666
(e) Short-term loans and advances	16	14,43,99,510	9,30,32,982
(f) Other current assets	17	52,11,528	4,59,983
Total		**17,60,04,644**	**13,44,71,082**

The Notes referred to above are an integral part of Balance Sheet.
Significant Accounting Policies and Notes on Accounts as Note '23'

As per our report of even date,
For Ramesh Ashwin & Karanth
Chartered Accountants
Firm Reg. No.:- 010680S

Prashanth Karanth
Partner
Membership No. 214235
Place : Bangalore
Date : 30.05.2012

For and on behalf of the board ,
For CHAITANYA INDIA FIN CREDIT PVT. LTD.

Anand Rao
Director

Samit S. Shetty
Director

CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED
NO. 443, 18TH MAIN,4TH 'T' BLOCK,JAYANAGAR,
BANGALORE - 560 041

Profit and Loss Statement

Particulars	Note	For the year ended 31st March, 2012	For the year ended 31st March, 2011
I. Revenue from operations	18	3,48,50,174	1,49,57,126
II. Other Income	19	19,34,290	5,68,735
III. Total Revenue (I +II)		**3,67,84,464**	**1,55,25,861**
IV. Expenses:			
Employee benefit expense	20	1,43,47,035	72,08,496
Financial costs	21	35,42,808	15,28,310
Depreciation and amortization expense	10	10,57,848	7,87,270
Administrative & Other expenses	22	81,07,255	43,13,581
Total Expenses		**2,70,54,946**	**1,38,37,656**
V. Profit before exceptional and extraordinary items and tax	(III - IV)	**97,29,518**	**16,88,205**
VI. Exceptional Items			
VII. Profit before extraordinary items and tax (V - VI)		97,29,518	16,88,205
VIII. Extraordinary Items			
IX. Profit before tax (VII - VIII)		97,29,518	16,88,205
X. Tax expense:			
(1) Current tax		27,39,000	1,31,897
(2) Deferred tax		19,135	36,524
XI. Profit(Loss) from the perid from continuing operations	(VII-VIII)	69,71,383	15,19,784
XII. Profit/(Loss) from discontinuing operations		-	-
XIII. Tax expense of discounting operations		-	-
XIV. Profit/(Loss) from Discontinuing operations (XII - XIII)		-	-
XV. Profit/(Loss) for the period (XI + XIV)		**69,71,383**	**15,19,784**
XVI. Earning per equity share:			
(1) Basic		0.75	0.19
(2) Diluted		0.75	0.19

The Notes referred to above are an integral part of Balance Sheet.
Significant Accounting Policies and Notes on Accounts as Note '23'

As per our report of even date,
For Ramesh Ashwin & Karanth
Chartered Accountants
Firm Reg. No.-010680S

Prashanth Karanth
Partner
Membership No. 214235
Place : Bangalore
Date : 30.05.2012

For and on behalf of the board ,
For CHAITANYA INDIA FIN CREDIT PVT. LTD.

Anand Rao
Director

Samit S. Shetty
Director

CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED
NO. 443, 18TH MAIN,4TH 'T' BLOCK,JAYANAGAR,
BANGALORE - 560 041

Notes TO BALANCE SHEET

		As at 31st March, 2012		As at 31st March, 2011
Note : 1 Share Capital				
AUTHORISED SHARE CAPITAL :				
1,00,00,000 Equity Shares of Rs. 10/- each				
(Previous Year 1,00,00,000 Equity Shares of Rs. 10/- each)		10,00,00,000		10,00,00,000
ISSUED ,SUBSCRIBED & PAID UP CAPITAL :				
92,66,926 Equity Shares of Rs. 10 each				
fully paid up (Previous Year 80,85,404 Equity Shares of Rs. 10/- each)		9,26,69,260		8,08,54,040
		9,26,69,260		**8,08,54,040**
Note : 2 Reserve & Surplus				
Share Premium Account				
As at Commencement of the Year	2,24,91,232		-	
Add : Received on further issue of shares	94,52,176		2,24,91,232	
		3,19,43,408		2,24,91,232
Statutory Reserve				
As at Commencement of the Year	-			-
Add : Prior Period Reserve	3,03,957		-	
Add : Transferred from Profit & Loss Account	13,94,277	16,98,234	-	-
Balance as per Profit & Loss Account				
As at Commencement of the Year	1,90,188		(13,29,596)	
Add : Profit for the Year	69,71,383		15,19,784	
	71,61,571		1,90,188	
Less: Transferred to Statutory Reserve during the year	16,98,234	54,63,338	-	1,90,188
		3,91,04,979		**2,26,81,420**
Note : 3 Long-Term Borrowings				
A) Secured Loans				
Long Term Loans - From Banks				
Term Loan From SIDBI (Secured with Book Debts)	60,04,000		1,00,00,000	
Term Loan From IntellCash (Secured with Book Debts)	-		16,66,600	
Vehicle Loan From HDFC Bank (Secured by hypothecation of Motor Car)	1,98,703	62,02,703	3,22,266	1,19,88,866
Long Term Loans - Others		-		-
B) Unsecured Loans				
Long Term Loans - From Banks				
Term Loan From Ananya		8,33,330		74,99,998
Long Term Loans - Others		-		-
		70,36,033		**1,94,88,864**
Note : 4 Deferred Tax Liability				
Deferred Tax Liability		4,637		-
		4,637		**-**
Note : 5 Long Term Provisions				
For Other				
Contingent Provision against Standard Assets (Long Term)		5,862		
		5,862		**-**
Note : 6 Short Term Borrowings				
A) Secured Loans				
Short Term Loans - Others				
Term Loan From MAS Finance (Secured with Book Debts)		3,02,95,890	-	-
B) Unsecured Loans				
		3,02,95,890		**-**
Note : 7 Trade Payable				
Payable to MAS Finance for Securitization		42,53,379		-
		42,53,379		**-**

Note : 8 Other Current Liabilites				
Current Maturities of Long-term Debt		-		-
Interest Accrued but not due on Borrowings		47,528		2,40,844
Other Payables				
EPF Payable	82,331		37,235	
ESI Payable	980		553	
Profession Tax Payable	4,000		3,400	
TDS Payable	2,01,718		53,469	
Service Tax Payable	-		41,426	
Interest Payable on Service Tax	-	2,89,029	74	1,36,157
		3,36,557		**3,77,001**

Note : 9 Short-Term Provisions				
Provision for Employee Benefits				
Salary Payable	33,274		4,59,678	
Exgratia Payable	-		2,09,674	
SIP Contibution Payable	21,600	54,874	-	6,69,352
Others				
Provision for Income Tax	2,04,120		3,44,893	
Professional Charges Payable	-		1,500	
Travelling & Boarding Charges Payable	-		4,701	
Insurance Claim Payable	14,564		10,328	
Statutory Audit Fees Payable	45,506		24,817	
Tax Audit Fees Payable	15,168		14,890	
Internal Audit Fees Payable	-		7,500	
Contingent Provision against Standard Assets	3,58,383		2,31,028	
Insurance Premium Payable	3,38,222		1,95,985	
Rent Payable	91,600		55,250	
Telephone & Internet Charges Payable	52,347		38,000	
Deferred Income on Loan Securitization	11,14,597		-	
Electricity Charges	8,667	22,43,173	6,347	9,35,239
		22,98,047		**16,04,591**

Note : 11 Deferred Tax Assets (Net)		-		**14,498**

Note : 12 Long-Term Loans & Advances		-		-
Other Loans & Advances				
Secured, Considered Good				
Vehicle Loan to Staff	3,40,106		5,00,096	
Unsecured, Considered Good				
Micro Finance Loans to Customers	15,62,530			
Personal Loan to Staff	4,42,336	23,44,972	2,13,826	7,13,922
		23,44,972		**7,13,922**

Note : 13 Other Non Current Assets				
Cash Margin with SIDBI	10,00,000		10,00,000	
Cash Margin with MAS Financial	69,97,695		-	
Rent Deposit	8,72,500		5,22,000	
Telephone Deposit	31,935		26,985	
Other Deposit	700	89,02,830	600	15,49,585
		89,02,830		**15,49,585**

Note : 14 Current Investment				
Investment in HDFC Daily Dividend Plan	70,02,367	**70,02,367**	1,55,00,000	**1,55,00,000**

CHAITANYA INDIA FIN CREDIT PVT. LTD. Bangalore

15.5.14

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

Note : 15 Cash & Bank balances

Cash In Hand				
Head Office	7,344		8,145	
Jagalur Branch	18,391		27,916	
Khanahosahally Branch	4,690		21,591	
Nayakanahty Branch	9,835		5,529	
Holalkere Branch	458		255	
Bailhongal Branch	1,304		2,522	
Koppal Branch	5,648		19,961	
Kottur Branch	1,621		113	
Hirevankulakunte Branch	6,782		8,223	
Kukanur Branch	1,076		372	
Khanapur Branch	629		1,982	
Jagalur Unit	6,473		-	
Belgam Unit	150		-	
Kittur Branch	1,077		-	
Kudligi Branch	1,139		-	
Tavaregere Branch	403		-	
Naregal Branch	3,652		-	
Kondalahalli Branch	22,230	92,902	-	96,609
Cash at Bank				
Canara Bank , Jayanagar	19,763		22,453	
HDFC Bank, Jayanagar	13,75,856		62,71,765	
HDFC Loan Lein A/c, Jayanagar	10,862		10,862	
HDFC Bank, Jayanagar (FDI)	-		1,29,12,504	
Indian Overseas Bank, Jayanagar	1,30,642		16,237	
State Bank of India, Chamrajpet	-		11,262	
Karur Vysya Bank, Malleshwaram	-		10,515	
State Bank of Mysore, Jagalur	1,20,849		3,18,264	
Pragathi Grameena Bank, Jagalur	6,909		7,021	
Pragathi Grameena Bank, Khanahosahally	1,42,876		5,740	
Canara Bank C.A/c 117, Nayakanahatti	3,18,256		2,17,446	
Vijaya Bank A/c No. 1000008, Holalkere	3,97,131		5,70,983	
ICICI Bank, Bailhongal	-		2,83,330	
Corporation Bank, Bailhongal	1,79,262		-	
State Bank of India, Koppal	-		15,239	
Syndicate Bank, Kustagi (Koppal)	3,01,338		-	
State Bank of Mysore, Kottur	1,24,341		4,900	
Pragathi Gramin Bank, Hirevankulakunte	940		3,045	
Syndicate Bank, Kustagi (HVK)	3,05,406		-	
State Bank of Hyderabad, Yalburga	1,01,221		9,250	
Syndicate Bank, Khanapur	64,285		61,241	
State Bank of Mysore, Jagalur Unit	3,53,121		-	
HDFC Bank, Belgaum Unit	10,500		-	
Syndicate Bank, Kittur	3,01,362		-	
State Bank of Mysore, Kudligi	1,09,656		-	
Pragathi Gramin Bank, Tavaregere	276		-	
Central bank of India, Naregal	2,58,691	46,33,542	-	2,07,52,058
		47,26,444		**2,08,48,666**

Note : 16 Short-term Loans & Advances

A)Others				
Loans towards Financing Activities				
Secured Advances				
Gold Loan to Customers	17,49,013		-	
Unsecured Advances				
Micro Finance Loans to Customers	16,46,18,021		9,24,11,068	
Less: Portfolio Securitized with MAS Finance	2,29,89,171		-	
Net Short term unsecured Micro Finance Loans	14,16,28,850		9,24,11,068	
Total Short-term Loans towards Financing Activities		14,33,77,863		9,24,11,068
Interest Accrued on Loan Portfolio	8,96,936		4,04,743	
Advance to Suppliers & Others	96,550		1,69,397	
Loan & Advance to Staffs	28,161	10,21,647	47,774	6,21,914
		14,43,99,510		**9,30,32,982**

Note : 17 Other Current Assets

Cash Margin with MAS Financial		45,22,192		-
MAT Credit	-		2,12,996	
Prepaid Expenses	1,17,108		26,475	
TDS on Interest Received	-		91,384	
TDS on Commission Received	-		1,569	
CENVAT Credit	1,08,485		-	
Income Tax Refund Receivable	2,100		-	
Interest Accrued but not due	99,061		24,109	
Insurance Claim Receivable	3,62,582	6,89,336	1,03,450	4,59,983
		52,11,528		**4,59,983**

CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED
NO. 443, 18TH MAIN,4TH 'T' BLOCK,JAYANAGAR,
BANGALORE - 560 041

Notes TO PROFIT & LOSS STATEMENT

	For the Year ended 31st March, 2012		For the Year ended 31st March, 2011	
Note : 18 Operating Income				
Interest Received from Customers	3,12,96,515		1,33,42,101	
Loan Processing Fees	29,96,363		16,15,025	
Securitization Income	5,57,296	3,48,50,174	-	1,49,57,126
		3,48,50,174		**1,49,57,126**
Note : 19 Other Incomes				
Short Term Capital gain on Mutual Fund	2,59,564		1,09,874	
Dividend Received	8,77,181		-	
Interest on FD	3,32,951		39,997	
Loan Processing Fees from employee loan	6,450		5,830	
Interest on employee loan	1,12,993		41,531	
Training & Support Fees Received	2,27,705.00		15,685	
Interest Received on IT Refund	6,320.32		-	
Fines Collected	-		4,856	
Prior Period Income	3,822		-	
Other Income	1,07,304.15	19,34,290	3,50,962	5,68,735
		19,34,290		**5,68,735**
Note : 20 Employees Remuneration & benefits				
Salary, Wages, Allowances & other Benefits	98,79,156		59,62,862	
Directors Remuneration	31,54,133		6,00,000	
Accidental & Medical Insurance	2,35,249		14,949	
P. F. , ESI & Other Contribution	5,68,565		2,95,866	
Staff Welfare Expenses	5,09,932	1,43,47,035	3,34,819	72,08,496
		1,43,47,035		**72,08,496**
Note : 21 Financial Cost				
Bank Charges	72,939		46,827	
Interest Paid on Term & Other Loans	26,79,842		11,26,200	
Interest Paid on Loan from Director	-		1,79,590	
Processing Charges	7,90,027	35,42,808	1,75,692	15,28,310
		35,42,808		**15,28,310**
Note : 22 Administartive & Other Expenses				
Rent	11,14,077		7,36,015	
Director's Sitting Fees	45,000		-	
Tour & Travelling Exp.	5,91,258		4,09,809	
Printing & Stationary	4,90,033		2,90,791	
Books, News Papers & Periodicals	30,036		12,366	
Meeting & Training Exps.	2,61,877		75,098	
Telephone & Internet Charges	6,43,571		4,98,055	
Electricity Charges	1,15,169		62,247	
Postage & Courier Charges	35,775		13,058	
Vehicle Running & Maintenance	4,12,895		1,46,917	
Repairs & Maintanence	90,202		62,352	
Membership Fee & Subscription	1,43,551		1,11,268	
Seminar & Conference Exps	-		8,000	
Commission & Brokerage Paid	5,700		1,166	
Rates & Taxes	1,25,778		3,17,425	
Professional Charges	9,02,692		3,14,672	
Loan Consultancy Fees Paid	-		26,035	
Profession Tax Paid	45,000		30,000	
Water Charges	31,214		13,210	
Conveyance Exp.	14,62,760		5,54,919	
Business Promotion Expenses	33,388		33,214	
Insurance Charges	21,151		11,016	
Internal Audit Fees Paid	37,500		22,500	
Statutory Audit Fee	47,781		49,635	
Tax Audit Fees	15,927		16,545	
Office & General Exp.	1,90,157		1,10,466	
Recruitment Exps.	52,627		23,417	
Repairs & Maintenance of Computers	48,418		26,219	
Rent Paid for Server Hosting	3,01,282		-	
Service Tax Paid	3,09,828		87,154	
Penalty & Interest Paid	2,929		74	
Loss of Cash in Transit	20,000			
Income Tax Short Provision 2010 - 11 (Prior Period Exps.)	47			
Assets written off	-		7,296	
Bad Debts written off	3,43,216		11,614	
Provision for Sub Standard Assets	3,200			
Contingent Provision Against Standard Assets	1,33,217	81,07,255	2,31,028	43,13,581
		81,07,255		**43,13,581**

CHAITANYA INDIA FIN CREDIT PVT LTD
Bangalore

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

CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED

NOTES FORMING PART OF BALANCE SHEET AS AT 31.03.2012

Note : 10 Fixed Assets

Particulars	Rate of Depreciation	Gross Block				Depreciation			Net Block	
		Cost as on 01.04.2011	Additions During the Period	Deductions During the Period	Cost as at 31.03.2012	Provision upto 31.03.2011	Provision for the Period	Provision upto 31.03.2012	As at 31.03.2012	As at 31.03.2011
Intangible Assets										
Computer Software	40%	8,57,174	4,92,842	-	13,50,016	3,74,500	2,56,958	6,31,458	7,18,558	4,82,674
Total Intangible Assets		**8,57,174**	**4,92,842**	**-**	**13,50,016**	**3,74,500**	**2,56,958**	**6,31,458**	**7,18,558**	**4,82,674**
Tangible Assets										
Computers	40%	9,89,840	3,01,501	-	12,91,341	3,52,720	3,31,183	6,83,903	6,07,438	6,37,120
UPS	13.91%	2,08,006	65,467	-	2,73,473	30,120	30,396	60,516	2,12,957	1,77,886
Furniture & Fixtures	18.10%	3,78,707	2,40,921	-	6,19,628	60,337	81,999	1,42,336	4,77,292	3,18,370
Electrical Equipments	13.91%	18,201	-	-	18,201	3,106	2,100	5,206	12,995	15,095
Office Equipments	13.91%	33,270	66,839	-	1,00,109	5,502	11,318	16,820	83,289	27,768
Motor Car	25.89%	8,02,033	7,37,921	-	15,39,954	1,33,379	3,20,071	4,53,450	10,86,504	6,68,654
Motor Bike	25.89%	32,005	45,425	-	77,430	8,127	9,714	17,841	59,589	23,878
Godrej Safe	13.91%	-	1,72,480	-	1,72,480	-	14,109	14,109	1,58,371	-
Total Tangible Assets		**24,62,063**	**16,30,554**	**-**	**40,92,617**	**5,93,291**	**8,00,890**	**13,94,181**	**26,98,436**	**18,68,772**
		33,19,237	**21,23,396**	**-**	**54,42,633**	**9,67,791**	**10,57,848**	**20,25,639**	**34,16,994**	**23,51,446**

CHAITANYA INDIA FIN CREDIT PVT. LTD. Bangalore

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CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED
NO. 443, 18TH MAIN,4TH 'T' BLOCK,JAYANAGAR,
BANGALORE - 560 041

Cash Flow Statement

			For the Year Ended 31.03.2012		For the Year Ended 31.03.2011
A	**CASH FLOW FROM OPERATING ACTIVITIES**				
	Net Profit Before Tax		**97,29,518**		**16,88,205**
	Adjustments for:				
	Add:Depreciation	10,57,848		7,87,270	
	Short Term Capital Gain	(2,59,564)		(1,09,874)	
	Dividend Income	(8,77,181)		-	
	Interest & Finance Charges Paid	35,42,808	34,63,911	15,28,310	22,05,705
	Operating Profit before Working Capital Changes		**1,31,93,430**		**38,93,910**
	Adjustments for:				
	Decrease/ (Increase) in Cash Margin & Deposits	(1,18,75,437)		(12,61,845)	
	Decrease/(Increase) in Loans & Advances	(5,29,83,080)		(8,27,90,823)	
	Decrease /(Increase) in Other Current Assets	(2,29,353)		(2,60,749)	
	Increase/(Decrease) in Payables & Others	49,16,891	(6,01,70,979)	14,95,254	(8,28,18,163)
	Cash generated from operations		**(4,69,77,549)**		**(7,89,24,253)**
	Income Tax paid		(27,58,135)		(1,68,421)
	Net Cash flow from Operating activities		**(4,97,35,684)**		**(7,90,92,674)**
B	**CASH FLOW FROM INVESTING ACTIVITIES**				
	Purchase of Fixed Assets	(21,23,396)		(17,52,690)	
	(Increase)/ Decrease in Current Investments	1,55,00,000		(63,47,693)	
	Short Term Capital Gain	2,59,564		1,09,874	
	Dividend Income	8,77,181		-	
	Net Cash used in Investing activities		**1,45,13,349**		**(79,90,509)**
C	**CASH FLOW FROM FINANCING ACTIVITIES**				
	(Decrease)/Increase in Borrowings	1,78,43,058		1,94,77,941	
	Increase in Share Capital	1,18,15,220		5,73,14,040	
	Increase/(Decrease) in Share Application Money	(94,65,166)		94,65,166	
	Increase in Share Premium	94,52,176		2,24,91,232	
	Interest & Finance Charges paid	(35,42,808)		(15,28,310)	
	Net Cash used in financing activities		**2,61,02,480**		**10,72,20,070**
	Net increase in cash & Cash Equivalents		(91,19,856)		2,01,36,887
	Cash and Cash equivalents Opening Balance		2,08,48,666		7,11,779
	Cash and Cash equivalents Closing Balance		1,17,28,810		2,08,48,666

Cash & Cash Equivalents		**As on 31.03.2012**		**As on 31.03.2011**
Cash in Hand		92,902		96,609
Cash at Bank		46,33,542		2,07,52,058
Current Investment in Debt Funds		70,02,367		-
Cash & Cash equivalents as stated	-	**1,17,28,810**	-	**2,08,48,666**

CHAITANYA INDIA FIN CREDIT PVT LTD Bangalore

RAMESH ASHWIN & KA... BANGALORE

Notes forming part of financial statements for the year ended 31.03.2012

NOTE 23

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.

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,

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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. However The Company has securitised a part of its business loan portfolio to MAS financial services. As a part of the Securitisation agreement the company has kept a security deposit with MAS financials. One of the pre-condition of the securitisation agreement is that it is the responsibility of the company to ensure proper collection of the securitised portfolio. If there is any default in the collection of installments of securitised portfolio, the security deposit will be appropriated by MAS financials services to the extent of default. Current outstanding of the securitised loan portfolio is Rs.2,29,89,171. In such as scenario the security deposit of Rs. 69,97,695 represents contingent liability of 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.

9.SECURITISATION INCOME

The Company during the year has securitised its loan portfolio to the tune of Rs.4,03,08,425 and received a total consideration of Rs.4,19,80,318. The excess of Rs.16,71,893 received is charged to profit & loss account over a period of 12 months considering that the said period represents that outstanding tenure of the loan portfolio at the time of securitisation and also considering the fact that it is the responsibility of the company to ensure proper collection of such securitised portfolio.

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NOTES TO ACCOUNTS:

1. The Deferred Tax Expense for the period ended 31.03.2012 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, Executive Director c)K S Ravi, Director d) Nanda Kumar, Director e) Ramesh Sundresan, Director
ii) Relatives of Directors and key management personnel and their enterprises where transactions have taken place	: a) Anand Murthy b) Ravi Shankar

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	2,24,910	9,84,810
Share Application Money	4,04,838	17,72,658
Share Premium received	1,79,928	7,87,848
Share Application money returned	45,15,000	0
Salary	25,54,133	0
Exgratia	6,00,000	0
Sitting Fees	45,000	0

CHAITANYA INDIA FIN CREDIT PVT. LTD. Bangalore

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3. **AUDITORS' REMUNERATION**

PARTICULARS	2011-2012
STATUTORY AUDIT FEES	45,000/-
TAX AUDIT FEES	15,000/-
SERVICE TAX	7416/-

4. The Balances in Trade payable(Current Liabilities), Rent Deposit, Telephone Deposit, Other deposit, Micro Finance Loans to customers(Long Term Loans & Advances),Loans towards financing activities(short tem Loans & Advances), Advances to suppliers & others are subject to confirmation.

5. 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.

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

7. The Provision made on Non Performing advances as per the Prudential Norms issued by RBI has been reduced from Gross Advances. Also company has written off Bad debts to the tune of Rs 3,43,216 as the company feels that the chances of recovery of the said advances are remote.

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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