



## SKS MICROFINANCE LIMITED

(The Company was incorporated as SKS Microfinance Private Limited on September 22, 2003 under the Companies Act, 1956. Pursuant to a resolution of its shareholders passed on May 2, 2009, the Company was converted into a public limited company and the word "private" was deleted from its name on May 20, 2009. For details of changes in the name and registered office of the Company, see "History and Certain Corporate Matters" on page 101 of this Red Herring Prospectus)

**Registered and Corporate Office:** Ashoka Raghupathi Chambers, D No. 1-10-60 to 62, Opposite to Shoppers Stop, Begumpet, Hyderabad 500 016

**Tel:** (91 40) 4452 6000; **Fax:** (91 40) 4452 6001

**Contact Person:** Mr. S.K. Bansal, Company Secretary and Compliance Officer

**Website:** www.sksindia.com; **Email:** skscomplianceofficer@sksindia.com

**PROMOTERS OF THE COMPANY:** Dr. Vikram Akula, SKS Mutual Benefit Trust - Narayankhed, SKS Mutual Benefit Trust - Jogipet, SKS Mutual Benefit Trust - Medak, SKS Mutual Benefit Trust - Sadasivapet, SKS Mutual Benefit Trust - Sangareddy, Sequoia Capital India II LLC, Sequoia Capital India Growth Investments I, Kismet Microfinance and Mauritius Unitus Corporation

**PUBLIC ISSUE OF 16,791,579 EQUITY SHARES OF RS. 10 EACH FOR CASH AT A PRICE OF RS. [●] PER EQUITY SHARE (INCLUDING A SHARE PREMIUM OF RS. [●] PER EQUITY SHARE) AGGREGATING UP TO RS. [●] MILLION (THE "ISSUE") CONSISTING OF A FRESH ISSUE OF 7,445,323 EQUITY SHARES ("FRESH ISSUE") BY SKS MICROFINANCE LIMITED ("SKS") OR THE "COMPANY" OR THE "ISSUER") AND AN OFFER FOR SALE OF 9,346,256 EQUITY SHARES ("OFFER FOR SALE") BY SEQUOIA CAPITAL INDIA II LLC, SKS MUTUAL BENEFIT TRUST - NARAYANKHED, SKS MUTUAL BENEFIT TRUST - JOGIPET, SKS MUTUAL BENEFIT TRUST - MEDAK, SKS MUTUAL BENEFIT TRUST - SADASIVAPET, SKS MUTUAL BENEFIT TRUST - SANGAREDDY, KISMET MICROFINANCE AND MAURITIUS UNITUS CORPORATION (THE "SELLING SHAREHOLDERS"). THE FRESH ISSUE AND THE OFFER FOR SALE ARE JOINTLY REFERRED TO HEREIN AS THE "ISSUE". THE ISSUE WILL CONSTITUTE 21.6% OF THE FULLY DILUTED POST ISSUE PAID-UP CAPITAL OF THE COMPANY\*.**

\*A discount of Rs. [●] to the Issue Price determined pursuant to completion of the Book Building Process has been offered to Retail Individual Bidders (the "Retail Discount").

**THE FACE VALUE OF THE EQUITY SHARES IS RS. 10 EACH.**

**THE PRICE BAND, RETAIL DISCOUNT AND THE MINIMUM BID LOT WILL BE DECIDED BY THE COMPANY AND THE SELLING SHAREHOLDERS IN CONSULTATION WITH THE BOOK RUNNING LEAD MANAGERS AND ADVERTISED AT LEAST TWO(2) WORKING DAYS PRIOR TO THE BID/ ISSUE OPENING DATE.**

In case of revision in the Price Band, the Bid/Issue Period will be extended for three additional working days after revision of the Price Band, subject to the Bid/Issue Period not exceeding 10 working days. Any revision in the Price Band and the revised Bid/Issue Period, if applicable, will be widely disseminated by notification to National Stock Exchange of India Limited ("NSE") and Bombay Stock Exchange Limited ("BSE"), by issuing a press release, and also by indicating the change on the website of the Book Running Lead Managers ("BRLMs") and at the terminals of the Syndicate Members.

In terms of Rule 19(2)(b) of the Securities Contracts (Regulation) Rules, 1957 ("SCRR"), this being an issue for less than 25% of the post-Issue capital of the Company, the Issue is being made through the 100% Book Building Process wherein at least 60% of the Issue shall be allocated on a proportionate basis to Qualified Institutional Buyers (QIB). 5% of the QIB Portion (excluding the Anchor Investor Portion) shall be available for allocation on a proportionate basis to Mutual Funds only, and the remainder of the QIB Portion shall be available for allocation on a proportionate basis to all QIB Bidders, including Mutual Funds, subject to valid Bids being received at or above the Issue Price. Further, not less than 10% of the Issue shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 30% of the Issue shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Issue Price. If at least 60% of the Issue cannot be allotted to QIBs, then the entire application money shall be refunded forthwith. Potential investors may participate in this Issue through an Application Supported by Blocked Amount ("ASBA") process providing details about the bank account which will be blocked by the Self Certified Syndicate Banks ("SCSBs") for the same. All investors other than QIBs can participate through the ASBA process. For details see "Issue Procedure" on page 280 of this Red Herring Prospectus.

### RISKS IN RELATION TO FIRST ISSUE

This being the first issue of Equity Shares of the Company, there has been no formal market for the Equity Shares of the Company. The face value of the Equity Shares is Rs. 10 each and the Issue Price is [●] times of the face value. The Issue Price (has been determined and justified by the Company, the Selling Shareholders and the BRLMs as stated under the paragraph on "Basis for Issue Price") should not be taken to be indicative of the market price of the Equity Shares after the Equity Shares are listed. No assurance can be given regarding an active and/or sustained trading in the Equity Shares or regarding the price at which the Equity Shares will be traded after listing.

### IPO GRADING

This Issue has been graded by CARE as CARE IPO Grade 4 indicating above average fundamentals through its letter dated June 23, 2010. The IPO grade is assigned on a scale of Grade 5 to Grade 1, with Grade 1 indicating poor fundamentals and Grade 5 indicating strong fundamentals. For details see "General Information" on page 18 of this Red Herring Prospectus.

### GENERAL RISKS

Investments in equity and equity-related securities involve a degree of risk and investors should not invest any funds in this Issue unless they can afford to take the risk of losing their investment. Investors are advised to read the Risk Factors carefully before taking an investment decision in this Issue. For taking an investment decision, investors must rely on their own examination of the Company and the Issue including the risks involved. The Equity Shares offered in the Issue have not been recommended or approved by the Securities and Exchange Board of India ("SEBI"), nor does SEBI guarantee the accuracy or adequacy of this Red Herring Prospectus. Specific attention of the investors is invited to "Risk Factors" on page xiii of this Red Herring Prospectus.

### ISSUER'S AND SELLING SHAREHOLDERS' ABSOLUTE RESPONSIBILITY

The Company and the Selling Shareholders, having made all reasonable inquiries, accept responsibility for and confirm that this Red Herring Prospectus contains all information with regard to the Company and the Issue, which is material in the context of the Issue, that the information contained in this Red Herring Prospectus is true and correct in all material aspects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which will make this Red Herring Prospectus as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

### LISTING

The Equity Shares offered through this Red Herring Prospectus are proposed to be listed on the NSE and BSE. The Company has received an 'in-principle' approval from the NSE and the BSE, for the listing of the Equity Shares pursuant to letters dated May 26, 2010 and April 28, 2010, respectively. For the purposes of the Issue, the Designated Stock Exchange shall be BSE.

| BOOK RUNNING LEAD MANAGERS                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | REGISTRAR TO THE ISSUE                                                                                                                                                                                                                                                                                                               |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                      |
| <b>Kotak Mahindra Capital Company Limited</b><br>1 <sup>st</sup> Floor, Bakhtawar<br>229 Nariman Point<br>Mumbai 400 021<br>Tel: (91 22) 6634 1100<br>Fax: (91 22) 2283 7517<br>Email: sks.ipo@kotak.com<br>Investor Grievance Id:<br>kmccredressal@kotak.com<br>Website: www.kotak.com<br>SEBI Registration No.:<br>INM000008704<br>Contact Person: Mr. Chandrakant Bhole | <b>Citigroup Global Markets India Private Limited</b><br>12th Floor, Bakhtawar<br>Nariman Point<br>Mumbai 400 021<br>Tel: (91 22) 6631 9999<br>Fax: (91 22) 6646 6056<br>Email: sks.ipo@citi.com<br>Investor Grievance Id:<br>investors.cgmb@citi.com<br>Website:<br>www.online.citibank.co.in/rhtm/citigrou<br>pglobalscreen1.htm<br>SEBI Registration No.: INM000010718<br>Contact Person: Mr. Shashank Pandey | <b>Credit Suisse Securities (India) Private Limited</b><br>9 <sup>th</sup> Floor, Ceejay House<br>Plot F, Shivsagar Estate<br>Dr. Annie Besant Road, Worli<br>Mumbai 400 018<br>Tel: (91 22) 6777 3777<br>Fax: (91 22) 6777 3820<br>E-mail: list.project-kuber@credit-suisse.com<br>Investor Grievance Id: list.icgellmer-bnkg@credit-suisse.com<br>Website: https://www.credit-suisse.com/in/ipo/<br>SEBI Registration No.:<br>INM00001161<br>Contact Person: Mr. Devesh Pandey | <b>Karvy Computershare Private Limited</b><br>Plot No 17-24<br>Vithal Rao Nagar<br>Madhapur<br>Hyderabad 500 081<br>Telephone: (91 40) 2342 0815<br>Facsimile: (91 40) 2343 1551<br>Email: sksmicro.ipo@karvy.com<br>Website: http://karisma.karvy.com<br>SEBI Registration No. INR00000221<br>Contact Person: Mr. M. Murali Krishna |
| BID/ISSUE PROGRAMME                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                      |
| <b>BID/ISSUE OPENS ON: JULY 28, 2010*</b>                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                  | <b>BID/ISSUE CLOSES ON (EXCEPT QIB BIDDERS): AUGUST 2, 2010</b>                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                      |
|                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                  | <b>BID/ISSUE CLOSES ON (FOR QIB BIDDERS): JULY 30, 2010</b>                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                      |

\*The Company may consider participation by Anchor Investors. The Anchor Investor Bid/ Issue Period shall be one day prior to the Bid/ Issue Opening Date.

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## SECTION I: GENERAL

### DEFINITIONS AND ABBREVIATIONS

Unless the context otherwise requires, the terms and abbreviations stated hereunder shall have the meanings as assigned therewith.

| Term                                                                    | Description              |
|-------------------------------------------------------------------------|--------------------------|
| “SKS”, “our Company”, “we”, “us”, “our”, “the Company”, or “the Issuer” | SKS Microfinance Limited |

#### Company Related Terms

| Term                                  | Description                                                                                                                                                                                                                                                            |
|---------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Articles/Articles of Association      | The articles of association of the Company                                                                                                                                                                                                                             |
| AMAPL                                 | Aspiring Minds Assessments Private Limited                                                                                                                                                                                                                             |
| Auditors                              | The statutory auditors of the Company, S.R. Batliboi & Co., Chartered Accountants                                                                                                                                                                                      |
| BALICL                                | Bajaj Allianz Life Insurance Company Limited                                                                                                                                                                                                                           |
| Board of Directors/Board              | The board of directors of the Company or a committee constituted thereof                                                                                                                                                                                               |
| Catamaran                             | Together, Catamaran Fund 1-A and Catamaran Fund 1-B                                                                                                                                                                                                                    |
| CoR                                   | Certificate of Registration                                                                                                                                                                                                                                            |
| Director(s)                           | The Director(s) of the Company, unless otherwise specified                                                                                                                                                                                                             |
| Employee Stock Option Plan            | Collectively ESOP 2007, ESOP 2008, ESOP 2008(ID), ESOP 2009 and ESOP 2010                                                                                                                                                                                              |
| ESOP 2007                             | SKS Microfinance Employees Stock Option Plan 2007                                                                                                                                                                                                                      |
| ESOP 2008                             | SKS Microfinance Employees Stock Option Plan 2008                                                                                                                                                                                                                      |
| ESOP 2008 (ID)                        | SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors)                                                                                                                                                                                              |
| ESOP 2009                             | SKS Microfinance Employees Stock Option Plan 2009                                                                                                                                                                                                                      |
| ESOP 2010                             | SKS Microfinance Employees Stock Option Plan 2010                                                                                                                                                                                                                      |
| ESPS 2007                             | Employees Stock Purchase Scheme 2007                                                                                                                                                                                                                                   |
| EWT                                   | SKS Microfinance Employee Welfare Trust                                                                                                                                                                                                                                |
| Group Companies                       | Includes those companies, firms and ventures promoted by our Promoters, irrespective of whether such entities are covered under section 370(1)(B) of the Companies Act and disclosed in “Our Promoters and Group Companies” on page 130 of this Red Herring Prospectus |
| MBT – Jogipet                         | SKS Mutual Benefit Trust – Jogipet                                                                                                                                                                                                                                     |
| MBT – Medak                           | SKS Mutual Benefit Trust – Medak                                                                                                                                                                                                                                       |
| MBT – Narayankhed                     | SKS Mutual Benefit Trust – Narayankhed                                                                                                                                                                                                                                 |
| MBT – Sadasivapet                     | SKS Mutual Benefit Trust – Sadasivapet                                                                                                                                                                                                                                 |
| MBT – Sangareddy                      | SKS Mutual Benefit Trust – Sangareddy                                                                                                                                                                                                                                  |
| Memorandum/ Memorandum of Association | The memorandum of association of the Company                                                                                                                                                                                                                           |
| MUC                                   | Mauritius Unitus Corporation                                                                                                                                                                                                                                           |
| Promoter Group                        | Includes such persons and entities constituting our promoter group in terms of Regulation 2(zb) of the SEBI Regulations                                                                                                                                                |
| Promoters                             | Our promoters being Dr. Vikram Akula, SKS Mutual Benefit Trusts, SCI II, SCIGI I, Kismet Microfinance (formerly known as SKS Capital) and MUC                                                                                                                          |
| Registered Office of the Company      | Ashoka Raghupathi Chambers, D No. 1-10-60 to 62, Opposite to Shoppers Stop, Begumpet, Hyderabad 500 016                                                                                                                                                                |
| Restated Shareholders’ Agreement      | Restated shareholders’ agreement dated October 20, 2008 between the Company and Dr. Vikram Akula, ICP Holdings, SIP I, Kismet SKS II,                                                                                                                                  |

| <b>Term</b>                           | <b>Description</b>                                                                                                                                                                                        |
|---------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                       | SKS Mutual Benefit Trusts, SIDBI, MUC, Mr. Vinod Khosla, Kismet Microfinance, SCI II, SCIGI I, Tejas Ventures, Yatish Trading Company Private Limited, Infocom Ventures, and Columbia Pacific Opportunity |
| SCI II                                | Sequoia Capital India II LLC                                                                                                                                                                              |
| SCIGI I                               | Sequoia Capital India Growth Investments I                                                                                                                                                                |
| Selling Shareholders                  | SCI II, SKS Mutual Benefit Trusts, Kismet Microfinance (formerly known as SKS Capital) and MUC                                                                                                            |
| SIDBI                                 | Small Industries Development Bank of India                                                                                                                                                                |
| SIP I                                 | Sandstone Investment Partners I                                                                                                                                                                           |
| SKS Mutual Benefit Trusts or SKS MBTs | Collectively MBT – Jogipet, MBT – Medak, MBT – Narayankhed, MBT – Sadasivapet and MBT – Sangareddy                                                                                                        |
| SKS Society or Swayam Krishi Sangam   | Swayam Krishi Sangam, a society registered under the Andhra Pradesh (Telangana Areas) Public Societies Registration Act, 1350 Fasli (Act I of 1350 F.)                                                    |
| STAPL                                 | SKS Trust Advisors Private Limited                                                                                                                                                                        |
| Tree Line                             | Tree Line Asia Master Fund (Singapore) Pte. Limited                                                                                                                                                       |
| Yatish Trading                        | Yatish Trading Company Private Limited                                                                                                                                                                    |

### **Issue Related Terms**

| <b>Term</b>                                       | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                          |
|---------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Allotment/Allot/Allotted                          | Unless the context otherwise requires, means the allotment and transfer of Equity Shares pursuant to this Issue to the successful Bidders                                                                                                                                                                                                                                   |
| Allottee                                          | A successful Bidder to whom the Equity Shares are Allotted                                                                                                                                                                                                                                                                                                                  |
| Anchor Investor                                   | A Qualified Institutional Buyer, applying under the Anchor Investor Portion, with a minimum Bid of Rs. 100 million                                                                                                                                                                                                                                                          |
| Anchor Investor Bid/Issue Period                  | The day, one working day prior to the Bid/Issue Opening Date, on which Bids by Anchor Investors shall be submitted and allocation to Anchor Investors shall be completed                                                                                                                                                                                                    |
| Anchor Investor Issue Price                       | The final price at which Equity Shares will be issued and Allotted to Anchor Investors in terms of the Red Herring Prospectus and the Prospectus, which price will be equal to or higher than the Issue Price but not higher than the Cap Price. The Anchor Investor Issue Price will be decided by the Company and the Selling Shareholders in consultation with the BRLMs |
| Anchor Investor Portion                           | Up to 30% of the QIB Portion which may be allocated by the Company to Anchor Investors on a discretionary basis. One-third of the Anchor Investor Portion shall be reserved for domestic Mutual Funds, subject to valid Bids being received from domestic Mutual Funds at or above the price at which allocation is being done to other Anchor Investors                    |
| Application Supported by Blocked Amount/ ASBA     | An application, whether physical or electronic, used by all Bidders to make a Bid authorising an SCSB to block the Bid Amount in their specified bank account maintained with the SCSB                                                                                                                                                                                      |
| ASBA Account                                      | An account maintained by the ASBA Bidders with the SCSB and specified in the ASBA Bid cum Application Form for blocking an amount mentioned in the ASBA Bid cum Application Form                                                                                                                                                                                            |
| ASBA Bidder                                       | Any Bidder intending to apply through ASBA                                                                                                                                                                                                                                                                                                                                  |
| ASBA Bid cum Application Form                     | The form, whether physical or electronic, used by an ASBA Bidder to make a Bid, which will be considered as the application for Allotment for the purposes of the Red Herring Prospectus and the Prospectus.                                                                                                                                                                |
| ASBA Revision Form                                | The form used by the ASBA Bidders to modify the quantity of Equity Shares or the Bid Amount in any of their ASBA Bid cum Application Forms or any previous ASBA Revision Form(s)                                                                                                                                                                                            |
| Banker(s) to the Issue/ Escrow Collection Bank(s) | The banks which are clearing members and registered with SEBI as Bankers to the Issue with whom the Escrow Account will be opened and in this case being Axis Bank Limited, IndusInd Bank Limited, ICICI Bank Limited, Kotak Mahindra Bank Limited, HDFC Bank Limited, Yes Bank Limited, Standard Chartered Bank and Citibank N.A.                                          |

| <b>Term</b>                         | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Basis of Allotment                  | The basis on which the Equity Shares will be Allotted to successful Bidders under the Issue and which is described in the section entitled “Issue Procedure – Basis of Allotment” on page 302 of this Red Herring Prospectus                                                                                                                                                                                                                                                                                                      |
| Bid                                 | <p>An indication to make an offer during the Bidding/Issue Period by a Bidder, or during the Anchor Investor Bid/ Issue Period by the Anchor Investors, to subscribe to the Equity Shares of the Company at a price within the Price Band, including all revisions and modifications thereto</p> <p>For the purpose of ASBA Bidders, it means an indication to make an offer during the Bidding/ Issue Period by an ASBA Bidder pursuant to the submission of ASBA Bid cum Application Form to subscribe to the Equity Shares</p> |
| Bid Amount                          | The highest value of the optional Bids indicated in the Bid cum Application Form                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Bid /Issue Closing Date             | The date after which the Syndicate and the SCSBs will not accept any Bids for this Issue, which shall be notified in an English national newspaper, a Hindi national newspaper and a Telugu newspaper, each with wide circulation                                                                                                                                                                                                                                                                                                 |
| Bid /Issue Opening Date             | The date on which the Syndicate and the SCSBs shall start accepting Bids for the Issue, which shall be the date notified in an English national newspaper, a Hindi national newspaper and a Telugu newspaper, each with wide circulation                                                                                                                                                                                                                                                                                          |
| Bid cum Application Form            | The form used by a Bidder to make a Bid and which will be considered as the application for Allotment for the purposes of the Red Herring Prospectus and the Prospectus including the ASBA Bid cum Application Form (if applicable)                                                                                                                                                                                                                                                                                               |
| Bidder                              | Any prospective investor who makes a Bid pursuant to the terms of the Red Herring Prospectus and the Bid cum Application Form                                                                                                                                                                                                                                                                                                                                                                                                     |
| Bidding/Issue Period                | The period between the Bid/Issue Opening Date and the Bid/Issue Closing Date inclusive of both days and during which prospective Bidders (except Anchor Investors) and the ASBA Bidders can submit their Bids                                                                                                                                                                                                                                                                                                                     |
| Book Building Process/Method        | Book building process as provided under Schedule XI of the SEBI Regulations, in terms of which the Issue is being made                                                                                                                                                                                                                                                                                                                                                                                                            |
| BRLMs/Book Running Lead Managers    | The Book Running Lead Managers to the Issue, in this case being Kotak, Citi, Credit Suisse                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Business Day                        | Any day on which commercial banks in Mumbai are open for business                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| CAN/Confirmation of Allocation Note | Notice or intimation of allocation of Equity Shares sent to Anchor Investors who have been allocated Equity Shares after discovery of the Issue Price if the Issue Price is higher than the Anchor Investor Issue Price                                                                                                                                                                                                                                                                                                           |
| Cap Price                           | The higher end of the Price Band, above which the Issue Price will not be finalised and above which no Bids will be accepted                                                                                                                                                                                                                                                                                                                                                                                                      |
| Citi                                | Citigroup Global Markets India Private Limited                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Controlling Branches                | Such branches of the SCSBs which coordinate with the BRLMs, the Registrar to the Issue and the Stock Exchanges                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Credit Suisse                       | Credit Suisse Securities (India) Private Limited                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Cut-off Price                       | Issue Price (net of Retail Discount, as applicable), finalised by the Company and the Selling Shareholders in consultation with the BRLMs. Only Retail Individual Bidders whose Bid Amount does not exceed Rs. 100,000 (net of Retail Discount) are entitled to Bid at the Cut-off Price. No other category of Bidders are entitled to Bid at the Cut-off Price                                                                                                                                                                   |
| Designated Branches                 | Such branches of the SCSBs which shall collect the ASBA Bid cum Application Forms used by the ASBA Bidders and a list of which is available on <a href="http://www.sebi.gov.in/pmd/scsb.pdf">http://www.sebi.gov.in/pmd/scsb.pdf</a>                                                                                                                                                                                                                                                                                              |
| Designated Date                     | The date on which funds are transferred from the Escrow Account to the Public Issue Account or the Refund Account, as appropriate, or the                                                                                                                                                                                                                                                                                                                                                                                         |

| <b>Term</b>                  | <b>Description</b>                                                                                                                                                                                                                                                                                                                                       |
|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                              | amount blocked by the SCSB is transferred from the bank account of the ASBA Bidder to the Public Issue Account, as the case may be, after the Prospectus is filed with the RoC, following which the Board of Directors shall Allot Equity Shares to successful Bidders                                                                                   |
| Designated Stock Exchange    | Bombay Stock Exchange Limited                                                                                                                                                                                                                                                                                                                            |
| Draft Red Herring Prospectus | The Draft Red Herring Prospectus dated March 25, 2010 issued in accordance with Section 60B of the Companies Act and the SEBI Regulations, filed with SEBI and which does not contain complete particulars of the price at which the Equity Shares are offered and the size of the Issue                                                                 |
| Eligible NRI                 | NRIs from jurisdictions outside India where it is not unlawful to make an issue or invitation under the Issue and in relation to whom the Red Herring Prospectus constitutes an invitation to subscribe to the Equity Shares offered herein                                                                                                              |
| Equity Shares                | Equity shares of the Company of Rs. 10 each, unless otherwise specified                                                                                                                                                                                                                                                                                  |
| Escrow Account               | Account opened with the Escrow Collection Bank(s) and in whose favour the Bidder (excluding the ASBA Bidders) will issue cheques or drafts in respect of the Bid Amount when submitting a Bid                                                                                                                                                            |
| Escrow Agreement             | The agreement dated [●] to be entered into by the Company, Selling Shareholders, the Registrar to the Issue, the BRLMs, the Syndicate Members and the Escrow Collection Bank(s) for collection of the Bid Amounts and where applicable, refunds of the amounts collected to the Bidders (excluding the ASBA Bidders) on the terms and conditions thereof |
| First Bidder                 | The Bidder whose name appears first in the Bid cum Application Form or Revision Form or the ASBA Bid cum Application Form or ASBA Revision Form                                                                                                                                                                                                          |
| Floor Price                  | The lower end of the Price Band, at or above which the Issue Price will be finalised and below which no Bids will be accepted                                                                                                                                                                                                                            |
| Fresh Issue                  | The issue of 7,445,323 Equity Shares at the Issue Price by the Company                                                                                                                                                                                                                                                                                   |
| IPO                          | Initial Public Offering                                                                                                                                                                                                                                                                                                                                  |
| Issue                        | Collectively, the Fresh Issue and the Offer for Sale                                                                                                                                                                                                                                                                                                     |
| Issue Agreement              | The agreement dated March 22, 2010 entered into among the Company, the Selling Shareholders and the BRLMs, pursuant to which certain arrangements are agreed to in relation to the Issue                                                                                                                                                                 |
| Issue Price                  | The final price at which the Equity Shares will be issued and Allotted in terms of the Red Herring Prospectus. The Issue Price will be decided by the Company and the Selling Shareholders in consultation with the BRLMs on the Pricing Date                                                                                                            |
| Issue Proceeds               | The proceeds of the Issue that are available to the Company and the Selling Shareholders                                                                                                                                                                                                                                                                 |
| Kotak                        | Kotak Mahindra Capital Company Limited                                                                                                                                                                                                                                                                                                                   |
| Monitoring Agency            | Axis Bank Limited                                                                                                                                                                                                                                                                                                                                        |
| Mutual Funds                 | A mutual fund registered with SEBI under the SEBI (Mutual Funds) Regulations, 1996                                                                                                                                                                                                                                                                       |
| Mutual Funds Portion         | 5% of the QIB Portion (excluding the Anchor Investor Portion), or 503,748 Equity Shares available for allocation to Mutual Funds only, out of the QIB Portion (excluding the Anchor Investor Portion)                                                                                                                                                    |
| Net Proceeds                 | The Fresh Issue Proceeds that are available to the Company excluding the proceeds of the Offer for Sale and the Issue related expenses.                                                                                                                                                                                                                  |
| Non-Institutional Bidders    | All Bidders that are not QIBs or Retail Individual Bidders and who have Bid for Equity Shares for an amount of more than Rs. 100,000 (but not including NRIs other than eligible NRIs)                                                                                                                                                                   |
| Non-Institutional Portion    | The portion of the Issue being not less than 1,679,157 Equity Shares available for allocation to Non-Institutional Bidders                                                                                                                                                                                                                               |
| Non-Resident                 | A person resident outside India, as defined under FEMA and includes a Non Resident Indian                                                                                                                                                                                                                                                                |

| Term                                         | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|----------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Offer for Sale                               | The offer for sale by the Selling Shareholders of 9,346,256 Equity Shares of Rs. 10 each at the Issue Price                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Pay-in Date                                  | Bid/Issue Closing Date or the last date specified in the CAN sent to the Bidders for payment of the balance amount, as applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Pay-in-Period                                | The period commencing on the Bid/Issue Opening Date and extending until the closure of the Pay-in Date.<br><br>With respect to Anchor Investors, it shall be the Anchor Investor Bid/ Issue Period and extending until two working days after the Bid/ Issue Closing Date                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Price Band                                   | Price Band of a minimum price of Rs. [●] (Floor Price) and the maximum price of Rs. [●] (Cap Price) and include revisions thereof. The Price Band and the minimum Bid lot size for the Issue will be decided by the Company and the Selling Shareholders in consultation with the BRLMs and advertised, at least two working days prior to the Bid/ Issue Opening Date, in [●] edition of [●] in the English language, [●] edition of [●] in the Hindi language and [●] edition of [●] in the Telugu language                                                                                                                                                                                                                                                                            |
| Pricing Date                                 | The date on which the Company and the Selling Shareholders, in consultation with the BRLMs, finalises the Issue Price                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Prospectus                                   | The Prospectus to be filed with the RoC in accordance with Section 60 of the Companies Act, containing, <i>inter alia</i> , the Issue Price that is determined at the end of the Book Building Process, the size of the Issue and certain other information                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Public Issue Account(s)                      | An account(s) opened with the Bankers to the Issue to receive monies from the Escrow Account and from the SCSBs from the bank accounts of the ASBA Bidders on the Designated Date                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| QIB Portion                                  | The portion of the Issue being at least 10,074,948 Equity Shares of Rs. 10 each to be Allotted to QIBs                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Qualified Institutional Buyers or QIBs       | Public financial institutions as specified in Section 4A of the Companies Act, scheduled commercial banks, mutual fund registered with SEBI, FII and sub-account registered with SEBI, other than a sub-account which is a foreign corporate or foreign individual, multilateral and bilateral development financial institution, venture capital fund registered with SEBI, foreign venture capital investor registered with SEBI, state industrial development corporation, insurance company registered with IRDA, provident fund with minimum corpus of Rs. 250 million, pension fund with minimum corpus of Rs. 250 million and National Investment Fund set up by Government of India and insurance funds set up and managed by the army, navy or air force of the Union of India. |
| Red Herring Prospectus or RHP                | The Red Herring Prospectus issued in accordance with Section 60B of the Companies Act, which does not have complete particulars of the price at which the Equity Shares are offered and the size of the Issue. The Red Herring Prospectus will be filed with the RoC at least three days before the Bid/Issue Opening Date and will become a Prospectus upon filing with the RoC after the Pricing Date                                                                                                                                                                                                                                                                                                                                                                                  |
| Refund Account(s)                            | The account opened with Escrow Collection Bank(s), from which refunds (excluding refunds to ASBA Bidders), if any, of the whole or part of the Bid Amount shall be made                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Refund Banker(s)                             | Kotak Mahindra Bank Limited and Citibank N.A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Refunds through electronic transfer of funds | Refunds through ECS, Direct Credit, NEFT, RTGS or the ASBA process, as applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Registrar /Registrar to the Issue            | Registrar to the issue, in this case being Karvy Computershare Private Limited                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Retail Discount                              | The difference of Rs. [●] between the Issue Price and the differential lower price at which our Company has decided to allot the Equity Shares to Retail Individual Bidders                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Retail Individual Bidders                    | Individual Bidders (including HUFs applying through their karta, and                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

| Term                                        | Description                                                                                                                                                                                                                           |
|---------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                             | Eligible NRIs) who have not Bid for Equity Shares for an amount of more than Rs. 100,000 (net of Retail Discount) in any of the bidding options in the Issue                                                                          |
| Retail Portion                              | The portion of the Issue being not less than 5,037,474 Equity Shares of Rs. 10 each available for allocation to Retail Individual Bidder(s)                                                                                           |
| Revision Form                               | The form used by the Bidders, excluding ASBA Bidders, to modify the quantity of Equity Shares or the Bid Amount in any of their Bid cum Application Forms or any previous Revision Form(s)                                            |
| SEBI Regulations                            | Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 as amended from time to time                                                                                                  |
| Self Certified Syndicate Bank(s) or SCSB(s) | A banker to the Issue registered with SEBI, which offers the facility of ASBA and a list of which is available on <a href="http://www.sebi.gov.in">http://www.sebi.gov.in</a>                                                         |
| Stock Exchanges                             | The BSE and the NSE                                                                                                                                                                                                                   |
| Syndicate                                   | The BRLMs and the Syndicate Members                                                                                                                                                                                                   |
| Syndicate Agreement                         | The agreement to be entered into between the Syndicate, the Company and the Selling Shareholders in relation to the collection of Bids in this Issue (excluding Bids from the ASBA Bidders)                                           |
| Syndicate Members                           | Kotak Securities Limited                                                                                                                                                                                                              |
| TRS or Transaction Registration Slip        | The slip or document issued by a member of the Syndicate or the SCSB (only on demand), as the case may be, to the Bidder as proof of registration of the Bid                                                                          |
| Underwriters                                | The BRLMs and the Syndicate Members                                                                                                                                                                                                   |
| Underwriting Agreement                      | The agreement among the Underwriters, the Company and the Selling Shareholders to be entered into on or after the Pricing Date                                                                                                        |
| Working Day                                 | All days other than a Sunday or a public holiday (except during the Bid/Issue Period where a working day means all days other than a Saturday, Sunday or a public holiday), on which commercial banks in Mumbai are open for business |

#### Technical and Industry Terms

| Term          | Description                                                                        |
|---------------|------------------------------------------------------------------------------------|
| ALCO          | Asset Liability Committee                                                          |
| ALM           | Asset Liability Management                                                         |
| CARE          | Credit Analysis & Research Limited                                                 |
| CGAP          | Consultative Group to Assist the Poor                                              |
| CGT           | Compulsory Group Training                                                          |
| CMS           | Cash Management Services                                                           |
| CRAR          | Capital Risk to Asset Ratio                                                        |
| CRISIL        | Credit Rating and Information Services of India Limited                            |
| FMCG          | Fast Moving Consumer Goods                                                         |
| HDFC          | Housing Development Finance Corporation Limited                                    |
| ICRA          | Formerly known as Investment Information and Credit Rating Agency of India Limited |
| JLG           | Joint Liability Group                                                              |
| Kirana stores | Local retail shops being operated by our members at their place of business        |
| KYC           | Know Your Customer                                                                 |
| LUC           | Loan Utilization Check                                                             |
| M-CRIL        | Micro Credit Rating International Limited                                          |
| MFI           | Microfinance Institution                                                           |
| MFIN          | Microfinance Institutions Network                                                  |
| MIS           | Management Information Systems                                                     |
| NBFC          | Non Banking Financial Company                                                      |
| NBFC-ND       | Non Banking Financial Company- Non Deposit Taking                                  |
| NBFC-ND-SI    | Non Banking Financial Company- Non Deposit Taking-Systemically Important           |



| Term | Description                            |
|------|----------------------------------------|
| NGO  | Non- government organization           |
| NPA  | Non Performing Asset                   |
| PDI  | Perpetual Debt Instruments             |
| PFIC | Passive Foreign Investment Company     |
| PMLA | Prevention of Money Laundering Act     |
| PPP  | Purchasing Power Parity                |
| RRB  | Regional Rural Banks                   |
| SBLP | Self Help Group Bank Linkage Programme |
| SHG  | Self Help Group                        |

#### Conventional/General Terms

| Term                       | Description                                                                                                                                                                          |
|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Act or Companies Act       | Companies Act, 1956, as amended from time to time                                                                                                                                    |
| AGM                        | Annual General Meeting                                                                                                                                                               |
| A.P.                       | Andhra Pradesh                                                                                                                                                                       |
| AS                         | Accounting Standards issued by the Institute of Chartered Accountants of India                                                                                                       |
| AY                         | Assessment Year                                                                                                                                                                      |
| BOI                        | Body of Individuals                                                                                                                                                                  |
| BSE                        | Bombay Stock Exchange Limited                                                                                                                                                        |
| CAGR                       | Compounded Annual Growth Rate                                                                                                                                                        |
| CCPS                       | Compulsory Convertible Preference Shares                                                                                                                                             |
| CDSL                       | Central Depository Services (India) Limited                                                                                                                                          |
| CEO                        | Chief Executive Officer                                                                                                                                                              |
| CFO                        | Chief Financial Officer                                                                                                                                                              |
| COO                        | Chief Operating Officer                                                                                                                                                              |
| DDT                        | Dividend Distribution Tax                                                                                                                                                            |
| Depositories               | NSDL and CDSL                                                                                                                                                                        |
| Depositories Act           | The Depositories Act, 1996 as amended from time to time                                                                                                                              |
| DER                        | Debt Equity Ratio                                                                                                                                                                    |
| DP ID                      | Depository Participant's Identity                                                                                                                                                    |
| DP/Depository Participant  | A depository participant as defined under the Depositories Act, 1996                                                                                                                 |
| DTAA                       | Double Tax Avoidance Agreement                                                                                                                                                       |
| ECS                        | Electronic Clearing Service                                                                                                                                                          |
| EGM                        | Extraordinary General Meeting                                                                                                                                                        |
| EEA                        | European Economic Area                                                                                                                                                               |
| EPS                        | Unless otherwise specified, Earnings Per Share, i.e., profit after tax for a fiscal year divided by the weighted average outstanding number of equity shares during that fiscal year |
| ESI                        | Employee's State Insurance Scheme                                                                                                                                                    |
| ESOP                       | Employee Stock Option Plan                                                                                                                                                           |
| ESPS                       | Employee Stock Purchase Scheme                                                                                                                                                       |
| FCNR Account               | Foreign Currency Non-Resident Account                                                                                                                                                |
| FDI                        | Foreign Direct Investment                                                                                                                                                            |
| FEMA                       | Foreign Exchange Management Act, 1999 read with rules and regulations thereunder and amendments thereto                                                                              |
| FEMA Regulations           | FEMA (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000 and amendments thereto                                                                     |
| FII(s)                     | Foreign Institutional Investors as defined under SEBI (Foreign Institutional Investor) Regulations, 1995 registered with SEBI under applicable laws in India                         |
| Financial Year/ fiscal/ FY | Period of twelve months ended March 31 of that particular year                                                                                                                       |
| FIPB                       | Foreign Investment Promotion Board                                                                                                                                                   |
| FVCI                       | Foreign Venture Capital Investor registered under the Securities and                                                                                                                 |

| Term                     | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|--------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                          | Exchange Board of India (Foreign Venture Capital Investor) Regulations, 2000, as amended from time to time                                                                                                                                                                                                                                                                                                                                                                                   |
| GDP                      | Gross Domestic Product                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| GIR                      | General Index Register                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Gol/Government           | Government of India                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| HNI                      | High Net worth Individual                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| HUF                      | Hindu Undivided Family                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| ICAI                     | Institute of Chartered Accountants of India                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| IFRS                     | International Financial Reporting Standards                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Income Tax Act/ I.T. Act | The Income Tax Act, 1961, as amended from time to time                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Indian GAAP              | Generally Accepted Accounting Principles in India                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| IRDA                     | Insurance Regulatory and Development Authority                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| ITDA                     | Integrated Tribal Development Agency                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| MAT                      | Minimum Alternate Tax                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Mn                       | Million                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| MoU                      | Memorandum of Understanding                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| NAV                      | Net Asset Value                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| NCD                      | Non Convertible Debentures                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| NEFT                     | National Electronic Funds Transfer                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| NR                       | Non Resident                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| NRE Account              | Non Resident External Account                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| NRI                      | Non Resident Indian, is a person resident outside India, who is a citizen of India or a person of Indian origin and shall have the same meaning as ascribed to such term in the Foreign Exchange Management (Deposit) Regulations, 2000, as amended from time to time                                                                                                                                                                                                                        |
| NRO Account              | Non Resident Ordinary Account                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| NSDL                     | National Securities Depository Limited                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| NSE                      | The National Stock Exchange of India Limited                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| OCB                      | A company, partnership, society or other corporate body owned directly or indirectly to the extent of up to 60% by NRIs including overseas trusts in which not less than 60% of beneficial interest is irrevocably held by NRIs directly or indirectly and which was in existence on October 3, 2003 and immediately before such date was eligible to undertake transactions pursuant to the general permission granted to OCBs under the FEMA. OCBs are not allowed to invest in this Issue |
| p.a.                     | per annum                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| P/E Ratio                | Price/Earnings Ratio                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| PAN                      | Permanent Account Number                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| PAT                      | Profit After Tax                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| PBT                      | Profit Before Tax                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| PLR                      | Prime Lending Rate                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| RBI                      | The Reserve Bank of India                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| RBI Act                  | The Reserve Bank of India Act, 1934                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Re.                      | One Indian Rupee                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| RoC                      | The Registrar of Companies, Andhra Pradesh situated at 2nd Floor, CPWD Building, Kendriya Sadan, Sultan Bazar, Koti, Hyderabad 500195, Andhra Pradesh                                                                                                                                                                                                                                                                                                                                        |
| RONW                     | Return on Net Worth                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Rs./ INR                 | Indian Rupees                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| RTGS                     | Real Time Gross Settlement                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| SAT                      | Securities Appellate Tribunal                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| SBAR                     | State Bank of India Benchmark Advance Rate                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| SCRA                     | Securities Contracts (Regulation) Act, 1956, as amended from time to                                                                                                                                                                                                                                                                                                                                                                                                                         |

| <b>Term</b>       | <b>Description</b>                                                                                                                              |
|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
|                   | time                                                                                                                                            |
| SCRR              | Securities Contracts (Regulation) Rules, 1957, as amended from time to time                                                                     |
| SEBI              | The Securities and Exchange Board of India constituted under the SEBI Act                                                                       |
| SEBI Act          | Securities and Exchange Board of India Act, as amended from time to time                                                                        |
| SICA              | Sick Industrial Companies (Special Provisions) Act, 1985, as amended from time to time                                                          |
| Stamp Act         | The Indian Stamp Act, 1899, as amended from time to time                                                                                        |
| State Government  | The Government of a State of India                                                                                                              |
| Stock Exchange(s) | BSE and/or NSE as the context may refer to                                                                                                      |
| Takeover Code     | SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, as amended                                                            |
| U.S. GAAP         | Generally Accepted Accounting Principles in the United States of America                                                                        |
| U.S./USA          | United States of America                                                                                                                        |
| USD/US\$          | United States Dollars                                                                                                                           |
| VCFs              | Venture Capital Funds as defined and registered with SEBI under the SEBI (Venture Capital Fund) Regulations, 1996, as amended from time to time |

## **PRESENTATION OF FINANCIAL, INDUSTRY AND MARKET DATA**

### **Certain Conventions**

All references to “India” contained in this Red Herring Prospectus are to the Republic of India and all references to the “U.S.”, “USA”, or the “United States” are to the United States of America.

In this Red Herring Prospectus, the Company has presented certain numerical information in “million” units. One million represents 1,000,000. For definitions, see “Definitions and Abbreviations” on page i of this Red Herring Prospectus. In the section “Main Provisions of Articles of Association” on page 310 of this Red Herring Prospectus, defined terms have the meaning given to such terms in the Articles.

### **Financial Data**

Unless stated otherwise, the financial data in this Red Herring Prospectus is derived from our restated financial statements prepared in accordance with Indian GAAP and the Companies Act, and restated in accordance with the SEBI Regulations and Indian GAAP. Our current fiscal year commences on April 1 and ends on March 31 of next year. In this Red Herring Prospectus, any discrepancies in any table between the total and the sums of the amounts listed are due to rounding-off.

There are significant differences between Indian GAAP, IFRS and U.S. GAAP. This Red Herring Prospectus does not contain a reconciliation of our financial statements to IFRS or U.S. GAAP nor does it include any information in relation to the differences between Indian GAAP, IFRS and U.S. GAAP.

Accordingly, the degree to which the Indian GAAP financial statements included in this Red Herring Prospectus will provide meaningful information is entirely dependent on the reader’s level of familiarity with Indian accounting practices, Indian GAAP and the Companies Act. Any reliance by persons not familiar with Indian accounting practices, Indian GAAP and the Companies Act on the financial disclosures presented in this Red Herring Prospectus should accordingly be limited. In making an investment decision, investors must rely upon their own examination of the Company, the terms of the Issue and the financial information relating to the Company. We have not attempted to explain the differences between Indian GAAP, IFRS and U.S. GAAP herein or quantify their impact on the financial data included herein, and we urge you to consult your own advisors regarding such differences and their impact on our financial data.

Any percentage amounts, as set forth in “Risk Factors”, “Business”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Red Herring Prospectus, unless otherwise indicated, have been calculated on the basis of our restated financial statements.

### **Currency and units of presentation**

All references to “Rupees” or “Rs.” are to Indian Rupees, the official currency of the Republic of India. All references to “US\$”, “USD” or “U.S Dollars” are to United States Dollars, the official currency of the United States of America. Based on the RBI reference rate, the exchange rate as on December 31, 2009 was USD 1 = Rs. 46.68, March 31, 2010 was USD 1 = Rs. 45.14 and on June 30, 2010 was USD 1 = Rs. 46.60.

### **Industry and Market data**

Unless stated otherwise, industry and market data used throughout this Red Herring Prospectus has been obtained from industry publications. Industry publications generally state that the information contained in those publications has been obtained from sources believed to be reliable but that their accuracy and completeness are not guaranteed and their reliability cannot be assured. Although we believe that industry and market data used in this Red Herring Prospectus is reliable, it has not been independently verified. To the extent to which the industry and market data used in this Red Herring Prospectus is meaningful depends on the reader’s familiarity with and understanding of the methodologies used in compiling such data.

## NOTICE TO INVESTORS

The Equity Shares have not been recommended by any U.S. federal or state securities commission or regulatory authority. Further, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Red Herring Prospectus. Any representation to the contrary is a criminal offence in the United States.

The Equity Shares have not been and will not be registered under the US Securities Act of 1933, as amended (the “Securities Act”), and, unless so registered, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Equity Shares are being offered and sold (a) in the United States only to persons reasonably believed to be “qualified institutional buyers” (as defined in Rule 144A under the Securities Act and referred to in this Red Herring Prospectus as “U.S. QIBs”, for the avoidance of doubt, the term U.S. QIBs does not refer to a category of institutional investor defined under applicable Indian regulations and referred to in the Red Herring Prospectus as “QIBs”) in transactions exempt from the registration requirements of the Securities Act and (b) outside the United States in compliance with Regulation S and the applicable laws of the jurisdiction where those offers and sales occur.

This Red Herring Prospectus has been prepared on the basis that all offers of Equity Shares will be made pursuant to an exemption under the Prospectus Directive, as implemented in member States of the European Economic Area (“EEA”), from the requirement to produce a prospectus for offers of Equity Shares. The expression “Prospectus Directive” means Directive 2003/71/EC of the European Parliament and Council and includes any relevant implementing measure in each Relevant Member State (as defined below). Accordingly, any person making or intending to make an offer within the EEA, of Equity Shares which are the subject of the placement contemplated in this Red Herring Prospectus should only do so in circumstances in which no obligation arises for the Company or any of the Underwriters to produce a prospectus for such offer. None of the Company and the Underwriters has authorised, nor do they authorise, the making of any offer of Equity Shares through any financial intermediary, other than the offers made by the Underwriters which constitute the final placement of Equity Shares contemplated in this Red Herring Prospectus.

## FORWARD-LOOKING STATEMENTS

All statements contained in this Red Herring Prospectus that are not statements of historical fact constitute “forward-looking statements.” All statements regarding our expected financial condition and results of operations, business, plans and prospects are forward-looking statements. These forward-looking statements include statements as to our business strategy, our revenue and profitability, planned projects and other matters discussed in this Red Herring Prospectus regarding matters that are not historical facts. These forward-looking statements and any other projections contained in this Red Herring Prospectus (whether made by us or any third party) are predictions and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other projections. Investors can generally identify forward-looking statements by the use of terminology such as “aim”, “anticipate”, “believe”, “expect”, “estimate”, “intend”, “objective”, “plan”, “project”, “shall”, “will”, “will continue”, “will pursue”, “contemplate”, “future”, “goal”, “propose”, “may”, “seek”, “should”, “will likely result”, “will seek to” or other words or phrases of similar import. All forward looking statements are subject to risks, uncertainties and assumptions about us that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement.

Actual results may differ materially from those suggested by the forward looking statements due to risks or uncertainties associated with our expectations with respect to, but not limited to, regulatory changes pertaining to the industries in India in which we have our businesses and our ability to respond to them, our ability to successfully implement our strategy, our growth and expansion, technological changes, our exposure to market risks, general economic and political conditions in India, which have an impact on our business activities or investments, the monetary and fiscal policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets in India and globally, changes in domestic laws, regulations and taxes and changes in competition in our industry. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, the following:

- Limited operating history;
- Ability to manage growth effectively;
- Success of new loans and services introduced by us;
- Competition from banks and financial institutions;
- Ability to secure additional capital at terms favourable to us;
- Changes in laws and regulations that apply to us; and
- General economic and business conditions in India.

For further discussion of factors that could cause our actual results to differ, see “Risk Factors”, “Business” and “Management Discussion and Analysis of Financial Condition and Results of Operations” on pages xiii, 75 and 208 of this Red Herring Prospectus, respectively.

By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. Forward looking statements speak only as of the date of this Red Herring Prospectus. We, the Selling Shareholders, the members of the Syndicate and their respective affiliates do not have any obligation to, and do not intend to, update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition. In accordance with SEBI requirements, we and the Selling Shareholders will ensure that investors in India are informed of material developments until such time as the grant of listing and trading approvals by the Stock Exchanges.

## SECTION II: RISK FACTORS

*An investment in our Equity Shares involves a high degree of risk. You should carefully consider each of the following risk factors and all other information set forth in this Red Herring Prospectus, including the risks and uncertainties described below, before making an investment in our Equity Shares. The risks and uncertainties described below are not the only risks that the Company currently faces. Additional risks and uncertainties not presently known to the Company or that the Company currently believes to be immaterial may also have an adverse effect on the Company's business, results of operations and financial condition. If any or some combination of the following risk, or other risks that are not currently known or believed to be material, actually occur, our business, financial condition and results of operations could suffer, the trading price of our Equity Shares could decline and you may lose all or part of your investment. In making an investment decision with respect to the Issue contemplated herein, you must rely on your own examination of the Company and the terms of such Issue, including the merits and risks involved. Unless specified or quantified in the relevant risk factors below, we are not in a position to quantify the financial or other implications of any of the risks described in this section.*

### **Internal Risks**

#### *Risks Relating to our Business*

1. *Our limited operating history and our fast growing and rapidly evolving business make it difficult to evaluate our business and future operating results on the basis of our past performance, and our future results may not meet or exceed our past performance.*

We were incorporated in 2003 as a private limited company in India and in 2005, we registered with the RBI as a NBFC-ND. As a result of our limited operating history, there is limited historical financial and operating information available to help prospective investors evaluate our past performance with respect to making an investment in our Equity Shares. Our business is growing and the results and amounts set forth in our financial statements beginning on page 146 of this Red Herring Prospectus may not provide a reliable indication of our future performance. Accordingly, you should evaluate our business and prospects in light of the risks, uncertainties and difficulties frequently encountered by high growth companies in the early stages of development. Our failure to address these risks and uncertainties successfully could adversely affect our business and operating results, and a decline in the trading price of our Equity Shares.

2. *If we are unable to manage our growth effectively, including our financial, accounting, administrative and technology infrastructure, our business and reputation could be adversely affected.*

Our network of branches and members has expanded rapidly from 1,353 branches serving approximately 3.95 million members located in 18 states across India as of March 31, 2009 to 2,029 branches, serving approximately 6.78 million members located in 19 states across India as of March 31, 2010. We expect the expansion of our geographic footprint and network of branches and members to continue which may further constrain our capital resources and make asset quality management increasingly important. We will need to enhance and improve our financial, accounting, information technology, administrative and operational infrastructure and internal capabilities in order to manage the future growth of our business. We may not be able to implement the necessary improvements in a timely manner, or at all, and we may encounter deficiencies in existing systems and controls. If we are unable to manage our future expansion successfully, our ability to provide products and services to our members would be adversely affected, and, as a result, our reputation could be damaged and our business and results of operations materially and adversely impacted.

3. *Downgrading of our credit ratings would increase our cost of borrowing funds and make our ability to raise new funds in the future or renew maturing debt more difficult.*

As on the date of filing the Red Herring Prospectus, we have the following debentures outstanding, all of which have been rated:

- a. Rs. 500 million of 8.30% secured non convertible debentures originally issued to Yes Bank Limited on a private placement basis which were rated as PR1+ by CARE. According to CARE, instruments with a PR1 rating would have strong capacity for timely payment of short-term debt obligations and carry lowest credit risk and within this category, instruments with relatively better credit characteristics are assigned PR1+ rating.
- b. Rs. 500 million of 9.25% secured non convertible debentures originally issued to BALICL on a private placement basis which were rated as PR1+ by CARE.

Further, assignee payouts in some of our loan assignment transactions are rated A1+(SO) by ICRA and PR1+(SO) by CARE. According to ICRA, A1 rating indicates highest credit quality rating to short term debt instruments. The PR1 rating by CARE indicates strong capacity for timely payment of short-term debt obligations and carries lowest credit risk. And a suffix of 'SO' indicates the instruments with structured obligation.

There has not been any down grading of our debt instruments in the last one year before the date of filing of the Draft Red Herring Prospectus. Though there has been no such downgrading in the past, we cannot assure you that downgrading of our debt instruments will not take place in the future. Downgrading of our credit ratings would increase the cost of raising funds. In addition, our ability to renew maturing debt may be more difficult and expensive. A downgrade in our credit ratings and an inability to renew maturing debt may also adversely affect perception of our financial stability.

4. *Our ability to pay dividends in the future will depend upon future earnings, financial condition, cash flows, working capital requirements, capital expenditures and lender consents and there can be no assurance that we will be able to pay dividends in the future.*

We currently intend to invest our future earnings, if any, to fund our growth. The amount of our future dividend payments, if any, will depend upon our future earnings, financial condition, cash flows, working capital requirements and capital expenditures. In addition, any dividend payments we make are subject to the prior consent of our lenders pursuant to the terms of the agreements we have with them. We have not paid any dividends historically and there can be no assurance that we will be able to pay dividends in the future.

5. *There is outstanding litigation against us and our Directors, any final judgments against us could have a material adverse effect on our business, results of operations, financial condition and prospects.*

There are certain proceedings pending in various courts and authorities at different levels of adjudication against us and our Directors. The amounts claimed in these proceedings have been disclosed to the extent ascertainable, excluding contingent liabilities but including amounts claimed jointly and severally from us and other parties. Should any new developments arise, such as a change in Indian law or rulings against us by appellate courts or tribunals, we may need to make provisions in our financial statements that could increase expenses and current liabilities.

Current significant proceedings and litigation against us and our Directors include:

- A civil case has been filed against us in the Court of the Principal Junior Civil Judge at Warangal. The matter seeks a permanent injunction against us to prevent our Company from retrieving certain sums of money lent and an order as to costs.
- A civil case has been filed in the District Consumer Redressal Forum, Jajpur, Orissa against us seeking an extension in the repayment tenor from one week to three months and reduction of rate of interest charged to the members.
- A civil case has been filed before the Authority under Minimum Wages Act and Assistant Commissioner of Labour, Srikakulam, Andhra Pradesh against us stating



that we pay below minimum wages and demanding that wages be paid according to statutory law.

- A writ petition has been filed by Jagabandhu Sahu against certain employees of the Company before the High Court of Orissa for the his alleged forced resignation, illegal detention and assault.
- An insolvency petition has been filed against the Company and others by certain individuals before the Additional Senior Civil Judge, Tirupati to declare them insolvent.
- An insolvency petition has been filed by Ms. Vyadya Kavitha and one other against the Company and certain other creditors before the Senior Judge, Jagitilal.
- An insolvency petition has been filed by Mr. Sardar Basha against the Company and certain other creditors.
- Our Chairman of the Board, Dr. Vikram Akula, is involved in certain legal proceedings in India and the U.S. related to the custody of his minor son.

In addition, we have received several notices that may lead to legal proceedings against us. Further, we have from time to time initiated legal proceedings against various individuals relating to our business and operations. For further details of outstanding litigation against us and our Directors see “Outstanding Litigation and Material Developments” on page 244 of the Red Herring Prospectus

6. *All of our loans are unsecured and if we are unable to control the level of non-performing loans in the future, or if our loan loss reserves are insufficient to cover future loan losses, our financial condition and results of operations may be materially and adversely affected.*

All of our loans are unsecured. Non-performing or low credit quality loans can negatively impact our results of operations.

Our total gross NPAs as a percentage of gross loans outstanding was 0.33% as of March 31, 2010, 0.34% as of March 31, 2009 and 0.20% as of March 31, 2008. Our net NPAs as a percentage of net loans outstanding were 0.16% as of March 31, 2010, 0.18% as of March 31, 2009 and 0.16% as of March 31, 2008. Our total gross non-performing loans were Rs. 96.06 million as of March 31, 2010, Rs. 47.88 million as of March 31, 2009 and Rs. 15.44 million as of March 31, 2008. Our total net non-performing loans were Rs. 48.03 million as of March 31, 2010, Rs. 25.22 million as of March 31, 2009 and Rs. 12.32 million as of March 31, 2008.

We cannot assure you that we will be able to effectively control and reduce the level of the impaired loans in our total loan portfolio. The amount of our reported non-performing loans may increase in the future as a result of growth in our total loan portfolio, and also due to factors beyond our control, such as over-extended member credit that we are unaware of. If we are unable to manage our NPAs or adequately recover our loans, our results of operations will be adversely affected.

Our current loan loss reserves may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of our total loan portfolio. As a result, if the quality of our total loan portfolio deteriorates we may be required to increase our loan loss reserves, which will adversely affect our financial condition and results of operations. Our members are poor and, as a result, might be vulnerable if economic conditions worsen or growth rates decelerate in India, or if there are natural disasters such as floods and droughts in areas where our members live. Moreover, there is no precise method for predicting loan and credit losses, and we cannot assure you that our monitoring and risk management procedures will effectively predict such losses or that loan loss reserves will be sufficient to cover actual losses. If we are unable to control or reduce the level of our nonperforming or poor credit quality loans, our financial condition and results of our operations could be materially and adversely affected.

7. *Our introduction of new products and services may not be successful and, as a result our reputation would be harmed and our market leadership would be at risk.*

We may incur substantial costs to expand our range of products and services and cannot guarantee that such new products will be successful once they are offered due to our own shortcomings or as a result of circumstances beyond our control, such as general economic conditions. In addition, we may not correctly anticipate our members' needs or desires, which may change over time, and from time to time we have discontinued unsuccessful or non-strategic products. For example, in 2008 we discontinued our Individual Loan Product as a result of high administration costs. In the event that we fail to develop and launch new products or services successfully, we may lose any or all of the investments that we have made in promoting them, and our reputation with our members would be harmed and our market leadership in the microfinance industry would be at risk. If our competitors are better able to anticipate the needs of those individuals in our target market, our market share could decrease.

We currently distribute endowment or whole life insurance policies issued and underwritten by a third party insurance company to our members. Additionally, we have entered into arrangements with a mobile phone manufacturer, as well as a consumer goods wholesaler, to facilitate the distribution of their products to our members. We have also piloted from time to time new products and other third party products and services. In the event that these products or any new products we introduce in the future do not meet the standards or expectations of our members or in the event of a default by these third parties from whom such products are sourced or disputes originating out of such products or distribution, we may be subject to reputational risk, which may have further impact our member base and our ability to grow our member base, consequently further adversely affecting our business, results of operations and financial condition.

8. *We have obtained certain loans which may be recalled by our lenders at any time.*

Certain of our indebtedness can be recalled at any time. As of March 31, 2010, our total secured and unsecured indebtedness is Rs. 26,946.72 million, of which 55.8% can be recalled by our lenders at any time. For details of our loans, please see "Indebtedness" on page 142 of this Red Herring Prospectus. If our lenders exercise their right to recall a loan, it could have a material adverse affect on our financial position.

9. *Because we handle cash in a high volume of transactions occurring through a dispersed network of branches and Sangam Managers, we are exposed to operational risks, including fraud, petty theft and embezzlement, which could harm our results of operations and financial position.*

Because we handle a large amount of cash through a high volume of small transactions taking place in our network, we are exposed to the risk of fraud or other misconduct by employees or outsiders. These risks are further exaggerated with the high level of delegation of power and responsibilities our business model requires. For instance, during fiscal 2010, we discovered 82 cases of cash embezzlement by employees in the aggregate amount of Rs. 15.02 million, 61 cases of misrepresentation by employees in the aggregate amount of Rs. 13.65 million and 31 cases of loans taken by certain borrowers in collusion with and under the identity of other borrowers in the aggregate amount of Rs. 6.03 million. Fraud and other misconduct can be difficult to detect and deter. For further details, see "Outstanding Litigation and Material Developments" on page 244 of this Red Herring Prospectus. Given the high volume of transactions processed by us, certain instances of fraud and misconduct may go unnoticed before they are discovered and successfully rectified. Even when we discover such instances of fraud or theft and pursue them to the full extent of the law or with our insurance carriers, there can be no assurance that we will recover any such amounts. In addition, our dependence upon automated systems to record and process transactions may further increase the risk that technical system flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect

10. *In the past our Auditors have included certain qualified statements in relation to matters specified in the Companies (Auditors' Report) Order, 2003, annexed to the Auditors' report in the audited financial statements.*

The report on our audited financial statements as of and for the year ended March 31, 2010 records statements that there were instances of fraud on our Company by our employees and borrowers, which were in the nature of cash embezzlement, loans to non-existent borrowers on the basis of fictitious documentation and loans taken by certain borrowers in collusion with and under the identity of other borrowers.

The report on our audited financial statements as of and for the year ended March 31, 2009 records statements that there were delays in the deposit of undisputed statutory dues to appropriate authorities and there were instances of fraud on our Company by our employees, which were in the nature of cash embezzlement, loans to non-existent borrowers on the basis of fictitious documentation and a case of fraud in collusion with our vendors.

The report on our audited financial statements as of and for the year ended March 31, 2008 records statements that the scope and coverage of our internal audit system was required to be enlarged; there were delays in the deposit of undisputed statutory dues to appropriate authorities; and there were instances of fraud on our Company by our employees, which were in the nature of cash embezzlement and loans to non-existent borrowers on the basis of fictitious documentation and a case of unauthorized cash collection by a borrower

11. *If we cannot secure the additional capital we need to fund our operations on acceptable terms or at all, our business will suffer.*

Our business requires significant capital. We have historically relied on significant debt and equity issuances, as well as cash flow from operations to fund our operations, capital expenditures and expansion. Expanding our geographic footprint and extending new proprietary and distributed product and service offerings to our members will have an impact on our long-term capital requirements, which are expected to increase significantly. Our ability to obtain additional capital is subject to a variety of uncertainties, including our future financial position, the continued success of our core loan products, our results of operations and cash flows, any necessary government regulatory approvals, contractual consents, general market conditions for capital-raising activities, and economic, political and other conditions in India and elsewhere. In addition, adverse developments in the Indian and world credit markets may significantly increase our debt service costs and the overall costs of our borrowings. We may not be able to secure timely additional financing on favourable terms, or at all. The terms of any additional financing may place limits on our financial and operating flexibility. Any new securities we issue could have additional rights, preferences and privileges than those available to our shareholders. If we are unable to obtain adequate financing or financing on terms satisfactory to us, if and when we require it, our ability to grow or support our business and to respond to business challenges could be limited and our business prospects, financial condition and results of operations would be materially and adversely affected.

12. *Certain of our existing shareholders together may be able to exert substantial voting control over us after this Issue, which may limit your ability to influence corporate matters and may cause us to take actions that are not in our best interest.*

Upon completion of this Issue, certain of our existing shareholders representing our five largest shareholders as mentioned below will beneficially own, in the aggregate, approximately 53.5% of our outstanding Equity Shares.

| S. No. | Name of the Shareholders | Number of Equity Shares | Shareholding (%) |
|--------|--------------------------|-------------------------|------------------|
| 1      | SCI II                   | 9,095,550               | 14.1             |
| 2      | SIP I                    | 8,341,792               | 12.9             |
| 3      | Kismet Microfinance      | 7,914,205               | 12.3             |
| 4      | SCIG I                   | 4,951,474               | 7.7              |
| 5      | Mr. Vinod Khosla         | 4,238,866               | 6.6              |
|        | <b>Total</b>             | <b>34,541,887</b>       | <b>53.5</b>      |

This concentration of ownership could limit your ability to influence corporate matters requiring shareholder approval. These existing shareholders will be able to exercise considerable influence over all matters requiring shareholder approval, including the election of directors, approval of lending and investment policies and the approval of corporate transactions, such as a merger or other sale of our Company or its assets. In addition, if our shareholders do not act together, such matters requiring shareholder approval may be delayed or not occur at all, which could adversely affect our business. Moreover, these shareholders are not obligated to provide any business opportunities to us. If these shareholders invest in another company in competition with us, we may lose the support provided to us by them, which could materially and adversely affect our business, financial condition and results of operations. For further details, see “Capital Structure” on page 28 of the Red Herring Prospectus.

13. *Certain of our shareholders, including some of our Promoters, are investment entities and accordingly they or their affiliates have invested or may invest in other companies engaged in similar businesses thereby giving rise to a conflict of interest.*

Certain of our shareholders, including some of our Promoters, are investment entities and currently hold 76.0% of our outstanding Equity Shares. Accordingly, they or their affiliates have invested or may invest in other companies engaged in similar businesses thereby giving rise to a conflict of interest. We cannot assure you that they will continue to act in our best interest and further we may lose the support provided to us by them, which could materially and adversely affect our business, financial condition and results of operations.

14. *Our management will have broad discretion over the use of the Net Proceeds and the Net Proceeds might not be applied in ways that increase the value of your investment.*

We intend to use the Net Proceeds for the purposes described in the “Objects of the Issue” on page 52 of the Red Herring Prospectus. We currently intend to use the Net Proceeds from the Fresh Issue to augment our capital base to meet our future capital requirements arising out of growth in our business. Our management will have broad discretion to use the Net Proceeds and you will be relying on the judgment of our management regarding the application of these Net Proceeds.

Expenditure of the Net Proceeds in our business may not lead to an increase in the value of your investment. Various risks and uncertainties, including those set forth in this “Risk Factors” section, may limit or delay our efforts to use the Net Proceeds to achieve profitable growth in our business. For example, our expansion plans and any other future plans could be delayed due to failure to receive regulatory approvals, technical difficulties, human resource, technological or other resource constraints, or for other unforeseen reasons, events or circumstances. We may not be able to attract personnel with sufficient skill or sufficiently train our personnel to manage our expansion plans. Accordingly, use of the Net Proceeds to meet our future capital requirements, fund our growth and for other purposes identified by our management may not result in actual growth of our business, increased profitability or an increase in the value of our business and your investment.

Pending utilization of the Net Proceeds, we intend to invest such Net Proceeds in bank deposits as approved by our Board of Directors in accordance with our investment policy. Although the utilization of the Net Proceeds will be monitored by our Board of Directors and the Monitoring Agency there are no limitations on interim investments that we can make using such Net Proceeds.

15. *Loans due within one year account for all of our interest income, and a significant reduction in short term loans may result in a corresponding decrease in our interest income.*

All of the loans we issue are due within one year of disbursement. The relatively short-term nature of our loans means that our long-term interest income stream is less certain than if a portion of our loans were for a longer term. In addition, our members may not obtain new loans from us upon maturity of their existing loans, particularly if competition increases. The

potential instability of our interest income could materially and adversely affect our results of operations and financial position.

16. *Contingent liabilities could adversely affect our financial condition.*

As of March 31, 2010, we had contingent liabilities in the following amounts, as disclosed in our restated financial statements:

| Type                                         | Amount<br>(Rs. in million) |
|----------------------------------------------|----------------------------|
| Guarantees given for loans assigned          | 2,409.38                   |
| Contingent liability relating to tax matters | 24.09                      |

If any time we must recognize a material portion of these contingent liabilities, it would have a material adverse effect on our business, financial condition and results of operations.

17. *We have issued the following Equity Shares during the last year at a price that may be lower than the Issue Price.*

In the last one year, we have issued the following Equity Shares at a price that may be lower than the Issue Price.

| Date of Allotment | Name of Allottee                                                                                                                              | Equity Shares | Face Value (Rs.) | Issue Price (Rs.) |
|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|---------------|------------------|-------------------|
| August 18, 2009   | Dr. Tarun Khanna                                                                                                                              | 8,080         | 10.00            | 300.00            |
|                   | Bajaj Allianz Life Insurance Company Limited                                                                                                  | 416,666       | 10.00            | 300.00            |
| December 8, 2009  | SIP I*                                                                                                                                        | 6,256,344     | 10.00            | 300.00            |
|                   | Kismet SKS II*                                                                                                                                | 2,655,131     | 10.00            | 300.00            |
|                   | ICP Holdings I*                                                                                                                               | 244,150       | 10.00            | 300.00            |
|                   | Bajaj Allianz Life Insurance Company Limited**                                                                                                | 1,250,000     | 10.00            | 300.00            |
| December 24, 2009 | Dr. Vikram Akula (pursuant to the options allotted under ESOP Plan 2007)                                                                      | 945,424       | 10.00            | 49.77             |
| December 31, 2009 | 16 employees (on a preferential basis pursuant to the offer made to them at the AGM of the shareholders of the Company on September 30, 2009) | 17,383        | 10.00            | 300.00            |
| January 19, 2010  | Catamaran Management Services Private Limited (as trustee for Catamaran)                                                                      | 937,770       | 10.00            | 300.00            |
| March 23, 2010    | Mr. Suresh Gurumani (pursuant to the options allotted under ESOP 2008)                                                                        | 225,000       | 10.00            | 300.00            |

\* Pursuant to receipt of Rs. 300 for each CCPS from SIP I, Kismet SKS II and ICP Holdings I on October 20, 2008, the CCPS were allotted on March 26, 2009 and were converted into Equity Shares of the Company, in the ratio of one Equity Share for every CCPS held, pursuant to the circular resolution passed by the Board of Directors on December 8, 2009 and taken on record on January 5, 2010.

\*\* Pursuant to receipt of Rs. 300 for each CCPS from BALICL on May 21, 2009, the CCPS were allotted on August 18, 2009 and were converted into Equity Shares of the Company, in the ratio of one Equity Share for every CCPS held, pursuant to the circular resolution passed by the Board of Directors on December 8, 2009 and taken on record on January 5, 2010.

For further details, see “Capital Structure” on page 28 of this Red Herring Prospectus.

18. *If we are not able to attract, motivate, integrate or retain qualified personnel at levels of experience that are necessary to maintain our quality and reputation, it will be difficult for us to manage our business and growth.*

We depend on the services of our executive officers, key employees and Sangam Managers for our continued operations and growth. In particular, our senior management has significant experience in the microfinance, banking and financial services industries. The loss of any of our executive officers, key employees or senior managers could negatively affect our ability to execute our business strategy, including our ability to manage our rapid growth. Our business is also dependent on our team of Sangam Managers who directly manage our relationships with our members. Our business and profits would suffer adversely if a substantial number of our Sangam Managers left us or became ineffective in servicing our members over a period of time. Our future success will depend in large part on our ability to identify, attract and retain highly skilled managerial and other personnel. Competition for individuals with such specialized knowledge and experience is intense in our industry, and we may be unable to attract, motivate, integrate or retain qualified personnel at levels of experience that are necessary to maintain our quality and reputation or to sustain or expand our operations. For fiscal 2008, 2009 and 2010, our attrition rate for all employees was 24.6%, 29.7% and 25.7%, respectively. We define attrition as the number of employees that have resigned or been terminated for any reason during the specified period divided by the average number of employees for that same period times the number of months in the period. The loss of the services of such personnel or the inability to identify, attract and retain qualified personnel in the future would make it difficult for us to manage our business and growth and to meet key objectives.

19. *We have applied for, but have not yet received, consent from some of our lenders for certain transactions requiring such consent.*

Under our financing agreements with various banks, we are required to seek their consent to, inter alia, be able to offer new Equity Shares, change our capital structure, change our shareholding pattern, incur further debt and effectuate changes in the composition of the Board. Further, we are required to notify our lenders of certain transactions, including transactions to offer new Equity Shares, change our capital structure, change our shareholding pattern, incur further debt, etc. In relation to transfer of 300,000 Equity Shares of the Company by Yatish Trading Company Private Limited to Quantum (M) Limited on July 9, 2010, we are required to obtain prior consent from six banks. We have made applications seeking consent from our lenders on July 10, 2010 in relation to this transaction.

If we do not receive such consents in a timely manner or at all, we will be in default under the relevant financing agreements, which would entitle the respective lenders to call a default against us and enforce remedies under the terms of such financing agreements, including pre-payment. A default by us under the terms of any financing document may also trigger a cross-default under our other financing documents, or our other agreements or instruments, containing cross-default provisions. Any such termination and subsequent action taken by our lenders may individually or in aggregate, have an adverse effect on our business, results of operations and financial condition.

20. *Our business and results of operations would be adversely affected by strikes, work stoppages or increased wage demands by our employees.*

Our business and results of operations are dependent on the efforts of our employees. In September and October 2009, operations at two of our regional offices in the states of Andhra Pradesh and Maharashtra were interrupted by strikes by groups of our employees that organized themselves for this purpose in those regions. These employees demanded higher wages and attempted to interrupt our operations in each region. Our operations were not materially affected in either case and we did not agree to their demands. Both groups ceased their strikes and we resumed operations in the regions. For further information please see "Outstanding Litigation and Material Developments - Cases by the Company, Andhra Pradesh" on page 248 of the Red Herring Prospectus.

Although our employees are not currently unionized, there can be no assurance that they will not unionize in the future. If our employees unionize, it may become difficult for us to maintain flexible labour policies, and we could incur higher labour costs, which would adversely affect our business and results of operations.

21. *Our Sangam Managers and other employees may be the target of violent crime which may adversely affect our business, operations, and ability to recruit and retain employees.*

Within the past year, four of our Sangam Managers have been murdered in the course of robberies. We believe that the potential for such crimes is highest in the more remote villages we serve, where our Sangam Managers may be forced to transport cash further due to the lack of local banking facilities. In addition, our Sangam Managers have in the past been the targets of attacks by local parties. To the extent that our employees are subject to violent attacks, theft or robbery in the course of their duties, our ability to service such areas will be adversely affected and our employee recruiting and retention efforts may be curtailed which would negatively impact our expansion and growth. In addition, if we determine that certain areas of India pose a significantly higher risk of crime or political strife and instability, our ability to service such areas will be adversely affected and our expansion and growth may be curtailed.

22. *A failure of our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our businesses, cause damage to our reputation and result in losses.*

Our business is highly dependent on our ability to process a large number of transactions. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, adversely affecting our ability to process these transactions. As we grow our business, the inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses. Additionally, shortcomings or failures in our internal processes or systems could lead to an impairment of our financial condition, financial loss, disruption of our business and reputational damage.

Our ability to operate and remain competitive will depend in part on our ability to maintain and upgrade our information technology systems on a timely and cost-effective basis. The information available to and received by our management through our existing systems may not be timely and sufficient to manage risks or to plan for and respond to changes in market conditions and other developments in our operations. We may experience difficulties in upgrading, developing and expanding our systems quickly enough to accommodate our growing customer base and range of products. Our failure to maintain or improve or upgrade our management information systems in a timely manner could materially and adversely affect our competitiveness, financial position and results of operations.

We may also be subject to disruptions of our operating systems, arising from events that are wholly or partially beyond our control including, for example, computer viruses or electrical or telecommunication service disruptions, which may result in a loss or liability to us.

23. *If we fail to maintain effective internal control over financial reporting in the future, the accuracy and timing of our financial reporting may be adversely affected.*

We have taken steps intended to enhance our internal controls commensurate to the size of our business, primarily through the formation of a designated internal audit team with additional technical accounting and financial reporting experience. However certain matters such as fraud and embezzlement cannot be eliminated entirely given the cash nature of our business. If we fail to enhance our internal controls to meet the demands that will be placed upon us as a listed company, we may be unable to report our financial results accurately and prevent fraud. While we expect to remediate any such issues, we cannot assure you that we will be able to do so in a timely manner, which could impair our ability to accurately and timely report our financial position, results of operations or cash flows.

24. *Our failure to comply with financial and other restrictions imposed on us under the terms of our borrowings could adversely affect our ability to conduct our business and operations.*

In connection with our borrowings from lenders, we have agreed to restrictive covenants that require, among other things, that we maintain certain levels of debt, capital and asset quality or limit the scope of our lending activities to certain specified geographies. These restrictive covenants require that we either obtain the prior approval of, or provide notice to, our lenders in connection with certain activities, such as altering our capital structure, raising additional capital, incurring additional indebtedness, declaring or paying dividends, undertaking any merger, amalgamation or restructuring or making substantial changes in the composition of our management. In the event that we breach a restrictive covenant, our lenders could deem us to be in default and seek early repayment of loans or increase our interest rates in certain circumstances. Our ability to execute expansion plans, including our ability to obtain additional financing on terms and conditions acceptable to us, could be severely and negatively impacted as a result of these restrictions and limitations. Our failure to comply with any of these covenants could result in an event of default, which could accelerate our need to repay the related borrowings and trigger cross-defaults under other borrowings. An event of default would also affect our ability to raise new funds or renew maturing borrowings as needed to conduct our operations and pursue our growth initiatives.

25. *We may enter into joint ventures and strategic alliances in the future including outside India, which may entail various risks.*

We have entered into strategic alliances in the past with Nokia, Airtel, BALICL, HDFC, METRO and FAL and expect to enter into further alliances in the future. In addition, we may leverage our knowledge, experience and business models to expand our offerings into other countries. We may enter into joint ventures and strategic relationships to make an entry into these markets. We may in the future pursue mergers, acquisitions or other business combinations with other companies. Depending on the nature of such transactions, we may be required to offer products with which we have not had prior experience and assume high levels of debt or contingent liabilities, and divert our management's attention and other resources away from our core business. Any such investments or transactions outside India may require the prior approval of the RBI, which cannot be assured. Conducting our core business and other businesses in other countries will expose us to additional governmental regulation and statutory requirements and any failure by us to comply with such requirements could adversely affect our foreign operations and our business as a whole. In addition, we may be exposed to foreign currency risks if we enter into such alliances, joint ventures, or other transactions outside India.

26. *Our insurance coverage may not adequately protect us against losses, and successful claims that exceed our insurance coverage could harm our results of operations and diminish our financial position.*

We maintain insurance coverage of the type and in the amounts that we believe are commensurate with our operations, including directors' and officers' insurance and other general liability insurances. Our insurance policies, however, may not provide adequate coverage in certain circumstances and may be subject to certain deductibles, exclusions and limits on coverage, particularly with respect to our non-resident Directors. In addition, there are various types of risks and losses for which we do not maintain insurance, such as losses due to business interruption and natural disasters, because they are either uninsurable or because insurance is not available to us on acceptable terms. A successful assertion of one or more large claims against us that exceeds our available insurance coverage or results in changes in our insurance policies, including premium increases or the imposition of a larger deductible or co-insurance requirement, could adversely affect our business, financial condition and results of operations and could cause the price of our Equity Shares to decline.



*Risks Relating to Our Participation in the Microfinance Sector as a NBFC-ND*

27. *Microcredit lending poses unique risks not generally associated with other forms of lending in India, and, as a result, we may experience increased levels of non-performing loans and related provisions and write-offs that negatively impact our results of operations.*

Our core mission is to provide loans to fund the small businesses and other income generating activities of our members. Our members are typically poor and illiterate women living in rural India, who have limited sources of income, savings and credit histories, and who cannot provide us with any collateral or security for their borrowings. We also disburse non-interest bearing loans to our members in the event of emergencies, such as pregnancy, funerals and natural disasters. In addition, we have extended loan repayment moratoriums of two to three weeks to members who have been victims of flood conditions. While we do extend such moratoriums on a case by case basis, extensive flood conditions could adversely affect the ability of our members to make loan payments on time and in turn negatively impact our results of operations.

As a result, our members pose a higher risk of default than borrowers with greater financial resources and more established credit histories and borrowers living in urban areas with better access to education, employment opportunities, and social services. In addition, we rely on non-traditional guarantee mechanisms in connection with our loan products, which are generally secured by informal individual and group guarantees, rather than tangible assets. As a result, our loan products pose a higher degree of risk than loans secured with physical collateral. Due to the precarious circumstances of our members and our non-traditional lending practices we may, in the future, experience increased levels of non-performing loans and related provisions and write-offs that negatively impact our business and results of operations.

28. *We have entered into assignment agreements to sell certain loans from our outstanding loan portfolio. If such assignment of loans is held to be unenforceable under applicable law, it could have a material adverse effect on our business, financial condition and results of operations.*

From time to time we sell and assign a group of similar loans from our outstanding loan portfolio to financial institutions in return for an upfront fixed consideration. For the year ended March 31, 2010, the total book value of the loans assigned by us was Rs. 17,761.48 million pursuant to 15 assignment agreements for a total sale consideration of Rs. 18,408.84 million. As on March 31, 2010 the outstanding portfolio of assigned loans stood at 13,839.70 million constituting 32.0% of the gross loan portfolio. As a part of such transactions, we often issue a corporate guarantee to the purchaser for an amount equal to a negotiated percentage of the value of the loans being assigned. The loan assignment agreements contain certain representations and warranties made by us regarding the assigned loans, which, if breached could result in additional costs and expenses to us. In January 2009, the High Court of Gujarat held that the provisions of the Banking Regulation Act, 1949 do not permit banks to assign debt due to them, including the assignment of debt between two banks. This judgment has been appealed to the Supreme Court of India, which has not passed a final decision on the matter. In the event that one or more of the asset assignment agreements entered into by us are held by a court of law to be unenforceable, we may be required to terminate these assignment agreements and may suffer losses. Such events may adversely affect our business, financial condition and results of our operations and our ability to assign our loans.

29. *We require certain statutory and regulatory approvals for conducting our business and our failure to obtain or retain them in a timely manner, or at all, may adversely affect our operations.*

NBFCs in India are subject to strict regulation and supervision by the RBI. We require certain approvals, licenses, registrations and permissions for operating our business, including registration with the RBI as a NBFC-ND. For the various approvals, licenses, registrations and permissions that we have obtained or applied for our business, see “Government Approvals - III. Approvals to carry on our Business” on page 257 of this Red Herring Prospectus. Further,

such approvals, licenses, registrations and permissions must be maintained/renewed over time, applicable requirements may change and we may not be aware of or comply with all requirements all of the time. Additionally, we may need additional approvals from regulators to introduce new insurance and other fee based products to our members. In particular, we are required to obtain a certificate of registration for carrying on business as a NBFC that is subject to numerous conditions.

In addition, our branches are required to be registered under the relevant shops and establishments laws of the states in which they are located. The shops and establishment laws regulate various employment conditions, including working hours, holidays and leave and overtime compensation. Some of our branches have not applied for such registration while other branches still have applications for registration pending. If we fail to obtain or retain any of these approvals or licenses, or renewals thereof, in a timely manner, or at all, our business may be adversely affected. If we fail to comply, or a regulator claims we have not complied, with any of these conditions, our certificate of registration may be suspended or cancelled and we shall not be able to carry on such activities. For further details, see “Government Approvals - III. Approvals to carry on our Business” on page 257 of this Red Herring Prospectus.

30. *Our registered office is not owned by us and we enjoy only a leasehold right over this property.*

We have entered into two lease deeds, each dated December 31, 2009 for our registered office. Each of these leases are valid for a period of five years from January 1, 2010, and can be renewed for a further period of five years and the options for renewal shall have to be exercised at least six months prior to the expiry of the term of the lease granted. There can be no assurance that the term of such agreements shall be renewed at all or on terms that are not more onerous to us.

31. *We may be required to increase our capital ratio or amount of loan loss reserves, which may result in changes to our business and accounting practices that would harm our business and results of operations.*

We are subject to the RBI minimum capital to risk weighted assets ratio regulations. Pursuant to Section 45 -IC of the RBI Act, every NBFC is required to create a reserve fund and transfer thereto a sum not less than 20.0% of its net profit every year, as disclosed in the profit and loss account and before any dividend is declared. We are also required to maintain a minimum capital adequacy ratio of 12.0% in relation to our aggregate risk-weighted assets and risk adjusted assigned loans. The ratio must equal or exceed 12.0% by March 31, 2010, and 15.0% by March 31, 2011. The following table presents the CRAR maintained for the past three years:

| S.No. | As at March 31, | CRAR as per RBI prudential norms | CRAR of the Company |
|-------|-----------------|----------------------------------|---------------------|
| 1     | 2010            | 12.0%                            | 28.3%               |
| 2     | 2009            | 10.0%                            | 39.0%               |
| 3     | 2008            | 10.0%                            | 24.7%               |

The RBI may also in the future require compliance with other financial ratios and standards. Compliance with such regulatory requirements in the future may require us to alter our business and accounting practices or take other actions that could materially harm our business and operating results.

32. *Competition from banks and financial institutions, as well as state-sponsored social programs, may adversely affect our profitability and position in the Indian microcredit lending industry.*

We face our most significant competition from other MFIs and banks in India. Many of the institutions with which we compete have greater assets and better access to, and lower cost of, funding than we do. In certain areas, they may also have better name recognition and larger

member bases than us. We anticipate that we may encounter greater competition as we continue expanding our operations in India, which may result in an adverse effect on our business, results of operations and financial condition.

According to the CRISIL Report, the top 10 MFIs in India held approximately 74.0% of the total loans outstanding as of March 31, 2009. Brief comparison of our company with few of our competitors as on September 30, 2008 is mentioned below:

|                                   | <b>Our Company</b> | <b>Competitor I</b> | <b>Competitor II</b> |
|-----------------------------------|--------------------|---------------------|----------------------|
| No. of borrowers                  | 25,90,950          | 16,68,807           | 12,31,556            |
| Loan Outstanding (Rs. in million) | 18,227.00          | 11,987.00           | 8,568.00             |
| No. of branches                   | 1,413              | 696                 | 666                  |

*Source: CRISIL report titled India Top 50 Microfinance Institutions – October 2009*

We believe traditional commercial banks as well as regional rural and cooperative banks, have generally not directly targeted the rural lower income segments of the population for new customers. However, some banks do participate in microfinance by financing the loan programs of SHGs often in partnership with NGOs. Banks also indirectly participate in microfinance by making loans and providing other sources of funding to other MFIs. In addition, we are aware that some commercial banks are beginning to directly compete with for-profit MFIs for lower income segment customers in certain geographies.

33. *If we are unable to protect our trademarks and tradenames, others may be able to use our trademarks and tradenames to compete more effectively.*

We have not yet obtained trademark registrations for our corporate name “SKS Microfinance” and our logo. We have applied to register our name and logo, however, we may not be able to protect our trademarks and tradenames, which we rely on to support our brand awareness with members and prospective members and to differentiate our product and service offerings from those of our competitors. In certain cases, we have not sought protection for our trademarks and tradenames in a timely matter, or at all. We cannot assure you that we will obtain such registrations of our corporate name and logo in a timely manner, or at all. As a result, we may not be able to prevent the use of our name or variations thereof by any other party, nor ensure that we will continue to have a right to use it. We further cannot assure you that our goodwill in such brand name or logo will not be diluted by third parties due to our failure to obtain the trademarks, which in turn would have a material adverse effect on our reputation, goodwill, business, financial condition and results of operations.

## **External Risks**

### *External Risks Affecting Financial Institutions in India*

34. *We are subject to fluctuations in interest rates and other market risks, which may materially and adversely affect our financial condition and results of operations.*

Our business substantially depends on interest income from operations. In fiscal 2010, 78.9% of our total income was interest income on portfolio loans. Market risk refers to the probability of variations in our interest income or in the market value of our assets and liabilities due to interest rate volatility. Changes in interest rates affect our interest income and the volume of loans we issue. Increases in short-term interest rates could increase our cost of borrowing and adversely affect our profitability. When interest rates rise, we must pay higher interest on our borrowings while interest earned on our assets does not rise as quickly because our loans are issued at fixed interest rates. Interest rate increases could result in adverse changes in our interest income, reducing our growth rate and the value of our financial assets. We hold a portfolio of loans and debt securities that have both fixed and floating interest rates. The market value of a security with a fixed interest rate generally decreases when the prevailing interest rates rise, which may have an adverse effect on our earnings and financial condition. In addition, we may incur costs (which, in turn, will impact our results) as we implement strategies to reduce future interest rate exposure. The market value of an obligation

with a floating interest rate can be adversely affected when interest rates increase. Increases in interest rates may reduce gains or require us to record losses on sales of our loans and, as a result, adversely affect our financial condition.

35. *Governmental and statutory regulations, including the imposition of an interest-rate ceiling, may adversely affect our operating results and financial position.*

As a non-deposit taking NBFC, we are subject to regulation by Indian governmental authorities, including the Reserve Bank of India, or RBI. These laws and regulations impose numerous requirements on us, including asset classifications and prescribed levels of capital adequacy, cash reserves and liquid assets. There may be future changes in the regulatory system or in the enforcement of the laws and regulations that could adversely affect us.

For instance, a number of states in India have enacted laws to regulate money lending transactions. These state laws establish maximum rates of interest that can be charged by a person lending money. For unsecured loans, these maximum rates typically range from 12.0% to 15.0% per annum. Interest rates applicable to loans we made to our customers in the year ended March 31, 2010 ranged from 26.7% to 31.4%. The RBI, however, has not established a ceiling on the rate of interest that can be charged by a NBFC in the microfinance sector. Currently, the RBI requires that the board of all NBFCs adopt an interest rate model taking into account relevant factors such as the cost of funds, margin and risk premium. It is unclear whether NBFCs are required to comply with the provisions of state money lending laws that establish ceilings on interest rates. In January 2010, the High Court of Gujarat held that the provisions of the RBI Act have an overriding effect upon state money lending laws. However the subject matter is pending before the Supreme Court of India in a different case and the final decision has not been passed. Because of this ambiguity, we have applied for exemptions from the relevant state money lending legislation, where necessary. As of March 31, 2010, the Company has been specifically exempted from the provisions of the Money Lenders Act in Karnataka and there is a blanket exemption for all NBFCs in Rajasthan. Further, we have also received show cause notices from certain Government authorities in Andhra Pradesh in relation to compliance with relevant money lending statutes in relation to our operations in the District of Khammam in Andhra Pradesh. For further details, see “Outstanding Litigation and Material Developments” on page 244 of the Red Herring Prospectus.

In the event that the government of any state in India requires us to comply with the provisions of their respective state money lending laws, or imposes any penalty against us, our Directors or our officers, including for prior non-compliance, our business, results of operations and financial condition may be adversely affected.

Additionally, we are required to make various filings with the RBI, the RoC and other relevant authorities pursuant to the provisions of RBI regulations, Companies Act and other regulations. If we fail to comply with these requirements, or a regulator claims we have not complied, in meeting these requirements, we may be subject to penalties and compounding proceedings. For instance, in the past, we had to approach the Company Law Board for condoning the delay and extension of time in filing Form 8 with the ROC for creation of charge in favour the following lenders and had to pay penalties as specified below:

| <b>Name of the Lender</b> | <b>Delay in Days</b> | <b>Penalty imposed (Rs.)</b> |
|---------------------------|----------------------|------------------------------|
| Bank of Rajasthan         | 195                  | 1,800                        |
| Yes Bank                  | 223                  | 2,000                        |
| Yes Bank                  | 46                   | 450                          |

The Company has also filed a compounding application before the RoC on July 15, 2010 regarding the Company’s inability to appoint a full time Company Secretary from December 19, 2003 to February 28, 2007. See “Outstanding Litigation and Material Developments” on page 244 of the Red Herring Prospectus.

Further, in the past we have also filed an application to the RBI for extension of time for submission of certain filings

36. *Tax rates applicable to our Company may increase and may have an adverse impact on our business.*

The tax rates including surcharge and education cess applicable to us for fiscal 2011 are 33.99%. Any increase in the tax rates may have an adverse impact on our business and results of operations and we can provide no assurance as to the extent of the impact of such changes.

37. *The repeal of or changes in the regulatory policies that currently encourage financial institutions to provide capital to the microfinance sector could adversely impact the cost and availability of capital.*

The RBI requires domestic commercial banks operating in India to maintain 40.0% of their loan advances, or a credit equivalent amount of off-balance sheet exposure, whichever is higher, as “priority sector advances.” These include advances to agriculture, including self help groups, or SHGs, and joint liability groups, or JLGs, of individual farmers, small enterprises, retail trade, microcredit, education loans and housing loans. In addition, the RBI also requires 18.0% of the loan advances to be applied towards the agriculture sector and 10.0% towards the “weaker sections,” which are defined to include small farmers owning less than five acres and artisans whose individual credit limit does not exceed Rs. 50,000.00. When banks are unable to meet these requirements, they often rely on specialized institutions, including microfinance institutions, or MFIs, to provide them with access to qualifying advances through lending programs and loan assignments. These bank requirements result in significant funding for the microfinance sector. To the extent that changes in bank regulations eliminate or reduce banks requirements for priority sector advances, less capital would be available to MFIs. In such event, our access to funds and the cost of our capital would be negatively impacted, and our results of operations and financial condition would be adversely affected.

38. *Natural disasters, terrorist attacks, pandemic diseases or other catastrophic events could adversely impact our business and results of operation and financial condition.*

Our registered office, branch offices and the majority of our infrastructure, including administrative, sales, and other personnel are located in India. A substantial portion of our operations and most of our members are located in areas of rural India that are particularly vulnerable to the effects of natural calamities such as floods or drought. In the event that an earthquake, terrorist attack or other catastrophe were to destroy any part of our facilities, destroy or disrupt vital infrastructure systems or interrupt operations for any extended period of time, our business, financial condition and operating results would be adversely affected. In addition, to the extent that such occurrences and the adverse economic conditions caused by them reduced our members’ income levels and their ability to repay loans made by us, our loan repayments would decline and our results of operations, ability to raise new capital at acceptable rates and overall financial condition would be adversely affected.

Pandemic disease, caused by a virus such as H5N1, or the avian flu virus, or H1N1, the swine flu virus, could have an adverse effect on our business. The potential impact of such a pandemic on our results of operations and financial position is highly speculative, and would depend on numerous factors, including: the regions of the world most affected; the effectiveness of treatment of the infected population; our insurance coverage and related exclusions; the possible macroeconomic effects of a pandemic on our asset portfolio; the effect on lapses and surrenders of existing policies, as well as sales of new policies; and many other variables.

39. *Seasonality of the business may have an adverse impact on our business.*

Our business operations and the banking industry may be affected by seasonal trends in the Indian economy. Generally, the period from October to March is the peak period in India for retail economic activity. This increased, or seasonal, activity is the result of several holiday

periods, improved weather conditions and crop harvests. We generally experience higher volumes of business during this period. Any significant event such as unforeseen floods, earthquakes, political instabilities, epidemics or economic slowdowns during this peak season would materially and adversely affect our results of operations and growth. During these periods, we may continue to incur operating expenses, but our income from operations may be delayed or reduced.

40. *All of our revenue is derived from business in India, and a decrease in economic growth in India could cause our business to suffer.*

We derive all of our revenue from our operations in India and, consequently, our performance and the quality and growth of our business are dependent on the health of the economy of India. This economy has sustained growth over the five years ended fiscal 2010 with an average real gross domestic product growth rate of approximately 8.5%. However, the Indian economy may be adversely affected by factors such as adverse changes in liberalization policies, social disturbances, terrorist attacks and other acts of violence or war, natural calamities or interest rates changes, which may also affect the microfinance industry. Any such factor may contribute to a decrease in economic growth in India which could adversely impact our business and financial performance.

41. *Economic developments and volatility in securities markets in other countries may cause the price of our Equity Shares to decline.*

The Indian economy and its securities markets are influenced by economic developments and volatility in securities markets in other countries. Investors' reactions to developments in one country may have adverse effects on the market price of securities of companies located in other countries, including India. For instance, the economic downturn in the U.S. and several European countries during a part of calendar year 2007, 2008 and 2009 has adversely affected market prices in the world's securities markets, including India. Negative economic developments, such as rising fiscal or trade deficits, or a default on national debt, in other emerging market countries may also affect investor confidence and cause increased volatility in Indian securities markets and indirectly affect the Indian economy in general.

42. *Political instability or changes in the Government in India or in the Government of the states where we operate could cause us significant adverse effects.*

We are incorporated in India and all of our operations, assets and personnel are located in India. Consequently, our performance and the market price and liquidity of the Equity Shares may be affected by changes in exchange rates and controls, interest rates, government policies, taxation, social and ethnic instability and other political and economic developments affecting India. The central government has traditionally exercised, and continues to exercise, a significant influence over many aspects of the economy. Our business is also impacted by regulation and conditions in the various states in India where we operate. Our business, and the market price and liquidity of the Equity Shares may be affected by interest rates, changes in central government policy, taxation, social and civil unrest and other political, economic or other developments in or affecting India. Since 1991, successive central governments have pursued policies of economic liberalization and financial sector reforms. However, there can be no assurance that such policies will be continued. A significant change in the central government's policies, in particular, those relating to the microfinance industry in India, could adversely affect our business, financial condition and results of operations and could cause the price of our Equity Shares to decline.

43. *Lack of sufficient power, information technology infrastructure, or physical infrastructure could limit or disrupt our operations and cause substantial adverse effects.*

Any disruption in basic infrastructure, or the failure of the central, state, or local governments of India to improve the existing infrastructure could negatively impact our ability to continue developing our products and delivering them to our members. This may result in additional costs for us and have an adverse effect on our business, financial condition and results of operations.

44. *Any downgrading of India's sovereign rating by international credit rating agencies may negatively impact our business and access to capital.*

Any adverse revision to India's credit rating for domestic and international debt by international rating agencies may adversely impact our ability to raise additional funds at interest rates and on terms that we find acceptable. In such event, our ability to grow our business and operate profitably would be severely constrained.

*Risk Relating to the Issue*

45. *The trading price of our Equity Shares may be subject to volatility and you may not be able to sell your Equity Shares at or above the Issue Price.*

The trading prices of publicly traded securities may be highly volatile. Factors affecting the trading price of our Equity Shares will include:

- variations in our operating results;
- announcements of new products, strategic alliances or agreements by us or by our competitors;
- increases and decreases in our member base;
- recruitment or departure of key personnel;
- changes in the estimates of our operating results or changes in recommendations by any securities analysts that elect to research and report on our Equity Shares ;
- market conditions affecting the financial and microfinance sector, our members income generating activities and the economy as a whole; and
- adoption or modification of regulations, policies, procedures or programs applicable to our business.

In addition, if the stock markets experience a loss of investor confidence, the trading price of our Equity Shares could decline for reasons unrelated to our business, financial condition or operating results. The trading price of our Equity Shares might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. Each of these factors, among others, could materially affect the price of our Equity Shares.

46. *Our securities have no prior public market and the price of the Equity Shares may decline after the Issue, and an active trading market for our Equity Shares may not develop.*

Prior to this Issue, there has been no public market for our Equity Shares. We will apply for final approval for listing only after closing and allotment. Further, once we are listed on the Stock Exchanges, an active public trading market for our Equity Shares may not develop or, if it develops, may not be maintained. Our Company and the Selling Shareholders in consultation with the BRLMs will determine the Issue Price. The Issue Price may be higher than the trading price of our Equity Shares following this Issue. As a result, investors may not be able to sell their Equity Shares at or above the Issue Price or at the time that they would like to sell. The market price of the Equity Shares after the Issue may be subject to significant fluctuations in response to factors such as, variations in our results of operations, market conditions specific to the microfinance sector in India, the economic conditions of India and volatility of the securities markets in India and elsewhere in the world.

47. *Future issuances of Equity Shares or future sales of Equity Shares by our Promoters and certain shareholders, or the perception that such sales may occur, may result in a decrease of the market price of our Equity Shares.*

In the future, we may issue additional equity securities for financing and other general corporate purposes. In addition, our Promoters and certain shareholders may dispose of their interests in our Equity Shares directly, indirectly or may pledge or encumber their Equity Shares. Any such issuances or sales or the prospect of any such issuances or sales could result in a dilution of shareholders' holding or a negative market perception and potentially in a lower market price of our Equity Shares.

48. *Any future issuance of Equity Shares may dilute your shareholding; and sales of our Equity Shares by our major shareholders may adversely affect the trading price of our Equity Shares.*

Upon consummation of this Issue, we will have 71,972,542 Equity Shares outstanding. Further, our existing shareholders will beneficially own 55,180,963 Equity Shares, which will represent approximately 76.7% of our post issue Equity Share capital. We have also issued employee stock options to certain of our employees. To the extent such outstanding employee stock options are exercised, there will be further dilution to investors in this Issue.

Any future equity issuances by us or issuances of stock options under employee stock option plan may lead to the dilution of investor shareholding in our Company or affect the trading price of the Equity Shares of our Company. In addition, sale of our Equity Shares by our major shareholders or any perception by investors that such sale may occur may adversely affect the trading price of our Equity Shares.

49. *There is no guarantee that the Equity Shares will be listed on the Indian stock exchanges in a timely manner, or at all, and prospective investors will not be able to immediately sell their Equity Shares on a Stock Exchange.*

In accordance with Indian law and practice, final approval for listing and trading of the Equity Shares will not be applied for or granted until after the Equity Shares have been issued and allotted. Approval will require the submission of all other relevant documents authorizing the issuance of the Equity Shares. Accordingly, there could be a failure or delay in listing the Equity Shares on the NSE and BSE, which would adversely affect the ability to sell Equity Shares.

In addition, pursuant to India regulations, certain actions are required to be completed before the Equity Shares can be listed and trading may commence. Investors' book entry or dematerialized electronic accounts with depository participants in India are expected to be credited only after the date on which the issue and allotment is approved by our Board of Directors. There can be no assurance that the Equity Shares allocated earlier to investors will be credited to their dematerialized electronic accounts, or that trading will commence on time after the issue and allotment has been approved by our Board of Directors, or at all.

50. *There are restrictions on daily movements in the price of the Equity Shares, which may adversely affect a shareholder's ability to sell Equity Shares or the price at which Equity Shares can be sold at a particular point in time.*

Subsequent to listing, our Equity Shares will be subject to a daily circuit breaker imposed on listed companies by all stock exchanges in India, which does not allow transactions beyond certain volatility in the price of the Equity Shares. This circuit breaker operates independently of the index-based market-wide circuit breakers generally imposed by SEBI on Indian stock exchanges. The percentage limit on the Equity Shares' circuit breaker will be set by the stock exchanges based on historical volatility in the price and trading volume of the Equity Shares. The stock exchanges are not required to inform us of the percentage limit of the circuit breaker, and they may change the limit without our knowledge. This circuit breaker would effectively limit the upward and downward movements in the price of the Equity Shares. As a result of this circuit breaker, there can be no assurance regarding the ability of shareholders to sell Equity Shares or the price at which shareholders may be able to sell their Equity Shares.

**Prominent Notes:**

- Our net worth as of March 31, 2009 was Rs. 6,639.64 million and as of March 31, 2010 was Rs. 9,503.17 million.
- Public Issue of 16,791,579 Equity Shares at the Issue Price, aggregating to Rs. [●] million, comprising a Fresh Issue of 7,445,323 Equity Shares at the Issue Price by us and an Offer for Sale of 9,346,256 Equity Shares at the Issue Price by the Selling Shareholders. The Issue will constitute 21.6% of our fully-diluted post-Issue paid up capital.



- The net asset value per Equity Share as of March 31, 2009 was Rs. 136.70 and as of March 31, 2010 was Rs. 147.27.
- The average cost of acquisition per Equity Share by our Promoters, which has been calculated by taking the average of the amounts paid by them to acquire our Equity Shares, is as follows:

| <b>Name of Promoter</b> | <b>Average Cost of Acquisition per Equity Share (in Rs.)</b> |
|-------------------------|--------------------------------------------------------------|
| Dr. Vikram Akula        | 24.54                                                        |
| MBT – Narayankhed       | 31.58                                                        |
| MBT – Jogipet           | 32.62                                                        |
| MBT – Medak             | 32.62                                                        |
| MBT – Sadasivapet       | 32.62                                                        |
| MBT – Sangareddy        | 32.62                                                        |
| SCI II                  | 61.18                                                        |
| SCIGI I                 | 137.53                                                       |
| Kismet Microfinance     | 54.53                                                        |
| MUC                     | 43.45                                                        |

For details of the related party transaction entered into us, see “Related Party Transactions” on page 140 of this Red Herring Prospectus.

- Pursuant to a resolution of our shareholders dated May 2, 2009, we were converted in to a public limited company and on May 20, 2009 our name was changed from SKS Microfinance Private Limited to SKS Microfinance Limited. For details of changes in our name, see “History and Certain Corporate Matters” on page 101 of this Red Herring Prospectus.
- Neither a Director nor a director of any corporate Promoter nor any relative of any Director has financed the purchase by any other person of any securities of the Company during the six months immediately preceding the date of the Draft Red Herring Prospectus.
- Investors may contact any of the BRLMs for complaints, information or clarifications pertaining to the Issue. Any clarification or information relating to the Issue shall be made available by the BRLMs and us to the investors at large and no selective or additional information will be made available for a section of, or select group of, investors in any manner.

## **SECTION III: INTRODUCTION**

### **SUMMARY OF INDUSTRY**

#### **Overview**

Microfinance offers poor people access to basic financial services such as loans, savings, money transfer services and micro insurance, according to the Consultative Group to Assist the Poor, or CGAP, an independent policy and research organization. The industry emerged to alleviate poverty on the premise that poor people, like everyone else, need a diverse range of financial services to run their business, build assets and reduce vulnerability to fluctuations in their income. Their needs for financial services have been traditionally met through a variety of financial relationships, mostly informal. In the past two decades, different types of financial services providers for poor people have emerged, including non-government organizations, or NGOs; cooperatives; community-based development institutions like Self Help Groups, or SHGs, and credit unions; commercial and state banks and microfinance institutions, or MFIs, offering new possibilities.

The ultimate goal of microfinance is to enable the poor to build assets, increase incomes, reduce vulnerability to shocks and economic stress and improve quality of life by enabling better access to education and healthcare. The microfinance industry has grown at a rapid pace across the world and has created a positive impact in the lives of millions of poor people.

## SUMMARY OF BUSINESS

### Overview

We are the largest MFI in India in terms of total value of loans outstanding, number of borrowers, who we call members, and number of branches, according to the October 2009 CRISIL report titled India Top 50 Microfinance Institutions, or the CRISIL Report. We are a non-deposit taking non-banking finance company, or NBFC-ND, registered with and regulated by the Reserve Bank of India, or RBI. We are engaged in providing microfinance services to individuals from poor segments of rural India. Our mission is to eradicate poverty. We believe we do that by providing financial services to the poor and by using our channel to provide goods and services that the poor need.

Our core business is providing small loans exclusively to poor women predominantly located in rural areas in India. These loans are provided to such members essentially for use in their small businesses or other income generating activities and not for personal consumption. These individuals often have no, or very limited, access to loans from other sources other than private money lenders that we believe typically charge very high rates of interest.

We utilize a village centered, group lending model to provide unsecured loans to our members. This model ensures credit discipline through mutual support and peer pressure within the group to ensure individual members are prudent in conducting their financial affairs and are prompt in repaying their loans. Failure by an individual member to make timely loan payments will prevent other group members from being able to borrow from us in the future; therefore the group will typically make the payment on behalf of a defaulting member or, in the case of wilful default, will use peer pressure to encourage the delinquent member to make timely payments, effectively providing an informal joint guarantee on the member's loan. We also use our distribution channel to help provide other services and goods that we have found that our members need. For instance, we also distribute and administer life insurance policy products for our members and have pilot programs to provide loans to our members to purchase select consumer products that increase their productivity.

In addition to our market leadership position and the expertise in microfinance which we have developed, we believe that our competitive strengths include our scalable operating model which leverages technology, diversified product revenues, diversified sources of capital and our pan-India distribution network. Our strategy is to further expand our membership, loans and product offerings by relying on these strengths.

We continue to finance our expansion by accessing multiple sources of capital, both debt and equity, including listed debentures, priority sector qualifying loans from banks, and equity investments from venture capital and private equity investors, institutions and others. Additionally, we seek to sell or assign our portfolio loans to banks to improve our financial position and finance our growth.

During the four year period from fiscal 2006 to fiscal 2010, we expanded our membership from 201,943 in five states to 6,780,145 in 19 states, and our branches expanded from 80 to 2,029. Our total portfolio loans outstanding increased at a CAGR of 147.7% from Rs. 780.50 million as of March 31, 2006 to Rs. 29,367.20 million as of March 31, 2010. Over the four year period from fiscal 2006 to fiscal 2010, our profit after tax increased at a CAGR of 221.0%, from Rs. 16.47 million to Rs. 1,748.40 million. For the year ended March 31, 2010, our total income was Rs. 9,589.28 million.

### History and Evolution

In 1997, Swayam Krishi Sangam, or SKS Society, was founded as a public society in the state of Andhra Pradesh, and it functioned as a non-governmental organization, or NGO, that provided microfinance in Andhra Pradesh. After several years of operation as a NGO, SKS Society and its inherent not for profit business model was limited in its ability to address the credit needs of the poor throughout India. Accordingly, SKS Society decided it would transfer its business and operations to us as of a newly incorporated private limited company in India in 2003.

In 2003, we issued an aggregate of 99.5% of our fully diluted share capital to five newly created mutual benefit trusts, or SKS MBTs, that were established by SKS Society with the objective of promoting and enhancing the social and economic welfare of groups of poor women. Accordingly, we sought to

provide the beneficiary member groups with a vehicle to foster the development of poor women with an initial corpus of share capital of our Company. The SKS MBTs subscribed to our equity shares in a series of transactions with funds initially donated by SKS Society to the beneficiary member groups of SKS Society.

At the time the SKS MBTs were formed, there were approximately 500 beneficiary member groups with approximately 16,600 women members that were located entirely in the state of Andhra Pradesh. As of March 13, 2010, the trust deeds of each of the SKS MBTs were amended to include all of our present and future members as beneficiaries of these SKS MBTs. As of the same date, there were approximately 220,000 beneficiary member groups with approximately 6.8 million women members located throughout India under the SKS MBTs. Each trust initially had five trustees comprised of three employees and two beneficiary members from each respective region where the groups were located. In November 2009, SKS Trust Advisors Private Limited, formerly Utthan Trust Advisors Private Limited, or STAPL, was designated the sole trustee of each SKS MBT. To continue representation from the beneficiary member groups, each of the SKS MBTs, on March 13, 2010, resolved to have the membership select and appoint up to 100 beneficiary representatives to represent their interests. The board of directors of STAPL currently is comprised of Dr. Vikram Akula and Dr. Ankur Sarin. In order to diversify and spread the decision making authority of STAPL, the board of directors is currently recruiting three additional independent directors.

Since 2003, we have completed several dilutive issuances with investments by our investors to fund our growth. In addition, to assist the SKS MBTs in maintaining a significant percentage holding of our share capital as we issued additional share capital to fund growth, we have provided the SKS MBTs with an extension of the time to pay the required purchase price of the dilutive issuances. As of the date of the filing of this Red Herring Prospectus, the SKS MBTs held an aggregate of 14.7% of our fully diluted share capital. For further details, see “History and Certain Corporate Matters” on page 101 of this Red Herring Prospectus.

We registered as a NBFC-ND with the RBI in 2005 and were converted into a public limited company in May 2009.

### **Our Competitive Strengths**

We believe we have the following competitive strengths:

#### ***Market Leadership***

According to the CRISIL Report, we are the largest MFI in India in terms of total value of loans outstanding, number of borrowers, and number of branches as of September 30, 2008. As of March 31, 2010, we had approximately 6.78 million members, 2,029 branches, a presence in 19 states and loans outstanding of Rs. 29,367.20 million.

We believe that our market leadership position in the microfinance sector enhances our reputation and credibility with our members and our lenders. This enhanced reputation and credibility has numerous benefits, including the ability to secure capital at lower costs, recruit and retain employees, retain our existing members and expand into new regions and product areas.

#### ***Expertise in Microfinance***

We have been focused on lending to poor women in India since our inception. Our experience has given us what we believe is a specialized understanding of the needs and behaviours of the individuals in this segment across India, the complexities of lending to these individuals and issues specific to the microfinance industry in India and its processes. We believe this gives us a competitive advantage over commercial banks. As a result of our experience we have developed skills in training our members and designing specialized financial products.

- *Specialized Financial Products.* We use our knowledge of our members, including their culture, habits and education to design customized financial products. For example, this knowledge enabled us to develop our core loan product with a small weekly repayment plan that corresponds with the cash flow of the member’s business. We believe this approach to

developing the terms and components of our financial products gives us a competitive advantage over banks and other traditional lenders.

- *Member Training.* We provide basic product awareness training for our members because the poor in India are often illiterate or semi-literate and therefore unaware of loan terms and interest rates. In particular, our training program is participatory and employs visual aids such as seeds, coins and cardboard cut-outs to explain the elements of our products and procedures. Our standardized training programs serve as a platform for increased trust and discipline within the member group and the larger aggregation of between three and 10 member groups we call a *Sangam*, which we believe translates to better loan portfolio performance and sustainable growth of our business. We believe this financial literacy training has a concurrent socio-economic benefit enabling women to apply what they have learned in our training program to other aspects of their lives.

### ***Superior Asset Quality***

We believe we have developed a unique model to ensure that our loans are repaid on time and with a low rate of default, given our high rates of portfolio growth. As of March 31, 2010 our net non performing assets, or NPAs, was Rs.48.03 million or 0.16% of our loans outstanding. In addition to traditional tools such as disciplined credit processes, and credit verification, our product structure, sales and collection process and segment specific approach are designed to result in a higher repayment rate for our loan portfolio. Some of these characteristics are outlined below:

- *Product Structure.* We structure our loans with a village centered, group lending model to provide unsecured loans to our members. This model ensures credit discipline through mutual support and peer pressure within the group to ensure individual members are prudent in conducting their financial affairs and are prompt in repaying their loans. Failure by an individual member to make timely loan payments will prevent other group members from being able to borrow from us in the future; therefore the group will typically make the payment on behalf of a defaulting member or, in the case of wilful default, will use peer pressure to encourage the delinquent member to make timely payments, effectively providing an informal joint guarantee on the member's loan. In addition, our loans are short term and primarily made for income generating activities or to fund increases in productivity. Finally, our loans are progressive, where only members who have successfully demonstrated their ability to timely repay previously granted smaller loans are permitted to take on larger loans. We believe that all of these features increase the likelihood that our members will successfully repay their loans.
- *Focus on Income Generating Loans for Low Income Households.* We primarily provide loans for income generating activities or to fund increases in productivity. We believe loans made for this purpose have the highest potential of generating additional income and therefore increase the likelihood of repayment of our loans. We also believe the low income segment is not as exposed to economic downturns and fluctuations because it is relatively insulated from the general economy of the country. This independence, or economic detachment, from the effects of the economy allows our members to continue their businesses without interruption, which ensures higher repayment rates.
- *Focus on Women.* We lend exclusively to women of the low income households, even if the loan proceeds are used in the household business that is run by the family, including the husband. We believe that women can positively influence loan repayment in their household because they are generally more risk averse, cooperate better in groups, and are generally more accessible than their working husbands and can meet regularly to handle the repayment of their loans. We believe that providing women with access to capital in this manner increases their decision making stature in the household.

### ***Scalable Operating Model***

We also recognize that establishing and growing a successful rural microfinance business in India involves the significant challenge of addressing the rural poor that live in remote locations across India. To address this problem we believe that we have designed a scalable model and have developed

systems and solutions for the following three components that we believe are required to effectively scale our business:

- *Capital.* The ability to access large and diverse groups of capital funds required for this market.
- *Capacity.* The capacity to provide our products and services to millions of members.
- *Cost Reduction.* The implementation of technology and process based systems to reduce the cost of conducting numerous complex transactions.

The benefits realized from scale and capacity have also been achieved through proven business models in other sectors such as food, consumer durables and retail. We have adapted some of these models to the MFI sector. We have standardized our recruitment and training programs and materials so that they can easily be replicated across the entire organization. This standardized approach also allows employees to efficiently move from region to region based on demand and growth requirements. Our business processes, from member acquisition to cash collections, have been standardized and appropriately documented. Our branch offices are similarly structured, allowing for the quick rollout of new branches. In addition, the terms and conditions of our loan products are generally uniform throughout India, although interest rates may vary from region to region.

We recognize that conducting business through millions of transactions across thousands of rural locations involves substantial repeat interactions with our members and our employees, thus increasing operating costs. To reduce operating costs, we have deployed and continually improve a sophisticated technology platform. This allows us to improve field level productivity by simplifying data entry, improving the accuracy and efficiency of collections and improving fraud detection. We also gather data on items related to our members and loan portfolio, which can be used for management decision making.

#### ***Access to Multiple Sources of Capital and Emphasis on Asset and Liquidity Management***

We have constantly strived to diversify our sources of capital. As of March 31, 2010, we had outstanding loans of Rs. 26,946.72 million from more than 48 banks and other financial institutions and we had a debt to equity ratio of 2.84. Historically, the MFI sector has relied on priority sector funding from commercial banks. In addition to such funding, we are also able to fund the growth of our operations and loan portfolio through issuances of equity and private and publicly traded debt securities, loans with various maturities raised from domestic and international banks, and the securitization of components of our loan portfolio. We have also diversified our lenders among public sector domestic banks, private sector domestic banks, private sector foreign banks, and institutional investors. As of March 31, 2010, no single creditor represented more than 22.5% of our total indebtedness. We have recently obtained credit ratings for our debt securities to improve our access to, and reduce our, cost of capital. In Fiscal 2010, several of our assignment transactions were rated by ICRA and CARE at 'A1+(SO)' and 'PR1+(SO)', respectively, which is the highest short term rating they give for such securities. CARE has also rated our short term debt instrument at 'PR1+', which is considered to have strong capacity for timely payment of short-term debt obligations and carry lowest credit risk. We believe that we are one of the first MFIs in India to complete a rated bond issuance, issue commercial paper, assign a rated pool, sell a "weaker section" portfolio, list debt instruments on the BSE and complete an assignment of receivables with a public sector bank.

In addition to traditional cash flow management techniques, we also manage our cash flow through active asset liability strategies. We have structured our model to primarily borrow on a long term basis while lending on short term basis. This allows us to better meet the growing loan demands of our rapidly increasing membership even if external borrowings and funding sources face temporary dislocation. We also manage our liquidity through stringent financial metrics that assess our ability to meet our corporate debt and ongoing operational obligations. This allows us to monitor the funding needs of our growth in a disciplined and well defined manner.

### ***Diversified Sources of Revenue***

We believe that diversification of our business and revenue base is a key component of our success, both with respect to our product offerings and the geographies which we serve:

- *Diversified Geographies.* As of March 31, 2010, we had 2,029 branches in 19 states across India with no state accounting for more than 28.8% of our outstanding loan portfolio. Our broad footprint across India allows us to lend in almost all geographies in India which mitigates our exposure to local economic slowdowns and disruptions resulting from political circumstances or natural disasters.
- *Diversified Product Offerings.* While our core business is providing our members with our traditional loan products, we also offer other loans we call productivity loans, that are designed for purchase of goods that enhance the productivity of our members. We also offer access to insurance products and loans to finance them. Such other products have different pricing structures and payment terms which allow us to diversify and increase our revenue streams and revenue base. We also believe that providing our members with these other products fosters brand loyalty.

### ***Pan-India Rural Distribution Network***

We believe that our presence throughout India results in significant competitive advantages, particularly in the following areas:

- *Distribution Platform.* Our pan-India presence in the low income segment gives us a well developed distribution network in rural India. Our regular contact with members for product sales, collections, product training, and group decision making gives us the capability to offer a variety of financial products nationally in areas that most companies cannot. This distribution channel allows us to facilitate the sale of these alternative products at a lower cost to our members.
- *Product Pricing Power.* Our national presence and large volumes give us the leverage to negotiate favourable terms with institutions that want to distribute their products through our network and result in lower pricing for the products that are distributed to our members. We believe this gives us a competitive advantage over other regional lenders as well as other products distributors as we can provide our members with a larger range of products at lower costs.

### ***Experienced Management Team and Board of Directors***

Our management team has significant experience in the microfinance and financial services industry and has developed the knowledge to identify and offer products and services that meet the needs of our members, while maintaining effective risk management and competitive margins. In addition to our founder and Chairman, Dr. Vikram Akula, our senior management team is comprised of our Chief Executive Officer and Managing Director, Chief Operating Officer and Chief Financial Officer. Substantially all of our senior managers have over 17 years of experience with well reputed national and multinational companies, particularly in the retail and commercial banking industries. We continuously train our management in the field of microfinance through specialized internal and external programs.

Our Board is comprised of experienced investor, industry and management professionals. Out of a total of 10 seats on our Board, five are represented by independent Directors.

### ***Our Strategy***

#### ***Expand our Membership through Increased Geographic Coverage and Penetration in Existing Markets***

We are focused on growing our membership base to increase the aggregate number of loans we can make in our loan portfolio. In order to increase our membership, we seek to:

- establish branches in new geographies, including areas where the first mover advantage is important to establishing brand recognition and customer loyalty;
- establish additional branches in areas in which we are already present and where we can leverage our leadership position and brand recognition to increase membership; and increase membership through greater penetration in our existing branches.

### ***Expand our Range of Income Generating and Productivity Loan Products***

Our goal is to provide our members with loan products that yield an increase in income generated as a result of the loan. We believe this focused approach to lending will allow us to sustain high repayment rates and provide economic benefits to our members and their families. One of the elements of our strategy is to continue to increase our revenue base from our members. In order to achieve these increases in revenue we are introducing newer and more innovative loan products including loans for the purchase of products such as mobile phones that we believe will increase the productivity of a member. We have entered in to a strategic relationship, with Nokia India Private Limited, or Nokia, where we issue a loan to a member for the purchase of a Nokia mobile phone. These relationships require us to assist our members that purchase Nokia phones with our loans, with the subscription of the new mobile phone, the related documentation and to collect payment from them. Under a pilot program with METRO Cash & Carry India Private Limited, or METRO and Future Agroviet Limited or FAL, we provide working capital financing to our members operating local retail shops called *kirana* stores that purchase supplies from METRO or FAL on a wholesale basis. In addition, we have recently commenced a pilot program to provide home improvement loans to our members. HDFC has licensed us a portion of their proprietary technology systems to allow us to track and support the loans we disburse in the program. We also believe that a wider variety of loan products differentiates us from competitors and increases member retention. We are also increasing the principal amount of our loans on a measured basis to members that demonstrate a strong track record of loan repayment and increased capacity to pay. We have recently obtained the RBI's approval to market and distribute mutual funds as an agent for an initial period of two years.

### ***Leverage our Distribution Channels into New Revenue Streams***

We have built a large distribution network in rural India. We believe we can leverage this network to distribute financial products of other institutions to our members at a cost lower than other institutions. Our network also allows such distributors to access a segment of the market to which many do not otherwise have access. Currently, we have a distributor relationship with Bajaj Allianz Life Insurance Company Limited, or BALICL, for the sale of their life insurance products, while meeting the protection or savings needs of our members. We receive a fee based commission on these sales and believe that increases in this type of revenue lowers our revenue risk exposure to longer term interest income based products. Having distributed over 2.9 million policies as of March 31, 2010, we also believe that the predominantly longer term and repetitive nature of these products increases member loyalty and retention.

### ***Continue to Develop our Information Technology Platform and Risk Management Systems***

We recognize that our ability to compete effectively as an MFI requires us to utilize technology to effectively control the risks, costs and errors associated with the complex transactions that are inherent in our rapidly growing business. We have developed and implemented a proprietary technology system that provides field level data entry, loan tracking and loan portfolio reporting on an aggregated enterprise-wide basis, which we believe has reduced our transaction costs and increased our ability to manage loan applications, disbursements, duration and other member specific data. We intend to further develop this system to enable real-time internet based reporting from all of our branches as well as integration with other accounting systems that we are currently using. In addition, we intend to purchase and implement an integrated risk management system that will further enhance our ability to manage the risks inherent to our business.

### ***Pursue Strategic Business Alliances***

We constantly evaluate and form new strategic business alliances to strengthen our market share and product offerings. We have entered into strategic alliances with Nokia, BALICL, HDFC, METRO and FAL. In addition, we believe that we have unique knowledge, experience and business models that we



could leverage in other countries. We may enter into joint ventures and strategic relationships to make an entry into these markets. While we have not made any such investments or acquisitions as of the date hereof, we are evaluating the potential for such opportunities, and may proceed, in a measured way, in the future.

## SUMMARY FINANCIAL INFORMATION

The following tables set forth summary financial information derived from our restated financial statements for the years ended March 31, 2010, 2009, 2008, 2007 and 2006. These financial statements have been prepared in accordance with Indian GAAP, the Companies Act and the SEBI Regulations and presented under “Financial Statements” on page 146 of this Red Herring Prospectus. The summary financial information presented below should be read in conjunction with our restated financial statements, the notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” on page 208 of this Red Herring Prospectus.

### STATEMENT OF RESTATED ASSETS AND LIABILITIES

(Rs. in million)

|          | Particulars                                           | As at March 31,  |                  |                  |                 |                 |
|----------|-------------------------------------------------------|------------------|------------------|------------------|-----------------|-----------------|
|          |                                                       | 2010             | 2009             | 2008             | 2007            | 2006            |
| <b>A</b> | <b><u>Fixed assets</u></b>                            |                  |                  |                  |                 |                 |
|          | <b>Gross block</b>                                    | 403.94           | 250.99           | 123.29           | 36.51           | 10.32           |
|          | Less : Accumulated depreciation                       | 215.42           | 126.86           | 48.36            | 15.88           | 0.99            |
|          | <b>Net block</b>                                      | <b>188.52</b>    | <b>124.13</b>    | <b>74.93</b>     | <b>20.63</b>    | <b>9.33</b>     |
|          | Capital work in progress (including capital advances) | -                | 0.07             | 4.00             | 0.04            | -               |
|          | <b>Subtotal</b>                                       | <b>188.52</b>    | <b>124.20</b>    | <b>78.93</b>     | <b>20.67</b>    | <b>9.33</b>     |
| <b>B</b> | <b><u>Intangible assets</u></b>                       |                  |                  |                  |                 |                 |
|          | <b>Gross block</b>                                    | 136.91           | 121.24           | 100.00           | 47.95           | 47.95           |
|          | Less: Accumulated amortization                        | 99.52            | 65.55            | 35.66            | 17.02           | 8.13            |
|          | <b>Net block</b>                                      | <b>37.39</b>     | <b>55.69</b>     | <b>64.34</b>     | <b>30.93</b>    | <b>39.82</b>    |
|          | Capital work in progress (including capital advances) | 17.68            | 9.83             | 1.68             | 0.54            | -               |
|          | <b>Subtotal</b>                                       | <b>55.07</b>     | <b>65.52</b>     | <b>66.02</b>     | <b>31.47</b>    | <b>39.82</b>    |
| <b>C</b> | <b>Investment (Non trade and unquoted)</b>            | <b>2.00</b>      | -                | -                | -               | -               |
| <b>D</b> | <b>Deferred tax assets (net)</b>                      | <b>94.80</b>     | <b>42.40</b>     | <b>9.39</b>      | <b>8.90</b>     | -               |
| <b>E</b> | <b><u>Current assets, loans and advances</u></b>      |                  |                  |                  |                 |                 |
|          | Sundry Debtors                                        | 29.54            | 21.41            | -                | 1.16            | 0.29            |
|          | Cash and bank balances                                | 9,735.18         | 15,470.21        | 2,752.28         | 564.54          | 175.73          |
|          | Other current assets                                  | 622.96           | 315.78           | 49.14            | 10.58           | 3.59            |
|          | Loans and advances                                    | 29,746.90        | 14,349.48        | 7,931.70         | 2,712.87        | 788.69          |
|          | <b>Subtotal</b>                                       | <b>40,134.58</b> | <b>30,156.88</b> | <b>10,733.12</b> | <b>3,289.15</b> | <b>968.30</b>   |
| <b>F</b> | <b>Total (F =A+B+C+D+E)</b>                           | <b>40,474.97</b> | <b>30,389.00</b> | <b>10,887.46</b> | <b>3,350.19</b> | <b>1,017.45</b> |
| <b>G</b> | <b><u>Liabilities and provisions</u></b>              |                  |                  |                  |                 |                 |
|          | <b>Loan funds</b>                                     |                  |                  |                  |                 |                 |
|          | Secured loans                                         | 25,795.73        | 20,971.31        | 7,898.45         | 2,490.19        | 692.18          |
|          | Unsecured loans                                       | 1,150.99         | 394.37           | -                | -               | -               |
|          | <b>Deferred tax liabilities (net)</b>                 | -                | -                | -                | -               | <b>3.31</b>     |

|                                           |                  |                  |                 |                 |               |
|-------------------------------------------|------------------|------------------|-----------------|-----------------|---------------|
| <b>Current liabilities and provisions</b> |                  |                  |                 |                 |               |
| Current liabilities                       | 3,684.32         | 2,223.77         | 769.44          | 81.61           | 141.24        |
| Provisions                                | 340.76           | 159.91           | 97.75           | 64.46           | 25.12         |
| <b>Total</b>                              | <b>30,971.80</b> | <b>23,749.36</b> | <b>8,765.64</b> | <b>2,636.26</b> | <b>861.85</b> |
| <b>NETWORTH (F-G)</b>                     | <b>9,503.17</b>  | <b>6,639.64</b>  | <b>2,121.82</b> | <b>713.93</b>   | <b>155.60</b> |

#### STATEMENT OF RESTATED ASSETS AND LIABILITIES

(Rs. in million)

| Particulars                                           | As at March 31, |                 |                 |               |               |
|-------------------------------------------------------|-----------------|-----------------|-----------------|---------------|---------------|
|                                                       | 2010            | 2009            | 2008            | 2007          | 2006          |
| <b>Net worth represented by:</b>                      |                 |                 |                 |               |               |
| <b>Share capital:</b>                                 |                 |                 |                 |               |               |
| Equity share capital                                  | 645.27          | 479.01          | 443.32          | 266.43        | 139.07        |
| Preference share capital                              | -               | 91.56           | -               | -             | -             |
| <b>Stock options outstanding</b>                      | 41.79           | 19.29           | 2.57            | -             | -             |
| <b>Reserves and surplus</b>                           |                 |                 |                 |               |               |
| Securities premium account                            | 6,143.32        | 5,048.24        | 1,471.32        | 408.91        | -             |
| Statutory reserve                                     | 549.98          | 202.07          | 41.62           | 8.33          | 1.00          |
| Profit and loss account                               | 2,199.96        | 799.47          | 162.99          | 30.26         | 15.53         |
| Less: Miscellaneous                                   | (77.15)         | -               | -               | -             | -             |
| Expenditure to the extent not written off or adjusted |                 |                 |                 |               |               |
| <b>NET WORTH</b>                                      | <b>9,503.17</b> | <b>6,639.64</b> | <b>2,121.82</b> | <b>713.93</b> | <b>155.60</b> |

**Note:** The above statement should be read in conjunction with the significant accounting policies and notes on adjustments for Restated Summary Statements in Annexure D in “Financial Statements” on page 146 of this Red Herring Prospectus.

STATEMENT OF RESTATED PROFIT AND LOSS ACCOUNT

(Rs. in million)

|          | Particulars                                                                                | For the year ended March 31, |                 |                 |               |              |
|----------|--------------------------------------------------------------------------------------------|------------------------------|-----------------|-----------------|---------------|--------------|
|          |                                                                                            | 2010                         | 2009            | 2008            | 2007          | 2006         |
| <b>A</b> | <b><u>INCOME</u></b>                                                                       |                              |                 |                 |               |              |
|          | Income from operations                                                                     | 8,735.70                     | 5,060.72        | 1,624.66        | 444.95        | 89.59        |
|          | Other income                                                                               | 853.58                       | 479.28          | 75.42           | 11.71         | 9.85         |
|          | <b>Subtotal</b>                                                                            | <b>9,589.28</b>              | <b>5,540.00</b> | <b>1,700.08</b> | <b>456.66</b> | <b>99.44</b> |
| <b>B</b> | <b><u>EXPENDITURE</u></b>                                                                  |                              |                 |                 |               |              |
|          | Financial expenses                                                                         | 2,884.05                     | 1,944.31        | 564.65          | 138.53        | 27.79        |
|          | Personnel expenses                                                                         | 2,163.79                     | 1,360.01        | 474.98          | 129.67        | 27.53        |
|          | Operating and other expenses                                                               | 1,221.25                     | 752.49          | 277.83          | 98.96         | 19.25        |
|          | Depreciation and amortization                                                              | 126.00                       | 108.47          | 51.11           | 23.79         | 7.53         |
|          | Provisions and write offs                                                                  | 517.18                       | 134.15          | 42.08           | 20.32         | 7.51         |
|          | <b>Subtotal</b>                                                                            | <b>6,912.27</b>              | <b>4,299.43</b> | <b>1,410.65</b> | <b>411.27</b> | <b>89.61</b> |
| <b>C</b> | <b>Profit before prior period items and tax as per audited financial statements</b>        | <b>2,677.01</b>              | <b>1,240.57</b> | <b>289.43</b>   | <b>45.39</b>  | <b>9.83</b>  |
|          | Prior period [(income) / expenses]                                                         | -                            | -               | -               | (18.64)       | -            |
| <b>D</b> | <b>Profit before tax as per audited financial statements</b>                               | <b>2,677.01</b>              | <b>1,240.57</b> | <b>289.43</b>   | <b>64.03</b>  | <b>9.83</b>  |
|          | Adjustments on account of changes in accounting policies [(increase) / decrease in income] | -                            | -               | -               | 19.53         | (19.79)      |
|          | Adjustments on account of prior period items [(increase) / decrease in income]             | -                            | -               | -               | (0.89)        | 0.89         |
| <b>E</b> | <b>Profit before tax as restated</b>                                                       | <b>2,677.01</b>              | <b>1,240.57</b> | <b>289.43</b>   | <b>45.39</b>  | <b>28.73</b> |
|          |                                                                                            |                              |                 |                 |               |              |

STATEMENT OF RESTATED PROFIT AND LOSS ACCOUNT

(Rs. in million)

|          | Particulars                                                                             | For the year ended March 31, |               |               |               |              |
|----------|-----------------------------------------------------------------------------------------|------------------------------|---------------|---------------|---------------|--------------|
|          |                                                                                         | 2010                         | 2009          | 2008          | 2007          | 2006         |
| <b>F</b> | <b>Tax expense</b>                                                                      |                              |               |               |               |              |
|          | <b>Per audited financial statements</b>                                                 |                              |               |               |               |              |
|          | [(increase) / decrease in income]                                                       |                              |               |               |               |              |
|          | Current tax                                                                             | 981.00                       | 453.30        | 111.63        | 36.79         | 1.47         |
|          | Deferred tax                                                                            | (52.39)                      | (33.01)       | (0.49)        | (12.21)       | 3.31         |
|          | Income tax for the previous years                                                       | 8.67                         | 2.68          | 2.84          | -             | -            |
|          | Fringe benefit tax                                                                      | -                            | 15.35         | 8.99          | 2.77          | 0.62         |
|          | Fringe benefit tax for the previous year                                                | 0.20                         | -             | -             | -             | -            |
|          | <b>Subtotal</b>                                                                         | <b>937.48</b>                | <b>438.32</b> | <b>122.97</b> | <b>27.35</b>  | <b>5.40</b>  |
|          | <b>Restatement tax adjustments</b>                                                      |                              |               |               |               |              |
|          | [(increase) / decrease in income]                                                       |                              |               |               |               |              |
|          | Adjustment on account of prior period taxes                                             | (8.87)                       | 5.32          | 0.71          | 2.84          | -            |
|          | Tax impact on restatement adjustments                                                   | -                            | -             | -             | (6.86)        | 6.86         |
|          | <b>Subtotal</b>                                                                         | <b>(8.87)</b>                | <b>5.32</b>   | <b>0.71</b>   | <b>(4.02)</b> | <b>6.86</b>  |
|          | <b>Total tax expense as restated</b>                                                    | <b>928.61</b>                | <b>443.64</b> | <b>123.68</b> | <b>23.33</b>  | <b>12.26</b> |
| <b>G</b> | <b>Profit after tax as restated (E-F)</b>                                               | <b>1,748.40</b>              | <b>796.93</b> | <b>165.75</b> | <b>22.06</b>  | <b>16.47</b> |
| <b>H</b> | Surplus brought forward from previous year, as restated                                 | 799.47                       | 162.99        | 30.26         | 15.53         | 0.26         |
| <b>I</b> | Opening reserve adjustment relating to earlier years                                    |                              |               |               |               |              |
|          | [(increase) / decrease in income]:                                                      |                              |               |               |               |              |
|          | - Employee benefit provision as per AS 15 (Revised) as per audited financial statements | -                            | -             | (0.27)        | -             | -            |
|          | - Restatement adjustment for changes in accounting policy                               |                              |               |               |               | (0.09)       |
|          | - Restatement adjustment for prior period miscellaneous expenditure write / off         | -                            | -             | -             | -             | 0.35         |
|          | <b>Subtotal</b>                                                                         | <b>-</b>                     | <b>-</b>      | <b>(0.27)</b> | <b>-</b>      | <b>0.26</b>  |
| <b>J</b> | <b>Profit available for appropriation</b>                                               | <b>2,547.87</b>              | <b>959.92</b> | <b>196.28</b> | <b>37.59</b>  | <b>16.47</b> |
|          |                                                                                         |                              |               |               |               |              |

**STATEMENT OF RESTATED PROFIT AND LOSS ACCOUNT***(Rs. in million)*

|  | <b>Particulars</b>                                                   | <b>For the year ended March 31,</b> |               |               |              |              |
|--|----------------------------------------------------------------------|-------------------------------------|---------------|---------------|--------------|--------------|
|  |                                                                      | <b>2010</b>                         | <b>2009</b>   | <b>2008</b>   | <b>2007</b>  | <b>2006</b>  |
|  | Transferred to statutory reserve as per audited financial statements | 347.91                              | 160.45        | 33.29         | 7.33         | 0.94         |
|  |                                                                      | <b>2,199.96</b>                     | <b>799.47</b> | <b>162.99</b> | <b>30.26</b> | <b>15.53</b> |

# STATEMENT OF RESTATED CASH FLOW

(Rs. in million)

|  | Particulars                                                     | For the year ended March 31, |                   |                   |                   |                 |
|--|-----------------------------------------------------------------|------------------------------|-------------------|-------------------|-------------------|-----------------|
|  |                                                                 | 2010                         | 2009              | 2008              | 2007              | 2006            |
|  | <b><u>Cash flow from operating activities</u></b>               |                              |                   |                   |                   |                 |
|  | <b>Profit before tax as Restated</b>                            | <b>2,677.01</b>              | <b>1240.57</b>    | <b>289.43</b>     | <b>45.39</b>      | <b>28.73</b>    |
|  | <b>Adjustments for:</b>                                         |                              |                   |                   |                   |                 |
|  | Depreciation and amortization                                   | 126.00                       | 108.47            | 51.11             | 23.79             | 9.11            |
|  | Provision for employee benefits                                 | 57.95                        | 46.67             | 18.85             | 1.77              | 0.33            |
|  | Stock options expenditure                                       | 29.39                        | 16.72             | 2.57              | -                 | -               |
|  | Employee Share purchase scheme expenditure                      | -                            | 5.35              | -                 | -                 | -               |
|  | Share issue expenses                                            | 7.53                         | 29.39             | 0.90              | 3.76              | 2.65            |
|  | Provision for standard assets and non-performing assets         | 59.61                        | 0.15              | 32.15             | 10.53             | 3.09            |
|  | Bad debts written off                                           | 288.57                       | 103.30            | 4.48              | 9.79              | 4.42            |
|  | Loss on assigned loans                                          | 169.00                       | 30.71             | 5.45              | -                 | -               |
|  | Other provisions and written off's                              | 66.18                        | 29.54             | 8.68              | 1.80              | 0.22            |
|  | (Profit)/Loss on disposal of fixed assets                       | 0.84                         | (0.01)            | -                 | -                 | -               |
|  | Dividend income                                                 | -                            | -                 | (0.14)            | (0.59)            | (0.11)          |
|  | <b>Restated operating profit before working capital changes</b> | <b>3,482.08</b>              | <b>1,610.86</b>   | <b>413.48</b>     | <b>96.24</b>      | <b>48.44</b>    |
|  | <b>Movements in working capital:</b>                            |                              |                   |                   |                   |                 |
|  | <b>(Increase) / decrease in:</b>                                |                              |                   |                   |                   |                 |
|  | Sundry debtors                                                  | (8.13)                       | (21.41)           | 1.16              | (0.87)            | (0.29)          |
|  | Other current assets                                            | (307.17)                     | (251.50)          | (39.91)           | (8.36)            | (1.82)          |
|  | Portfolio loans                                                 | (15,480.55)                  | (6,469.63)        | (5,179.43)        | (1,873.02)        | (768.32)        |
|  | Other loans and advances                                        | (409.96)                     | (131.63)          | (61.52)           | (61.40)           | (7.54)          |
|  | <b>(Decrease) / increase in:</b>                                |                              |                   |                   |                   |                 |
|  | Current liabilities                                             | 1,410.55                     | 1,454.33          | 687.83            | (61.22)           | 138.85          |
|  | <b>Cash generated from operations</b>                           | <b>(11,313.18)</b>           | <b>(3,808.98)</b> | <b>(4,178.39)</b> | <b>(1,908.63)</b> | <b>(590.68)</b> |
|  | Direct taxes paid                                               | (948.40)                     | (456.50)          | (136.74)          | (6.89)            | (3.97)          |
|  | <b>Net cash generated from operating activities (A)</b>         | <b>(12,261.58)</b>           | <b>(4,265.48)</b> | <b>(4,315.13)</b> | <b>(1,915.52)</b> | <b>(594.65)</b> |
|  |                                                                 |                              |                   |                   |                   |                 |

**STATEMENT OF RESTATED CASH FLOW**
*(Rs. in million)*

|  | Particulars                                                            | For the year ended March 31, |                   |                 |                 |                |
|--|------------------------------------------------------------------------|------------------------------|-------------------|-----------------|-----------------|----------------|
|  |                                                                        | 2010                         | 2009              | 2008            | 2007            | 2006           |
|  | <b><u>Cash flow from investing activities</u></b>                      |                              |                   |                 |                 |                |
|  | Purchase of fixed assets (including capital work in progress)          | (157.23)                     | (124.02)          | (90.75)         | (26.22)         | (10.32)        |
|  | Sale of fixed assets                                                   | 0.05                         | 0.18              | -               | -               | -              |
|  | Purchase of intangible assets (including capital work in progress)     | (23.52)                      | (29.40)           | (53.18)         | (0.54)          | (47.95)        |
|  | Bank deposits not considered as cash and cash equivalent (net)         | 322.70                       | (2,146.20)        | (108.88)        | (13.52)         | (14.50)        |
|  | Purchase of investments                                                | (2.00)                       | -                 | (100.00)        | (320.00)        | (75.00)        |
|  | Sale / Redemption of investments                                       | -                            | -                 | 100.00          | 320.00          | 75.00          |
|  | Dividend income                                                        | -                            | -                 | 0.14            | 0.59            | 0.11           |
|  | Purchase of Pre-incorporation expenses                                 | -                            | -                 | -               | -               | (1.95)         |
|  | <b>Net cash flow from investing activities (B)</b>                     | <b>140.00</b>                | <b>(2,299.44)</b> | <b>(252.67)</b> | <b>(39.69)</b>  | <b>(74.61)</b> |
|  | <b><u>Cash flow from financing activities</u></b>                      |                              |                   |                 |                 |                |
|  | Proceeds from issuance of share capital (including securities premium) | 1,162.90                     | 3,698.82          | 1,239.31        | 536.26          | 118.47         |
|  | Share issue expenses                                                   | (34.68)                      | (29.39)           | (0.90)          | (3.76)          | (0.71)         |
|  | Secured borrowings (net)                                               | 4,824.42                     | 13,072.86         | 5,408.25        | 1,798.01        | 692.18         |
|  | Unsecured borrowings (net)                                             | 756.62                       | 394.37            | -               | -               | -              |
|  | <b>Net cash generated from financing activities (C)</b>                | <b>6,709.26</b>              | <b>17,136.66</b>  | <b>6,646.66</b> | <b>2,330.51</b> | <b>809.94</b>  |
|  | <b>Net increase/ (decrease) in cash and cash equivalents (A+B+C)</b>   | <b>(5,412.32)</b>            | <b>10,571.74</b>  | <b>2,078.86</b> | <b>375.30</b>   | <b>140.68</b>  |
|  | Cash and cash equivalents at the beginning of the year                 | 13,187.12                    | 2,615.38          | 536.52          | 161.22          | 20.54          |
|  | <b>Cash and cash equivalents at the end of the year</b>                | <b>7,774.80</b>              | <b>13,187.12</b>  | <b>2,615.38</b> | <b>536.52</b>   | <b>161.22</b>  |



# STATEMENT OF RESTATED CASH FLOW

(Rs. in million)

|  | Particulars                                                                                 | For the year ended March 31, |                  |                 |               |               |
|--|---------------------------------------------------------------------------------------------|------------------------------|------------------|-----------------|---------------|---------------|
|  |                                                                                             | 2010                         | 2009             | 2008            | 2007          | 2006          |
|  | <b><u>Composition of cash and cash equivalents:</u></b>                                     |                              |                  |                 |               |               |
|  | Cash on hand                                                                                | 11.81                        | 12.04            | 106.79          | 40.39         | 11.75         |
|  | Balance with banks                                                                          |                              |                  |                 |               |               |
|  | On Current accounts                                                                         | 2,243.19                     | 1,567.26         | 1,483.95        | 424.04        | 149.47        |
|  | On Deposit accounts<br>(net of bank deposits not considered as<br>cash and cash equivalent) | 5,519.80                     | 11,607.82        | 1,024.64        | 72.09         | -             |
|  | <b>Total</b>                                                                                | <b>7,774.80</b>              | <b>13,187.12</b> | <b>2,615.38</b> | <b>536.52</b> | <b>161.22</b> |
|  |                                                                                             |                              |                  |                 |               |               |

**Note 1:** The above statement should be read in conjunction with the significant accounting policies and notes on adjustments for Restated Summary Statements in Annexure D in “Financial Statements” on page 146 of this Red Herring Prospectus.

**Note 2:** The above Cash Flow Statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard 3 on Cash Flow Statements notified accounting standard by Companies (Accounting Standards) Rules, 2006 (as amended).

## THE ISSUE

|                                                              |                                                                |
|--------------------------------------------------------------|----------------------------------------------------------------|
| Total Issue of Equity Shares                                 | 16,791,579 Equity Shares                                       |
| Fresh Issue by the Company                                   | 7,445,323 Equity Shares                                        |
| Offer for Sale by the Selling Shareholders                   | 9,346,256 Equity Shares*                                       |
| <i>Of which</i>                                              |                                                                |
| A) Qualified Institutional Buyers (QIB) portion <sup>#</sup> | At least 10,074,948 Equity Shares                              |
| <i>Of which</i>                                              |                                                                |
| Available for allocation to Mutual Funds only                | 503,748 Equity Shares                                          |
| Balance for all QIBs including Mutual Funds                  | 9,571,200 Equity Shares                                        |
| B) Non-Institutional Portion <sup>**</sup>                   | Not less than 1,679,157 Equity Shares available for allocation |
| C) Retail Portion <sup>**</sup>                              | Not less than 5,037,474 Equity Shares available for allocation |

### Pre and post Issue Equity Shares

|                                              |                          |
|----------------------------------------------|--------------------------|
| Equity Shares outstanding prior to the Issue | 64,527,219 Equity Shares |
| Equity Shares outstanding after the Issue    | 71,972,542 Equity Shares |

### Use of Net Proceeds

See “Objects of the Issue” on page 52 of this Red Herring Prospectus. The Company will not receive any proceeds from the Offer for Sale.

Allocation to all categories, except Anchor Investor Portion, if any, shall be made on a proportionate basis.

\* *The Selling Shareholders are offering an aggregate of 9,346,256 Equity Shares, which have been held for a period of at least one year prior to the date of filing of this Red Herring Prospectus and hence, are eligible for being offered for sale in the Issue.*

<sup>#</sup> *The Company and the Selling Shareholders may allocate up to 30% of the QIB Portion to Anchor Investors on a discretionary basis. One-third of the Anchor Investor Portion shall be reserved for domestic Mutual Funds, subject to valid Bids being received from domestic Mutual Funds at or above the price at which allocation is being done to Anchor Investors. For further details, see “Issue Procedure” on page 280 of this Red Herring Prospectus.*

<sup>\*\*</sup> *Subject to valid Bids being received at or above the Issue Price, under subscription, if any, in any category, except in QIB portion, would be allowed to be met with spill over from any other category or combination of categories at the discretion of the Company and Selling Shareholders, in consultation with the BRLMs and the Designated Stock Exchange. If at least 60% of the Issue cannot be allotted to QIBs, the entire application money shall be refunded.*

## GENERAL INFORMATION

### Registered and Corporate Office of the Company

SKS Microfinance Limited  
Ashoka Raghupathi Chambers  
D No. 1-10-60 to 62,  
Opposite to Shoppers Stop, Begumpet,  
Hyderabad 500 016  
Tel: (91 40) 4452 6000  
Fax: (91 40) 4452 6001  
Registration No.: 41732  
CIN: U65999AP2003PLC041732  
Website: www.sksindia.com

### Address of the RoC

We are registered with the RoC situated at:  
2<sup>nd</sup> Floor, CPWD Building  
Kendriya Sadan  
Sultan Bazar, Koti  
Hyderabad 500195  
Andhra Pradesh

### Board of Directors of the Company

Our Board of Directors consists of:

| Name                        | Designation                                      |
|-----------------------------|--------------------------------------------------|
| Dr. Vikram Akula            | Chairman                                         |
| Mr. Suresh Gurumani         | Managing Director and Chief Executive Officer    |
| Mr. P. H. Ravi Kumar        | Independent Director                             |
| Dr. Tarun Khanna            | Independent Director                             |
| Mr. V. Chandrasekaran       | Independent Director (Nominee Director of SIDBI) |
| Mr. Geoffrey Tanner Woolley | Independent Director                             |
| Mr. Sumir Chadha            | Director                                         |
| Mr. Ashish Lakhanpal        | Director                                         |
| Mr. Paresh D. Patel         | Director                                         |
| Mr. Pramod Bhasin           | Independent Director                             |

For further details of our Directors, see “Our Management” on page 111 of this Red Herring Prospectus.

### Company Secretary and Compliance Officer

Mr. S.K. Bansal is the Company Secretary and Compliance Officer of the Company. His contact details are as follows:

SKS Microfinance Limited  
Ashoka Raghupathi Chambers,  
D No. 1-10-60 to 62,  
Opposite to Shoppers Stop,  
Begumpet,  
Hyderabad 500 016  
Tel: (91 40) 4452 6000  
Fax: (91 40) 4452 6001  
Email: skscomplianceofficer@sksindia.com

Investors can contact the Compliance Officer or the Registrar in case of any pre-Issue or post-Issue related problems such as non-receipt of letters of allocation, credit of allotted Equity Shares in the respective beneficiary account and refund orders. All grievances relating to the ASBA process may be addressed to the Registrar to the Issue with a copy to the relevant SCSB giving full details such as name, address of the applicant, number of Equity Shares applied for, Bid Amount blocked, ASBA account number and the designated branch of the relevant SCSB where the ASBA Form was submitted by the ASBA Bidder.

#### **Book Running Lead Managers**

##### **Kotak Mahindra Capital Company Limited**

1<sup>st</sup> Floor, Bakhtawar  
229 Nariman Point  
Mumbai 400 021  
Tel: (91 22) 6634 1100  
Fax: (91 22) 2283 7517  
Email: [sks.ipo@kotak.com](mailto:sks.ipo@kotak.com)  
Investor Grievance Id: [kmccredressal@kotak.com](mailto:kmccredressal@kotak.com)  
Website: [www.kotak.com](http://www.kotak.com)  
SEBI Registration No.: INM000008704  
Contact Person: Mr. Chandrakant Bhole

##### **Citigroup Global Markets India Private Limited**

12<sup>th</sup> Floor, Bakhtawar  
Nariman Point  
Mumbai 400 021  
Tel: (91 22) 6631 9999  
Fax: (91 22) 6646 6056  
Email: [sks.ipo@citi.com](mailto:sks.ipo@citi.com)  
Investor Grievance Id:  
[investors.cgmib@citi.com](mailto:investors.cgmib@citi.com)  
Website:  
[www.online.citibank.co.in/rhtm/citigroupglobalscreen1.htm](http://www.online.citibank.co.in/rhtm/citigroupglobalscreen1.htm)  
SEBI Registration. No. : INM000010718  
Contact Person: Mr. Shashank Pandey

##### **Credit Suisse Securities (India) Private Limited**

9<sup>th</sup> Floor, Ceejay House  
Plot F, Shivsagar Estate  
Dr. Annie Besant Road, Worli  
Mumbai 400 018  
Tel: (91 22) 6777 3777  
Fax: (91 22) 6777 3820  
E-mail: [list.project-kuber@credit-suisse.com](mailto:list.project-kuber@credit-suisse.com)  
Investor Grievance Id: [list.igcellmer-bnkg@credit-suisse.com](mailto:list.igcellmer-bnkg@credit-suisse.com)  
Website: <https://www.credit-suisse.com/in/ipo/>  
SEBI Registration No.: INM000011161  
Contact Person: Mr. Devesh Pandey

#### **Syndicate Members**

##### **Kotak Securities Limited**

1<sup>st</sup> Floor, Bakhtawar  
229 Nariman Point  
Mumbai 400 021  
Tel: (91 22) 66341100  
Fax: (91 22) 66303927  
E-mail: [umeshgupta@kotak.com](mailto:umeshgupta@kotak.com)  
Website: [www.kotak.com](http://www.kotak.com)  
Contact Person: Mr. Umesh Gupta  
SEBI Registration Nos.: BSE: IMB010808153  
NSE: IMB230808130

## **Legal Advisors to the Issue**

### **Domestic Legal Counsel to the Company**

#### **Amarchand & Mangaldas & Suresh A. Shroff & Co.**

Peninsula Chambers  
Peninsula Corporate Park  
Ganpatrao Kadam Marg, Lower Parel  
Mumbai 400 013  
Tel: (91 22) 2496 4455  
Fax: (91 22) 2496 3666

1-10-20/2b, 4<sup>th</sup> Floor  
Pooja Edifice  
Chickoti Gardens, Begumpet  
Hyderabad 500 016  
Tel: (91 40) 6633 6622 / 6633 7666  
Fax: (91 40) 6649 2727

### **Domestic Legal Counsel to the Underwriters**

#### **S&R Associates**

64, Okhla Industrial Estate Phase III  
New Delhi 110 020  
Tel: (91 11) 4069 8000  
Fax: (91 11) 4069 8001

### **International Legal Counsel to the Underwriters**

#### **Wilson Sonsini Goodrich & Rosati**

Professional Corporation  
650 Page Mill Road  
Palo Alto, CA 94304  
Tel: (650) 493 9300  
Fax: (650) 493 6811

## **Registrar to the Issue**

### **Karvy Computershare Private Limited**

Plot No. 17 to 24, Vithalrao Nagar  
Madhapur  
Hyderabad 500 086  
Telephone: (91 40) 2342 0815  
Facsimile: (91 40) 2343 1551  
Email: sksmicro.ipo@karvy.com  
Website: www.karvy.com  
Contact Person: Mr. M. Murali Krishna  
SEBI Registration Number: INR 000000221

## **Auditors to the Company**

### **S.R. Batliboi & Co.**

6<sup>th</sup> Floor, Express Towers, Nariman Point  
Mumbai 400 021  
Tel: (91 22) 6657 9200  
Fax: (91 22) 2287 6401  
Email: viren.mehta@in.ey.com

## **Bankers to the Issue and Escrow Collection Banks**

### **Axis Bank Limited**

E-Wing, 3<sup>rd</sup> Floor, Maker Towers,  
Cuffe Parade  
Mumbai – 400 005  
Tel: (022) 6707 1657  
Fax: (022) 2215 5157  
Contact Person: Mr. Prashant Fernandes  
Email: prashant.fernandes@axisbank.com  
Website: www.axisbank.com

SEBI Reg. No.: INBI00000017

### **IndusInd Bank Limited**

Cash Management Services  
IBL House, 1<sup>st</sup> Floor  
Cross “B” Road, MIDC, J.B. Nagar  
Off Andheri – Kurla Road, Andheri (East)  
Mumbai – 400 059  
Tel: (022) 6772 8721  
Fax: (022) 6641 2349  
Contact Person: Mr. Suresh Esaki/Mr. Harpal Singh  
Email: suresh.esaki@indusind.com  
singh.harpal@indusind.com  
Website: www.indusind.com  
SEBI Reg. No.: INBI00000002

**ICICI Bank Limited**

Capital Markets Group  
No. 30, Mumbai Samachar Marg  
Fort, Mumbai – 400 001  
Tel: (022) 2262 7600  
Fax: (022) 2261 1138  
Contact Person: Mr. Venkataraghavan T. A.  
Email: venkataraghavan.t@icicibank.com  
Website: www.icicibank.com  
SEBI Reg. No.: INBI00000004

**Kotak Mahindra Bank Limited**

5<sup>th</sup> Floor, Dani Corporate Park 158  
CST Road, Kalina  
Santacruz (E)  
Mumbai – 400 055  
Tel: (022) 6759 5336  
Fax: (022) 6759 5374  
Contact Person: Amit Kumar  
Email: amit.kr@kotak.com  
Website: www.kotak.com  
SEBI Reg. No.: INBI00000927

**HDFC Bank Limited**

Financial Institutions & Government Business Group  
1-10-60/3, 4<sup>th</sup> Floor, “Suryodaya”  
Begumpet  
Hyderabad – 500 016  
Tel: (040) 3047 2557  
Fax: (040) 3047 2556  
Contact Person: Lakshmikanth Kommaraju  
Email: lakshmikanth.kommaraju@hdfcbank.com  
Website: www.hdfcbank.com  
SEBI Reg. No.: INBI00000063

**Yes Bank Limited**

2<sup>nd</sup> Floor, Tiecicon House  
Dr. E. Moses Road  
Mahalaxmi  
Mumbai – 400 011  
Tel: (022) 6622 9031  
Fax: (022) 2497 4875  
Contact Person: Mr. Mahesh Shirali  
Email: dlbtiservices@yesbank.in  
Website: www.yesbank.in  
SEBI Reg. No.: INBI00000935

**Standard Chartered Bank**

270 D. N. Road  
Fort  
Mumbai – 400 001  
Tel: (022) 2268 3955  
Fax: (022) 2209 6067  
Contact Person: Mr. Joseph George  
Email: joseph.george@sc.com  
Website: www.standardchartered.co.in  
SEBI Reg. No.: INBI00000885

**Citibank, N.A.**

Citigroup Center, 6th Floor  
Bandra - Kurla Complex, Bandra (E)  
Mumbai – 400 051  
Tel: (022) 4001 5504  
Fax: (022) 2653 5824  
Contact Person: Mr. S. Girish  
Email: s.girish@citi.com  
Website: www.citibank.co.in  
SEBI Reg. No.: INBI00000037

**Self Certified Syndicate Banks**

The list of banks that have been notified by SEBI to act as SCSB for the ASBA process are provided at [www.sebi.gov.in](http://www.sebi.gov.in) and for details on designated branches of SCSB collecting as per ASBA Bid cum Application Form, please refer to the abovementioned link.

**Bankers to the Company****Kotak Mahindra Bank**

6-3-1109/1, 2<sup>nd</sup> Floor, Nava Bharat Chambers  
Raj Bhavan Road  
Somajiguda  
Hyderabad 500 082  
Tel: (91 40) 6629 9061  
Fax: (91 40) 6675 4755  
Email: chakrapani.g@kotak.com  
Website: www.kotak.com  
Contact Person: Mr. G. Chakrapani

**HDFC Bank**

6-1-73, Ground Floor  
Saeed Plaza, Lakdikapool  
Hyderabad 500 004  
Tel: (91 40) 6683 1074  
Fax: (91 40) 2324 4998  
Email: manish.shah@hdfcbank.com  
Website: www.hdfcbank.com  
Contact Person: Mr. Manish Shah

**ICICI Bank**

3-6-268, Himayatnagar  
Hyderabad 500 029

**Axis Bank**

6-3-879/B, 1<sup>st</sup> Floor  
G. Pullareddy Building

Telephone: (91 40) 2322 7128/7290  
 Fax: (91 40) 2322 7138  
 Email: srinivasa.gutti@icicibank.com  
 Website: www.icicibank.com  
 Contact Person: Mr. Sreenivas Gutti

Greenlands, Begumpet Road  
 Hyderabad - 500 016  
 Tel: (91 40) 2340 0731/732  
 Fax: (91 40) 2340 1784  
 Email: jayanth.p@axisbank.com  
 Website: www.axisbank.com  
 Contact Person: Mr. Jayanth Manohar

### Monitoring Agency

Axis Bank Limited  
 Central Office  
 Maker Towers (F), 6<sup>th</sup> Floor  
 Cuffe Parade  
 Mumbai 400 005  
 Tel: (91 22) 6707 2222  
 Fax: (91 22) 2218 2574  
 Email: kulkarni.makarand@axisbank.com  
 Website: www.axisbank.com

The appointment of the Monitoring Agency is pursuant to Regulation 16 of the SEBI Regulations.

### Statement of Inter Se Allocation of Responsibilities for the Issue

The following table sets forth the distribution of responsibility and co-ordination for various activities amongst the BRLMs:

| Activity | Activity                                                                                                                                                                                                                                                                                                                                                                                                                          | Responsibility             | Co-ordination |
|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|---------------|
| 1.       | Capital Structuring with relative components and formalities such as type of instruments, etc.                                                                                                                                                                                                                                                                                                                                    | Kotak, Citi, Credit Suisse | Kotak         |
| 2.       | Due diligence of Company's operations/ management/ business plans/ legal etc. Drafting and design of Red Herring Prospectus and of statutory advertisement including memorandum containing salient features of the Prospectus. The BRLMs shall ensure compliance with stipulated requirements and completion of prescribed formalities with the Stock Exchanges, ROC and SEBI including finalisation of Prospectus and ROC filing | Kotak, Citi, Credit Suisse | Kotak         |
| 3.       | Appointment of other intermediaries viz., Registrar(s), Printers, Advertising Agency and Bankers to the Issue                                                                                                                                                                                                                                                                                                                     | Kotak, Citi, Credit Suisse | Kotak         |
| 4.       | Drafting and approval of all statutory advertisement                                                                                                                                                                                                                                                                                                                                                                              | Kotak, Citi, Credit Suisse | Kotak         |
| 5.       | Drafting and approval of all publicity material other than statutory advertisement as mentioned in (4) above including corporate advertisement, brochure, etc.                                                                                                                                                                                                                                                                    | Kotak, Citi, Credit Suisse | Credit Suisse |
| 6.       | International Institutional Marketing of the Issue, which will cover, <i>inter alia</i> :<br><ul style="list-style-type: none"> <li>Preparation of Road show presentation &amp; FAQ</li> <li>Finalizing the list and division of investors for one to one meetings, and</li> <li>Finalizing the International road show schedule and investor meeting schedules</li> </ul>                                                        | Kotak, Citi, Credit Suisse | Citi          |
| 7.       | Domestic institutions / banks / mutual funds marketing of the Issue, which will cover, <i>inter alia</i> :<br><ul style="list-style-type: none"> <li>Finalizing the list and division of investors for one to one meetings, and</li> <li>Finalizing investor meeting schedules</li> </ul>                                                                                                                                         | Kotak, Citi, Credit Suisse | Credit Suisse |
| 8.       | Non-Institutional and Retail Marketing of the Issue, which will cover, <i>inter alia</i> ,<br><ul style="list-style-type: none"> <li>Formulating marketing strategies, preparation of publicity budget</li> </ul>                                                                                                                                                                                                                 | Kotak, Citi, Credit Suisse | Kotak         |

| Activity | Activity                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Responsibility             | Co-ordination |
|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|---------------|
|          | <ul style="list-style-type: none"> <li>Finalise Media &amp; PR strategy</li> <li>Finalising centers for holding conferences for press and brokers</li> <li>Follow-up on distribution of publicity and Issuer material including form, prospectus and deciding on the quantum of the Issue material</li> <li>Finalize collection centers</li> </ul>                                                                                                                                                                                                                                                                                                                                                                     |                            |               |
| 9.       | Co-ordination with Stock Exchanges for Book Building Software, bidding terminals and mock trading                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Kotak, Citi, Credit Suisse | Citi          |
| 10.      | Finalization of Pricing, in consultation with the Company and the Selling Shareholders                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Kotak, Citi, Credit Suisse | Citi          |
| 11.      | Post-issue activities, which shall involve : <ul style="list-style-type: none"> <li>essential follow-up steps including follow-up with bankers to the issue and Self Certified Syndicate Banks to get quick estimates of collection and advising the issuer about the closure of the issue, based on correct figures, finalisation of the basis of allotment or weeding out of multiple applications, listing of instruments, despatch of certificates or demat credit and refunds and co-ordination with various agencies connected with the post-issue activity such as registrars to the issue, bankers to the issue, Self Certified Syndicate Banks, etc.</li> <li>Finalising underwriting arrangement*</li> </ul> | Kotak, Citi, Credit Suisse | Citi          |

*\* In case of under-subscription in the Issue, the lead merchant banker responsible for underwriting arrangements shall be responsible for invoking underwriting obligations and ensuring that the notice for devolvement containing the obligations of the underwriters is issued in terms of these regulations and as agreed to in the underwriting agreement*

### Credit Rating

As this is an issue of Equity Shares, there is no credit rating for the Issue.

### IPO Grading

This Issue has been graded by CARE as Care IPO Grade 4 indicating above average fundamentals through its letter dated June 23, 2010. The IPO grade is assigned on a scale of Grade 5 to Grade 1, with Grade 1 indicating poor fundamentals and Grade 5 indicating strong fundamentals. The rationale furnished by the IPO grading agency for its grading will be updated at the time of filing the Red Herring Prospectus filed with the RoC.

### Experts

Except the report of CARE in respect of the IPO grading of this Issue annexed herewith, the Company has not obtained any expert opinions.

### Trustees

As this is an issue of Equity Shares, the appointment of trustees is not required.

### Book Building Process

Book building, with reference to the Issue, refers to the process of collection of Bids on the basis of the Red Herring Prospectus within the Price Band which will be decided by the Company and the Selling Shareholders in consultation with the Book Running Lead Managers and advertised at least two working (2) days prior to the Bid/Issue opening date. The Issue Price is finalised after the Bid/ Issue Closing Date. The principal parties involved in the Book Building Process are:

1. The Company;
2. The Selling Shareholders;



3. BRLMs;
4. Syndicate Member who is an intermediary registered with SEBI or registered as brokers with BSE/NSE and eligible to act as Underwriters. The Syndicate Member is appointed by the BRLMs;
5. Escrow Collection Bank(s);
6. SCSBs; and
7. Registrar to the Issue.

This being an issue for less than 25% of post issue equity capital of the Company, the SEBI Regulations read with rule 19(2) (b) of the SCRR, have permitted an issue of securities to the public through the 100% Book Building Process, wherein at least 60% of the Issue shall be allocated on a proportionate basis to QIBs. 5% of the QIB Portion (excluding Anchor Investor Portion) shall be available for allocation on a proportionate basis to Mutual Funds only. The remainder shall be available for allocation on a proportionate basis to QIBs including Mutual Funds subject to valid bids being received at or above the Issue Price. If at least 60% of the Issue cannot be allotted to QIBs, then the entire application money will be refunded forthwith. Further, not less than 10% of the Issue shall be available for allocation on a proportionate basis to Non Institutional Bidders and not less than 30% of the Issue shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Issue Price. We and the Selling Shareholders will comply with the SEBI Regulations and any other ancillary directions issued by SEBI for this Issue. In this regard, we and the Selling Shareholders have appointed the BRLMs to manage the Issue and to procure subscriptions to the Issue.

QIBs are not allowed to withdraw their Bid(s) after their Bid /Issue Closing Date i.e. July 30, 2010. For further details, see “Terms of the Issue” on page 273 of this Red Herring Prospectus. Anchor Investors cannot withdraw their Bids after the Anchor Investor Bid/Issue Date. Allocation to QIBs (other than Anchor Investors) will be on a proportionate basis.

**The process of Book Building under SEBI Regulations is subject to change from time to time and investors are advised to make their own judgment about investment through this process prior to making a Bid in the Issue.**

**Illustration of Book Building Process and Price Discovery Process** *(Investors should note that this example is solely for illustrative purposes and is not specific to the Issue. Also, this excludes Bidding for the Anchor Investor Portion)*

Bidders can bid at any price within the price band. For instance, assume a price band of Rs. 20 to Rs. 24 per share, offer size of 3,000 equity shares and receipt of five bids from bidders out of which one bidder has bid for 500 shares at Rs. 24 per share while another has bid for 1,500 shares at Rs. 22 per share. A graphical representation of consolidated demand and price would be made available at the bidding centers during the Bidding period. The illustrative book given below shows the demand for the shares of the Company at various prices and is collated from bids from various investors.

| Bid Quantity | Bid Price (Rs.) | Cumulative Quantity | Subscription |
|--------------|-----------------|---------------------|--------------|
| 500          | 24              | 500                 | 16.67%       |
| 1,000        | 23              | 1,500               | 50.00%       |
| 1,500        | 22              | 3,000               | 100.00%      |
| 2,000        | 21              | 5,000               | 166.67%      |
| 2,500        | 20              | 7,500               | 250.00%      |

The price discovery is a function of demand at various prices. The highest price at which the Company is able to offer the desired number of shares is the price at which the book cuts off, i.e., Rs. 22 in the above example. The Company and the Selling Shareholders in consultation with the BRLMs will

finalise the Issue Price at or below such cut off price, i.e. at or below Rs. 22. All bids at or above the Issue Price and cut off bids are valid bids and are considered for allocation in the respective categories.

Steps to be taken by the Bidders for Bidding:

- Check eligibility for Bidding (see “Issue Procedure - Who Can Bid?” on page 281 of this Red Herring Prospectus);
- Ensure that you have an active demat account and the demat account details are correctly mentioned in the Bid cum Application Form;
- Ensure that you have mentioned your PAN to the Bid Cum Application Form. In accordance with the SEBI Regulations, the PAN would be the sole identification number for participants transacting in the securities market, irrespective of the amount of transaction (see “Issue Procedure” on page 280 of this Red Herring Prospectus);
- Ensure that the Bid cum Application Form is duly completed as per instructions given in this Red Herring Prospectus and in the Bid Cum Application Form; and
- Bids by QIBs will only have to be submitted to the BRLMs.

**The applicants may note that in case the DP ID and Client ID and PAN mentioned in the Bid cum Application Form and entered into the electronic bidding system of the Stock Exchanges by the Syndicate do not match with the DP ID and Client ID and PAN available in the Settlement Depository database, the application is liable to be rejected.**

#### **Withdrawal of the Issue**

The Company and the Selling Shareholders, in consultation with the BRLMs, reserve the right not to proceed with the Issue anytime after the Bid/Issue Opening Date but before the Allotment of Equity Shares. In such an event the Company would issue a public notice in the newspapers, in which the pre-Issue advertisements were published, within two days of the Bid/ Issue Closing Date, providing reasons for not proceeding with the Issue. The Company shall also inform the same to Stock Exchanges on which the Equity Shares are proposed to be listed.

In the event that the Company decides not to proceed with the Issue after Bid/ Issue Closing Date, the Company would be required to file fresh draft red herring prospectus with SEBI.

#### **Bid/Issue Programme**

|                                           |                                                                     |
|-------------------------------------------|---------------------------------------------------------------------|
| <b>BID/ISSUE OPENS ON: JULY 28, 2010*</b> | <b>BID/ISSUE CLOSES ON (EXCEPT FOR QIB BIDDERS): AUGUST 2, 2010</b> |
|                                           | <b>BID/ISSUE CLOSES ON (FOR QIB BIDDERS): JULY 30, 2010</b>         |

*\*The Company may consider participation by Anchor Investors. The Anchor Investor Bid/ Issue Period shall be one day prior to the Bid/ Issue Opening Date.*

Bids and any revision in Bids shall be accepted only between 10.00 a.m. and 5.00 p.m. (Indian Standard Time) during the Bidding Period as mentioned above at the bidding centers mentioned on the Bid cum Application Form except that on the Bid/Issue Closing Date, Bids and any revision in Bids shall be accepted only between 10.00 a.m. and 3.00 p.m. (Indian Standard Time) during the Bidding Period (excluding the ASBA Bidders) and uploaded till (i) 4.00 p.m. in case of Bids by QIBs and Non-Institutional Bidders and (ii) until 5.00 p.m. or such extended time as permitted by the NSE and the BSE, in case of Bids by Retail Individual Bidders. It is clarified that the Bids not uploaded in the book would be rejected. Bids by the ASBA Bidders shall be uploaded by the SCSB in the electronic system to be provided by the NSE and the BSE.

In case of discrepancy in the data entered in the electronic book vis-à-vis the data contained in the physical Bid form, for a particular Bidder, the details as per the physical form of the Bidder may be taken as the final data for the purpose of Allotment. In case of discrepancy in the data entered in the

electronic book vis-à-vis the data contained in the physical or electronic Bid cum Application Form, for a particular ASBA Bidder, the Registrar to the Issue shall ask for rectified data from the SCSB.

Due to limitation of time available for uploading the Bids on the Bid/ Issue Closing Date, the Bidders are advised to submit their Bids one day prior to the Bid/ Issue Closing Date and, in any case, no later than the times mentioned above on the Bid/ Issue Closing Date. All times mentioned in the Red Herring Prospectus are Indian Standard Time. Bidders are cautioned that in the event a large number of Bids are received on the Bid/ Issue Closing Date, as is typically experienced in public offerings, some Bids may not get uploaded due to lack of sufficient time. Such Bids that cannot be uploaded will not be considered for allocation under the Issue. If such Bids are not uploaded, the Company, the Selling Shareholders, the BRLMs and Syndicate members will not be responsible. Bids will be accepted only on Business Days.

On the Bid/ Issue Closing Date, extension of time will be granted by the Stock Exchanges only for uploading the Bids submitted by Retail Individual Bidders after taking into account the total number of Bids received up to the closure of time period for acceptance of Bid cum Application Forms as stated herein and reported by the BRLMs to the Stock Exchanges within half an hour of such closure.

The Company and the Selling Shareholders, in consultation with the BRLMs, reserve the right to revise the Price Band during the Bidding/ Issue Period, provided that the Cap Price shall be less than or equal to 120% of the Floor Price and the Floor Price shall not be less than the face value of the Equity Shares. The revision in Price Band shall not exceed 20% on the either side i.e. the floor price can move up or down to the extent of 20% of the floor price disclosed at least two (2) working days prior to the Bid/ Issue Opening Date and the Cap Price will be revised accordingly.

**In case of revision of the Price Band, the Issue Period will be extended for a minimum of three additional working days after revision of Price Band subject to the Bid/Issue Period not exceeding 10 working days. Any revision in the Price Band and the revised Bid/Issue Period, if applicable, will be widely disseminated by notification to the Stock Exchanges, by issuing a press release and also by indicating the changes on the websites of the BRLMs and at the terminals of the Syndicate.**

#### **Underwriting Agreement**

After the determination of the Issue Price but prior to filing of the Prospectus with the RoC, we and the Selling Shareholders will enter into an Underwriting Agreement with the Underwriters for the Equity Shares proposed to be offered in this Issue. It is proposed that pursuant to the terms of the Underwriting Agreement, the BRLMs shall be responsible for bringing in the amount devolved in the event that their respective Syndicate Members do not fulfill their underwriting obligations. The underwriting shall be to the extent of the Bids uploaded by the Underwriters including through its Syndicate/Sub Syndicate. The Underwriting Agreement is dated [●]. Pursuant to the terms of the Underwriting Agreement, the obligations of the Underwriters are several and are subject to certain conditions specified therein.

**The Underwriters have indicated their intention to underwrite the following number of Equity Shares:**

*(This portion has been intentionally left blank and will be filled in before the filing of the Prospectus with the RoC)*

| <b>Name and Contact Details of the Underwriter</b>                                                                                                                       | <b>Indicative Number of Equity Shares to be Underwritten</b> | <b>Amount Underwritten (Rs. in million)</b> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|---------------------------------------------|
| <b>Kotak Mahindra Capital Company Limited</b><br>1 <sup>st</sup> Floor, Bakhtawar, 229 Nariman Point, Mumbai 400 021<br>Tel: (91 22) 6634 1100<br>Fax: (91 22) 2283 7517 | [●]                                                          | [●]                                         |
| <b>Citigroup Global Markets India Private Limited</b><br>12 <sup>th</sup> Floor, Bakhtawar, Nariman Point, Mumbai 400 021                                                | [●]                                                          | [●]                                         |

| Name and Contact Details of the Underwriter                                                                                                                                                                                   | Indicative Number of Equity Shares to be Underwritten | Amount Underwritten<br>(Rs. in million) |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------|
| Tel: (91 22) 6631 9999<br>Fax: (91 22) 6646 6056                                                                                                                                                                              |                                                       |                                         |
| <b>Credit Suisse Securities (India) Private Limited</b><br>9 <sup>th</sup> Floor, Ceejay House, Plot F, Shivsagar Estate, Dr.<br>Annie Besant Road, Worli, Mumbai 400 018<br>Tel: (91 22) 6777 3777<br>Fax: (91 22) 6777 3820 | [●]                                                   | [●]                                     |
| <b>Kotak Securities Limited</b><br>1 <sup>st</sup> Floor, Bakhtawar<br>229 Nariman Point<br>Mumbai 400 021<br>Tel: (91 22) 66341100<br>Fax: (91 22) 66303927                                                                  | [●]                                                   | [●]                                     |

The above mentioned amount is indicative underwriting and this would be finalised after the pricing and actual allocation.

In the opinion of our Board of Directors (based on a certificate given by the Underwriters), the resources of the above mentioned Underwriters are sufficient to enable them to discharge their respective underwriting obligations in full. The above-mentioned Underwriters are registered with SEBI under Section 12(1) of the SEBI Act or registered as brokers with the Stock Exchange(s). Our Board of Directors, at its meeting held on [●], has authorised the entry into the Underwriting Agreement mentioned above on behalf of the Company.

Allocation among Underwriters may not necessarily be in proportion to their underwriting commitments. Notwithstanding the above table, the BRLMs and the Syndicate Member shall be responsible for ensuring payment with respect to Equity Shares allocated to investors procured by them. In the event of any default in payment, the respective Underwriter, in addition to other obligations defined in the underwriting agreement, will also be required to procure subscriptions for/subscribe to Equity Shares to the extent of the defaulted amount.

## CAPITAL STRUCTURE

The share capital of the Company as at the date of filing this Red Herring Prospectus, before and after the Issue, is set forth below:

(Rs. in million, except share data)

|    |                                                                      | Aggregate<br>Nominal Value | Aggregate<br>Value at Issue<br>Price |
|----|----------------------------------------------------------------------|----------------------------|--------------------------------------|
| A) | <b>AUTHORISED SHARE CAPITAL</b>                                      |                            |                                      |
|    | 82,000,000 Equity Shares of Rs. 10 each                              | 820.00                     |                                      |
|    | 13,000,000 Preference Shares of Rs. 10 each                          | 130.00                     |                                      |
| B) | <b>ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL BEFORE THE ISSUE</b> |                            |                                      |
|    | 64,527,219 Equity Shares of Rs. 10 each                              | 645.27                     |                                      |
| C) | <b>PRESENT ISSUE IN TERMS OF THIS RED HERRING PROSPECTUS*</b>        |                            |                                      |
|    | 16,791,579 Equity Shares of Rs. 10 each                              | 167.91                     | [●]                                  |
|    | Out of the above:                                                    |                            |                                      |
|    | <b>Fresh Issue</b>                                                   |                            |                                      |
|    | 7,445,323 Equity Shares of Rs. 10 each                               | 74.45                      | [●]                                  |
|    | <b>Offer for Sale**</b>                                              |                            |                                      |
|    | 9,346,256 Equity Shares of Rs. 10 each                               | 93.46                      | [●]                                  |
| D) | <b>EQUITY SHARE CAPITAL AFTER THE ISSUE</b>                          |                            |                                      |
|    | 71,972,542 Equity Shares of Rs. 10 each                              | 719.73                     | [●]                                  |
| E) | <b>SHARE PREMIUM ACCOUNT</b>                                         |                            |                                      |
|    | Before the Issue                                                     | 6,143.32                   |                                      |
|    | After the Issue                                                      | [●]                        |                                      |

\* The Issue in terms of this Red Herring Prospectus has been authorized by the Board of Directors pursuant to a resolution dated January 5, 2010 and by the shareholders pursuant to a resolution in an EGM on January 8, 2010. The Offer for Sale has been authorized pursuant to resolutions of the Board of Directors of the Company on January 5, 2010. For approvals by Selling Shareholders, see "Other Regulatory and Statutory Disclosures" on page 260 of this Red Herring Prospectus.

\*\* The following Equity Shares constitute the Offer for Sale and are being offered by each of the Selling Shareholders:

| Selling Shareholders | Number of Equity Shares |
|----------------------|-------------------------|
| MBT – Jogipet        | 391,417                 |
| MBT – Medak          | 391,417                 |
| MBT – Narayankhed    | 448,108                 |
| MBT – Sadasivapet    | 391,417                 |
| MBT – Sangareddy     | 391,417                 |
| MUC                  | 1,063,381               |
| SCI II               | 3,989,703               |
| Kismet Microfinance  | 2,279,396               |
| <b>Total</b>         | <b>9,346,256</b>        |

### Changes in Authorised Share Capital

- The initial authorised share capital of Rs. 60,000,000 divided into 3,000,000 Equity Shares of Rs. 10 each sub-divided into (i) 2,000,000 "Class A" Equity Shares of Rs. 10 each, and (ii) 1,000,000 "Class B" Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each was increased to Rs. 62,000,000 divided into 3,200,000 Equity Shares of Rs. 10 each sub-divided into (i) 2,100,000 "Class A" Equity Shares of Rs. 10 each, and (ii) 1,100,000

“Class B” Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each, pursuant to a resolution of the shareholders passed at an EGM held on December 19, 2003.

2. The authorised share capital was reclassified from Rs. 62,000,000 divided into 3,200,000 Equity Shares of Rs. 10 each sub-divided into (i) 2,100,000 “Class A” Equity Shares of Rs. 10 each, and (ii) 1,100,000 “Class B” Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each to Rs. 62,000,000 by consolidating the existing “Class A” and “Class B” Equity Shares into one class of Equity Shares divided into 3,200,000 Equity Shares of Rs. 10 each totalling Rs. 32,000,000 and 3,000,000 Preference Shares of Rs. 10 each, pursuant to a resolution of the shareholders passed at an EGM held on March 15, 2006.
3. The authorised share capital was further increased from Rs. 62,000,000 divided into 3,200,000 Equity Shares of Rs. 10 and 3,000,000 Preference Shares of Rs. 10 each to Rs. 200,000,000 divided into 17,000,000 Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each, pursuant to a resolution of the shareholders passed at an EGM held on March 15, 2006.
4. The authorised share capital was further increased from Rs. 200,000,000 divided into 17,000,000 Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each to Rs. 400,000,000 divided into 37,000,000 Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each, pursuant to a resolution of the shareholders passed at an EGM held on February 9, 2007.
5. The authorised share capital was further increased from Rs. 400,000,000 divided into 37,000,000 Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each to Rs. 550,000,000 divided into 52,000,000 Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each, pursuant to a resolution of the shareholders passed at an EGM held on October 27, 2007.
6. The authorised share capital was further increased from Rs. 550,000,000 divided into 52,000,000 Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each to Rs. 850,000,000 divided into 82,000,000 Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each, pursuant to a resolution of the shareholders passed at an AGM held on August 7, 2008.
7. The authorised share capital was further increased from Rs. 850,000,000 divided into 82,000,000 Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each to Rs. 950,000,000 divided into 82,000,000 Equity Shares of Rs. 10 each and 13,000,000 Preference Shares of Rs. 10 each, pursuant to a resolution of the shareholders passed at an EGM held on October 8, 2008.

## Notes to Capital Structure

### 1. *Share Capital History of the Company*

- a) The following is the history of the equity share capital of the Company:

| Date of Allotment and when made fully paid up | Number of Equity Shares                                                                                                                                                                                          | Nature of Consideration | Face value (Rs.) | Issue Price (Rs.) |
|-----------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|------------------|-------------------|
| September 22, 2003                            | 10,000 Equity Shares allotted pursuant to subscription to the Memorandum of Association                                                                                                                          | Cash                    | 10.00            | 10.00             |
| November 21, 2003                             | Allotment of 50 Equity Shares to:<br>(i) Mr. Sitaram Rao – 10 Equity Shares<br>(ii) Mr. G.V. Ramana Babu – 10 Equity Shares<br>(iii) Mr. Ashish Damani – 10 Equity Shares<br>(iv) Mr. P.V. Kalyanachakravarthy - | Cash                    | 10.00            | 10.00             |

| Date of Allotment and when made fully paid up | Number of Equity Shares                                                                                                                                                                                                                                                                                                                                                                                                                                          | Nature of Consideration | Face value (Rs.) | Issue Price (Rs.) |
|-----------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|------------------|-------------------|
|                                               | 10 Equity Shares<br>(v) Ms. Praseeda Kunam -10 Equity Shares                                                                                                                                                                                                                                                                                                                                                                                                     |                         |                  |                   |
| December 19, 2003                             | Allotment of 2,050,000 Equity Shares to:<br>(i) Ms. Praseeda Kunam, as Trustee of MBT – Medak – 400,000 Equity Shares<br>(ii) Ms. Praseeda Kunam, as Trustee of MBT – Jogipet – 400,000 Equity Shares<br>(iii) Ms. Praseeda Kunam, as Trustee of MBT – Narayankhed – 450,000 Equity Shares<br>(iv) Ms. Praseeda Kunam, as Trustee of MBT – Sangareddy – 400,000 Equity Shares<br>(v) Ms. Praseeda Kunam, as Trustee of MBT – Sadasivapet – 400,000 Equity Shares | Cash                    | 10.00            | 10.00             |
| February 20, 2006                             | Allotted 500,000 Equity Shares to SIDBI                                                                                                                                                                                                                                                                                                                                                                                                                          | Cash                    | 10.00            | 10.00             |
| March 16, 2006                                | Allotted 1,065,120 Equity Shares to the Ravi and Pratibha Reddy Foundation Inc                                                                                                                                                                                                                                                                                                                                                                                   | Cash                    | 10.00            | 10.00             |
| March 22, 2006                                | Allotted 4,550,000 Equity Shares to:<br>(i) Dr. G.V. Ramana Babu, as Trustee of MBT – Medak-900,000 Equity Shares<br>(ii) Dr. G.V. Ramana Babu, as Trustee of MBT – Jogipet-900,000 Equity Shares<br>(iii) Dr. G.V. Ramana Babu, as Trustee of MBT – Narayankhed-950,000 Equity Shares<br>(iv) Dr. G.V. Ramana Babu, as Trustee of MBT – Sangareddy-900,000 Equity Shares<br>(v) Dr. G.V. Ramana Babu, as Trustee of MBT – Sadasivapet-900,000 Equity Shares     | Cash                    | 10.00            | 10.00             |
| March 31, 2006                                | Allotted 5,232,000 Equity Shares to:<br>(i) Unitus Equity Fund LLP– 2,099,040 Equity Shares<br>(ii) Mr. Vinod Khosla – 2,099,040 Equity Shares<br>(iii) The Ravi and Pratibha Reddy Foundation, Inc. – 1,033,920 Equity Shares                                                                                                                                                                                                                                   | Cash                    | 10.00            | 10.00             |
|                                               | Allotted 500,000 Equity Shares to SIDBI                                                                                                                                                                                                                                                                                                                                                                                                                          | Cash                    | 10.00            | 10.00             |
| March 31, 2007                                | Allotted 818,000 Equity Shares under ESPS 2007 to the employees                                                                                                                                                                                                                                                                                                                                                                                                  | Cash                    | 10.00            | 10.00             |
|                                               | Allotted 1,636,138 Equity Shares to Dr. Vikram Akula                                                                                                                                                                                                                                                                                                                                                                                                             | Cash                    | 10.00            | 10.00             |
|                                               | Allotted 10,281,739 Equity Shares to:<br>(i) MUC - 1,319,069 Equity Shares<br>(ii) Mr. Vinod Khosla - 1,319,069 Equity Shares<br>(iii) Kismet Microfinance - 1,319,069 Equity Shares<br>(iv) SCI II - 5,430,468 Equity Shares                                                                                                                                                                                                                                    | Cash                    | 10.00            | 49.77             |

| Date of Allotment and when made fully paid up | Number of Equity Shares                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Nature of Consideration | Face value (Rs.) | Issue Price (Rs.) |
|-----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|------------------|-------------------|
|                                               | (v) Odyssey Capital Private Limited - 894,064 Equity Shares                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                         |                  |                   |
| November 20, 2007                             | Allotted 514,250 Equity Shares under ESPS 2007                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Cash                    | 10.00            | 49.77             |
| January 22, 2008                              | Allotted 3,863,415 Equity Shares ( <i>as partly paid shares, which were made fully paid on December 8, 2009</i> ) to:<br>(i) Mr. G.V. Ramana Babu as Trustee for MBT - Sadasivapet - 772,683 Equity Shares)<br>(ii) Mr. G.V. Ramana Babu as Trustee for MBT - Jogipet (772,683 Equity Shares)<br>(iii) Mr. G.V. Ramana Babu as Trustee for MBT - Medak (772,683 Equity Shares)<br>(iv) Mr. G.V. Ramana Babu as Trustee for MBT - Sangareddy (772,683 Equity Shares)<br>(v) Mr. G.V. Ramana Babu as Trustee for MBT - Narayankhed (772,683 Equity Shares)                                    | Cash                    | 10.00            | 70.67             |
|                                               | Allotted 16,981,184 Equity Shares to:<br>(i) SIDBI – 807,461 Equity Shares<br>(ii) Yatish Trading – 962,050 Equity Shares<br>(iii) Infocom Ventures – 283,020 Equity Shares<br>(iv) Mr. Vinod Khosla – 820,757 Equity Shares<br>(v) MUC – 2,274,020 Equity Shares<br>(vi) SCI II – 2,847,013 Equity Shares<br>(vii) Kismet Microfinance – 3,678,027 Equity Shares<br>(viii) Columbia Pacific Opportunity – 275,944 Equity Shares<br>(ix) SCIGII – 2,996,396 Equity Shares<br>(x) SVB India Capital Partners I, L.P – 275,944 Equity Shares<br>(xi) Tejas Ventures – 1,760,552 Equity Shares | Cash                    | 10.00            | 70.67             |
| August 25, 2008                               | Allotted 517,500 Equity Shares under ESPS 2007                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Cash                    | 10.00            | 70.67             |
| March 26, 2009                                | Allotted 3,051,875 Equity Shares to:<br>(i) SIP I – 2,085,448 Equity Shares<br>(ii) Kismet SKS II – 885,044 Equity Shares<br>(iii) ICP Holdings I – 81,383 Equity Shares                                                                                                                                                                                                                                                                                                                                                                                                                    | Cash                    | 10.00            | 300.00            |
| August 18, 2009                               | Allotted 8,080 Equity Shares to Dr. Tarun Khanna                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Cash                    | 10.00            | 300.00            |
|                                               | Allotted 416,666 Equity Shares to BALICL                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Cash                    | 10.00            | 300.00            |
| December 8, 2009                              | Conversion of CCPS to Equity Shares in the ratio of one Equity Share for every CCPS held, allotted to:<br>(i) SIP I* – 6,256,344 Equity Shares<br>(ii) Kismet SKS II* – 2,655,131                                                                                                                                                                                                                                                                                                                                                                                                           | -                       | 10.00            | 300.00            |



| Date of Allotment and when made fully paid up | Number of Equity Shares                                                                                                          | Nature of Consideration | Face value (Rs.) | Issue Price (Rs.) |
|-----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|-------------------------|------------------|-------------------|
|                                               | Equity Shares<br>(iii) ICP Holdings I* – 244,150 Equity Shares<br>(iv) BALICL** – 1,250,000 Equity Shares                        |                         |                  |                   |
| December 24, 2009                             | Allotted 945,424 Equity Shares to Dr. Akula pursuant to exercise of stock options granted under ESOP 2007                        | Cash                    | 10.00            | 49.77             |
| December 31, 2009                             | Allotted 17,383 Equity Shares to 16 employees on a preferential basis,                                                           | Cash                    | 10.00            | 300.00            |
| January 19, 2010                              | Allotted 937,770 Equity Shares on a preferential basis to Catamaran Management Services Private Limited as trustee for Catamaran | Cash                    | 10.00            | 300.00            |
| March 23, 2010                                | Allotted 225,000 Equity Shares to Mr. Suresh Gurumani pursuant to exercise of stock options granted under ESOP 2008              | Cash                    | 10.00            | 300.00            |

\* Pursuant to receipt of Rs. 300 for each CCPS from SIP I, Kismet SKS II and ICP Holdings I on October 20, 2008, the CCPS were allotted on March 26, 2009 and were converted into Equity Shares of the Company, in the ratio of one Equity Share for every CCPS held, pursuant to the circular resolution passed by the Board of Directors on December 8, 2009 and taken on record on January 5, 2010.

\*\* Pursuant to receipt of Rs. 300 for each CCPS from BALICL on May 21, 2009, the CCPS were allotted on August 18, 2009 and were converted into Equity Shares of the Company, in the ratio of one Equity Share for every CCPS held, pursuant to the circular resolution passed by the Board of Directors on December 8, 2009 and taken on record on January 5, 2010.

(b) The following is the history of the preference share capital of the Company:

| Date of Allotment and when made fully paid up | Number of Equity Shares                                                                                                   | Nature of Consideration | Face value (Rs.) | Issue Price (Rs.) |
|-----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|-------------------------|------------------|-------------------|
| March 26, 2009                                | Allotted 9,155,625 CCPS* to:<br>(i) SIP I – 6,256,344<br>(ii) Kismet SKS II – 2,655,131<br>(iii) ICP Holdings I – 244,150 | Cash                    | 10.00            | 300.00            |
| August 18, 2009                               | Allotted 1,250,000 CCPS* to BALICL                                                                                        | Cash                    | 10.00            | 300.00            |

\* The CCPS were converted to Equity Shares of the Company in the ratio of 1:1 pursuant to the circular resolution passed by the Board of Directors on December 8, 2009 and taken on record on January 5, 2010.

Currently, there are no outstanding Preference Shares.

Other than as specified above, the Company has not issued Equity Shares or Preference Shares during the preceding one year from the date of this Red Herring Prospectus.

## 2. Promoters' Contribution and Lock-in

(a) History of Equity Shares held by the Promoters

The Equity Shares held by the Promoters were acquired/ allotted in the following manner:

| Sr. No.                 | Date of Allotment/Transfer | Nature of consideration | No. of Equity Shares       | Face Value (Rs.) | Issue/Acquisition Price (Rs.) | Percentage of Pre-Issue Paid-up Capital | No. of Equity Shares pledged | Percentage of Equity Shares pledged |
|-------------------------|----------------------------|-------------------------|----------------------------|------------------|-------------------------------|-----------------------------------------|------------------------------|-------------------------------------|
| <b>Dr. Vikram Akula</b> |                            |                         |                            |                  |                               |                                         |                              |                                     |
| 1.                      | September 22, 2003         | Cash                    | 5,000                      | 10.00            | 10.00                         | 0.01                                    | -                            | -                                   |
| 2.                      | May 8, 2004                | Cash                    | (5,000) <sup>(1)</sup>     | 10.00            | 10.00                         | (0.01)                                  | -                            | -                                   |
| 3.                      | March 31, 2007             | Cash                    | 1,636,138                  | 10.00            | 10.00                         | 2.5                                     | -                            | -                                   |
| 4.                      | September 30, 2008         | Cash                    | (1,636,138) <sup>(2)</sup> | 10.00            | 103.91                        | (2.5)                                   | -                            | -                                   |
| 5.                      | December 24, 2009          | Cash                    | 945,424                    | 10.00            | 49.77                         | 1.5                                     | -                            | -                                   |

| Sr. No.                    | Date of Allotment/Transfer | Nature of consideration | No. of Equity Shares        | Face Value (Rs.) | Issue/Acquisition Price (Rs.) | Percentage of Pre-Issue Paid-up Capital | No. of Equity Shares pledged | Percentage of Equity Shares pledged |
|----------------------------|----------------------------|-------------------------|-----------------------------|------------------|-------------------------------|-----------------------------------------|------------------------------|-------------------------------------|
| 6.                         | February 10, 2010          | Cash                    | (945,424) <sup>(3)</sup>    | 10.00            | US\$ 13.67                    | (1.5)                                   | -                            | -                                   |
|                            | <b>Total</b>               |                         | <b>Nil</b>                  |                  |                               |                                         |                              |                                     |
| <b>MBT – Narayankhed</b>   |                            |                         |                             |                  |                               |                                         |                              |                                     |
| 1.                         | December 19, 2003          | Cash                    | 450,000                     | 10.00            | 10.00                         | 0.7                                     | -                            | -                                   |
| 2.                         | March 22, 2006             | Cash                    | 950,000                     | 10.00            | 10.00                         | 1.5                                     | -                            | -                                   |
| 3.                         | January 22, 2008           | Cash                    | 772,683                     | 10.00            | 70.67                         | 1.2                                     | 134,000                      | 6.2                                 |
| 4.                         | January 5, 2010            | Gift                    | (18,990) <sup>(4)</sup>     | 10.00            | -                             | (0.03)                                  | -                            | -                                   |
|                            | <b>Total</b>               |                         | <b>2,153,693</b>            |                  |                               |                                         |                              |                                     |
| <b>MBT – Jogipet</b>       |                            |                         |                             |                  |                               |                                         |                              |                                     |
| 1.                         | December 19, 2003          | Cash                    | 400,000                     | 10.00            | 10.00                         | 0.6                                     | -                            | -                                   |
| 2.                         | March 22, 2006             | Cash                    | 900,000                     | 10.00            | 10.00                         | 1.4                                     | -                            | -                                   |
| 3.                         | January 22, 2008           | Cash                    | 772,683                     | 10.00            | 70.67                         | 1.2                                     | 134,000                      | 6.5                                 |
| 4.                         | January 5, 2010            | Gift                    | (19,000) <sup>(4)</sup>     | 10.00            | -                             | (0.03)                                  | -                            | -                                   |
|                            | <b>Total</b>               |                         | <b>2,053,683</b>            |                  |                               |                                         |                              |                                     |
| <b>MBT – Medak</b>         |                            |                         |                             |                  |                               |                                         |                              |                                     |
| 1.                         | December 19, 2003          | Cash                    | 400,000                     | 10.00            | 10.00                         | 0.6                                     | -                            | -                                   |
| 2.                         | March 22, 2006             | Cash                    | 900,000                     | 10.00            | 10.00                         | 1.4                                     | -                            | -                                   |
| 3.                         | January 22, 2008           | Cash                    | 772,683                     | 10.00            | 70.67                         | 1.2                                     | 134,000                      | 6.5                                 |
| 4.                         | January 5, 2010            | Gift                    | (19,000) <sup>(4)</sup>     | 10.00            | -                             | (0.03)                                  | -                            | -                                   |
|                            | <b>Total</b>               |                         | <b>2,053,683</b>            |                  |                               |                                         |                              |                                     |
| <b>MBT – Sadasivapet</b>   |                            |                         |                             |                  |                               |                                         |                              |                                     |
| 1.                         | December 19, 2003          | Cash                    | 400,000                     | 10.00            | 10.00                         | 0.6                                     | -                            | -                                   |
| 2.                         | March 22, 2006             | Cash                    | 900,000                     | 10.00            | 10.00                         | 1.4                                     | -                            | -                                   |
| 3.                         | January 22, 2008           | Cash                    | 772,683                     | 10.00            | 70.67                         | 1.2                                     | 134,000                      | 6.5                                 |
| 4.                         | January 5, 2010            | Gift                    | (19,000) <sup>(4)</sup>     | 10.00            | -                             | (0.03)                                  | -                            | -                                   |
|                            | <b>Total</b>               |                         | <b>2,053,683</b>            |                  |                               |                                         |                              |                                     |
| <b>MBT – Sangareddy</b>    |                            |                         |                             |                  |                               |                                         |                              |                                     |
| 1.                         | December 19, 2003          | Cash                    | 400,000                     | 10.00            | 10.00                         | 0.6                                     | -                            | -                                   |
| 2.                         | March 22, 2006             | Cash                    | 900,000                     | 10.00            | 10.00                         | 1.4                                     | -                            | -                                   |
| 3.                         | January 22, 2008           | Cash                    | 772,683                     | 10.00            | 70.67                         | 1.2                                     | 134,000                      | 6.5                                 |
| 4.                         | January 5, 2010            | Gift                    | (19,000) <sup>(4)</sup>     | 10.00            | -                             | (0.03)                                  | -                            | -                                   |
|                            | <b>Total</b>               |                         | <b>2,053,683</b>            |                  |                               |                                         |                              |                                     |
| <b>SCI II</b>              |                            |                         |                             |                  |                               |                                         |                              |                                     |
| 1.                         | March 31, 2007             | Cash                    | 5,430,468                   | 10.00            | 49.77                         | 8.4                                     | -                            | -                                   |
| 2.                         | January 22, 2008           | Cash                    | 2,847,013                   | 10.00            | 70.67                         | 4.4                                     | -                            | -                                   |
| 3.                         | September 30, 2008         | Cash                    | 818,069 <sup>(5)</sup>      | 10.00            | 103.91                        | 1.3                                     | -                            | -                                   |
|                            | <b>Total</b>               |                         | <b>9,095,550</b>            |                  |                               |                                         |                              |                                     |
| <b>SCIGI I</b>             |                            |                         |                             |                  |                               |                                         |                              |                                     |
| 1.                         | January 22, 2008           | Cash                    | 2,996,396                   | 10.00            | 70.67                         | 4.6                                     | -                            | -                                   |
| 2.                         | July 29, 2009              | Cash                    | 1,955,078 <sup>(6)</sup>    | 10.00            | 240.00                        | 3.0                                     | -                            | -                                   |
|                            | <b>Total</b>               |                         | <b>4,951,474</b>            |                  |                               |                                         |                              |                                     |
| <b>Kismet Microfinance</b> |                            |                         |                             |                  |                               |                                         |                              |                                     |
| 1.                         | January 16, 2007           | Cash                    | 2,099,040 <sup>(7)</sup>    | 10.00            | 10.00                         | 3.3                                     | -                            | -                                   |
| 2.                         | March 31, 2007             | Cash                    | 1,319,069                   | 10.00            | 49.77                         | 2.0                                     | -                            | -                                   |
| 3.                         | January 22, 2008           | Cash                    | 3,678,027                   | 10.00            | 70.67                         | 5.7                                     | -                            | -                                   |
| 4.                         | September 30, 2008         | Cash                    | 818,069 <sup>(8)</sup>      | 10.00            | 103.91                        | 1.3                                     | -                            | -                                   |
|                            | <b>Total</b>               |                         | <b>7,914,205</b>            |                  |                               |                                         |                              |                                     |
| <b>MUC</b>                 |                            |                         |                             |                  |                               |                                         |                              |                                     |
| 1.                         | March 31, 2006             | Cash                    | 2,099,040 <sup>(9)</sup>    | 10.00            | 10.00                         | 3.3                                     | -                            | -                                   |
| 2.                         | March 31, 2007             | Cash                    | 1,319,069                   | 10.00            | 49.77                         | 2.0                                     | -                            | -                                   |
| 3.                         | January 22, 2008           | Cash                    | 2,274,020                   | 10.00            | 70.67                         | 3.5                                     | -                            | -                                   |
| 4.                         | July 29, 2009              | Cash                    | (2,000,000) <sup>(10)</sup> | 10.00            | 240.00                        | (3.1)                                   | -                            | -                                   |
|                            | <b>Total</b>               |                         | <b>3,692,129</b>            |                  |                               |                                         |                              |                                     |

<sup>(1)</sup> Transferred to Mr. G.S.V. Ramana Babu.

<sup>(2)</sup> Transferred to Kismet Microfinance and SCI II.

<sup>(3)</sup> Transferred to Tree Line pursuant to a Share Purchase Agreement dated December 10, 2009. For further details, please see "History and Certain Corporate Matters – Material Agreements - Share Purchase Agreement dated December 10, 2009 between Dr. Vikram Akula, Tree Line and the Company" on page 108 of this Red Herring Prospectus.

<sup>(4)</sup> Transferred by the SKS MBTs to the mother of (Late) Mr. V.L. Sitaram Rao, our ex-Director and CEO in lieu of the services rendered by him to the SKS MBTs.

- (5) Transfer from Dr. Vikram Akula.  
(6) Transfer from MUC.  
(7) Transfer from the Ravi and Pratibha Reddy Foundation, Inc.  
(8) Transfer from Dr. Vikram Akula.  
(9) Transfer from Unitus Equity Fund LLP.  
(10) Transferred to SCIG I and ICP Holdings.

(b) *Details of Promoters' contribution locked in for three years*

The Equity Shares which are being locked-in are not ineligible for computation of promoters' contribution in accordance with the provisions of the SEBI Regulations. In this connection we confirm the following:

- (i) The Equity Shares offered for minimum 20% promoters' contribution are not acquired for consideration of intangible asset or bonus shares out of revaluations reserves or reserves without accrual of cash resource or against shares which are otherwise ineligible for computation of promoters' contribution;
- (ii) The minimum promoters' contribution does not include any Equity Shares acquired during the preceding one year at a price lower than the price at which Equity Shares are being offered;
- (iii) Our Company has not been formed by the conversion of partnership firm into a company;
- (iv) The Equity Shares held by the promoters and offered for minimum 20% promoters' contribution are not subject to pledge;
- (v) The minimum promoters' contribution does not consist of any private placement made by solicitation of subscriptions from unrelated persons either directly or through any intermediary;
- (vi) The minimum promoters' contribution does not consist of Equity Shares for which specific written consent has not been obtained from the respective shareholders for inclusion of their subscription in the minimum promoters' contribution subject to lock-in.

Pursuant to the SEBI Regulations, the Promoters have given an undertaking that an aggregate of 20% of the fully diluted post-Issue capital of the Company held by them shall be locked in for a period of three years from the date of Allotment of Equity Shares in the Issue.

The details of such lock-in are set forth in the table below:

| S. No.                   | Date of Allotment/Transfer | Nature of consideration | No. of Equity Shares locked in | Face Value | Issue/Acquisition Price (Rs.) | Percentage of Post-Issue Paid-up Capital |
|--------------------------|----------------------------|-------------------------|--------------------------------|------------|-------------------------------|------------------------------------------|
| <b>Dr. Vikram Akula*</b> |                            |                         |                                |            |                               |                                          |
| 1.                       |                            | -                       | -                              | -          | -                             | -                                        |
| <b>SCI II</b>            |                            |                         |                                |            |                               |                                          |
| 1.                       | January 22, 2008           | Cash                    | 2,265,423                      | 10.00      | 70.67                         | 3.1                                      |
| 2.                       | September 30, 2008         | Cash                    | 818,069                        | 10.00      | 103.91                        | 1.1                                      |
| <b>SCIG I</b>            |                            |                         |                                |            |                               |                                          |
| 1.                       | January 22, 2008           | Cash                    | 2,996,396                      | 10.00      | 70.67                         | 4.2                                      |
| <b>MBT – Narayankhed</b> |                            |                         |                                |            |                               |                                          |
| 1.                       | March 22, 2006             | Cash                    | 945,261                        | 10.00      | 10.00                         | 1.3                                      |
| <b>MBT – Jogipet</b>     |                            |                         |                                |            |                               |                                          |
| 1.                       | December 19, 2003          | Cash                    | 1,365                          | 10.00      | 10.00                         | 0.0                                      |
| 2.                       | March 22, 2006             | Cash                    | 900,000                        | 10.00      | 10.00                         | 1.3                                      |
| <b>MBT – Medak</b>       |                            |                         |                                |            |                               |                                          |
| 1.                       | December 19, 2003          | Cash                    | 1,365                          | 10.00      | 10.00                         | 0.0                                      |
| 2.                       | March 22, 2006             | Cash                    | 900,000                        | 10.00      | 10.00                         | 1.3                                      |
| <b>MBT – Sadasivapet</b> |                            |                         |                                |            |                               |                                          |
| 1.                       | December 19, 2003          | Cash                    | 1,365                          | 10.00      | 10.00                         | 0.0                                      |
| 2.                       | March 22, 2006             | Cash                    | 900,000                        | 10.00      | 10.00                         | 1.3                                      |
| <b>MBT – Sangareddy</b>  |                            |                         |                                |            |                               |                                          |

| S. No.                     | Date of Allotment/Transfer | Nature of consideration | No. of Equity Shares locked in | Face Value | Issue/Acquisition Price (Rs.) | Percentage of Post-Issue Paid-up Capital |
|----------------------------|----------------------------|-------------------------|--------------------------------|------------|-------------------------------|------------------------------------------|
| 1.                         | December 19, 2003          | Cash                    | 1,365                          | 10.00      | 10.00                         | 0.0                                      |
| 2.                         | March 22, 2006             | Cash                    | 900,000                        | 10.00      | 10.00                         | 1.3                                      |
| <b>Kismet Microfinance</b> |                            |                         |                                |            |                               |                                          |
| 1.                         | January 22, 2008           | Cash                    | 2,655,491                      | 10.00      | 70.67                         | 3.7                                      |
| 2.                         | September 30, 2008         | Cash                    | 818,069                        | 10.00      | 103.91                        | 1.1                                      |
| <b>MUC</b>                 |                            |                         |                                |            |                               |                                          |
| 1.                         | January 22, 2008           | Cash                    | 1,620,482                      | 10.00      | 70.67                         | 2.3                                      |

\* *The stock options granted to Dr. Vikram Akula have been locked in for a period of three years from the date of Allotment in this Issue. For details, please see below.*

(i) *Details of share capital locked in for one year*

In addition to 20% of the post-Issue shareholding of the Company held by the Promoters and locked in for three years as specified above and the Equity Shares constituting the Offer for Sale, the entire pre-Issue share capital of the Company will be locked in for a period of one year from the date of Allotment in this Issue in accordance with the SEBI Regulations, except as provided below.

(ii) *Lock in of stock options allotted to Dr. Vikram Akula*

Dr. Vikram Akula has consented to lock-in the existing 2,676,271 stock options that have been granted to him for a period of three years from the date of Allotment in this Issue. For details of the stock options that have been granted to Dr. Akula see, "Employee Stock Option Plans and Stock Purchase Plan" below.

The Company has received a Letter of Undertaking dated January 19, 2010 from Dr. Vikram Akula whereby he has consented that he will not sell, transfer, encumber or pledge the Equity Shares held by him to any person for the period commencing from the date of listing of the Equity Shares to three years after the listing or the date of cessation of his employment, whichever is earlier.

(iii) *Lock in of Equity Shares Allotted to Anchor Investors*

Equity Shares Allotted to Anchor Investors, in the Anchor Investor Portion shall be locked in for a period of 30 days from the date of Allotment of Equity Shares in the Issue.

(iv) *Other Requirements in respect of lock-in*

Locked-in Equity Shares of the Company held by the Promoters can be pledged only with banks or public financial institutions as collateral security for loans granted by such scheduled banks or public financial institutions provided that the pledge of the Equity Shares is one of the terms of the sanction of the loan.

The Equity Shares held by persons other than the Promoters prior to the Issue may be transferred to any other person holding the Equity Shares which are locked-in, subject to continuation of the lock-in in the hands of the transferees for the remaining period and compliance with the SEBI Takeovers Code, as applicable.

Equity Shares held by the Promoter may be transferred to and amongst the Promoter Group or to a new promoter or persons in control of the Company subject to continuation of the lock-in in the hands of the transferees for the remaining period and compliance with the SEBI Takeovers Regulations, as applicable.

The Promoters' contribution has been brought in to the extent of not less than the specified minimum lot and from the persons defined as Promoters under the SEBI Regulations.

3. **Details of transactions in Equity Shares by the Promoter, Promoter Group, directors of the Promoters and our Directors**

The following are the Equity Shares that have been sold or purchased by the Promoter, Promoter Group, directors of our Promoters and our Directors during the period of six months preceding the date on which the Red Herring Prospectus is filed with SEBI.

| Promoter/Promoter Group                | Nature of Transaction | Date of transfer  | Transferred to         | Purchased from | Number of Equity Shares transferred (each of Rs. 10) | Transfer Price (per Equity Share) |
|----------------------------------------|-----------------------|-------------------|------------------------|----------------|------------------------------------------------------|-----------------------------------|
| SKS Mutual Benefit Trust, Narayankhed* | Gift                  | January 5, 2010   | Ms. V.L. Santha Kumari | -              | 18,990                                               | -                                 |
| SKS Mutual Benefit Trust, Jogipet*     | Gift                  | January 5, 2010   | Ms. V.L. Santha Kumari | -              | 19,000                                               | -                                 |
| SKS Mutual Benefit Trust, Medak*       | Gift                  | January 5, 2010   | Ms. V.L. Santha Kumari | -              | 19,000                                               | -                                 |
| SKS Mutual Benefit Trust, Sadasivpet*  | Gift                  | January 5, 2010   | Ms. V.L. Santha Kumari | -              | 19,000                                               | -                                 |
| SKS Mutual Benefit Trust, Sangareddy*  | Gift                  | January 5, 2010   | Ms. V.L. Santha Kumari | -              | 19,000                                               | -                                 |
| Dr. Vikram Akula                       | Sale                  | February 10, 2010 | Tree Line              | -              | 945,424                                              | USD 13.67                         |
| Mr. Suresh Gurumani                    | Sale                  | April 16, 2010    | Tree Line              | -              | 225,000                                              | Rs. 636.72                        |

\* Transferred by the SKS MBTs to the mother of (Late) Mr. Sitaram Rao, our ex-Director and CEO in lieu of the services rendered by him to the SKS MBTs.

4. **Shareholding Pattern of the Company**

- a) The table below presents our shareholding pattern before the proposed Issue as per Clause 35 of the Listing Agreement:

| Category Code | Category of shareholder                | Number of shareholders | Total number of shares (Pre-Issue) | Number of shares held in dematerialized form | Total shareholding as a percentage of total number of shares |                            | Shares pledged or otherwise encumbered |                 |
|---------------|----------------------------------------|------------------------|------------------------------------|----------------------------------------------|--------------------------------------------------------------|----------------------------|----------------------------------------|-----------------|
|               |                                        |                        |                                    |                                              | As a percentage of (A+B)                                     | As a percentage of (A+B+C) | No of shares                           | As a percentage |
| A             | Promoter and Promoter Group            |                        |                                    |                                              |                                                              |                            |                                        |                 |
| 1             | Indian                                 |                        |                                    |                                              |                                                              |                            |                                        |                 |
| (a)           | Individual/Hindu Undivided family      | -                      | -                                  | -                                            | -                                                            | -                          | -                                      | -               |
| (b)           | Central Government/state government(s) | -                      | -                                  | -                                            | -                                                            | -                          | -                                      | -               |
| (c)           | Bodies corporate                       | -                      | -                                  | -                                            | -                                                            | -                          | -                                      | -               |
| (d)           | Financial Institutions/Banks           | -                      | -                                  | -                                            | -                                                            | -                          | -                                      | -               |
| (e)           | Any other (specify) Trusts             | 5                      | 10,368,425                         | 2,050,000                                    | 16.1                                                         | 16.1                       | 670,000                                | 6.5             |
|               | Promoter Group                         | -                      | -                                  | -                                            | -                                                            | -                          | -                                      | -               |
|               | Sub Total (A) (1)                      | 5                      | 10,368,425                         | 2,050,000                                    | 16.1                                                         | 16.1                       | 670,000                                | 6.5             |
| 2             | Foreign                                |                        |                                    |                                              |                                                              |                            |                                        |                 |

| Category Code | Category of shareholder                                                       | Number of shareholders | Total number of shares (Pre-Issue) | Number of shares held in dematerialized form | Total shareholding as a percentage of total number of shares |                            | Shares pledged or otherwise encumbered |                 |
|---------------|-------------------------------------------------------------------------------|------------------------|------------------------------------|----------------------------------------------|--------------------------------------------------------------|----------------------------|----------------------------------------|-----------------|
|               |                                                                               |                        |                                    |                                              | As a percentage of (A+B)                                     | As a percentage of (A+B+C) | No of shares                           | As a percentage |
| (a)           | Individuals (Non resident individuals / Foreign individuals)                  | -                      | -                                  | -                                            | -                                                            | -                          | -                                      | -               |
| (b)           | Bodies corporate                                                              | 4                      | 25,653,358                         | 25,653,358                                   | 39.8                                                         | 39.8                       | -                                      | -               |
| (c)           | Institutions                                                                  | -                      | -                                  | -                                            | -                                                            | -                          | -                                      | -               |
| (d)           | Any other (specify)                                                           | -                      | -                                  | -                                            | -                                                            | -                          | -                                      | -               |
|               | <b>Sub Total (A) (2)</b>                                                      | <b>4</b>               | <b>25,653,358</b>                  | <b>25,653,358</b>                            | <b>39.8</b>                                                  | <b>39.8</b>                | <b>-</b>                               | <b>-</b>        |
|               | <b>Total Shareholding of Promoter and Promoter Group A=A(1)+A(2)</b>          | <b>9</b>               | <b>36,021,783</b>                  | <b>27,703,358</b>                            | <b>55.8</b>                                                  | <b>55.8</b>                | <b>670,000</b>                         | <b>1.9</b>      |
| <b>(B)</b>    | <b>Public shareholding</b>                                                    |                        |                                    |                                              |                                                              |                            |                                        |                 |
| <b>1</b>      | <b>Institutions</b>                                                           |                        |                                    |                                              |                                                              |                            |                                        |                 |
| (a)           | Mutual Funds / UTI                                                            | -                      | -                                  | -                                            | -                                                            | -                          | -                                      | -               |
| (b)           | Financial Institutions / Banks                                                | 1                      | 1,807,461                          | -                                            | 2.8                                                          | 2.8                        | -                                      | -               |
| (c)           | Central Government / State Government(s)                                      | -                      | -                                  | -                                            | -                                                            | -                          | -                                      | -               |
| (d)           | Venture Capital Funds                                                         | -                      | -                                  | -                                            | -                                                            | -                          | -                                      | -               |
| (e)           | Insurance Companies                                                           | 1                      | 1,666,666                          | 1,666,666                                    | 2.6                                                          | 2.6                        | -                                      | -               |
| (f)           | Foreign institutional investors                                               | -                      | -                                  | -                                            | -                                                            | -                          | -                                      | -               |
| (g)           | Foreign Venture Capital Investors                                             | -                      | -                                  | -                                            | -                                                            | -                          | -                                      | -               |
| (h)           | Any other (specify)                                                           | -                      | -                                  | -                                            | -                                                            | -                          | -                                      | -               |
|               | <b>Sub Total (B) (1)</b>                                                      | <b>2</b>               | <b>3,474,127</b>                   | <b>1,666,666</b>                             | <b>5.4</b>                                                   | <b>5.4</b>                 | <b>-</b>                               | <b>-</b>        |
| <b>2</b>      | <b>Non Institutions</b>                                                       |                        |                                    |                                              |                                                              |                            |                                        |                 |
| (a)           | Bodies Corporate                                                              | 7                      | 17,913,900                         | 6,709,538                                    | 27.8                                                         | 27.8                       | -                                      | -               |
| (b)(i)        | Individual shareholders holding nominal share capital up to Rs. 1 lakh        | 172                    | 526,038                            | 2,500                                        | 0.8                                                          | 0.8                        | -                                      | -               |
| (b)(ii)       | Individual shareholders holding nominal share capital in excess of Rs. 1 lakh | 32                     | 1,001,155                          | -                                            | 1.6                                                          | 1.6                        | -                                      | -               |
| (c)           | <b>Any other (specify)</b>                                                    |                        |                                    |                                              |                                                              |                            |                                        |                 |
|               | Firms represented by Partners                                                 | 1                      | 283,020                            | -                                            | 0.4                                                          | 0.4                        | -                                      | -               |
|               | Non-Resident Indians                                                          | 1                      | 4,238,866                          | -                                            | 6.6                                                          | 6.6                        | -                                      | -               |
|               | Directors                                                                     | 2                      | 18,080                             | -                                            | 0.03                                                         | 0.03                       | -                                      | -               |
|               | Trusts                                                                        | 3                      | 1,050,250                          | -                                            | 1.6                                                          | 1.6                        | -                                      | -               |
|               | <b>Sub Total (B) (2)</b>                                                      | <b>218</b>             | <b>25,031,309</b>                  | <b>6,712,038</b>                             | <b>38.8</b>                                                  | <b>38.8</b>                | <b>-</b>                               | <b>-</b>        |
|               | <b>Total Public shareholding (B)= (B1) +(B2)</b>                              | <b>220</b>             | <b>28,505,436</b>                  | <b>8,378,704</b>                             | <b>44.2</b>                                                  | <b>44.2</b>                | <b>-</b>                               | <b>-</b>        |
|               | <b>Total (A)+(B)</b>                                                          | <b>229</b>             | <b>64,527,219</b>                  | <b>36,082,062</b>                            | <b>100.0</b>                                                 | <b>100.0</b>               | <b>670,000</b>                         | <b>1.0</b>      |

| Category Code | Category of shareholder                                                          | Number of shareholders | Total number of shares (Pre-Issue) | Number of shares held in dematerialized form | Total shareholding as a percentage of total number of shares |                            | Shares pledged or otherwise encumbered |                 |
|---------------|----------------------------------------------------------------------------------|------------------------|------------------------------------|----------------------------------------------|--------------------------------------------------------------|----------------------------|----------------------------------------|-----------------|
|               |                                                                                  |                        |                                    |                                              | As a percentage of (A+B)                                     | As a percentage of (A+B+C) | No of shares                           | As a percentage |
| (C)           | Shares held by custodians and against which Depository Receipts have been issued | -                      | -                                  | -                                            | -                                                            | -                          | -                                      | -               |
|               | <b>Grand Total (A) + (B) + (C)</b>                                               | <b>229</b>             | <b>64,527,219</b>                  | <b>36,082,062</b>                            | <b>100.0</b>                                                 | <b>100.0</b>               | <b>670,000</b>                         | <b>1.0</b>      |

- b) The table below presents our shareholding pattern before and after the proposed Issue and as adjusted for the Issue:

| Shareholders                                                | Pre-Issue            |             | Post-Issue <sup>#</sup> |             |
|-------------------------------------------------------------|----------------------|-------------|-------------------------|-------------|
|                                                             | No. of Equity Shares | Percentage  | No. of Equity Shares    | Percentage  |
| <b>Promoters (A)</b>                                        |                      |             |                         |             |
| SKS MBT – Narayankhed                                       | 2,153,693            | 3.3         | 1,705,585               | 2.4         |
| SKS MBT – Jogipet                                           | 2,053,683            | 3.2         | 1,662,266               | 2.3         |
| SKS MBT – Medak                                             | 2,053,683            | 3.2         | 1,662,266               | 2.3         |
| SKS MBT – Sadasivapet                                       | 2,053,683            | 3.2         | 1,662,266               | 2.3         |
| SKS MBT – Sangareddy                                        | 2,053,683            | 3.2         | 1,662,266               | 2.3         |
| SCI II                                                      | 9,095,550            | 14.1        | 5,105,847               | 7.1         |
| SCIGI I                                                     | 4,951,474            | 7.7         | 4,951,474               | 6.9         |
| Kismet Microfinance                                         | 7,914,205            | 12.3        | 5,634,809               | 7.8         |
| MUC                                                         | 3,692,129            | 5.7         | 2,628,748               | 3.7         |
| <b>Total (A)</b>                                            | <b>36,021,783</b>    | <b>55.8</b> | <b>26,675,527</b>       | <b>37.1</b> |
| <b>Promoter Group (B)</b>                                   |                      |             |                         |             |
| -                                                           | -                    | -           | -                       | -           |
| <b>Total (A + B)</b>                                        | <b>36,021,783</b>    | <b>55.8</b> | <b>26,675,527</b>       | <b>37.1</b> |
| <b>Non-Promoter Group (C)</b>                               |                      |             |                         |             |
| SIP I                                                       | 8,341,792            | 12.9        | 8,341,792               | 11.6        |
| Mr. Vinod Khosla                                            | 4,238,866            | 6.6         | 4,238,866               | 5.9         |
| Kismet SKS II                                               | 3,660,500            | 5.7         | 3,660,500               | 5.1         |
| Yatish Trading Company Private Limited                      | 1,556,114            | 2.4         | 1,556,114               | 2.2         |
| SIDBI <sup>@</sup>                                          | 1,807,461            | 2.8         | 1,807,461               | 2.5         |
| Tejas Ventures                                              | 1,760,552            | 2.7         | 1,760,552               | 2.4         |
| BALICL                                                      | 1,666,666            | 2.6         | 1,666,666               | 2.3         |
| Tree Line                                                   | 1,492,924            | 2.3         | 1,492,924               | 2.1         |
| Catamaran Management Services Private Limited <sup>##</sup> | 937,770              | 1.5         | 937,770                 | 1.3         |
| ICP Holding I                                               | 802,018              | 1.2         | 802,018                 | 1.1         |
| Quantum (M)                                                 | 300,000              | 0.5         | 300,000                 | 0.4         |

| Shareholders                                    | Pre-Issue            |              | Post-Issue <sup>#</sup> |              |
|-------------------------------------------------|----------------------|--------------|-------------------------|--------------|
|                                                 | No. of Equity Shares | Percentage   | No. of Equity Shares    | Percentage   |
| Limited                                         |                      |              |                         |              |
| Infocom Ventures                                | 283,020              | 0.4          | 283,020                 | 0.4          |
| <b>Others</b>                                   |                      |              |                         |              |
| SKS Employees & EWT                             | 1,619,633            | 2.5          | 1,619,633               | 2.3          |
| Dr. Tarun Khanna                                | 8,080                | 0.0          | 8,080                   | 0.0          |
| Others                                          | 30,040               | 0.1          | 30,040                  | 0.0          |
| <b>Total (C)</b>                                | <b>28,505,436</b>    | <b>44.2</b>  | <b>28,505,436</b>       | <b>39.6</b>  |
| <b>Total Pre-Issue Share Capital (A+B+C)</b>    | <b>64,527,219</b>    | <b>100.0</b> | <b>55,180,963</b>       | <b>76.7</b>  |
| Public (Pursuant to the Issue) (D)              | -                    | -            | 16,791,579              | 23.3         |
| <b>Total Post-Issue Share Capital (A+B+C+D)</b> | <b>64,527,219</b>    | <b>100.0</b> | <b>71,972,542</b>       | <b>100.0</b> |

<sup>#</sup> Assuming that the existing shareholders, except Selling Shareholders and Employees who hold Equity Shares issued under ESOP and ESPS schemes of the Company, shall continue to hold the same number of Equity shares after Issue.

<sup>##</sup> Allotted as the trustee for Catamaran.

<sup>@</sup> Pursuant to a letter dated January 6, 2010, SIDBI has exercised its right of co-sale of 37,675 Equity Shares held by it under the Restated Shareholders Agreement and the Share Transfer Agreement and Tree Line has by its letter dated February 10, 2010 expressed its in-principle intention to acquire such Equity Shares, subject to regulatory approvals.

## 5. Equity Shares held by top ten shareholders

(a) On the date of filing this Red Herring Prospectus with SEBI:

| Sl. No. | Shareholder         | No. of Equity Shares held | Percentage |
|---------|---------------------|---------------------------|------------|
| 1       | SCI II              | 9,095,550                 | 14.1       |
| 2       | SIP I               | 8,341,792                 | 12.9       |
| 3       | Kismet Microfinance | 7,914,205                 | 12.3       |
| 4       | SCIGI I             | 4,951,474                 | 7.7        |
| 5       | Mr. Vinod Khosla    | 4,238,866                 | 6.6        |
| 6       | MUC                 | 3,692,129                 | 5.7        |
| 7       | Kismet SKS II       | 3,660,500                 | 5.7        |
| 8       | MBT – Narayankhed   | 2,153,693                 | 3.3        |
| 9       | MBT – Medak         | 2,053,683                 | 3.2        |
| 10      | MBT – Sadasivapet   | 2,053,683                 | 3.2        |

(b) 10 days prior to, the date of filing this Red Herring Prospectus with SEBI:

| Sl. No. | Shareholder         | No. of Equity Shares held | Percentage |
|---------|---------------------|---------------------------|------------|
| 1       | SCI II              | 9,095,550                 | 14.1       |
| 2       | SIP I               | 8,341,792                 | 12.9       |
| 3       | Kismet Microfinance | 7,914,205                 | 12.3       |
| 4       | SCIGI I             | 4,951,474                 | 7.7        |
| 5       | Mr. Vinod Khosla    | 4,238,866                 | 6.6        |
| 6       | MUC                 | 3,692,129                 | 5.7        |
| 7       | Kismet SKS II       | 3,660,500                 | 5.7        |



| Sl. No. | Shareholder       | No. of Equity Shares held | Percentage |
|---------|-------------------|---------------------------|------------|
| 8       | MBT – Narayankhed | 2,153,693                 | 3.3        |
| 9       | MBT – Medak       | 2,053,683                 | 3.2        |
| 10      | MBT – Sadasivapet | 2,053,683                 | 3.2        |

(c) Two years prior to the date of filing this Red Herring Prospectus with SEBI:

| S. No. | Shareholder         | No. of Equity Shares held | Percentage |
|--------|---------------------|---------------------------|------------|
| 1.     | SCI II              | 8,277,481                 | 17.2       |
| 2.     | Kismet Microfinance | 7,096,136                 | 14.8       |
| 3.     | MUC                 | 5,692,129                 | 11.9       |
| 4.     | Mr. Vinod Khosla    | 4,238,866                 | 8.8        |
| 5.     | SCIGI I             | 2,996,396                 | 6.2        |
| 6.     | MBT – Narayankhed   | 2,172,683                 | 4.5        |
| 7.     | MBT – Jogipet       | 2,072,683                 | 4.3        |
| 8.     | MBT – Medak         | 2,072,683                 | 4.3        |
| 9.     | MBT – Sadasivapet   | 2,072,683                 | 4.3        |
| 10.    | MBT – Sangareddy    | 2,072,683                 | 4.3        |

## 6. Employee Stock Option Plans and Stock Purchase Plan

### A. SKS Microfinance Employees Stock Option Plan 2007 (“ESOP 2007”)

The Company instituted ESOP 2007 pursuant to a special resolution dated September 8, 2007 passed at an AGM of the Company. The main purposes of the ESOP 2007 are:

- To attract and retain appropriate human talent in the employment of the Company and to motivate employees with rewards and incentive opportunities.
- To achieve sustained growth of the Company and the creation of shareholder value by aligning the interests of the employees with the long term interests of the Company and to create a sense of ownership and participation among employees.

The total number of shares (which mean Equity Shares of the Company and securities convertible into Equity Shares) that may be issued under ESOP 2007 are 1,852,158 Equity Shares. The ESOP 2007 came into effect on September 8, 2007 and is valid up to September 7, 2011, or such other date as may be decided by the Board of Directors. The ESOP 2007 was implemented by the Board of Directors and the Compensation Committee. Unless otherwise specified, the vested options were to be exercised prior to the expiry of 48 months from the date of vesting.

The Company has granted 1,852,158 options convertible into 1,852,158 Equity Shares of face value of Rs.10 each on various dates as tabulated below, which represents 2.9% of the pre-Issue paid up equity capital of the Company and 2.4% of the fully diluted post-Issue paid up capital of the Company. The following table sets forth the particulars of the options granted under ESOP 2007 as of the date of filing this Red Herring Prospectus:

| Particulars                                                                                            | Details          |
|--------------------------------------------------------------------------------------------------------|------------------|
| Options granted                                                                                        | 1,852,158        |
| Date of grant                                                                                          | October 15, 2007 |
| Exercise price of options (in Rs.)                                                                     | 49.77            |
| Total options vested                                                                                   | 1,852,158        |
| Options exercised                                                                                      | 945,424          |
| Total number of Equity Shares that would arise as a result of full exercise of options already granted | 1,852,158        |

| Particulars                                                                                                                                                                                                                                                                                   | Details                                                                                                                                                                               |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Options forfeited/ lapsed/ cancelled                                                                                                                                                                                                                                                          | -                                                                                                                                                                                     |
| Variation in terms of options                                                                                                                                                                                                                                                                 | -                                                                                                                                                                                     |
| Money realised by exercise of options (in Rs.)                                                                                                                                                                                                                                                | 47,053,753                                                                                                                                                                            |
| Options outstanding (in force)                                                                                                                                                                                                                                                                | 906,734                                                                                                                                                                               |
| Person wise details of options granted to                                                                                                                                                                                                                                                     |                                                                                                                                                                                       |
| i) Directors and key managerial employees                                                                                                                                                                                                                                                     | 1,852,158                                                                                                                                                                             |
| ii) Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during the year                                                                                                                                                         | -                                                                                                                                                                                     |
| iii) Identified employees who are granted options, during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant                                                                                       | -                                                                                                                                                                                     |
| Fully diluted EPS on a pre-Issue basis                                                                                                                                                                                                                                                        | Rs. 27.47 (As on March 31, 2010)                                                                                                                                                      |
| Difference between employee compensation cost using the intrinsic value method and the employee compensation cost that shall have been recognised if the Company has used fair value of options and impact of this difference on profits and EPS of the Company                               | Nil                                                                                                                                                                                   |
| Vesting schedule                                                                                                                                                                                                                                                                              | Immediate                                                                                                                                                                             |
| Lock-in                                                                                                                                                                                                                                                                                       | -                                                                                                                                                                                     |
| Impact on profits of the last three years (Rs.)                                                                                                                                                                                                                                               | 2,511,958 for fiscal 2008 and 10,976,397 for fiscal 2009                                                                                                                              |
| Intention of the holders of Equity Shares allotted on exercise of options to sell their Equity Shares within three months after the listing of Equity Shares pursuant to the Issue                                                                                                            | The holders of Equity Shares allotted on exercise of options pursuant to ESOP 2007 may sell their Equity Shares within the three month period after the listing of the Equity Shares. |
| Intention to sell Equity Shares arising out of ESOP 2007 within three months after the listing of Equity Shares by Directors, senior managerial personnel and employees having Equity Shares amounting to more than 1% of the issued capital (excluding outstanding warrants and conversions) | None                                                                                                                                                                                  |

Details regarding options granted to Directors and key managerial employees are set forth below:

| Name of Director/key managerial personnel | Total No. of options granted under ESOP 2007 | No. of options exercised under ESOP 2007 | Total No. of options outstanding under ESOP 2007 | No. of Equity Shares held | Plan      |
|-------------------------------------------|----------------------------------------------|------------------------------------------|--------------------------------------------------|---------------------------|-----------|
| Dr. Vikram Akula                          | 1,852,158                                    | 945,424*                                 | 906,734 <sup>#</sup>                             | -                         | ESOP 2007 |

\* Equity Shares resulting from these stock options were transferred to Tree Line pursuant to a Share Purchase Agreement dated December 10, 2009, subject to certain stipulations set out therein.

<sup>#</sup> Dr. Vikram Akula has consented to lock-in the stock options of the Company held by him for a period of three years.

## B. Employees Share Purchase Scheme (“ESPS 2007”)

The Company instituted ESPS 2007 pursuant to a special resolution dated February 9, 2007 passed at an EGM of the Company. The ESPS 2007 was implemented by the Compensation Committee and the SKS Microfinance Employee Welfare Trust (EWT). The EWT was

constituted on March 28, 2007 pursuant to a resolution passed by the Board of Directors dated March 5, 2007. The effective date of the ESPS 2007 was March 31, 2007 and it shall be in effect till March 31, 2020. The object of ESPS 2007 is:

- (i) to attract and retain appropriate human talent in the employment of the Company and to motivate the employees with incentives and reward opportunities,
- (ii) To achieve sustained growth and creation of shareholder value by aligning the interest of the employees with the long term interests of the Company; and
- (iii) To create a sense of ownership and participation amongst the employees.

The EWT was constituted for promoting welfare of the employees and for, amongst other aspects, for introducing appropriate incentive plans and benefits for employees from time to time to motivate such employees to contribute to the growth and profitability of the Company and for administration, management, funding, implementation and all other matters incidental to such plans. The Company had entered into arrangements with the EWT with an objective to provide financial assistance to the eligible employees. Under the ESPS 2007 the Company provides EWT with loans aggregating to an amount equivalent to the issue price of the total number of Equity Shares to be allotted. The EWT in turn provides interest free loan as per the terms of the financing agreement entered into with the employees in order to facilitate their acquisition of the Equity Shares and the Equity Shares are agreed to be pledged by the employees in favour of the EWT as per the terms of a pledge agreement. The loans granted by the EWT do not carry interest on the amounts outstanding upto the due dates for the entire amount. In the event the loan amount remains outstanding after the specified due date as may be specified in the finance agreement the employee is required to pay to the EWT an interest on an annual basis on the entire amount outstanding at the State Bank of India Prime Lending Rate. In the event the employee is terminated or has resigned from the service of the Company, then the Equity Shares to the extent of the unpaid amount of the interest free loan granted by the EWT shall stand transferred to the EWT.

Under ESPS 2007, 1,849,750 Equity Shares were issued for the benefit of the eligible employees, which represents 2.9% of the pre-Issue paid up equity capital of the Company and 2.4% of the fully diluted post-Issue paid up capital of the Company. The following table sets forth the particulars of the Equity Shares granted under the ESPS 2007 as of the date of filing the Red Herring Prospectus.

| Particulars                                                                                                                                                                                               | Details of Tranche I | Details of Tranche II | Details of Tranche III |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------|------------------------|
| Shares Issued                                                                                                                                                                                             | 818,000              | 514,250               | 517,500                |
| Date of issue                                                                                                                                                                                             | March 31, 2007       | November 20, 2007     | August 25, 2008        |
| Allotment price of share (Rs.)                                                                                                                                                                            | 10.00                | 49.77                 | 70.67                  |
| Person wise details of shares granted to                                                                                                                                                                  |                      |                       |                        |
| i) Directors and key managerial employees                                                                                                                                                                 | Refer below          |                       |                        |
| ii) Any other employee who was allotted Equity Shares amounting to 5% or more of the Equity Shares allotted during the year                                                                               | Not Applicable       | Not Applicable        | Not Applicable         |
| iii) Identified employees who were allotted Equity Shares, during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of | Not Applicable       | Not Applicable        | Not Applicable         |

| Particulars                                                                                                                                                                                                                                                                                       | Details of Tranche I                                                                                                                                                                        | Details of Tranche II | Details of Tranche III    |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|---------------------------|
| allotment                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                             |                       |                           |
| Fully diluted EPS on a pre-Issue basis                                                                                                                                                                                                                                                            | Rs. 27.47 (as on March 31, 2010)                                                                                                                                                            |                       |                           |
| Difference between employee compensation cost using the intrinsic value method and the employee compensation cost that shall have been recognised if the Company has used fair value and impact of this difference on profits and EPS of the Company                                              | Not Applicable                                                                                                                                                                              | Not Applicable        | Not Applicable            |
| Lock-in                                                                                                                                                                                                                                                                                           | -                                                                                                                                                                                           | -                     | -                         |
| Impact on profits of the last three years (Rs.)                                                                                                                                                                                                                                                   | Nil                                                                                                                                                                                         | Nil                   | 5,345,775 for fiscal 2009 |
| Intention of the holders of Equity Shares allotted to sell their shares within three months after the listing of Equity Shares pursuant to the Issue                                                                                                                                              | The holders of Equity Shares allotted on issue of Equity Shares pursuant to ESPS- 2007 may sell their equity shareholding within the 3 month period after the listing of the Equity Shares. |                       |                           |
| Intention to sell Equity Shares arising out of the ESPS 2007 within three months after the listing of Equity Shares by Directors, senior managerial personnel and employees having Equity Shares amounting to more than 1% of the issued capital (excluding outstanding warrants and conversions) | None                                                                                                                                                                                        |                       |                           |

Details regarding Equity Shares allotted to Directors and key managerial employees are set forth below:

| Name of Director / Key Managerial Personnel | Number of Equity Shares allotted | Date of allotment/Transfer                                                                                                                                                                                                                                                                                           |
|---------------------------------------------|----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Mr. M.R. Rao                                | 456,666*                         | <ul style="list-style-type: none"> <li>200,000 Equity Shares allotted on March 31, 2007.</li> <li>163,750 Equity Shares allotted on August 25, 2008.</li> <li>86,250 Equity Shares have been transferred from EWT on August 25, 2008.</li> <li>6,666 Equity Shares transferred from EWT on July 29, 2009.</li> </ul> |
| Mr. S. Dilli Raj                            | 102,666**                        | <ul style="list-style-type: none"> <li>100,000 Equity Shares have been transferred from EWT on February 1, 2008.</li> <li>2,666 Equity Shares transferred from EWT on July 29, 2009.</li> </ul>                                                                                                                      |

\* Out of the 456,666 Equity Shares, 100,000 Equity Shares have been transferred to EWT on July 29, 2009 at a price of Rs. 300.00 per Equity Share and 62,500 Equity Shares have been transferred to Tree Line on April 16, 2010 at a price of Rs. 636.72 per Equity Share.

\*\* Out of the 102,666 Equity Shares, 25,000 Equity Shares have been transferred to Tree Line on April 16, 2010 at a price of Rs. 636.72 per Equity Share.

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

The Company instituted ESOP 2008 pursuant to a special resolution dated November 8, 2008 passed at an EGM of the Company. The main purposes of the ESOP 2008 are:

- i) To attract and retain appropriate human talent in the employment of the Company and to motivate employees with rewards and incentive opportunities; and
- ii) To achieve sustained growth of the Company and the creation of shareholder value by aligning the interests of the employees with the long term interests of the Company and to create a sense of ownership and participation among employees.

The total number of shares (which mean Equity Shares of the Company and securities convertible into Equity Shares) that may be issued under ESOP 2008 are 2,669,537 Equity Shares. The ESOP 2008 came into effect on November 10, 2008 and is valid up to November 9, 2014, or such other date as may be decided by the Board of Directors. The ESOP 2008 was implemented by the Board of Directors and the Compensation Committee. Unless otherwise specified, the vested options were to be exercised prior to the expiry of 60 months from the date of vesting.

The Company has granted 2,669,537 options convertible into 2,669,537 Equity Shares of face value of Rs.10 each on various dates as tabulated below, which represents 4.1% of the pre-Issue paid up equity capital of the Company and 3.4% of the fully diluted post-Issue paid up capital of the Company. The following table sets forth the particulars of the options granted under ESOP 2008 as of the date of filing the Red Herring Prospectus:

| Particulars                                                                                                                                                                                                                                                     | Details of Tranche I                     | Details of Tranche II                               |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|-----------------------------------------------------|
| Options granted                                                                                                                                                                                                                                                 | 1,769,537                                | 900,000                                             |
| Date of grant                                                                                                                                                                                                                                                   | November 10, 2008                        | December 8, 2008                                    |
| Exercise price of options (in Rs.)                                                                                                                                                                                                                              | 300.00                                   | 300.00                                              |
| Total options vested                                                                                                                                                                                                                                            | 1,769,537                                | 225,000                                             |
| Options exercised                                                                                                                                                                                                                                               | -                                        | 225,000                                             |
| Total number of Equity Shares that would arise as a result of full exercise of options already granted                                                                                                                                                          | 1,769,537                                | 900,000                                             |
| Options forfeited/ lapsed/ cancelled                                                                                                                                                                                                                            | -                                        | -                                                   |
| Variation in terms of options                                                                                                                                                                                                                                   | -                                        | -                                                   |
| Money realised by exercise of options (in Rs.)                                                                                                                                                                                                                  | -                                        | Rs. 67.5 million                                    |
| Options outstanding (in force)                                                                                                                                                                                                                                  | 1,769,537                                | 675,000                                             |
| Person wise details of options granted to                                                                                                                                                                                                                       |                                          |                                                     |
| i) Directors and key managerial employees                                                                                                                                                                                                                       | 1,769,537                                | 900,000                                             |
| ii) Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during the year                                                                                                                           | -                                        | -                                                   |
| iii) Identified employees who are granted options, during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant                                                         | -                                        | -                                                   |
| Fully diluted EPS on a pre-Issue basis                                                                                                                                                                                                                          | Rs. 27.47 (As on March 31, 2010)         |                                                     |
| Difference between employee compensation cost using the intrinsic value method and the employee compensation cost that shall have been recognised if the Company has used fair value of options and impact of this difference on profits and EPS of the Company | Nil                                      | Nil                                                 |
| Vesting schedule                                                                                                                                                                                                                                                | Immediate                                | 25% equally at the end of each year                 |
| Lock-in                                                                                                                                                                                                                                                         | -                                        | -                                                   |
| Impact on profits of the last three years (in Rs.)                                                                                                                                                                                                              | 5,159,964 for fiscal 2009                | 177,162 for fiscal 2009 and 457,740 for fiscal 2010 |
| Intention of the holders of Equity Shares                                                                                                                                                                                                                       | The holders of Equity Shares allotted on |                                                     |

| Particulars                                                                                                                                                                                                                                                                                   | Details of Tranche I                                                                                                                         | Details of Tranche II |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| allotted on exercise of options to sell their Equity Shares within three months after the listing of Equity Shares pursuant to the Issue                                                                                                                                                      | exercise of options pursuant to ESOP 2008 may sell their equity shares within the three month period after the listing of the Equity Shares. |                       |
| Intention to sell Equity Shares arising out of ESOP 2008 within three months after the listing of Equity Shares by Directors, senior managerial personnel and employees having Equity Shares amounting to more than 1% of the issued capital (excluding outstanding warrants and conversions) | None                                                                                                                                         |                       |

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

| Name of Director/<br>key managerial personnel | Total No. of options granted under ESOP 2008 | No. of options exercised under ESOP 2008 | Total No. of options outstanding under ESOP 2008 | No. of Equity Shares held | Plan                   |
|-----------------------------------------------|----------------------------------------------|------------------------------------------|--------------------------------------------------|---------------------------|------------------------|
| Dr. Vikram Akula                              | 1,769,537 <sup>#</sup>                       | -                                        | 1,769,537 <sup>#</sup>                           | -                         | ESOP 2008- Tranche I   |
| Mr. Suresh Gurumani                           | 900,000                                      | 225,000                                  | 675,000                                          | 225,000*                  | ESOP 2008 - Tranche II |

\* Mr. Suresh Gurumani has transferred these 225,000 Equity Shares to Tree Line pursuant to a Share Purchase Agreement dated January 27, 2010. For further details, please see "History and Certain Corporate Matters – Material Agreements - Share Purchase Agreements dated January 27, 2010 between Mr. Suresh Gurumani, Mr. M.R. Rao and certain employees, Tree Line and the Company" on page 109 of this Red Herring Prospectus.

# Dr. Vikram Akula has consented to lock-in the stock options of the Company held by him for a period of three years from the date of Allotment in the Issue.

#### **D. SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors) ("ESOP 2008 (ID)")**

The Company instituted ESOP 2008 (ID) pursuant to a special resolution dated January 15, 2008 passed at an EGM of the Company. The Stock Option Plan 2008 was amended pursuant to the Board resolution dated January 5, 2010 and EGM held on January 8, 2010 and the name has been changed to SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors). The purpose of the ESOP 2008 (ID) is to:

- (i) To attract and retain independent Directors' on the Board of the Company who are eminent and revered personality in their respective fields;
- (ii) To commensurate independent Directors for the value addition and contribution made by them to the Company; and
- (iii) To remunerate adequately, each Independent Directors' to be on the Board of the Company.

The total number of Equity Shares that may be issued under ESOP-2008 (ID) are 195,000 Equity Shares (as amended, pursuant to a resolution of the shareholders dated January 08, 2010. The ESOP-2008 (ID) came into effect on January 16, 2008 and is valid up to January 15, 2015, or such other date as may be decided by the Board of Directors. The ESOP 2008 (ID) was implemented by the Board of Directors. Unless otherwise specified the vested options were to be exercised prior to the expiry of 60 months from the date of vesting.

The Company has granted 159,000 options convertible into 159,000 Equity Shares each under ESOP 2008 (ID).

These options represent 0.2% of the pre-Issue paid up equity capital of the Company and 0.2% of the fully diluted post-Issue paid up capital of the Company. The following table sets forth the particulars of the options granted under the ESOP 2008 (ID) as of the date of filing the Red Herring Prospectus:

| Particulars                                                                                                                                                                                                                                                     | Details of Tranche I                                                      | Details of Tranche II                              | Details of Tranche III  | Details of Tranche IV               |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|----------------------------------------------------|-------------------------|-------------------------------------|
| Options granted                                                                                                                                                                                                                                                 | 45,000                                                                    | 6,000                                              | 18,000                  | 90,000                              |
| Date of Grant                                                                                                                                                                                                                                                   | February 1, 2008                                                          | November 10, 2008                                  | July 29, 2009           | February 1, 2010                    |
| Exercise price of options (in Rs.)                                                                                                                                                                                                                              | 70.67                                                                     | 70.67                                              | 300.00                  | 300.00                              |
| Total options vested                                                                                                                                                                                                                                            | 45,000                                                                    | 6,000                                              | 18,000                  | -                                   |
| Options exercised                                                                                                                                                                                                                                               | -                                                                         | -                                                  | -                       | -                                   |
| Total number of Equity Shares that would arise as a result of full exercise of options already granted                                                                                                                                                          | 45,000                                                                    | 6,000                                              | 18,000                  | 90,000                              |
| Options forfeited/ lapsed/ cancelled                                                                                                                                                                                                                            | -                                                                         | -                                                  | -                       | -                                   |
| Variation in terms of options                                                                                                                                                                                                                                   | -                                                                         | -                                                  | -                       | -                                   |
| Money realised by exercise of options (in Rs.)                                                                                                                                                                                                                  | -                                                                         | -                                                  | -                       | -                                   |
| Options outstanding (in force)                                                                                                                                                                                                                                  | 45,000                                                                    | 6,000                                              | 18,000                  | 90,000                              |
| Person wise details of options granted to                                                                                                                                                                                                                       |                                                                           |                                                    |                         |                                     |
| i) Directors and key managerial employees                                                                                                                                                                                                                       | 45,000                                                                    | 6,000                                              | 18,000                  | 90,000                              |
| ii) Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during the year                                                                                                                           | -                                                                         | -                                                  | -                       | -                                   |
| iii) Identified employees who are granted options, during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant                                                         | -                                                                         | -                                                  |                         | -                                   |
| Fully diluted EPS on a pre-Issue basis                                                                                                                                                                                                                          | Rs. 27.47 (as on March 31, 2010)                                          |                                                    |                         |                                     |
| Difference between employee compensation cost using the intrinsic value method and the employee compensation cost that shall have been recognised if the Company has used fair value of options and impact of this difference on profits and EPS of the Company | -                                                                         | -                                                  | -                       | -                                   |
| Vesting schedule                                                                                                                                                                                                                                                | Immediate                                                                 | Immediate                                          | Immediate               | 25% equally at the end of each year |
| Lock-in                                                                                                                                                                                                                                                         | -                                                                         | -                                                  | -                       | -                                   |
| Impact on profits of the last three years(Rs.)                                                                                                                                                                                                                  | 57,454 for fiscal 2008, 338,940 in fiscal 2009 and 230,085 in fiscal 2010 | 71,360 for fiscal 2009 and 148,190 for fiscal 2010 | 122,094 for fiscal 2010 | 504,566 for fiscal 2010             |
| Intention of the holders of Equity                                                                                                                                                                                                                              | The holders of Equity Shares allotted on exercise of                      |                                                    |                         |                                     |

| Particulars                                                                                                                                                                                                                                                                                            | Details of Tranche I                                                                                                                  | Details of Tranche II | Details of Tranche III | Details of Tranche IV |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|-----------------------|------------------------|-----------------------|
| Shares allotted on exercise of options to sell their shares within three months after the listing of Equity Shares pursuant to the Issue                                                                                                                                                               | options pursuant to ESOP 2008 (ID) may sell their Equity Shares within the three month period after the listing of the Equity Shares. |                       |                        |                       |
| Intention to sell Equity Shares arising out of the ESOP 2008 (ID) within three months after the listing of Equity Shares by Directors, senior managerial personnel and employees having Equity Shares amounting to more than 1% of the issued capital (excluding outstanding warrants and conversions) | None                                                                                                                                  |                       |                        |                       |

Details regarding options granted to independent Directors are set forth below:

| Name of Director            | Total No. of options granted under ESOP 2008 (ID) | No. of options exercised under ESOP 2008 (ID) | Total No. of options outstanding under ESOP 2008 (ID) | No. of Equity Shares held | Plan                         |
|-----------------------------|---------------------------------------------------|-----------------------------------------------|-------------------------------------------------------|---------------------------|------------------------------|
| Mr. Gurcharan Das*          | 15,000                                            | -                                             | 15,000                                                | -                         | ESOP 2008 (ID) - Tranche I   |
| Mr. P.H. Ravi Kumar         | 15,000                                            | -                                             | 15,000                                                | -                         | ESOP 2008 (ID) - Tranche I   |
| Dr. Tarun Khanna            | 15,000                                            | -                                             | 15,000                                                | -                         | ESOP 2008 (ID) - Tranche I   |
| Dr. Tarun Khanna            | 3,000                                             | -                                             | 3,000                                                 | -                         | ESOP 2008 (ID) - Tranche II  |
| Mr. P.H. Ravi Kumar         | 3,000                                             | -                                             | 3,000                                                 | -                         | ESOP 2008 (ID) - Tranche II  |
| Mr. Geoffrey Tanner Woolley | 18,000                                            | -                                             | 18,000                                                | -                         | ESOP 2008 (ID) - Tranche III |
| Mr. P.H. Ravi Kumar         | 18,000                                            | -                                             | 18,000                                                | -                         | ESOP 2008 (ID) - Tranche IV  |
| Dr. Tarun Khanna            | 18,000                                            | -                                             | 18,000                                                | -                         | ESOP 2008 (ID) - Tranche IV  |
| Mr. Geoffrey Tanner Woolley | 18,000                                            | -                                             | 18,000                                                | -                         | ESOP 2008 (ID) - Tranche IV  |
| Mr. Pramod Bhasin           | 36,000                                            | -                                             | 36,000                                                | -                         | ESOP 2008 (ID)               |



| Name of Director | Total No. of options granted under ESOP 2008 (ID) | No. of options exercised under ESOP 2008 (ID) | Total No. of options outstanding under ESOP 2008 (ID) | No. of Equity Shares held | Plan         |
|------------------|---------------------------------------------------|-----------------------------------------------|-------------------------------------------------------|---------------------------|--------------|
|                  |                                                   |                                               |                                                       |                           | - Tranche IV |

\* Resigned with effect from January 5, 2010

#### E. SKS Microfinance Employees Stock Option Plan 2009 (“ESOP 2009”)

The Company instituted ESOP 2009 pursuant to a special resolution dated December 10, 2009 passed at an EGM of the Company. The main purposes of the ESOP 2009 are:

- To provide means to enable the Company to attract and retain appropriate human talent in the employment of the Company;
- To motivate the employees of the Company with incentives and reward opportunities;
- To achieve sustained growth of the Company and the creation of shareholder value by aligning the interests of the employees with the long term interests of the Company; and
- To create a sense of ownership and participation amongst the employees.

The total number of Equity Shares that may be issued under ESOP 2009 (as amended, pursuant to a resolution of shareholders dated December 10, 2009) are 2,499,490 Equity Shares. The ESOP 2009 came into effect on September 30, 2009 and is valid up to November 30, 2014, or such other date as may be decided by the Board of Directors. The ESOP 2009 was implemented by the Board of Directors and the Compensation Committee. The vested options were to be exercised prior to the expiry of six years from the date of grant of the Options as may be determined by the Board/Compensation Committee.

The Company has granted 2,395,910 options convertible into 2,395,910 Equity Shares of face value Rs. 10 each. The options granted by the Company under ESOP 2009 represent 3.7% of the pre-Issue paid up equity capital of the Company and 3.1% of the fully diluted post-Issue paid up capital of the Company. The following table sets forth the particulars of the options granted under ESOP 2009 as of the date of filing this Red Herring Prospectus:

| Particulars                                                                                            | Details of Tranche I | Details of Tranche II                                                               | Details of Tranche III                                                  |
|--------------------------------------------------------------------------------------------------------|----------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------|
| Options granted                                                                                        | 514,750              | 1,881,160                                                                           | 10,340                                                                  |
| Date of grant                                                                                          | November 3, 2009     | December 16, 2009                                                                   | May 4, 2010                                                             |
| Exercise price of options                                                                              | Rs. 300.00           | (a) 1,313,160 at Rs. 150.00 per option; and<br>(b) 568,000 at Rs. 300.00 per option | (a) 4,340 at Rs. 150 per option; and<br>(b) 6,000 at Rs. 300 per option |
| Total options vested                                                                                   | Nil                  | Nil                                                                                 | Nil                                                                     |
| Options exercised                                                                                      | Nil                  | Nil                                                                                 | Nil                                                                     |
| Total number of Equity Shares that would arise as a result of full exercise of options already granted | 514,750              | 1,881,160                                                                           | 10,340                                                                  |
| Options forfeited/ lapsed/ cancelled                                                                   | 26,500               | (a) 121,090 at Rs. 150.00 per option; and<br>(b) 35,000 at Rs.                      | (a) 350 at Rs. 150.00 per option                                        |

| Particulars                                                                                                                                                                                                                                                     | Details of Tranche I                                                                                                                                                                  | Details of Tranche II                                                               | Details of Tranche III                                                        |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                                 |                                                                                                                                                                                       | 300.00 per option                                                                   |                                                                               |
| Variation in terms of options                                                                                                                                                                                                                                   | Nil                                                                                                                                                                                   | Nil                                                                                 | Nil                                                                           |
| Money realised by exercise of options                                                                                                                                                                                                                           | Nil                                                                                                                                                                                   | Nil                                                                                 | Nil                                                                           |
| Options outstanding (in force)                                                                                                                                                                                                                                  | 488,250                                                                                                                                                                               | (a) 1,192,070 at Rs. 150.00 per option; and<br>(b) 533,000 at Rs. 300.00 per option | (a) 3,990 at Rs. 150.00 per option; and<br>(b) 6,000 at Rs. 300.00 per option |
| Person wise details of options granted to                                                                                                                                                                                                                       |                                                                                                                                                                                       |                                                                                     |                                                                               |
| i) Directors and key managerial employees                                                                                                                                                                                                                       | Nil                                                                                                                                                                                   | Nil                                                                                 | Nil                                                                           |
| ii) Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during the year                                                                                                                           | Nil                                                                                                                                                                                   | Nil                                                                                 | Nil                                                                           |
| iii) Identified employees who are granted options, during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant                                                         | Nil                                                                                                                                                                                   | Nil                                                                                 | Nil                                                                           |
| Fully diluted EPS on a pre-Issue basis                                                                                                                                                                                                                          | Rs. 27.47 (as on March 31, 2010)                                                                                                                                                      |                                                                                     |                                                                               |
| Difference between employee compensation cost using the intrinsic value method and the employee compensation cost that shall have been recognised if the Company has used fair value of options and impact of this difference on profits and EPS of the Company | Not Applicable                                                                                                                                                                        | Not Applicable                                                                      | Not Applicable                                                                |
| Vesting schedule                                                                                                                                                                                                                                                | Year 1- 40%<br>Year 2- 25%<br>Year 3- 25%<br>Year 4 – 10%                                                                                                                             | 20% equally at the end of each year                                                 | 20% equally at the end of each year                                           |
| Lock-in                                                                                                                                                                                                                                                         | Nil                                                                                                                                                                                   | Nil                                                                                 | Nil                                                                           |
| Impact on profits of the last three years                                                                                                                                                                                                                       | 4,921,649 for fiscal 2010                                                                                                                                                             | 23,002,636 for fiscal 2010                                                          | Nil                                                                           |
| Intention of the holders of Equity Shares allotted on exercise of options to sell their shares within three months after the listing of Equity Shares pursuant to the Issue                                                                                     | The holders of Equity Shares allotted on exercise of options pursuant to ESOP 2009 may sell their Equity Shares within the three month period after the listing of the Equity Shares. |                                                                                     |                                                                               |
| Intention to sell Equity Shares arising out of ESOP 2009 within                                                                                                                                                                                                 | None                                                                                                                                                                                  |                                                                                     |                                                                               |

| Particulars                                                                                                                                                                                                                   | Details of Tranche I | Details of Tranche II | Details of Tranche III |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------|------------------------|
| three months after the listing of Equity Shares by Directors, senior managerial personnel and employees having Equity Shares amounting to more than 1% of the issued capital (excluding outstanding warrants and conversions) |                      |                       |                        |

**F. SKS Microfinance Employees Stock Option Plan 2010 (“ESOP 2010”)**

The Board of Directors of the Company pursuant to a resolution dated May 4, 2010 and the shareholders at the AGM of the Company held on July 16, 2010 approved grant stock options pursuant to proposed ESOP 2010 to attract qualified and skilled professionals in the field of microfinance, to motivate/ retain the employees of the Company with incentives and reward to create a sense of ownership and participation amongst them. A total number of 1,200,000 Equity Shares may be issued under ESOP 2010 as stock options. No options have been granted under ESOP 2010.

7. The Company, Promoters, Directors and the BRLMs have not entered into any buy back arrangements for purchase of the specified securities of the Company, other than the arrangements, if any, entered for safety net facility as permitted under the SEBI Regulations.
8. Except as stated above, none of our Directors, key managerial personnel, BRLMs or their associates hold any Equity Shares in the Company.
9. A Bidder cannot make a Bid for more than the number of Equity Shares offered through the Issue, subject to the maximum limit of investment prescribed under relevant laws applicable to each category of investor.
10. The Directors of the Company which is a Promoter of the Company, the Directors of the Company and their relatives have not financed the purchase by any other person of securities of the Company other than in the normal course of the business of the financing entity during the period of six months immediately preceding the date of the Draft Red Herring Prospectus.
11. Apart from the options granted under the ESOP 2007, ESOP 2008, ESOP 2009 and ESOP 2008 (ID) there are no outstanding financial instruments or any other rights which would entitle the existing promoters or shareholders or any other person any option to acquire our Equity Shares after the Issue.
12. Except as may be disclosed above, we presently do not intend to or propose to alter the capital structure by way of split or consolidation of the denomination of our Equity Shares, or issue Equity Shares on a preferential basis or issue of bonus or rights or further public issue of Equity Shares or qualified institutions placement, within a period of six months from the date of opening of the Issue.
13. There shall be only one denomination of Equity Shares, unless otherwise permitted by law. We shall comply with such disclosure and accounting norms as may be specified by SEBI from time to time.
14. The Equity Shares being issued in this Issue will be fully paid up at the time of Allotment.
15. As of the date of filing of this Red Herring Prospectus, the total number of holders of Equity Shares are 229.
16. The Company has not raised any bridge loans against the Net Proceeds.

17. The Company has not issued any Equity Shares out of revaluation reserves. Except as disclosed in above, the Company has not issued any Equity Shares for consideration other than cash.
18. As per the RBI regulations, OCBs are not allowed to participate in the Issue.
19. The Company, Directors or Promoters shall not make any payments direct or indirect, discounts, commissions, allowances or otherwise under this Issue except as disclosed in this Red Herring Prospectus.
20. Except as stated above, the Equity Shares held by the Promoters are not subject to any pledge.
21. Over-subscription to the extent of 10% of the Issue can be retained for the purpose of rounding off.
22. The Company has not issued or allotted any Equity Shares out of revaluation reserves or for consideration other than cash or in terms of scheme approved under Sections 391 to 394 of the Companies Act, 1956.
23. At least 60% of the Issue shall be allocated to QIBs on a proportionate basis. 5% of the QIB Portion (excluding Anchor Investor Portion) shall be available for allocation to Mutual Funds only and the remaining QIB Portion shall be available for allocation to the QIBs including Mutual Funds subject to valid Bids being received at or above the Issue Price. Further, not less than 10% of the Issue will be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 30% of the Issue will be available for allocation to Retail Individual Bidders, subject to valid Bids being received from them at or above the Issue Price. Under-subscription, if any, in the Non-Institutional and Retail Individual categories would be allowed to be met with spill over from any other category at the discretion of the Company and the BRLMs.

Under-subscription, if any, in any category, except the QIB Portion, would be allowed to be met with spill-over from any other category or combination of categories at the discretion of the Company and the Selling Shareholders in consultation with the BRLMs and the Designated Stock Exchange.

For further details, see “Issue Structure” on page 276 of this Red Herring Prospectus.

## OBJECTS OF THE ISSUE

The Issue comprises of a Fresh Issue and an Offer for Sale. We intend to utilise the Net Proceeds for the following objects:

- (a) augment our capital base to meet our future capital requirements arising out of growth in our business; and
- (b) to achieve the benefits of listing on the Stock Exchanges.

We will not receive any of the proceeds from the Offer for Sale.

The main objects clause of our Memorandum of Association and the objects incidental and ancillary to the main objects enable us to undertake the activities for which the funds are being raised by us in the Issue. Further, we confirm that the activities we have been carrying out until now are in accordance with the objects clause of our Memorandum of Association.

### Utilisation of the Net Proceeds

The Net Proceeds amounting to Rs. [●] million shall be utilised to augment our capital base to meet our future capital requirements arising out of growth in our business.

### Means of Finance

The details of the Net Proceeds are summarised in the table below:

| (Rs. in million)                 |     |
|----------------------------------|-----|
| Particulars                      |     |
| Proceeds of the Fresh Issue      | [●] |
| Issue related expenses           | [●] |
| <b>Net Proceeds of the Issue</b> | [●] |

We are engaged in providing microfinance services to individuals from poor segments of rural India. As there is no project to be implemented, the Net Proceeds will be used to augment our capital base to meet our future capital requirements arising out of growth in our business.

### Interim Use of Funds

Pending utilisation for the purposes described above, we intend to invest such Net Proceeds in bank deposits as approved by our Board of Directors in accordance with our investment policy. Our management, in accordance with the policies established by our Board of Directors from time to time and subject to the relevant regulations of RBI, will have flexibility in deploying the Net Proceeds of the Issue subject to the Objects of the Issue.

### Issue Expenses

The expenses of this Issue include, among others, underwriting and management fees, printing and distribution expenses, legal fees, advertisement expenses and listing fees. The estimated Issue expenses are set forth in the table below:

| Activity                                                            | Expense*<br>(Rs. in million) | Expense (% of total<br>expenses) | Expense (% of Issue<br>Size) |
|---------------------------------------------------------------------|------------------------------|----------------------------------|------------------------------|
| Lead Management, Underwriting and Selling Commission, Brokerage     | [●]                          | [●]                              | [●]                          |
| SCSB Commission                                                     | [●]                          | [●]                              | [●]                          |
| Bankers to the Issue                                                |                              |                                  |                              |
| Advertising and marketing expenses                                  | [●]                          | [●]                              | [●]                          |
| Printing and stationery (including courier, transportation charges) | [●]                          | [●]                              | [●]                          |
| Others (Registrar fees, legal fees, listing costs etc)              | [●]                          | [●]                              | [●]                          |
| Fees paid to IPO Grading agency                                     | [●]                          | [●]                              | [●]                          |
| <b>Total</b>                                                        | [●]                          | [●]                              | [●]                          |

\*Will be incorporated after finalisation of the Issue Price.

The Issue expenses, except the listing fee, shall be shared between the Company and the Selling Shareholders. The listing fees will be paid by the Company.

#### **Monitoring of Utilization of Funds**

We have appointed Axis Bank as the monitoring agency in relation to the Issue as required under the provisions of the SEBI Regulations. We will disclose the utilization of the Net Proceeds under a separate head along with details, for all such Net Proceeds that have not been utilized. We will indicate investments, if any, of unutilized Net Proceeds in our balance sheet.

Pursuant to Clause 49 of the Listing Agreement, our Company shall on a quarterly basis disclose to the Audit Committee, the uses and applications of the Net Proceeds. On an annual basis, our Company shall prepare a statement of funds utilised for purposes other than those stated in this Red Herring Prospectus and place it before the Audit Committee. Such disclosure shall be made only until such time that all the Net Proceeds have been utilised in full. The statement will be certified by our statutory auditors. In addition, the report submitted by the monitoring agency will be placed before the Audit Committee of our Company, so as to enable the Audit Committee to make appropriate recommendations to the Board.

Our Company shall, in terms of Clause 43A of the Listing Agreement, be required to inform material deviations in the utilisation of Net Proceeds to the Stock Exchanges and shall also be required to simultaneously make the material deviations / adverse comments of the Audit Committee / monitoring agency public through advertisements in newspapers.

No part of the Net Proceeds will be paid by us as consideration to our Promoters, our Directors, Group Entities or key management personnel, except in the normal course of business and in compliance with applicable law.

## BASIS FOR ISSUE PRICE

The Issue Price will be determined by the Company and Selling Shareholders in consultation with the BRLMs on the basis of demand from the investors for the Equity Shares through the Book Building Process. The face value of the Equity Shares of the Company is Rs. 10 each and the Issue Price is [●] times the face value.

### Qualitative Factors

We believe the following business strengths allow us to successfully compete in the microfinance sector:

- Market Leadership
- Superior asset quality
- Expertise in microfinance
- Diversified Sources of Revenue
- Pan-India rural distribution network
- Scalable operating model
- Access to multiple sources of capital and emphasis on asset and liability management
- Experienced management team and board of directors

For further details, see “Business - Our Competitive Strengths” and “Risk Factors” on pages 76 and xiii of the Red Herring Prospectus.

### Quantitative Factors

The information presented below relating to the Company is based on the restated financial statements of the Company for fiscal 2010, 2009 and 2008, prepared in accordance with Indian GAAP.

Some of the quantitative factors, which form the basis for computing the price, are as follows:

1. *Basic and Diluted Earnings per Share (EPS) as per Accounting Standard 20*

Earnings per equity share (“EPS”)

| Year ended              | Basic        |        | Diluted      |        |
|-------------------------|--------------|--------|--------------|--------|
|                         | EPS (Rs.)    | Weight | EPS (Rs.)    | Weight |
| March 31, 2010          | 32.98        | 3      | 27.47        | 3      |
| March 31, 2009          | 17.83        | 2      | 16.08        | 2      |
| March 31, 2008          | 5.50         | 1      | 5.38         | 1      |
| <b>Weighted Average</b> | <b>23.35</b> |        | <b>19.99</b> |        |

Note:

- a. Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting preference dividends and attributable taxes) by the weighted average number of equity shares outstanding during the period.
- b. For the purpose of calculating diluted earnings per share, the net profit or loss for the year attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares except where the results are anti-dilutive.

2. *Price Earning Ratio (P/E) in relation to the Issue Price of Rs. [●] per share of Rs. 10 each*

- a. P/E ratio in relation to the Floor Price : [●] times
- b. P/E ratio in relation to the Cap Price : [●] times

- c. P/E based on EPS for the year ended March 31, 2010 : [●] times  
d. P/E based on Weighted average EPS : [●] times

3. *Average Return on Networth ("RoNW")*

Return on Net Worth as per our restated financial statements

| Year ended              | RoNW (%)     | Weight |
|-------------------------|--------------|--------|
| March 31, 2010          | 18.40        | 3      |
| March 31, 2009          | 12.17        | 2      |
| March 31, 2008          | 7.81         | 1      |
| <b>Weighted Average</b> | <b>14.56</b> |        |

Note: The RoNW has been computed by dividing net profit after tax as restated, by Net Worth as at the end of the year.

4. *Minimum Return on Total Net Worth after Issue needed to maintain pre-Issue EPS for the year ended March 31, 2010 is [●].*

5. *Net Asset Value*

| Particulars                                           | Amount (Rs.) |
|-------------------------------------------------------|--------------|
| Net Asset Value per Equity Share as of March 31, 2010 | 147.27       |
| Net Asset Value per Equity Share after the Issue      | [●]          |
| Issue Price per equity share                          | [●]          |

NAV per equity share has been calculated as networth as divided by the closing number of shares at the end of fiscal 2010.

6. *Comparison with other listed companies*

We believe that none of the listed companies in India are engaged exclusively in the business of microfinance.

Since the Issue is being made through the 100% Book Building Process, the Issue Price has been determined on the basis of investor demand. The BRLMs believe that the Issue Price of Rs. [●] is justified in view of the above qualitative and quantitative parameters. For further details, see "Risk Factors", "Business" and "Financial Statements" on pages xiii, 75 and 146, respectively, to have a more informed view. The face value of the Equity Shares is Rs. 10 each and the Issue Price is [●] times the face value of the Equity Shares.



## STATEMENT OF TAX BENEFITS

The Board of Directors  
SKS Microfinance Limited  
Ashoka Raghupathi chambers,  
D No - 1-10-60 to 62,  
Opp Shopper's Stop, Begumpet,  
Hyderabad — 500 016 (A.P)

Dear Sirs,

### **Statement of Possible Tax Benefits available to SKS Microfinance Limited and its shareholders**

We hereby report that the enclosed statement provides the possible tax benefits available to SKS Microfinance Limited ('the Company') under the Income-tax Act, 1961 presently in force in India and to the shareholders of the Company under the Income Tax Act, 1961 and Wealth Tax Act, 1957 and the Gift Tax Act, 1958, presently in force in India. Several of these benefits are dependent on the Company or its shareholders fulfilling the conditions prescribed under the relevant provisions of the statute. Hence, the ability of the Company or its shareholders to derive the tax benefits is dependent upon their fulfilling such conditions which based on business imperatives the Company faces in the future, the Company may or may not choose to fulfil.

The benefits discussed in the enclosed statement are not exhaustive. This statement is only intended to provide general information to the investors and is neither designed nor intended to be a substitute for professional tax advice. In view of the individual nature of the tax consequences and the changing tax laws, each investor is advised to consult his or her own tax consultant with respect to the specific tax implications arising out of their participation in the issue.

We do not express any opinion or provide any assurance as to whether:

- i) the Company or its shareholders will continue to obtain these benefits in future; or
- ii) the conditions prescribed for availing the benefits have been / would be met with.

The contents of the enclosed statement are based on information, explanations and representations obtained from the Company and on the basis of their understanding of the business activities and operations of the Company.

We shall not be liable to any claims, liabilities or expenses relating to this assignment except to the extent of fees relating to this assignment, as finally judicially determined to have resulted primarily from bad faith or intentional misconduct. We will not be liable to any other person in respect of this statement.

For S.R. Batliboi & Co.  
Firm's registration number: 301003E  
Chartered Accountants

per Viren H. Mehta  
Partner  
Membership No.: 048749

Place: Mumbai  
Date: July 12, 2010

## General Tax Benefits to the Company

1. Dividends earned are exempt from tax in accordance with and subject to the provisions of section 10(34) read with section 115-O of the Act. However, as per section 94(7) of the Act, losses arising from sale/ transfer of shares, where such shares are purchased within three months prior to the record date and sold within three months from the record date, will be disallowed to the extent such loss does not exceed the amount of dividend claimed exempt.
2. The Company will be entitled to amortise certain preliminary expenditure, specified under section 35D(2) of the I.T. Act, subject to the limit specified in Section 35D(3). The deduction is allowable for an amount equal to one-fifth of such expenditure for each of five successive assessment years beginning with the assessment year in which the business commences.
3. Income by way of interest, premium on redemption or other payment on notified securities, bonds, certificates issued by the Central Government is exempt from tax under section 10(15) of the Income-tax Act, 1961 (herein after referred to as 'the Act') in accordance with and subject to the conditions and limits as may be specified in notifications.
4. The depreciation rates in respect of Motor Cars is 15%, furniture & fittings is 10%, Intangible assets is 25%, Computers 60%, Buildings (Residential) is 5% and Buildings (Others) is 10%.
5. The amount of tax paid under Section 115JB by the company for any assessment year beginning on or after 1st April 2006 will be available as credit for ten years succeeding the Assessment Year in which MAT credit becomes allowable in accordance with the provisions of Section 115JAA.
6. In case of loss under the head "Profit and Gains from Business or Profession", it can be set-off against other income and the excess loss after set-off can be carried forward for set-off - against business income of the next eight Assessment Years.
7. The unabsorbed depreciation, if any, can be adjusted against any other income and can be carried forward indefinitely for set-off against the income of future years.
8. If the company invests in the equity shares of another company, as per the provisions of Section 10(38), any income arising from the transfer of a long term capital asset being an equity share in a company is not includible in the total income, if the transaction is chargeable to Securities Transaction Tax.
9. Income earned from investment in units of a specified Mutual Fund is exempt from tax under section 10(35) of the Act. However, as per section 94(7) of the Act, losses arising from the sale/ redemption of units purchased within three months prior to the record date (for entitlement to receive income) and sold within nine months from the record date, will be disallowed to the extent such loss does not exceed the amount of income claimed exempt.
10. Further, as per section 94(8) of the Act, if an investor purchases units within three months prior to the record date for entitlement of bonus, and is allotted bonus units without any payment on the basis of holding original units on the record date and such person sells/ redeems the original units within nine months of the record date, then the loss arising from sale/ redemption of the original units will be ignored for the purpose of computing income chargeable to tax and the amount of loss ignored shall be regarded as the cost of acquisition of the bonus units.
11. In accordance with section 112, the tax on capital gains on transfer of listed shares, where the transaction is not chargeable to securities transaction tax, held as long term capital assets will be the lower of:
  - (a) 20 per cent (plus applicable surcharge and education cess<sup>1</sup>) of the capital gains as computed after indexation of the cost. or

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<sup>1</sup> Education cess will include Secondary Higher Education Cess

- (b) 10 per cent (plus applicable surcharge and education cess) of the capital gains as computed without indexation.
- 12. In accordance with Section 111A, the tax on capital gains arising from the transfer of a short term asset being an equity share in a company or a unit of an equity oriented fund, is chargeable to tax at the rate of 15% (plus applicable surcharge and education cess), where such transaction is chargeable to Securities Transaction Tax. And if the provisions of Section 111A are not applicable to the short term capital gains, in case of non chargeability to Securities Transaction Tax, then the tax will be chargeable at the rate of 30% (plus applicable surcharge and education cess) as applicable.
- 13. Under section 36(1)(vii), any bad debt or part thereof written off as irrecoverable in the accounts is allowable as a deduction from the total income.
- 14. Under section 36(1)(viii) of the Act, subject to the conditions specified therein, a deduction is allowable in respect of an amount not exceeding 20% of the profits derived from eligible business [viz., providing long-term finance for industrial or agricultural development or development of infrastructure facility in India or development of housing in India] provided such amount is transferred to a special reserve account created and maintained for this purpose. Provided that where the aggregate of the amounts carried to such reserve account from time to time exceeds twice the amount of the paid up share capital and general reserves, no further deduction shall be allowable in respect of such excess.
- 15. Section 14A of the Act restricts claim for deduction of expenses incurred in relation to incomes which do not form part of the total income under the Act. Thus, any expenditure incurred to earn tax exempt income is not a tax deductible expenditure.

#### **Section 115-O**

Tax rate on distributed profits of domestic companies (DDT) is 15%, the surcharge on Income tax is at 7.5%, and the education cess is at 3%.

#### **Tax Rates**

The tax rate is 30%. The surcharge on Income tax is 7.5%, only if the total income exceeds Rs. 10.0 million. Education cess is 3%.

#### **General Tax Benefits to the Shareholders of the Company**

##### **(I) Under the Income-tax Act**

##### **A) Residents**

- 1. Dividends earned on shares of the company are exempt from tax in accordance with and subject to the provisions of section 10(34) read with section 115-O of the Act. However, as per section 94(7) of the Act, losses arising from sale/ transfer of shares, where such shares are purchased within three months prior to the record date and sold within three months from the record date, will be disallowed to the extent such loss does not exceed the amount of dividend claimed exempt.
- 2. Shares of the company held as capital asset for a period of more than twelve months preceding the date of transfer will be treated as a long term capital asset.
- 3. Long term capital gain arising on sale of shares is fully exempt from tax in accordance with the provisions of section 10(38) of the Act, where the sale is made on or after October 1, 2004 on a recognized stock exchange and the transaction is chargeable to securities transaction tax.
- 4. Section 14A of the Act restricts claim for deduction of expenses incurred in relation to incomes which do not form part of the total income under the Act. Thus, any expenditure

incurred to earn tax exempt income (ie dividend/exempt long-term capital gains) is not a tax deductible expenditure.

5. Under section 36(1)(xv) of the Act, securities transaction tax paid by a shareholder in respect of taxable securities transactions entered into in the course of its business, would be allowed as a deduction if the income arising from such taxable securities transactions is included in the income computed under the head “Profits and gains of business or profession”.
6. As per the provision of Section 71(3), if there is a loss under the head “Capital Gains”, it cannot be set-off with the income under any other head. Section 74 provides that the short term capital loss can be set-off against both Short term and Long term capital gain. But Long term capital loss cannot be set-off against short term capital gain. The unabsorbed short term capital loss can be carried forward for next eight assessment years and can be set off against any capital gains in subsequent years. The unabsorbed long term capital loss can be carried forward for next eight assessment years and can be set off only against long term capital gains in subsequent years
7. Taxable long term capital gains would arise [if not exempt under section 10(38) or any other section of the Act] to a resident shareholder where the equity shares are held for a period of more than 12 months prior to the date of transfer of the shares. In accordance with and subject to the provisions of section 48 of the Act, in order to arrive at the quantum of capital gains, the following amounts would be deductible from the full value of consideration:
  - (a) Cost of acquisition/ improvement of the shares as adjusted by the cost inflation index notified by the Central Government; and
  - (b) Expenditure incurred wholly and exclusively in connection with the transfer of shares
8. Under section 112 of the Act, taxable long-term capital gains are subject to tax at a rate of 20% (plus applicable surcharge and education cess) after indexation, as provided in the second proviso to section 48 of the Act. However, in case of listed securities or units, the amount of such tax could be limited to 10% (plus applicable surcharge and education cess), without indexation, at the option of the shareholder.
9. Short term capital gains on the transfer of equity shares, where the shares are held for a period of not more than 12 months would be taxed at 15% (plus applicable surcharge and education cess), where the sale is made on or after October 1, 2004 on a recognized stock exchange and the transaction is chargeable to securities transaction tax. In all other cases, the short term capital gains would be taxed at the normal rates of tax (plus applicable surcharge and education cess) applicable to the resident investor. Cost indexation benefits would not be available in computing tax on short term capital gain.
10. Under section 54EC of the Act, long term capital gain arising on the transfer of shares of the Company [other than the sale referred to in section 10(38) of the Act] is exempt from tax to the extent the same is invested in certain notified bonds within a period of six months from the date of such transfer (upto a maximum limit of Rs 5.0 million) for a minimum period of three years.
11. In accordance with section 54F, long-term capital gains arising on the transfer of the shares of the Company held by an individual and on which Securities Transaction Tax is not payable, shall be exempt from capital gains tax if the net consideration is utilised, within a period of one year before, or two years after the date of transfer, in the purchase of a new residential house, or for construction of a residential house within three years. Such benefit will not be available if the individual-
  - owns more than one residential house, other than the new residential house, on the date of transfer of the shares; or
  - purchases another residential house within a period of one year after the date of transfer of the shares; or

- constructs another residential house within a period of three years after the date of transfer of the shares; and
- the income from such residential house, other than the one residential house owned on the date of transfer of the original asset, is chargeable under the head “Income from house property”.

If only a part of the net consideration is so invested, so much of the capital gains as bears to the whole of the capital gain the same proportion as the cost of the new residential house bears to the net consideration shall be exempt.

If the new residential house is transferred within a period of three years from the date of purchase or construction, the amount of capital gains on which tax was not charged earlier, shall be deemed to be income chargeable under the head “Capital Gains” of the year in which the residential house is transferred.

12. If an individual or HUF receives any property, which includes shares, without consideration, the aggregate fair market value of which exceeds Rs 50,000, the whole of the fair market value of such property will be considered as income in the hands of the recipient. Similarly, if an individual or HUF receives any property, which includes shares, for consideration which is less than the fair market value of the property by an amount exceeding Rs 50,000, the fair market value of such property as exceeds the consideration will be considered as income in the hands of the recipient

#### ***Tax Rates***

*For Individuals, HUFs, BOI and Association of Persons:*

| <b>Slab of income (Rs.)</b> | <b>Rate of tax (%)</b> |
|-----------------------------|------------------------|
| 0 – 160,000                 | Nil                    |
| 160,001 – 500,000           | 10%                    |
| 500,001 – 8,00,000          | 20%                    |
| 800,001 and above           | 30%                    |

Notes:

- (i) In respect of women residents below the age of 65 years, the basic exemption limit is Rs. 190,000.
- (ii) In respect of senior citizens resident in India, the basic exemption limit is Rs. 240,000.
- (iii) Education cess will be levied at the rate of 3% on income tax.

#### ***B) Non-Residents***

1. Dividends earned on shares of the Company are exempt in accordance with and subject to the provisions of section 10(34) read with Section 115-O of the Act. However, as per section 94(7) of the Act, losses arising from sale/ transfer of shares, where such shares are purchased within three months prior to the record date and sold within three months from the record date, will be disallowed to the extent such loss does not exceed the amount of dividend claimed exempt
2. Long term capital gain arising on sale of Company’s shares is fully exempt from tax in accordance with the provisions of section 10(38) of the Act, where the sale is made on or after October, 1 2004 on a recognized stock exchange and the transaction is chargeable to securities transaction tax.

3. In accordance with section 48, capital gains arising out of transfer of capital assets being shares in the company shall be computed by converting the cost of acquisition, expenditure in connection with such transfer and the full value of the consideration received or accruing as a result of the transfer into the same foreign currency as was initially utilised in the purchase of the shares and the capital gains computed in such foreign currency shall be reconverted into Indian currency, such that the aforesaid manner of computation of capital gains shall be applicable in respect of capital gains accruing/arising from every reinvestment thereafter in, and sale of, shares and debentures of, an Indian company including the Company.
4. As per the provisions of Section 90, the Non Resident shareholder has an option to be governed by the provisions of the tax treaty, if they are more beneficial than the domestic law wherever India has entered into Double Taxation Avoidance Agreement (DTAA) with the relevant country for avoidance of double taxation of income.
5. In accordance with section 112, the tax on capital gains on transfer of listed shares, where the transaction is not chargeable to Securities Transaction Tax, held as long term capital assets will be at the rate of 10% (plus applicable surcharge and education cess). A non-resident will not be eligible for adopting the indexed cost of acquisition and the indexed cost of improvement for the purpose of computation of long-term capital gain on sale of shares.
6. In accordance with Section 111A, the tax on capital gains arising from the transfer of a short term asset being an equity share in a company or a unit of an equity oriented fund, is chargeable to tax at the rate of 15% (plus applicable surcharge and education cess), where such transaction is chargeable to Securities Transaction Tax. If the provisions of Section 111A are not applicable to the short term capital gains, then the tax will be chargeable at the applicable normal rates plus surcharge and education cess as applicable.
7. Under section 54EC of the Act, long term capital gain arising on the transfer of shares of the Company [other than the sale referred to in section 10(38) of the Act] is exempt from tax to the extent the same is invested in certain notified bonds within a period of six months from the date of such transfer (upto a maximum limit of Rs 5.0 million) for a minimum period of three years.
8. In accordance with section 54F, long-term capital gains arising on the transfer of the shares of the Company held by an individual and on which Securities Transaction Tax is not payable, shall be exempt from capital gains tax if the net consideration is utilised, within a period of one year before, or two years after the date of transfer, in the purchase of a new residential house, or for construction of a residential house within three years subject to regulatory feasibility. Such benefit will not be available if the individual-
  - owns more than one residential house, other than the new residential house, on the date of transfer of the shares; or
  - purchases another residential house within a period of one year after the date of transfer of the shares; or
  - constructs another residential house within a period of three years after the date of transfer of the shares; and
  - the income from such residential house, other than the one residential house owned on the date of transfer of the original asset, is chargeable under the head “Income from house property”.

If only a part of the net consideration is so invested, so much of the capital gains as bears to the whole of the capital gain the same proportion as the cost of the new residential house bears to the net consideration shall be exempt.

If the new residential house is transferred within a period of three years from the date of purchase or construction, the amount of capital gains on which tax was not charged earlier,

shall be deemed to be income chargeable under the head “Capital Gains” of the year in which the residential house is transferred.

**C) Non-Resident Indians**

Further, a Non-Resident Indian has the option to be governed by the provisions of Chapter XII-A of the Income-tax Act, 1961 which reads as under:

1. In accordance with section 115E, income from investment or income from long-term capital gains on transfer of assets other than specified asset shall be taxable at the rate of 20% (plus education cess). Income by way of long term capital gains in respect of a specified asset (as defined in Section 115C(f) of the Income-tax Act, 1961), shall be chargeable at 10% (plus education cess).
2. In accordance with section 115F, subject to the conditions and to the extent specified therein, long-term capital gains arising from transfer of shares of the company acquired out of convertible foreign exchange, and on which Securities Transaction Tax is not payable, shall be exempt from capital gains tax, if the net consideration is invested within six months of the date of transfer in any specified new asset.
3. In accordance with section 115G, it is not necessary for a Non-Resident Indian to file a return of income under section 139(1), if his total income consists only of investment income earned on shares of the company acquired out of convertible foreign exchange or income by way of long-term capital gains earned on transfer of shares of the company acquired out of convertible foreign exchange or both, and the tax deductible has been deducted at source from such income under the provisions of Chapter XVII-B of the Income-tax Act, 1961.
4. In accordance with section 115-I, where a Non-Resident Indian opts not to be governed by the provisions of Chapter XII-A for any assessment year, his total income for that assessment year (including income arising from investment in the company) will be computed and tax will be charged according to the other provisions of the Income-tax Act, 1961.
5. As per the provisions of Section 90, the NRI shareholder has an option to be governed by the provisions of the tax treaty, if they are more beneficial than the domestic law wherever India has entered into Double Taxation Avoidance Agreement (DTAA) with the relevant country for avoidance of double taxation of income.
6. In accordance with section 10(38), any income arising from the transfer of a long term capital asset being an equity share in a company is not includible in the total income, if the transaction is chargeable to Securities Transaction Tax.
7. In accordance with section 10(34), dividend income declared, distributed or paid by the Company (referred to in section 115-O) will be exempt from tax.
8. In accordance with Section 111A capital gains arising from the transfer of a short term asset being an equity share in a company or a unit of an equity oriented fund where such transaction has suffered Securities Transaction Tax is chargeable to tax at the rate of 15% (plus applicable surcharge and education cess). If the provisions of Section 111A are not applicable to the short term capital gains, then the tax will be chargeable at the applicable normal rates plus surcharge and education cess.
9. Under section 54EC of the Act, long term capital gain arising on the transfer of shares of the Company [other than the sale referred to in section 10(38) of the Act] is exempt from tax to the extent the same is invested in certain notified bonds within a period of six months from the date of such transfer (upto a maximum limit of Rs 5.0 million) for a minimum period of three years.
10. In accordance with section 54F, long-term capital gains arising on the transfer of the shares of the Company held by an individual or Hindu Undivided Family on which Securities Transaction Tax is not payable, shall be exempt from capital gains tax if the net consideration

is utilised, within a period of one year before, or two years after the date of transfer, in the purchase of a new residential house, or for construction of a residential house within three years subject to regulatory feasibility. Such benefit will not be available if the individual or Hindu Undivided Family-

- owns more than one residential house, other than the new residential house, on the date of transfer of the shares; or
- purchases another residential house within a period of one year after the date of transfer of the shares; or
- constructs another residential house within a period of three years after the date of transfer of the shares; and
- the income from such residential house, other than the one residential house owned on the date of transfer of the original asset, is chargeable under the head “Income from house property”.

If only a part of the net consideration is so invested, so much of the capital gains as bears to the whole of the capital gain the same proportion as the cost of the new residential house bears to the net consideration shall be exempt.

If the new residential house is transferred within a period of three years from the date of purchase or construction, the amount of capital gains on which tax was not charged earlier, shall be deemed to be income chargeable under the head “Capital Gains” of the year in which the residential house is transferred.

#### ***D) Foreign Institutional Investors (FIIs)***

1. In accordance with section 10(34), dividend income declared, distributed or paid by the Company (referred to in section 115-O) will be exempt from tax in the hands of Foreign Institutional Investors (FIIs).
2. In accordance with section 115AD, FIIs will be taxed at 10% (plus applicable surcharge and education cess) on long-term capital gains (computed without indexation of cost and foreign exchange fluctuation), if Securities Transaction Tax is not payable on the transfer of the shares and at 15% (plus applicable surcharge and education cess) in accordance with section 111A on short-term capital gains arising on the sale of the shares of the Company which is subject to Securities Transaction Tax. If the provisions of Section 111A are not applicable to the short term capital gains, then the tax will be charged at the rate of 30% plus applicable surcharge and education cess, as applicable.

In accordance with section 10(38), any income arising from the transfer of a long term capital asset being an equity share in a company is not includible in the total income, if the transaction is chargeable to Securities Transaction Tax.

3. As per the provisions of Section 90, the Non Resident shareholder has an option to be governed by the provisions of the tax treaty, if they are more beneficial than the domestic law wherever India has entered into Double Taxation Avoidance Agreement (DTAA) with the relevant country for avoidance of double taxation of income.
4. Under section 196D (2) of the Income-tax Act, 1961, no deduction of tax at source will be made in respect of income by way of capital gain arising from the transfer of securities referred to in section 115AD.
5. Under section 54EC of the Act, long term capital gain arising on the transfer of shares of the Company [other than the sale referred to in section 10(38) of the Act] is exempt from tax to the extent the same is invested in certain notified bonds within a period of six months from the date of such transfer (upto a maximum limit of Rs 5.0 million) for a minimum period of three years.



**E) *Persons carrying on business or profession in shares and securities.***

Under section 36(1)(xv) of the Act, securities transaction tax paid by a shareholder in respect of taxable securities transactions entered into in the course of its business, would be allowed as a deduction if the income arising from such taxable securities transactions is included in the income computed under the head “Profits and gains of business or profession”.

A non resident taxpayer has an option to be governed by the provisions of the Income-tax Act, 1961 or the provisions of a Tax Treaty that India has entered into with another country of which the investor is a tax resident, whichever is more beneficial (section 90(2) of the Income-tax Act, 1961).

**F) *Mutual Funds***

Under section 10(23D) of the Act, exemption is available in respect of income (including capital gains arising on transfer of shares of the Company) of a Mutual Fund registered under the Securities and Exchange Board of India Act, 1992 or such other Mutual fund set up by a public sector bank or a public financial institution or authorized by the Reserve Bank of India and subject to the conditions as the Central Government may specify by notification.

**G) *Venture Capital Companies/Funds***

In terms of section 10(23FB) of the I.T. Act, income of:-

Venture Capital company which has been granted a certificate of registration under the Securities and Exchange Board of India Act, 1992; and

Venture Capital Fund, operating under a registered trust deed or a venture capital scheme made by Unit trust of India, which has been granted a certificate of registration under the Securities and Exchange Board of India Act, 1992, from investment in a Venture Capital Undertaking, is exempt from income tax,

Exemption available under the Act is subject to investment in domestic company whose shares are not listed and which is engaged in certain ‘specified’ business/ industry.

**(II) *Under the Wealth Tax and Gift Tax Acts***

1. “Asset” as defined under section 2(ea) of the Wealth-tax Act, 1957 does not include shares held in a Company and hence, these are not liable to wealth tax.
2. Gift tax is not leviable in respect of any gifts made on or after October 1, 1998. Any gift of shares of the Company is not liable to gift-tax. However, in the hands of the Donee the same will be treated as income unless the gift is from a relative as defined under Explanation to Section 56(vi) of Income-tax Act, 1961.

Notes:

1. The above Statement sets out the provisions of law in a summary manner only and is not a complete analysis or listing of all potential tax consequences of the purchase, ownership and disposal of shares.
2. The above statement covers only certain relevant direct tax law benefits and does not cover any indirect tax law benefits or benefit under any other law.
3. The above statement of possible tax benefits are as per the current direct tax laws relevant for the assessment year 2011-12. Several of these benefits are dependent on the Company or its shareholder fulfilling the conditions prescribed under the relevant tax laws.

4. This statement is intended only to provide general information to the investors and is neither designed nor intended to be a substitute for professional tax advice. In view of the individual nature of tax consequences, each investor is advised to consult his/her own tax advisor with respect to specific tax consequences of his/her investment in the shares of the Company.
5. In respect of non-residents, the tax rates and consequent taxation mentioned above will be further subject to any benefits available under the relevant DTAA, if any, between India and the country in which the nonresident has fiscal domicile.
6. No assurance is given that the revenue authorities/courts will concur with the views expressed herein. Our views are based on the existing provisions of law and its interpretation, which are subject to changes from time to time. We do not assume responsibility to update the views consequent to such changes.

## **SECTION IV: ABOUT THE COMPANY**

### **THE MICROFINANCE INDUSTRY**

#### **Overview**

Microfinance offers poor people access to basic financial services such as loans, savings, money transfer services and micro insurance, according to the Consultative Group to Assist the Poor, or CGAP, an independent policy and research organization. The industry emerged to alleviate poverty on the premise that poor people, like everyone else, need a diverse range of financial services to run their business, build assets and reduce vulnerability to fluctuations in their income. Their needs for financial services have been traditionally met through a variety of financial relationships, mostly informal. In the past two decades, different types of financial services providers for poor people have emerged, including non-government organizations, or NGOs; cooperatives; community-based development institutions like Self Help Groups, or SHGs, and credit unions; commercial and state banks and microfinance institutions, or MFIs, offering new possibilities.

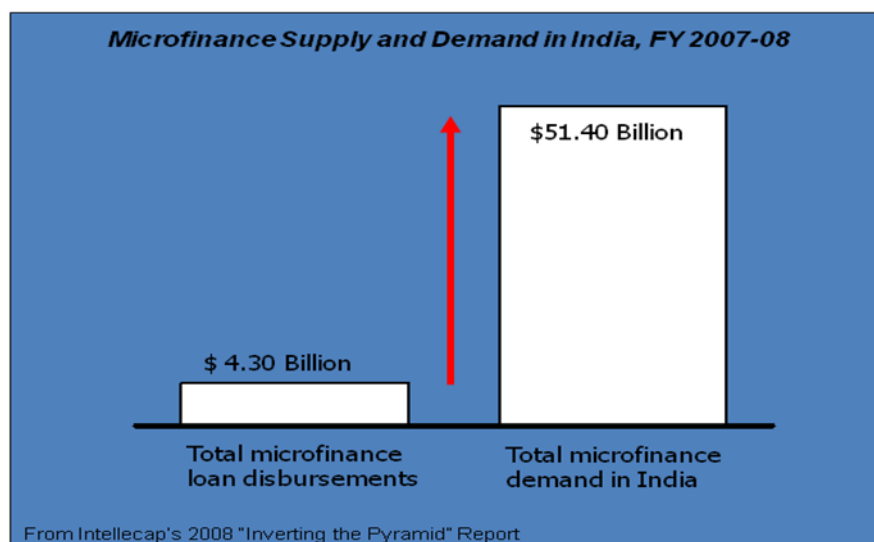
The ultimate goal of microfinance is to enable the poor to build assets, increase incomes, reduce vulnerability to shocks and economic stress and improve quality of life by enabling better access to education and healthcare. The microfinance industry has grown at a rapid pace across the world and has created a positive impact in the lives of millions of poor people.

#### **Demographics and Demand**

The measure of a person who is poor or that is living in poverty is generally classified across various thresholds of daily income. The World Bank defines poverty in two segments: extreme poverty, which is defined as living on less than \$1.25 per day using purchasing power parity, or PPP, and moderate poverty, which is defined as living on less than \$2.00 per day using PPP. PPP is a measure that adjusts for differences in currency exchange rates among countries to price the amount of goods and services in each currency equally.

In 2008, the World Bank estimated that 1.4 billion people in the developing world were living on less than \$1.25 per day in 2005, and 2.6 billion people in the developing world were living on less than \$2.00 per day using PPP. The bank also estimated that there are approximately, 828.0 million poor people, or approximately 150.0 million poor households in India. Microfinance penetration of these households as indicated in the 2009 Bharat Microfinance Report by Sa-Dhan is estimated to be at 22.6 million MFI clients and 63.6 million SHG clients in 2009 (Sa-Dhan publishes Bharat Microfinance report on an annual basis by collecting self reported data from member as well as non member MFIs).

According to the 2008 Inverting the Pyramid Report by Intellect, an independent industry research firm, the total estimated demand for micro-credit in India was approximately \$51.4 billion (Rs. 2,399.35 billion). This demand is currently being addressed by the two largest microfinance models in India, MFIs and SHGs. The same report estimated the 2008 total loan disbursements for these two models at approximately \$4.30 billion (Rs. 200.72 billion). Total microfinance loan disbursements do not include loans made by traditional commercial rural banks and other informal money lenders. The chart below shows the relative MFI loan disbursements for 2008 and the projected demand for microcredit.



## History and Evolution of Microfinance in India

### Access to Banking

A significant proportion of the poor, many of whom work as agricultural and unskilled or semi-skilled wage labourers, micro-entrepreneurs and low-salaried workers, were historically excluded from the formal financial system.

According to the Government of India's 2008 Report of the Committee on Financial Sector Reforms chaired by Raghuram Rajan, or the Raghuram Report, only 34.3% of the people in the lowest income quartile have savings and only 17.7% have a bank account. By contrast, in the highest income quartile, 92.4% have savings and 86.0% have bank accounts. Factors contributing to such low savings rates and bank account participation are the lack of access to banks in rural India and cultural perceptions of risk among the poor associated with formal banking. In addition, the poor lack access to other formal sources of credit as well.

The same report estimated that 29.8% of the lowest income quartile obtained a loan in the last two years, of which only 2.9% were from banks. In comparison, 16.3% of the highest income quartile obtained a loan in the last two years, of which 7.5% were from banks. In other words, the lowest income quartile obtained only 9.6% of all loans from banks while the highest income quartile obtained 45.8% of all loans from banks. Even though the majority of small loans by banks are at low interest rates, the poor borrow predominantly from informal sources, especially money lenders, landlords, local shopkeepers and traders at much higher rates. In the lowest income quartile, over 79.0% of loans were from these sources, while only 10.8% were from SHGs and MFIs. The 2006 World Bank Report on Improving Access to Finance for Rural Poor, or Improving Access Report, found that the interest charged on loans from informal sources averaged 48.0% per annum.

Several steps have been taken by the Government of India and the Reserve Bank of India, or RBI, to increase access to banking in India. The banking sector witnessed large scale branch expansion after the initial phase nationalization of banks in 1969. Mandatory requirements were placed on banks to direct large proportions of their credit to priority sectors, including agriculture, small-scale industries and other sectors identified as critical to economic and social development.

However, the Raghuram Report found that these efforts achieved limited success for several reasons:

*Ineffective Branch Services.* While mandated branching, especially by public sector banks in rural areas, has made it easier to reach a significant portion of the population, these branches have not served the poor in an effective manner.

*Ignored Segments of the Priority Sector.* Priority sector requirements have forced banks to focus on particular sectors, however, the focus has tended to migrate towards the more bankable within the priority sector rather than a broad participation for everyone in the sector.

*Interest Rate Ceilings.* Mandatory interest rate ceilings for small loans further reduces the commercial banks' motivation to provide services to the poor as higher fixed costs and higher perceived credit risk associated with small loans require lenders to increase, not lower, interest rates to meet demand.

In addition, the Improving Access Report found that the efforts of the Government of India and the RBI were also hampered by the following factors:

*Collateral Requirements.* Banks require collateral, which the poor generally lack. The majority of loans extended by commercial banks, RRBs and co-operatives are collateralized, with 89.0% of households who borrowed from RRBs and 87.0% of households who borrowed from commercial banks reporting they had to provide collateral to obtain loans.

*Bureaucratic Procedures and Bribes.* There were long processing times for loans with borrowers reporting that it took on average 33 weeks for a loan to be approved by a commercial bank. In addition, 27.0% of the borrowers surveyed reported having to pay a bribe to obtain a loan from a RRB, with the bribe amounts ranging from 10.0% to 20.0% of the loan amount.

*Lack of Credit Information.* Uncertainty and lack of reliability of credit information forces banks to assess higher risk quotients on loans they disburse to the poor. To offset the higher risk, banks need to charge borrowers higher rates of interest, which interest rate ceilings prevent them from charging.

### **Microfinance Models**

Microfinance has attempted to fill the void left between mainstream commercial banks and private money lenders and has emerged as a fast growing enabler for access to financial services for the poor. Key factors promoting the rise of microfinance models include:

*Tailored models for the poor.* Separate models tailored to the poor with the use of group based lending structures, specialized loan products, training and support of the borrowers and simplified lending requirements.

*Improved Financing.* Financing sources for microfinance have increased with access to bank lending, commercial instruments and institutional equity investors such as venture capital and private equity.

*Favourable Regulatory Policies.* The Government of India adopted policies and introduced regulations to enhance microfinance lending.

Interest rates charged by microfinance organizations vary widely. Often they reflect inherently high operational and funding costs associated with rural lending activities and small loan sizes. For example, EDA-Rural Systems, in its 2004 Maturing of Indian Microfinance report, found that SHGs charged an effective interest rate of 24.0% to 28.0%, while MFIs charged 32.0% to 38.0%. As MFIs have grown there has been evidence of some reduction in effective interest rates. According to the Microfinance MCRIL Analytics 2009 report, the portfolio yield of MFIs surveyed was 31.4% in March 2009. Individual money lenders can charge significantly higher rates.

Microfinance has also focused on women as the recipients of loans. The focus on women follows the experiences of microfinance institutions in South Asia that indicate women tend to be better credit risks, reinvest profits in their households and cooperate better, thereby enabling a group lending model. According to the 2009 State of the Microcredit Summit Campaign report, 83.2% of approximately 106.6 million microfinance borrowers worldwide in 2007 were women.

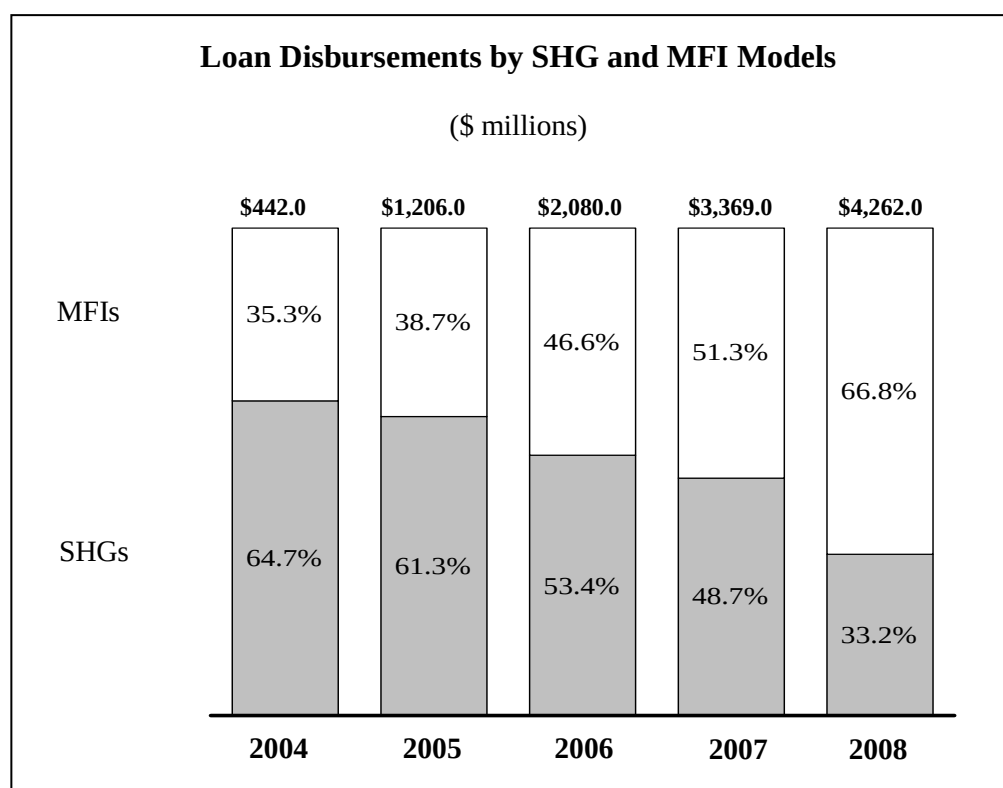
Currently, there are two microfinance models in India, the SHG model and the MFI model.

### **The SHG Model**

An SHG is a group of 10 to 20 poor women in a village who come together to contribute regular savings to a common fund to deposit with a bank as collateral for future loans. The group has collective decision making power and obtains loans from partner banks and other sources of capital, including MFIs in some instances. The SHG then loans these funds to its members at terms decided by the group. Members of the group meet on a monthly basis to conduct transactions and group leaders are

responsible for maintaining their own records, often with the help of NGOs or government agency staff. In India, the microfinance movement started with the introduction of the SHG-Bank Linkage Programme in the 1980s by NGOs that was later formalized by the Government of India in the early 1990s. Pursuant to the programme, financial institutions, primarily public sector RRBs, are encouraged to partner with SHGs to provide them with funding support, which is often subsidized by the government.

The SHG model is currently the dominant model in India in terms of number of borrowers and loans disbursed. The MFI model, however, is gaining market share from the SHG model. In its 2008 Inverting the Pyramid Report, Intelicap reported market share for the SHG model on a steady decline from 2004 to 2008 as indicated in the chart below.



Mr. K.G. Karmakar, in his book titled Microfinance in India, attributes the decline of the SHG model in recent years to the following factors:

*Weak Social Structure.* Most of the groups formed are neither natural nor voluntary, and the social intermediation and facilitation processes which are prerequisites for success are extremely weak.

*Unequal Participation and Influence.* In most SHGs, there is a dominance of two or three members, while others are passive. This structural imbalance reduces access of the poorest to institutional credit.

*Inadequate Management and Skills.* SHG financial management and bookkeeping practices are generally inadequate. They also lack focus and the ability to develop the relevant skills necessary to succeed and build scale.

*Inconsistent Standards.* There is divergence in the quality of best practices and inconsistent development objectives.

SHGs are also showing signs of weak loan performance. According to the RBI's 2009 Report on Trends and Progress in India, bank recovery rates are relatively low. About 29.6% of banks reported recovery rates of about 95.0% under the programme, 38.2% of banks reported recovery rates in the range of 80.0% to 94.0%, another 22.1% of banks reported recovery rates in the range of 50.0% to 79.0%, and 10.1% of banks reported recovery rates of less than 50.0%.

## **Emergence of the MFI Model**

The MFI model has gained significant momentum in India in recent years and continues to grow as a viable alternative to SHGs. In contrast to an SHG, an MFI is a separate legal organization that provides financial services directly to borrowers. MFIs have their own employees, record keeping and accounting systems and are often subject to regulatory compliance. MFIs require borrowers from a village to organize themselves in small groups, typically of five women, that have joint decision making responsibility for the approval of member loans. The groups meet weekly to conduct transactions. MFI staff travel to villages to attend weekly group meetings where they disburse loans and collect repayments. Unlike SHGs, loans are issued by MFIs without collateral or prior savings.

MFIs now exist in a variety of legal forms both for profit and not for profit, including trusts, societies, cooperatives, non-profit NBFCs registered under Section 25 of the Companies Act, or Section 25 Companies, and for profit MFIs registered with the RBI as NBFCs. Trusts, cooperatives and Section 25 companies are regulated by the specific legislation under which they are registered and not by the RBI. Since there is no capital adequacy requirement for societies and trusts, they are not subjected to net owned funds requirements or prudential norms. MFIs seeking to obtain a NBFC license are required to have a minimum capitalization of only Rs. 20.00 million. Recent legislation requires NBFCs to maintain a capital adequacy ratio of at least 12.0% by March 31, 2010 and 15.0% by March 31, 2011.

Favourable regulatory policies for MFIs, combined with weaknesses of the SHG model, continue to support MFI growth. According to the Bharat Microfinance Report, the total MFI channel outreach grew from 10.0 million clients in 2007 to 22.6 million clients in 2009, representing a CAGR of 50.3%. The same report found that the total outstanding loan portfolio grew from Rs. 34,560.00 million in 2007 to Rs. 117,340.00 million in 2009, representing a CAGR of 84.3%.

For-profit MFIs have obtained a majority of the market share both in terms of clients and in terms of total outstanding loan portfolio. According to the same Bharat Microfinance Report, for-profit MFIs had 62.0% of all clients and 75.0% of outstanding loans as of March 2009.

The average loan outstanding per client has also increased in recent years. According to the 2009 Microfinance India State of the Sector Report, the average loan outstanding per client increased from Rs. 4,200.00 in 2008 to Rs. 5,200.00 in 2009, representing an increase of 23.8%. This increase is driven by increases in the percentage of borrowers that had loans exceeding Rs. 10,000.00, which grew from 20.0% in 2008 to 38.0% in 2009.

In addition to sustained growth in terms of borrowers and outstanding loan portfolio, the MFI model is demonstrating strong loan repayment rates as well. The RBI's November – December 2007 survey of MFIs reported a recovery rate of greater than 90.0%.

## **Impact of Microfinance on the Poor**

Microfinance provides the poor with long term economic and social benefits. Sustained access to micro-credit enables the poor to increase household income. These economic improvements are often accompanied by wider ranging social developments that improve the quality of life through improved social standing for women, nutrition, education and healthcare.

### ***Economic and Social Benefits***

By utilizing borrowed funds for additional working capital for their business and for investments in additional income generating assets, borrowers are able to increase business activity and generate additional household income. This additional income, if either reinvested by purchasing additional land, animals or facilities or deposited in savings, can further increase household income. The reinvestments will either expand an existing business, add new businesses that diversify sources of income and reduce income exposure from fluctuations in any one business or increase savings that reduce the need to sell family assets during times of crisis.

For the household, improved economic conditions can result in secondary economic and social benefits as well. Women are the largest borrowers of microfinance and women generally tend to direct additional income toward better nutrition, education and healthcare for the family. Households are able

to send more children to school for longer periods and to make greater investments in their children's education. Increased earnings can lead to better nutrition, living conditions, and a lower incidence of illness. Increased earnings and access to microinsurance also mean that households may seek out and pay for health care services when needed.

For women, money management, greater control over resources, and access to knowledge can lead to more choices and potentially a voice in family and community matters. Economic empowerment is accompanied by increases in self-esteem, self-confidence, and new opportunities. Qualitative and quantitative studies have documented how access to financial services has improved the status of women within the family and the community. Women often become more assertive and confident. In regions where female mobility is strictly regulated, women have often become more visible and are better able to negotiate the public sphere. Women involved in microfinance may also own assets, including land and housing, and play a stronger role in decision making.

Studies have been undertaken on the economic and social impacts of microfinance in India. Some illustrate its positive effects on the poor with either the SHG or MFI models. Some of the key findings in India focused reports are summarized below:

*The 2007-2008 RBI report on Trends and Progress of Banking in India.* In the SHG model, there has been a shift towards higher income levels when comparing the periods prior to the emergence of SHGs as compared to the following periods. For example, approximately 74.0% of sample households had an annual income level of less than Rs. 22,500.00 prior to the emergence of SHGs, which declined to 57.0% in the following period. In addition, approximately 30.0% of SHGs were also involved in community service activities such as increasing water supply, health care and anti-alcohol campaigns.

*Assessing Development Impact of Micro Finance Programmes, 2008.* A seven year commissioned study by SIDBI of 4,510 households, of which 3,253 households were active borrowers, with 25 MFIs across 10 states in India. Selected results provided below suggest significant improvements.

- 77.0% were able to develop their existing activities
- 37.0% were able to diversify into new activities
- 39.0% were able to repay their past costly debts and current debts
- 76.0% were able to increase their income through MFI assistance
- 66.0% improved their food consumption
- 56.0% could improve their housing conditions
- 47.0% could acquire additional household assets
- 77.0% could provide better educational facilities

*The Maturing of Indian Microfinance, 2004.* A five year commissioned study undertaken by EDA-Rural Systems of approximately 5,400 households, out of which 4,000 were active borrowers with a total of 20 microfinance institutions in India. The comparison of selected results between members and non-members as well as between microfinance models provided below and suggests material poverty reducing effects.

| Poverty Reducing Effects Comparison – Members and Non-Members |         |             |
|---------------------------------------------------------------|---------|-------------|
| Borrower Households                                           | Members | Non-Members |
| Increasing household income                                   | 45.0%   | 26.0%       |
| Acquiring productive asset in last two years                  | 36.0    | 14.0%       |
| With multiple sources of income                               | 67.0%   | 50.0%       |
| Investing in housing in last two years                        | 23.0%   | 20.0%       |

| Poverty Reducing Effects by Microfinance Model |       |       |
|------------------------------------------------|-------|-------|
| Borrower Households                            | SHG   | MFI   |
| Increasing household income                    | 41.0% | 70.0% |
| Acquiring productive asset in last two years   | 23.0% | 51.0% |
| With multiple sources of income                | 67.0% | 82.0% |
| Investing in housing in last two years         | 21.0% | 25.0% |



*Profiling of Micro Enterprises in Tamil Nadu and Uttar Pradesh, 2005.* The report by the Institute for Financial Management and Research's Centre for Micro Finance estimated that microfinance clients sampled from two leading microfinance *institutions* made an average weekly profit of Rs. 707.00 from their businesses. The study also found that the average loan size was Rs. 7,117.00. The table below shows a breakdown of profits by business activity.

| <b>Borrower Profits by Activity</b> |                                                                               |                                    |
|-------------------------------------|-------------------------------------------------------------------------------|------------------------------------|
| <b>Activity</b>                     | <b>Categories of Activities</b>                                               | <b>Average Weekly Profit (Rs.)</b> |
| Agriculture                         | Buying land, leasing coconut fields and other agriculture                     | 272.00                             |
| Animal Husbandry                    | Buffalos, cows and goats                                                      | 316.00                             |
| Construction                        | Painting, centering and electrical                                            | 1,500.00                           |
| Production                          | Carpet weaving, sari weaving, sewing, gem cutting and polishing and quarrying | 543.00                             |
| Trading                             | Shops for groceries, tea, petty goods, cloth and flowers                      | 520.00                             |
| Transportation                      | Auto and bicycle rickshaws, and pushcarts                                     | 943.00                             |

### **Sources of Funds**

With increasing awareness about the strengths and benefits of MFIs, the industry has been able to attract commercial capital, both debt and equity, from multiple sources. The access to commercial capital has enabled MFIs to scale and grow rapidly.

Banks are a major source of funding for MFIs since loans to MFIs qualify for mandatory priority sector lending that banks in India are subject to. The loans can be used to meet sub-targets for agriculture, micro-credit and lending to weaker sections. Larger MFIs have also started accessing traditional capital markets with listed bonds, debentures and similar instruments. More recently, MFIs have securitized assets and sold their loans to banks. These transactions also often meet mandatory bank priority sector lending requirements.

MFIs have also raised capital with the issuance of equity to various investors including, venture capital, private equity insurance agencies and financial institutions.

### **Policy for Microfinance in India**

The policy of the Government of India has long favoured the continued development of the microfinance industry in India. The RBI, SIDBI and NABARD are the largest and most active government affiliated entities regulating and supporting the industry. Collectively, these organizations have initiated significant legislation and funding with the intent support to the microfinance movement in India. A summary of the major initiatives is presented below.

### **Microfinance Institutions Network**

Some of India's microfinance institutions have formed a self-regulatory body called Microfinance Institutions Network that sets forth a code of conduct upholding good governance and transparency. MFIN is a self-regulatory organization of MFIs that are NBFC regulated by RBI and sets a standard for good governance and accountability in the microfinance sector, while working towards the larger goal of financial inclusion.

A five point code of conduct mentioned as under is laid down by MFIN that addresses the issues of microfinance:

- Transparency in communicating interest rates and fees to clients in vernacular language;
- To be responsible lenders and follow norms to prevent creating over indebtedness for clients;
- Follow prudent and ethical collection practices;
- Share information with credit bureaus to create a strong database for the sector; and
- Follow fair recruitment and human resources practices.

MFIN has also adopted a whistleblower policy and an enforcement committee to ensure its members abide by its code of conduct.

### ***RBI Initiatives***

Banks in India are required to lend a certain required percentage, either directly or indirectly, to specified sectors of the population and industry designated as priority sectors. Currently, domestic commercial banks are required to maintain 40.0% of their adjusted net bank credit or credit equivalent amount of assigned or securitized assets, whichever is higher as total priority sector advances. These include loans for agriculture, small enterprises, retail trade, micro-credit, education and housing. Of the 40.0% total requirement, 18.0% of the net bank credit or credit equivalent of assigned or securitized assets must qualify as agriculture and allied activities sector loans. Additionally, 10.0% must qualify as designated weaker section loans.

In 2007, the RBI enacted rules to include microfinance loans within the purview of these mandatory priority sector bank lending requirements. Qualifying loans could not exceed Rs. 50,000.00 per borrower. These rules thus allowed banks to lend to SHGs and MFIs to satisfy their priority sector lending requirements, reducing their need to satisfy the requirements through direct lending which they often found difficult to meet with the lack of a strong rural banking network.

In the same year, the RBI also enacted rules that provided for bank purchases of securitized assets comprised of loans by SHGs and MFIs to priority sector borrowers to qualify for the mandatory priority sector bank lending requirements.

While the RBI has enacted rules that subject banks to interest rate ceilings for micro-credit loans, microfinance institutions that are registered as NBFCs are currently not subject to similar interest rate ceilings.

### ***SIDBI Initiatives***

SIDBI is a government funded financial institution chartered to be the principal financial institution in India for the promotion, financing and development of industry in the small scale sector and to coordinate other institutions with similar focus in India. SIDBI both funds and coordinates the development of microfinance institutions in India.

To encourage development, SIDBI has provided initial funding to several MFIs, including our Company. It was one of the first banks to lend to microfinance institutions without any collateral or security in assets. The bank has also provided substantial grants to participants in the sector. To further support the regulation and formalization of the industry, it provided transformational loans to several MFIs organized as NGOs to become NBFCs.

In addition, to encourage ratings for the industry that third parties could use to analyze the performance of the industry, SIDBI provided grants to two affiliated companies EDA-Rural Systems Private Limited and Micro-Credit Ratings International Private Limited, or M-CRIL, to support the creation of formal ratings systems. SIDBI has also provided these organizations with grants to sponsor impact and other research studies.

In 1999, it formed a separate SIDBI Foundation for Microcredit to provide support for the promotion, financing and development of the microfinance sector in India. This foundation has served to provide training, educational visits to other countries and formal course materials for management schools that provide instruction programmes.

### ***NABARD Initiatives***

The Government of India has consistently supported the microfinance sector with new regulations designed to further promote consistent and well defined standards. In 2007, the Government proposed legislation that appointed NABARD as the regulator of all microfinance entities, other than NBFCs. Even though this proposed legislation was not voted on by the Parliament, the Government has recently announced its intent to propose new legislation with similar regulation.

## **Future outlook and key trends for Indian MFIs**

### ***Reaching a critical mass***

According to the Bharat Microfinance Report, MFIs member base increased from 14.1 million in 2008 to 22.6 million in 2009. Increased scale and sophistication can lead to greater costs savings. In addition, scale and sophistication can ensure greater access to funds for growth at lower costs, which could result in improved pricing for borrowers.

### ***Increasing role of technology***

Larger MFIs are increasingly relying on technology to control costs and enhance scalability. They have implemented computerized management information systems and internet based technologies in the field to ensure real-time data transfers. Graphical user interfaces have been simplified to standardize data entry, enable the use of vernacular languages and minimize need for specialized training. Finally, some MFIs are exploring the use of mobile phones, global positioning system enabled systems and smart cards to enable real-time data transfer and greater autonomy in the field.

### ***Distribution of products and services other than credit***

Microfinance is increasingly seen as being more than micro-credit and the member network and reach of MFIs is viewed as a potential distribution channel to the poor. Various financial products and services such as insurance, housing loans, savings deposits, money transfer services and pension products can be distributed through MFIs.

## **BUSINESS**

### **Overview**

We are the largest MFI in India in terms of total value of loans outstanding, number of borrowers, who we call members, and number of branches, according to the October 2009 CRISIL report titled India Top 50 Microfinance Institutions, or the CRISIL Report. We are a non-deposit taking non-banking finance company, or NBFC-ND, registered with and regulated by the Reserve Bank of India, or RBI. We are engaged in providing microfinance services to individuals from poor segments of rural India. Our mission is to eradicate poverty. We believe we do that by providing financial services to the poor and by using our channel to provide goods and services that the poor need.

Our core business is providing small loans exclusively to poor women predominantly located in rural areas in India. These loans are provided to such members essentially for use in their small businesses or other income generating activities and not for personal consumption. These individuals often have no, or very limited, access to loans from other sources other than private money lenders that we believe typically charge very high rates of interest.

We utilize a village centered, group lending model to provide unsecured loans to our members. This model ensures credit discipline through mutual support and peer pressure within the group to ensure individual members are prudent in conducting their financial affairs and are prompt in repaying their loans. Failure by an individual member to make timely loan payments will prevent other group members from being able to borrow from us in the future; therefore the group will typically make the payment on behalf of a defaulting member or, in the case of wilful default, will use peer pressure to encourage the delinquent member to make timely payments, effectively providing an informal joint guarantee on the member's loan. We also use our distribution channel to help provide other services and goods that we have found that our members need. For instance, we also distribute and administer life insurance policy products for our members and have pilot programs to provide loans to our members to purchase select consumer products that increase their productivity.

In addition to our market leadership position and the expertise in microfinance which we have developed, we believe that our competitive strengths include our scalable operating model which leverages technology, diversified product revenues, diversified sources of capital and our pan-India distribution network. Our strategy is to further expand our membership, loans and product offerings by relying on these strengths.

We continue to finance our expansion by accessing multiple sources of capital, both debt and equity, including listed debentures, priority sector qualifying loans from banks, and equity investments from venture capital and private equity investors, institutions and others. Additionally, we seek to sell or assign our portfolio loans to banks to improve our financial position and finance our growth.

During the four year period from fiscal 2006 to fiscal 2010, we expanded our membership from 201,943 in five states to 6,780,145 in 19 states, and our branches expanded from 80 to 2,029. Our total portfolio loans outstanding increased at a CAGR of 147.7% from Rs. 780.50 million as of March 31, 2006 to Rs. 29,367.20 million as of March 31, 2010. Over the four year period from fiscal 2006 to fiscal 2010, our profit after tax increased at a CAGR of 221.0%, from Rs. 16.47 million to Rs. 1,748.40 million. For the year ended March 31, 2010, our total income was Rs. 9,589.28 million.

### **History and Evolution**

In 1997, Swayam Krishi Sangam, or SKS Society, was founded as a public society in the state of Andhra Pradesh, and it functioned as a non-governmental organization, or NGO, that provided microfinance in Andhra Pradesh. After several years of operation as a NGO, SKS Society and its inherent not for profit business model was limited in its ability to address the credit needs of the poor throughout India. Accordingly, SKS Society decided it would transfer its business and operations to us as of a newly incorporated private limited company in India in 2003.

In 2003, we issued an aggregate of 99.5% of our fully diluted share capital to five newly created mutual benefit trusts, or SKS MBTs, that were established by SKS Society with the objective of promoting and enhancing the social and economic welfare of groups of poor women. Accordingly, we sought to

provide the beneficiary member groups with a vehicle to foster the development of poor women with an initial corpus of share capital of our Company. The SKS MBTs subscribed to our equity shares in a series of transactions with funds initially donated by SKS Society to the beneficiary member groups of SKS Society.

At the time the SKS MBTs were formed, there were approximately 500 beneficiary member groups with approximately 16,600 women members that were located entirely in the state of Andhra Pradesh. As of March 13, 2010, the trust deeds of each of the SKS MBTs were amended to include all of our present and future members. As of the same date, there were approximately 220,000 beneficiary member groups with approximately 6.8 million women members located throughout India under the SKS MBTs. Each trust initially had five trustees comprised of three employees and two beneficiary members from each respective region where the groups were located. In November 2009, SKS Trust Advisors Private Limited, formerly Utthan Trust Advisors Private Limited, or STAPL, was designated the sole trustee of each SKS MBT. To continue representation from the beneficiary member groups, each of the SKS MBTs, on March 13, 2010, resolved to have the membership select and appoint up to 100 beneficiary representatives to represent their interests. The board of directors of STAPL currently is comprised of Dr. Vikram Akula and Dr. Ankur Sarin. In order to diversify and spread the decision making authority of STAPL, the board of directors is currently recruiting three additional independent directors.

Since 2003, we have completed several dilutive issuances with investments by our investors to fund our growth. In addition, to assist the SKS MBTs in maintaining a significant percentage holding of our share capital as we issued additional share capital to fund growth, we have provided the SKS MBTs with an extension of the time to pay the required purchase price of the dilutive issuances. As of the date of the filing of this Red Herring Prospectus, the SKS MBTs held an aggregate of 14.7% of our fully diluted share capital. For further details, see “History and Certain Corporate Matters” on page 101 of this Red Herring Prospectus.

We registered as a NBFC-ND with the RBI in 2005 and were converted into a public limited company in May 2009.

### **Our Competitive Strengths**

We believe we have the following competitive strengths:

#### ***Market Leadership***

According to the CRISIL Report, we are the largest MFI in India in terms of total value of loans outstanding, number of borrowers, and number of branches as of September 30, 2008. As of March 31, 2010, we had approximately 6.78 million members, 2,029 branches, a presence in 19 states and loans outstanding of Rs. 29,367.20 million.

We believe that our market leadership position in the microfinance sector enhances our reputation and credibility with our members and our lenders. This enhanced reputation and credibility has numerous benefits, including the ability to secure capital at lower costs, recruit and retain employees, retain our existing members and expand into new regions and product areas.

#### ***Expertise in Microfinance***

We have been focused on lending to poor women in India since our inception. Our experience has given us what we believe is a specialized understanding of the needs and behaviours of the individuals in this segment across India, the complexities of lending to these individuals and issues specific to the microfinance industry in India and its processes. We believe this gives us a competitive advantage over commercial banks. As a result of our experience we have developed skills in training our members and designing specialized financial products.

- *Specialized Financial Products.* We use our knowledge of our members, including their culture, habits and education to design customized financial products. For example, this knowledge enabled us to develop our core loan product with a small weekly repayment plan that corresponds with the cash flow of the member’s business. We believe this approach to

developing the terms and components of our financial products gives us a competitive advantage over banks and other traditional lenders.

- *Member Training.* We provide basic product awareness training for our members because the poor in India are often illiterate or semi-literate and therefore unaware of loan terms and interest rates. In particular, our training program is participatory and employs visual aids such as seeds, coins and cardboard cut-outs to explain the elements of our products and procedures. Our standardized training programs serve as a platform for increased trust and discipline within the member group and the larger aggregation of between three and 10 member groups we call a *Sangam*, which we believe translates to better loan portfolio performance and sustainable growth of our business. We believe this financial literacy training has a concurrent socio-economic benefit enabling women to apply what they have learned in our training program to other aspects of their lives.

### ***Superior Asset Quality***

We believe we have developed a unique model to ensure that our loans are repaid on time and with a low rate of default, given our high rates of portfolio growth. As of March 31, 2010 our net non performing assets, or NPAs, was Rs.48.03 million or 0.16% of our loans outstanding. In addition to traditional tools such as disciplined credit processes, and credit verification, our product structure, sales and collection process and segment specific approach are designed to result in a higher repayment rate for our loan portfolio. Some of these characteristics are outlined below:

- *Product Structure.* We structure our loans with a village centered, group lending model to provide unsecured loans to our members. This model ensures credit discipline through mutual support and peer pressure within the group to ensure individual members are prudent in conducting their financial affairs and are prompt in repaying their loans. Failure by an individual member to make timely loan payments will prevent other group members from being able to borrow from us in the future; therefore the group will typically make the payment on behalf of a defaulting member or, in the case of wilful default, will use peer pressure to encourage the delinquent member to make timely payments, effectively providing an informal joint guarantee on the member's loan. In addition, our loans are short term and primarily made for income generating activities or to fund increases in productivity. Finally, our loans are progressive, where only members who have successfully demonstrated their ability to timely repay previously granted smaller loans are permitted to take on larger loans. We believe that all of these features increase the likelihood that our members will successfully repay their loans.
- *Focus on Income Generating Loans for Low Income Households.* We primarily provide loans for income generating activities or to fund increases in productivity. We believe loans made for this purpose have the highest potential of generating additional income and therefore increase the likelihood of repayment of our loans. We also believe the low income segment is not as exposed to economic downturns and fluctuations because it is relatively insulated from the general economy of the country. This independence, or economic detachment, from the effects of the economy allows our members to continue their businesses without interruption, which ensures higher repayment rates.
- *Focus on Women.* We lend exclusively to women of the low income households, even if the loan proceeds are used in the household business that is run by the family, including the husband. We believe that women can positively influence loan repayment in their household because they are generally more risk averse, cooperate better in groups, and are generally more accessible than their working husbands and can meet regularly to handle the repayment of their loans. We believe that providing women with access to capital in this manner increases their decision making stature in the household.

### ***Scalable Operating Model***

We also recognize that establishing and growing a successful rural microfinance business in India involves the significant challenge of addressing the rural poor that live in remote locations across India. To address this problem we believe that we have designed a scalable model and have developed

systems and solutions for the following three components that we believe are required to effectively scale our business:

- *Capital*. The ability to access large and diverse groups of capital funds required for this market.
- *Capacity*. The capacity to provide our products and services to millions of members.
- *Cost Reduction*. The implementation of technology and process based systems to reduce the cost of conducting numerous complex transactions.

The benefits realized from scale and capacity have also been achieved through proven business models in other sectors such as food, consumer durables and retail. We have adapted some of these models to the MFI sector. We have standardized our recruitment and training programs and materials so that they can easily be replicated across the entire organization. This standardized approach also allows employees to efficiently move from region to region based on demand and growth requirements. Our business processes, from member acquisition to cash collections, have been standardized and appropriately documented. Our branch offices are similarly structured, allowing for the quick rollout of new branches. In addition, the terms and conditions of our loan products are generally uniform throughout India, although interest rates may vary from region to region.

We recognize that conducting business through millions of transactions across thousands of rural locations involves substantial repeat interactions with our members and our employees, thus increasing operating costs. To reduce operating costs, we have deployed and continually improve a sophisticated technology platform. This allows us to improve field level productivity by simplifying data entry, improving the accuracy and efficiency of collections and improving fraud detection. We also gather data on items related to our members and loan portfolio, which can be used for management decision making.

#### ***Access to Multiple Sources of Capital and Emphasis on Asset and Liquidity Management***

We have constantly strived to diversify our sources of capital. As of March 31, 2010, we had outstanding loans of Rs. 26,946.72 million from more than 48 banks and other financial institutions and we had a debt to equity ratio of 2.84. Historically, the MFI sector has relied on priority sector funding from commercial banks. In addition to such funding, we are also able to fund the growth of our operations and loan portfolio through issuances of equity and private and publicly traded debt securities, loans with various maturities raised from domestic and international banks, and the securitization of components of our loan portfolio. We have also diversified our lenders among public sector domestic banks, private sector domestic banks, private sector foreign banks, and institutional investors. As of March 31, 2010, no single creditor represented more than 22.5% of our total indebtedness. We have recently obtained credit ratings for our debt securities to improve our access to, and reduce our, cost of capital. In Fiscal 2010, several of our assignment transactions were rated by ICRA and CARE at 'A1+(SO)' and 'PR1+(SO)', respectively, which is the highest short term rating they give for such securities. CARE has also rated our short term debt instrument at 'PR1+', which is considered to have strong capacity for timely payment of short-term debt obligations and carry lowest credit risk. We believe that we are one of the first MFIs in India to complete a rated bond issuance, issue commercial paper, assign a rated pool, sell a "weaker section" portfolio, list debt instruments on the BSE and complete an assignment of receivables with a public sector bank.

In addition to traditional cash flow management techniques, we also manage our cash flow through active asset liability strategies. We have structured our model to primarily borrow on a long term basis while lending on short term basis. This allows us to better meet the growing loan demands of our rapidly increasing membership even if external borrowings and funding sources face temporary dislocation. We also manage our liquidity through stringent financial metrics that assess our ability to meet our corporate debt and ongoing operational obligations. This allows us to monitor the funding needs of our growth in a disciplined and well defined manner.

### ***Diversified Sources of Revenue***

We believe that diversification of our business and revenue base is a key component of our success, both with respect to our product offerings and the geographies which we serve:

- *Diversified Geographies.* As of March 31, 2010, we had 2,029 branches in 19 states across India with no state accounting for more than 28.8% of our outstanding loan portfolio. Our broad footprint across India allows us to lend in almost all geographies in India which mitigates our exposure to local economic slowdowns and disruptions resulting from political circumstances or natural disasters.
- *Diversified Product Offerings.* While our core business is providing our members with our traditional loan products, we also offer other loans we call productivity loans, that are designed for purchase of goods that enhance the productivity of our members. We also offer access to insurance products and loans to finance them. Such other products have different pricing structures and payment terms which allow us to diversify and increase our revenue streams and revenue base. We also believe that providing our members with these other products fosters brand loyalty.

### ***Pan-India Rural Distribution Network***

We believe that our presence throughout India results in significant competitive advantages, particularly in the following areas:

- *Distribution Platform.* Our pan-India presence in the low income segment gives us a well developed distribution network in rural India. Our regular contact with members for product sales, collections, product training, and group decision making gives us the capability to offer a variety of financial products nationally in areas that most companies cannot. This distribution channel allows us to facilitate the sale of these alternative products at a lower cost to our members.
- *Product Pricing Power.* Our national presence and large volumes give us the leverage to negotiate favourable terms with institutions that want to distribute their products through our network and result in lower pricing for the products that are distributed to our members. We believe this gives us a competitive advantage over other regional lenders as well as other products distributors as we can provide our members with a larger range of products at lower costs.

### ***Experienced Management Team and Board of Directors***

Our management team has significant experience in the microfinance and financial services industry and has developed the knowledge to identify and offer products and services that meet the needs of our members, while maintaining effective risk management and competitive margins. In addition to our founder and Chairman, Dr. Vikram Akula, our senior management team is comprised of our Chief Executive Officer and Managing Director, Chief Operating Officer and Chief Financial Officer. Substantially all of our senior managers has over 17 years of experience with well reputed national and multinational companies, particularly in the retail and commercial banking industries. We continuously train our management in the field of microfinance through specialized internal and external programs.

Our Board is comprised of experienced investor, industry and management professionals. Out of a total of 10 seats on our Board, five are represented by independent Directors.

### ***Our Strategy***

#### ***Expand our Membership through Increased Geographic Coverage and Penetration in Existing Markets***

We are focused on growing our membership base to increase the aggregate number of loans we can make in our loan portfolio. In order to increase our membership, we seek to:

- establish branches in new geographies, including areas where the first mover advantage is important to establishing brand recognition and customer loyalty;



- establish additional branches in areas in which we are already present and where we can leverage our leadership position and brand recognition to increase membership; and
- increase membership through greater penetration in our existing branches.

#### ***Expand our Range of Income Generating and Productivity Loan Products***

Our goal is to provide our members with loan products that yield an increase in income generated as a result of the loan. We believe this focused approach to lending will allow us to sustain high repayment rates and provide economic benefits to our members and their families. One of the elements of our strategy is to continue to increase our revenue base from our members. In order to achieve these increases in revenue we are introducing newer and more innovative loan products including loans for the purchase of products such as mobile phones that we believe will increase the productivity of a member. We have entered in to a strategic relationship, with Nokia India Private Limited, or Nokia, where we issue a loan to a member for the purchase of a Nokia mobile phone. These relationships require us to assist our members that purchase Nokia phones with our loans, with the subscription of the new mobile phone, the related documentation and to collect payment from them. Under a pilot program with METRO Cash & Carry India Private Limited, or METRO and Future Agrovet Limited or FAL, we provide working capital financing to our members operating local retail shops called *kirana* stores that purchase supplies from METRO or FAL on a wholesale basis. In addition, we have recently commenced a pilot program to provide home improvement loans to our members. HDFC has licensed us a portion of their proprietary technology systems to allow us to track and support the loans we disburse in the program. We also believe that a wider variety of loan products differentiates us from competitors and increases member retention. We are also increasing the principal amount of our loans on a measured basis to members that demonstrate a strong track record of loan repayment and increased capacity to pay. We have recently obtained the RBI's approval to market and distribute mutual funds as an agent for an initial period of two years.

#### ***Leverage our Distribution Channels into New Revenue Streams***

We have built a large distribution network in rural India. We believe we can leverage this network to distribute financial products of other institutions to our members at a cost lower than other institutions. Our network also allows such distributors to access a segment of the market to which many do not otherwise have access. Currently, we have a distributor relationship with Bajaj Allianz Life Insurance Company Limited, or BALICL, for the sale of their life insurance products, while meeting the protection or savings needs of our members. We receive a fee based commission on these sales and believe that increases in this type of revenue lowers our revenue risk exposure to longer term interest income based products. Having distributed over 2.9 million policies as of March 31, 2010, we also believe that the predominantly longer term and repetitive nature of these products increases member loyalty and retention.

#### ***Continue to Develop our Information Technology Platform and Risk Management Systems***

We recognize that our ability to compete effectively as an MFI requires us to utilize technology to effectively control the risks, costs and errors associated with the complex transactions that are inherent in our rapidly growing business. We have developed and implemented a proprietary technology system that provides field level data entry, loan tracking and loan portfolio reporting on an aggregated enterprise-wide basis, which we believe has reduced our transaction costs and increased our ability to manage loan applications, disbursements, duration and other member specific data. We intend to further develop this system to enable real-time internet based reporting from all of our branches as well as integration with other accounting systems that we are currently using. In addition, we intend to purchase and implement an integrated risk management system that will further enhance our ability to manage the risks inherent to our business.

#### ***Pursue Strategic Business Alliances***

We constantly evaluate and form new strategic business alliances to strengthen our market share and product offerings. We have entered into strategic alliances with Nokia, BALICL, HDFC, METRO and FAL. In addition, we believe that we have unique knowledge, experience and business models that we could leverage in other countries. We may enter into joint ventures and strategic relationships to make an entry into these markets. While we have not made any such investments or acquisitions as of the

date hereof, we are evaluating the potential for such opportunities, and may proceed, in a measured way, in the future.

### **Our Business Model and Methodology**

Our lending business is based on a group lending model. This model has been refined for over 30 years by MFIs internationally and in Bangladesh, and is based on the idea that the poor have skills that are under-utilized. Further, that if the poor are given access to credit, they will be able to identify new opportunities and grow existing income generating activities such as running local retail shops called *kirana* stores, providing tailoring and other assorted trades and services, raising livestock, cottage production such as pottery, basket weaving and mat making, land and tree leasing. We believe that access to basic financial services can significantly increase economic opportunities for poor families and in turn help improve their lives. Approximately 57.3% of our members belong to the “weaker section” of Indian society, as defined by the RBI.

Our lending model is comprised of five key elements that we have summarized below.

- *Village Selection.* We believe it is important for us to determine the feasibility of a village for our lending business before we commence operations in that area. We designate field level employees, we call Sangam Managers, to be responsible for a specified village or set of villages. Our Sangam Managers conduct a comprehensive survey to evaluate the local conditions and potential for operations based on several key factors that include total population, poverty level, road access, political stability and safety. After a village has been selected, our employees conduct public meetings in the village to introduce themselves and our Company. In these meetings, we explain the concepts of group lending, our lending procedures and the requirements for group formation.
- *Focus on Women.* We lend exclusively to women of the low income households, even if loan proceeds are used in the household business that is run by the family, including the husband. We believe that women can positively influence loan repayment in their household because they are generally more risk averse, cooperate better in groups, and are generally more accessible than their working husbands and can meet regularly to handle the repayment of their loans. We believe that providing women with access to capital in this manner increases their decision making stature in the household. As decision makers, we believe women can help direct disposable income to the more basic needs of the home such as nutrition, education and home repairs.
- *Member Training.* We believe it is crucial to build a culture of product awareness and credit discipline from the early stages of group formation. We address this through training and education. Once a group is formed, we conduct training sessions we call Compulsory Group Training, or CGTs, consisting of a series of hour long sessions. These sessions are participatory and designed to provide basic product awareness by employing visual aids such as seeds, coins and cardboard cut-outs to explain the elements of our products and procedures. During the training period, our employees also collect quantitative data on each potential member to ensure she qualifies for the program and to record baseline information for future analysis. On the last day, a group recognition test is administered and members are officially inducted. Many of the training sessions have an everyday beneficial effect on our members such as the ability to sign their name, count cash and work in groups.
- *Group Lending.* We believe this model ensures credit discipline through mutual support and peer pressure within the group to ensure individual members are prudent in conducting their financial affairs and are prompt in repaying their loans. Failure by an individual member to make timely loan payments will prevent other group members from being able to borrow from us in the future; therefore the group will typically make the payment on behalf of a defaulting member or, in the case of wilful default, will use peer pressure to encourage the delinquent member to make timely payments, effectively providing an informal joint guarantee on the member's loan. These groups are self-selected and each member is eligible to obtain loans individually, though the group serves as an informal guarantor for others in the group. We believe that the optimal group size is exactly five women. This size is small enough for members to effectively exert peer pressure and large enough for them to have ability to repay

for other members in the group in the event of a default. As other members are added and new five members groups are formed, we consolidate a series of such groups within a village to form a center, which we call a *Sangam*. A *Sangam* consists of three to 10 groups, has to approve the addition of any new group and also takes on responsibility for any member of any of the groups in that *Sangam*. This serves as an additional layer of informal joint guarantee further ensuring repayment of loans. We commence financial transactions once a *Sangam* is formed. We obtain loan applications from members of the group during the CGTs. A group, and the *Sangam* that the group belongs to, must approve any loan to a member in the group. Since the failure of an individual member to make timely loan repayments precludes other group members from being able to borrow from us in the future, groups are very careful and selective in choosing their members and approving loans. This structure provides and additional verification of a member's credit worthiness. Further, to ensure credit discipline and that our loans are being utilized for the purpose for which they are requested, we initially issue loans to groups within the *Sangam* on a staggered basis, with only two loans issued per group in the first week.

- *Village Level Lending and Collection*. Our approach to rural lending involves providing credit to members in their village, rather than requiring members to travel in order to obtain loans. Meetings begin early in the morning in order not to interfere with the daily activities of our members. We have developed a network that reaches each of the *Sangams* we lend to on a weekly basis. This allows us to regularly collect payments on outstanding loans and disburse new loans, reinforce group stability, address community issues and eliminate the travel and time constraints that members face with other lenders.

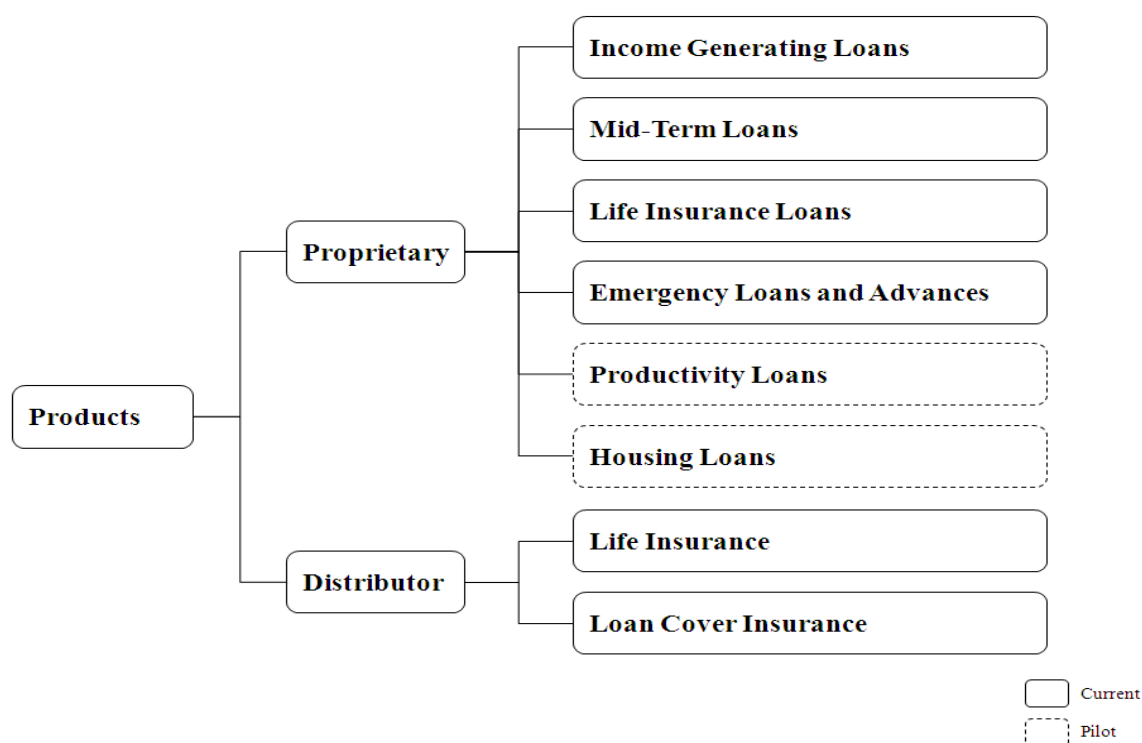
## **Our Products**

The diagram below illustrates our product family including current and pilot products.

### ***Proprietary Products***

We currently have four loan products and are piloting others as mentioned below:

## SKS MICROFINANCE PRODUCT FAMILY



The table below indicates the relative composition of our loan portfolio by loan type, revenue for the year ended March 31, 2010, outstanding principal amount and number of loans outstanding per product as follows:

| Loan Type                     | Revenue for the year ended March 31, 2010 |               | Outstanding Principal Amount as of March 31, 2010 |               | Number of Loans Outstanding as of March 31, 2010 |               |
|-------------------------------|-------------------------------------------|---------------|---------------------------------------------------|---------------|--------------------------------------------------|---------------|
|                               | Rs. in million                            | %             | Rs. in million                                    | %             | Number                                           | %             |
| Income Generating Loans       | 8,681.30                                  | 99.4          | 25,018.66                                         | 85.19         | 3,770,834                                        | 69.49         |
| Mid-Term Loans                |                                           |               | 4,139.49                                          | 14.10         | 1,190,185                                        | 21.93         |
| Life Insurance Loans          | -                                         | -             | 96.09                                             | 0.33          | 462,326                                          | 8.52          |
| Emergency Loans and Advances* | -                                         | -             | 0.05                                              | 0.00          | 30                                               | 0.00          |
| Productivity Loans            | 13.67                                     | 0.16          | 98.96                                             | 0.34          | 2,543                                            | 0.05          |
| Housing Loans                 | 1.04                                      | 0.01          | 13.95                                             | 0.05          | 235                                              | 0.00          |
| Individual Loans #            | 39.70                                     | 0.45          | -                                                 | -             | -                                                | -             |
| <b>Total</b>                  | <b>8,735.70</b>                           | <b>100.00</b> | <b>29,367.20</b>                                  | <b>100.00</b> | <b>5,426,153</b>                                 | <b>100.00</b> |

\*Excludes Rs. 30.33 million in interest-free funeral advances outstanding as of March 31, 2010.

# We piloted these loans for a limited time during the period from September 2005 to August 2008 and no longer offer such loans.

### Income Generating Loans

This is our core loan product for use by women in rural areas and is intended to provide capital for their small businesses. The loans are made to members for businesses such as running local retail shops called *kirana* stores, providing tailoring and other assorted trades and services, raising livestock, cottage production such as pottery, basket weaving and mat making, land and tree leasing. Loans

granted under the Income Generating Loan program range from Rs. 2,000.00 to Rs. 12,000.00 for the first loan. Subsequent loan amounts are determined by past credit history and increased each year in set increments up to a maximum of Rs. 30,000.00. The annual effective interest rate of the loans range from 26.7% to 31.4%, with an interest prepayment equal to 1.0% of the loan amount. The term of an Income Generating Loan is 50 weeks. Principal and interest payments are due on a weekly basis during the loan term. We also issue moratoriums on a case by case basis in the event of a flood or other disaster in the region that we determine makes our members in the region unable to repay their loans on time. As of March 31, 2010, 85.19 % of our outstanding loan portfolio consisted of Income Generating Loans.

We require our members to purchase Loan Cover Insurance provided by third party insurance companies concurrently with the issuance of an Income Generating Loan and Mid-Term Loans. The purpose of this product is to reduce the risk of loss in the event of the death of a member or her husband. The insurance covers the entire original principal balance on an Income Generating Loan and is paid directly to us by the insurer in the event of a death. Any surplus of insurance proceeds received after deducting the then outstanding balance on an Income Generating Loan is paid to the member.

#### *Mid-Term Loans*

Mid-Term Loans are for the same end use as an Income Generating Loan, but become available any time after the completion of 20 weeks of an Income Generating Loan cycle. The loan amount is smaller than an Income Generating Loan and is designed to provide members, who have obtained an Income Generating Loan, with additional capital while their Income Generating Loan is still being paid off. Loan amounts range from Rs. 2,000.00 to Rs. 15,000.00 in each annual cycle with an interest prepayment equal to 1.0% of the loan amount. The annual effective interest rate of the loan ranges from 26.7% to 31.4%. The term of the loan is 50 weeks. Principal and interest payments are due on a weekly basis during the loan term, subject to a moratorium in the event of a flood or other disaster in the region that we determine makes our members in the region unable to repay their loans on time. As of March 31, 2010, 14.10% of our outstanding loan portfolio consisted of Mid-Term Loans.

#### *Life Insurance Loans*

Life Insurance Loans are issued to our members to assist them in the purchase of whole life insurance policies we distribute and administer for BALICL. We have issued these interest free loans to our members to pay their insurance premiums during their initial 25 weeks period, in order to help promote a culture of savings and preparation. The loans are interest free and have a fixed principal amount of Rs. 500.00. The term of the loan is 25 weeks and payments are due on a weekly basis during the term of the loan. As of March 31, 2010, 0.33% of our outstanding loan portfolio consisted of Life Insurance Loans.

#### *Emergency Loans and Advances*

The Emergency Loans and Advances are offered to members for use in the case of emergencies such as pregnancies, funerals and hospitalizations. Loans range from Rs. 500.00 to Rs. 2,000.00. We do not charge interest or fees on these loans. While these loans generate a loss for us, we believe they serve an important role in serving the social needs of the poor. The term of an Emergency Loan is 20 weeks, with lump sum repayment due at the end of the term. Loans for funerals are typically paid upon receipt of any proceeds from loan cover insurance policies. As of March 31, 2010, less than 0.1 % of our outstanding loan portfolio consisted of Emergency Loans and Advances.

#### *Productivity Loans*

We are currently piloting loan products that members can use to purchase consumer products that we believe will increase the productivity of members and their businesses. We are selective about the products for which we issue such loans. To ensure our loan is used for the purchase of the specified product, we first enter in to a strategic relationship with the supplier of the product that we have selected and specify that the loan disbursement will be made directly to the supplier of the product rather than to the member. For example, we are piloting a program with Nokia for the financing of mobile phones for our members. The annual effective interest rate of the mobile phone program loans

range from 30.6% to 36.2%. The term of this loan is 25 weeks. Principal payments are due on a weekly basis during the term of the loan and the entire interest payable is paid in advance.

We are also piloting a business to business loan program with METRO and FAL to fund the working capital needs of our members who own and operate *kirana* stores. The program allows these members to purchase their inventory of consumer goods and groceries from METRO or FAL at wholesale prices. Loan amounts range from Rs. 5,000.00 to Rs. 25,000.00 and are interest free. The term of the loan is 14 days. We receive a fixed commission from METRO and FAL for the total purchases a *kirana* store makes from METRO or FAL while utilizing our productivity loan. As of March 31, 2010, 0.34 % of our outstanding loan portfolio consisted of Productivity Loans.

### *Housing Loans*

We have launched a housing loan pilot product for our members who have been with the company for a minimum of three years. Members can repair their houses, such as changing a thatched or asbestos roof to RCC, or make improvements such as building a latrine or adding an extra room. Loans range from Rs. 50,000 to Rs. 150,000. The loan has a repayment period of three to five years depending on the repayment capacity of the members and the principal and interest payments are due on a monthly basis. The annual effective interest rate is 21.0% and a onetime loan processing fee of 2% is collected on sanction amount. We are currently carrying out a pilot programme with support from HDFC and plan to roll out housing loans more widely in the next financial year. As of March 31, 2010, 0.05 % of our outstanding loan portfolio consists of Housing Loans.

### *Individual Loans*

We piloted an individual loan program for direct loans to members that had completed at least one loan cycle with us. These loans were note based on the group lending model and were intended for members that had already utilized our other loan products and still required additional capital. Loan proceeds were limited to business uses similar to our other loan products. Loans amounts were limited to Rs. 50,000.00. The term of the Individual Loan ranged from 12 to 18 months. We piloted these loans in three states for a limited time during the period from September 2005 to August 2008 and no longer offer such loans.

### ***Interest Rate Model***

All of our loans are denominated in Indian Rupees, are offered at fixed interest rates, with principal and interest payable in weekly installments. The interest rates we charge our members are principally based on our high operating and funding costs, particularly our high personnel and administrative costs which are significantly greater than those of most commercial banks and traditional non-bank finance companies. The table below shows our costs as a percentage of our average total loans outstanding plus assigned loans outstanding for fiscal 2010, 2009 and 2008.

| <b>Expense</b>               | <b>Fiscal 2010</b> | <b>Fiscal 2009</b> | <b>Fiscal 2008</b> |
|------------------------------|--------------------|--------------------|--------------------|
| Financial expenses           | 8.51%              | 11.09%             | 8.51%              |
| Personnel expenses           | 6.39%              | 7.75%              | 7.16%              |
| Operating and other expenses | 3.97%              | 4.91%              | 4.96%              |
| <b>Total*</b>                | <b>18.87%</b>      | <b>23.75%</b>      | <b>20.63%</b>      |

*\* Excludes provisions and write-offs and tax expenses.*

We have in the past progressively reduced the interest rates we charge our members whenever our costs have been reduced, either from scale or lowered funding costs. We may continue to reduce our interest rates in the future as we achieve such economies of scale in other markets or further economies of scale in existing regions.

### ***Distributor Products***

We also distribute and administer various insurance policy products for insurance companies based in India. These policies are issued and underwritten by third party insurers and we distribute and administer them on their behalf. We receive commissions and earn fees for such arrangements. The table below indicates the relative composition of our Distributor Products portfolio by type and by revenue for the year ended March 31, 2010 and by number of policies outstanding as of March 31, 2010:

| Insurance Type       | Revenue       |              | Policies Outstanding |              |
|----------------------|---------------|--------------|----------------------|--------------|
|                      | Rs. (million) | %            | Number               | %            |
| Loan Cover Insurance | 323.23        | 62.7         | 12,759,417           | 81.7         |
| Life Insurance       | 192.52        | 37.3         | 2,864,567            | 18.3         |
| <b>Total</b>         | <b>515.75</b> | <b>100.0</b> | <b>15,623,984</b>    | <b>100.0</b> |

#### ***Loan Cover Insurance***

We distribute term life insurance products issued and underwritten by insurance companies in India. We market the insurance policies to our members as Loan Cover Insurance. The policies are designed to provide monetary support in event of death of the member or death of the spouse of the member. These policies generally provide for the repayment of the original principal amount of the loan. We charge the member a fee for the administration of the policy, including the initial sale, payment collection and disbursements on any payable policies.

#### ***Life Insurance***

We have been distributing endowment or whole life insurance policies issued and underwritten by BALICL for the past 18 months to our members. We are the master policy holder and issue individual policies on behalf of BALICL. The policies require a weekly payment of Rs. 20 and have a term of five years. Upon death, we disburse to the beneficiary the full sum assured of Rs. 5,000 plus the account value, which is equal to the aggregate of the premiums paid plus interest accrued, if any, less any charges for the administration of the policy. In the event the death is deemed an accidental death, the beneficiary receives Rs. 10,000 plus the account value. Upon maturity in five years where no death has occurred, we disburse to the policyholder the account value. We charge BALICL a fee as the master policyholder for administration of the policy, including the initial sale, payment collection and disbursements on any payable policies.

### **Credit application and approval process**

We require each member seeking a loan from us to submit an application in her weekly *Sangam* meeting that is managed by our Sangam Managers. We use a standardized loan application form that must be signed by both the member and the center leader, who serves as a witness. Once complete, a new loan application is only accepted at a *Sangam* meeting in which all five members of the group to which the applicant belongs are present and a minimum of 70% of the center members are present. Once we have accepted the loan application, we review the information provided by the member on items such as the purpose of the loan, the amount, and the relevant expertise of the member in the business, as well as experience, if any, we have had with prior loans the member may have obtained from us.

We approve new loans based on qualitative information about the applicant and the approval of the other members in the *Sangam*. This approval process follows the following steps.

Unanimous consent of all members present at the *Sangam* meeting to the issuance of the loan to the member. We believe this serves to put the entire *Sangam* group on notice of the loan and the awareness that a default on the loan will prevent any other member from obtaining a new loan.

Approval of loan application by the branch manager. On a weekly basis, the branch manager leads a deliberation on each applicant's family, occupational background and previous loan history, if any. If the branch staff unanimously agrees to grant the applicant a loan, the branch manager approves the loan and the funds are disbursed to the member in the next weekly *Sangam* meeting.

## **Portfolio and Risk Management**

The initial focus of our loan portfolio management efforts is on our Sangam Managers, who are given primary responsibility for both the issuance of loans and the collection of loan payments from our members. We believe that these employees, who are personally involved with forming of groups, leading weekly *Sangam* meetings in the villages and maintaining relationships with individual members, are an important factor in enabling us to attain a repayment rate in excess of 99.0%.

Assembling our members together in groups and *Sangams* allows us to efficiently manage our loan portfolio. All members of a group are required to attend the weekly *Sangam* meetings, during which loan repayments are made. Our Sangam Managers maintain relationships with all members that they manage in order to ensure and verify that loan payments are made timely and correctly. Sangam Managers input data regarding loan disbursements and collection into our management information system on a daily basis. In the event of a late or missed loan payment, the officer responsible for managing the loan and our branch managers commences a standardized collection process that includes direct in person visits with the member to determine the cause of the missed payment and the solutions to remedy it.

We also regularly conduct audits or reviews of our members and the use of the funds they obtained from us as loans. We call these audits and reviews loan utilization checks, or LUCs. In an LUC, one of our Sangam Managers will visit member's household or place of business to verify whether the loan funds received have been used for the purpose that the member stated in her loan application and to evaluate the status of the member's business. For every loan a member obtains from us, we conduct an LUC in the second week after disbursement of the loan.

To manage our loan portfolio, debt and assigned loans on a corporate wide basis, we have an audit team comprised of over 370 employees and a defined audit process that includes a branch rating system linked to branch manager compensation incentives. In addition, to ensure independence from our operations, our audit team reports directly to the Audit Committee of our Board.

## **Cash management**

All of our disbursements and collections from members are done in cash, making cash management an important element of our business. To reduce the potential risks of theft, fraud and mismanagement, we have recently implemented an integrated cash management system that was operational in approximately 1,338 of our branches as of March 31, 2010.

The system utilizes an internet banking software platform that interfaces with various banks to provide us with up to date real time cash information for these branches and the loan activity in them. We believe this integrated system augments our management information systems, and facilitates our bank reconciliations, audits and cash flow management. The system also reduces errors.

We have adopted a cash investment policy that limits cash investments to interest bearing fixed deposit accounts. We do not invest our cash in any other instruments or securities.

## **Information Technology**

An integral part of the ability to scale for any organization is its ability to understand what the status of its product sales, revenues, costs and risks in operating the business. We are committed to implementing technology systems and processes that provide us with up to date management information about our business to allow us to make informed strategic decisions as we grow.

We believe that we are a leader and innovator in the use of technology in the microfinance industry. With the assistance of carefully selected technology vendors, we have built our technology platform in to a business tool for achieving and maintaining high levels of customer service, enhancing operational efficiency and creating competitive advantages for our organization. Our information technology systems include the following components:

- *Information Management.* Through our technology platform, we gather data on items that pertain to our members and to our loan portfolio. Having access to this detailed information



allows us to efficiently drive important corporate decision making on issues such as new products, timing of access to funding and loan portfolio concentration risks. Our system maintains profile and transactional information centrally using relational databases. Our customer information is the core of the information model, and has relational linkages to transactional information. This data organization provides our management with analytical capabilities which are harnessed for customer relationship management and product and service performance analytics.

- *Application Systems.* As part of our information technology strategy, we have embarked on a project to develop an application platform based on service oriented architecture and open standards. This application platform will form the basis for developing and integrating business applications with each other and common data elements.

This platform will provide for reusing and harnessing a set of common functionalities which we believe will reduce development and integration efforts and aid in the effective management of information across our organization.

- *Electronic Delivery Channels and Branch Infrastructure.* Each of our branches has branch terminals which provide facilities for branch data entry, loan processing, and collections along with detailed management information systems, or MIS, for branch officials.
- *Networking.* Networking in rural India is a challenge and we have made extensive use of the cellular telephony network and other technologies to establish connectivity with our remote branches.
- *Internal Systems.* In addition to the systems which provide core business functionality, we have deployed an enterprise resource planning system for our internal finance and accounting processes and other internal systems for functions such as human resource management. Messaging and collaboration systems have been deployed at a third party managed data center facility in order to ensure consistent information exchange across our organization.

We have made significant investments in maintaining and updating our technology infrastructure, systems applications and business solutions. For fiscals 2008, 2009 and 2010, we invested approximately Rs. 109.38 million, Rs. 102.57 million, and Rs. 117.04 million, respectively in developing and maintaining our information technology systems and infrastructure.

## **Sales and Marketing**

Our sales personnel consist of branch managers, assistant managers and Sangam Managers who sell and market our proprietary products and distribute our distributor products solely through weekly *Sangam* meetings. For the year ended March 31, 2010, each of our Sangam Managers managed approximately 571 members on average. As of March 31, 2010, we had 18,344 sales personnel, which comprised 86.7% of our total workforce, and 2,029 branches. Our branches are supported by administrative support staff and management personnel in area and regional offices.

Our sales personnel are typically locally hired and trained so that they have a strong understanding of the local areas in which they will work. We ensure, however, that they are not appointed to the same village or region of villages to avoid a conflict of interest. In many cases, our Sangam Managers come from the same villages our members reside in. We believe this has the additional benefit of creating additional employment in the rural villages in which we operate. We train each employee in a two month program that covers both financing principles and field operations.

In addition, we also maintain a direct customer contact program which we call a Sangam Leaders Meeting. In this program, Sangam members elect a Sangam Leader to serve as the key contact and relationship person for the Sangam with our organization. We conduct Sangam Leader Meetings to inform them of our current and historical events, which allow them to better communicate the objectives of our organization to our members and better understand their expectations of our services.

We also have a corporate marketing program that includes participation in conferences, press and media coverage as well as promotional materials.

## **Social Initiatives**

In addition to the products we directly offer our members as a NBFC, we are involved in social programs both directly and through our support of SKS Society.

### ***Flood Relief***

In the event of a flood, we provide direct relief efforts to our members in flood affected areas. For example, we recently donated Rs. 5.02 million in flood relief supplies such as blankets, rice and utensils to members affected by the 2009 floods in the states of Andhra Pradesh and Karnataka.

### ***SKS Society***

We were initially organized as a public society in the state of Andhra Pradesh, and it functioned as a NGO that provided microfinance in Andhra Pradesh. Since our acquisition of the microfinance business of SKS Society in 2005, SKS Society has continued to work with the poor across India. In November 2009, our Board of Directors approved a donation of Rs. 10.0 million to SKS Society to support their efforts. For example, SKS Society runs an ultra poor program that addresses the issues of extreme poverty on three levels: economic, social and health, and aims to graduate clients into being able to run sustainable income-generating enterprises.

SKS Society is also running a program addressing the challenge of deworming children in rural India. Estimates indicate that at least 400.0 million school-age children worldwide are infected by roundworm, whipworm, and hookworm. This can lead to stunting, anemia and children being underweight. In 2009, we joined with SKS Society in its partnership with Deworm the World to provide deworming tablets to up to 1.0 million school-aged children in the communities in which we operate. The initial focus area is the state of Andhra Pradesh.

## **Competition**

We face our most significant organized competition from other MFIs and banks in India. In addition, many of our potential members in the lower income segments do not have access to any form of organized institutional lending, and rely on loans from informal sources, especially money lenders, landlords, local shopkeepers and traders at much higher rates

### ***Other Microfinance Institutions***

According to the Bharat Microfinance Report, there are 35 for-profit and 198 non-profit MFIs operating in India. These organizations utilize various legal entities including non-profit companies, trusts, societies, co-operatives and NBFCs. According to the CRISIL Report, the top 10 MFIs in India held approximately 74.0% of the total loans outstanding as of March 31, 2009.

### ***Banks***

We believe traditional commercial banks as well as regional rural and cooperative banks, have generally not directly targeted the rural lower income segments of the population for new customers. However, some banks do participate in microfinance by financing the loan programs of SHGs often in partnership with NGOs. Banks also indirectly participate in microfinance by making loans and providing other sources of funding to other MFIs. In addition, we are aware that some commercial banks are beginning to directly compete with for-profit MFIs for lower income segment customers in certain geographies.

## **Properties**

### ***Registered Office***

Our registered office and headquarters are located in leased premises at Ashoka Raghupati Chambers, D. No. 1-10-60 to 62, Begumpet, Hyderabad – 500 016, Andhra Pradesh.

### ***Other Properties***

As of March 31, 2010, we also had 28 regional offices and 2,029 branches that we lease throughout India.

## **Employees**

As of March 31, 2010 we had 21,154 full-time employees, of which we believe some belong to the ‘weaker section’ of the population as defined by the RBI. We conduct periodic reviews of our employees’ job performance and determine salaries and discretionary bonuses based upon those reviews and general market conditions.

We believe that we have a good working relationship with our employees and we have not experienced any significant labour disputes. Our employees are not subject to any collective bargaining agreements or represented by labour unions.

Our compensation and benefit packages are competitive with others in the microfinance industry, and we comply with all provisions of the applicable labour laws. The compensation philosophy for our personnel is that compensation is linked to performance, with rewards through various incentive programs. Each of our employees has individual objectives based on strategic corporate goals. Sangam Managers are compensated with performance bonuses based on the number of new members they generate. They are not compensated or incentivized on loan performance or loan size. More senior employees such as Area Managers and above are also required to maintain a strong loan portfolio and increase our customer base. When operational and financial targets are met, our employees are eligible to receive a bonus in accordance with our compensation program. We also grant employees that meet well defined seniority or tenure metrics options to purchase Equity Shares of the Company that vest on industry standard schedules. Additionally, we have employee stock option plans and an employee stock purchase scheme and have granted options to our employees pursuant to the plans. Our goal oriented culture and incentive programs have contributed to developing a highly motivated workforce that is focused on building strong relationships with our members and partners by delivering personalized customer service, growing profitability and striving for the best operational efficiencies possible. For further details of the stock option plans, see “Capital Structure” on page 28 of this Red Herring Prospectus.

We have a high employee attrition rate. For fiscal 2008, 2009 and 2010, our employee attrition rate was 24.6%, 29.7% and 25.7%, respectively. We define attrition as the total employee terminations and resignations divided by the average employee headcount for the period times the number of months in the period. We believe these high attrition rates are the result of a mix of factors that include, better job opportunities, personal or family concerns, higher education and terminations. We continue to focus on retention efforts and the implementation of new programs to decrease our attrition.

## **Intellectual Property**

In addition to other intellectual property such as copyrights and licenses, as of March 31, 2010, we had applied in India for 12 trademarks, including the composite trademark for “SKS Microfinance” in English and nine other Indian languages, and our logo.

We are not dependent on patents, software licenses or other intellectual property that is material to our business or results of operations.

**Insurance**

We maintain insurance policies that we believe are customary for companies operating in our industry. In addition to professional liability insurance, we maintain insurance policies covering our fixed assets, equipment and leased properties and that protect us in the event of natural disasters or third-party injury, and key person life insurance policies on Dr. Vikram Akula and Mr. Suresh Gurumani.

## REGULATIONS AND POLICIES

We are registered with the RBI as a NBFC and operate as a non-deposit systemically important NBFC and, are sub-classified as a “loan company”. Our business activities are governed by the rules, regulations, notifications and circulars issued by the Reserve Bank of India applicable to non-deposit accepting NBFCs.

Following are the significant regulations that affect our operations:

### **The Reserve Bank of India Act, 1934**

Pursuant to an amendment to the RBI Act in 1964, the RBI was entrusted with the responsibility of regulating and supervising activities of NBFCs by virtue of powers vested to it through Chapter III B of the RBI Act. Section 45-I (f) of the RBI Act defines a NBFC as:

- (i) a financial institution which is a company;
- (ii) a non-banking institution which is a company and which has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner, or lending in any manner; or
- (iii) such other non-banking institution or class of such institutions as the RBI may, with the previous approval of the Central Government and by notification in the Official Gazette, specify.

As per the RBI Act, a financial institution has been defined as a non-banking institution carrying on as its business or part of its business, amongst other activities, the financing, whether by way of making loans or advances or otherwise, of any activity, other than its own, or the carrying on of any class of insurance business.

Any company which carries on the business of a non-banking financial institution as its principal business is to be treated as a NBFC. RBI pursuant to a press release dated April 8, 1999 has further indicated that in order to identify a particular company as a NBFC, it will consider both the assets and the income pattern as evidenced from the last audited balance sheet of the company to decide its principal business. A company would be categorized as a NBFC if its financial assets were more than 50% of its total assets (netted off by intangible assets) and income from financial assets is more than 50% of the gross income. Both these tests are required to be satisfied as the determinant factor for classifying the principal business of a company as that of a NBFC.

With effect from January 9, 1997, NBFCs were not permitted to commence or carry on the business of a non banking financial institution without obtaining a Certificate of Registration (CoR). Further, with a view to imparting greater financial soundness and achieving the economies of scale in terms of efficiency of operations and higher managerial skills, the RBI raised the requirement of minimum net owned fund from Rs. 2.5 million to Rs. 20 million for a NBFC commencing business on or after April 21, 1999. Further, every NBFC was required to submit to the RBI a certificate, from its statutory auditor within one month from the date of finalization of the balance sheet and in any case not later than December 30th of that year, stating that it was engaged in the business of non-banking financial institution and it held a CoR.

### ***Capital Reserve fund***

Pursuant to Section 45 IC of the RBI Act, every NBFC is required to create a reserve fund and transfer thereto a sum not less than 20% of its net profit every year, as disclosed in the profit and loss account and before any dividend is declared. Such a fund is to be created by every NBFC including a NBFC not accepting/holding public deposit. Further, no appropriation can be made from such fund by the NBFC except for the purposes specified by the RBI from time to time and every such appropriation shall be reported to the RBI within 21 days from the date of such withdrawal.

### ***Prudential Norms***

The RBI has issued the Non Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, as amended from time to time (“Prudential Norms Directions”), which contain detailed directions on prudential norms for a NBFC-ND. The Prudential Norms Directions, amongst other requirements prescribe guidelines regarding income recognition, asset classification, provisioning requirements, constitution of audit committee, capital adequacy requirements, concentration of credit/investment and norms relating to infrastructure loans. The Prudential Norms Directions are not applicable to certain NBFCs which are investment companies. In terms of the Prudential Norms Directions, all NBFCs-ND with an asset size of Rs. 1,000 million or more as per their last audited balance sheet will be considered as a systemically important NBFC-ND.

### ***Asset Classification***

The Prudential Norms Directions require that every NBFC shall, after taking into account the degree of well defined credit weaknesses and extent of dependence on collateral security for realisation, classify its lease/hire purchase assets, loans and advances and any other forms of credit into the following classes:

- (i) Standard assets;
- (ii) Sub-standard assets;
- (iii) Doubtful assets; and
- (iv) Loss assets.

Further, such class of assets would not be entitled to be upgraded merely as a result of rescheduling, unless it satisfies the conditions required for such upgradation.

### ***Provisioning Requirements***

A NBFC-ND, after taking into account the time lag between an account becoming non performing, its recognition, the realization of the security and erosion overtime in the value of the security charged, shall make provisions against sub-standard assets, doubtful assets and loss assets in the manner provided for in the Prudential Norms Directions.

### ***Disclosure Requirements***

A NBFC-ND is required to separately disclose in its balance sheet the provisions made in terms of the above paragraph without netting them from the income or against the value of the assets. These provisions shall be distinctly indicated under separate heads of accounts and shall not be appropriated from the general provisions and loss reserves held, if any by it. Further every systemically important NBFC (NBFC-ND-SI) shall disclose the following particulars in its balance sheet (i) Capital to Risk Assets Ratio (CRAR), (ii) Exposure to real estate sector, both direct and indirect, and (iii) Maturity pattern of assets and liabilities

### ***Exposure Norms***

The Prudential Norms Directions prescribe credit exposure limits for financial institutions in respect of the loans granted and investments undertaken by a NBFC-ND-SI. A NBFC-ND-SI shall not lend money exceeding 15% of its owned fund to any single borrower and the lending to any single group of borrowers shall not exceed 25% of the NBFC-ND-SI’s owned fund. As regards investments, a NBFC-ND-SI shall not invest in the shares of a company exceeding 15% of its owned fund, while the investment in the shares of a single group of companies shall not exceed 25% of its owned fund.

The loans and investments of NBFC-ND-SI taken together should not exceed 25% of its owned fund to or in a single party and 40% of its owned fund to or in a single group of parties. However, this prescribed ceiling shall not be applicable on a NBFC-ND-SI for investments in the equity capital of an insurance company to the extent specifically permitted by the RBI. Any NBFC-ND-SI not accessing

public funds, either directly or indirectly may make an application to the RBI for modifications in the prescribed ceilings. Further, every NBFC-ND-SI is required to formulate a policy in respect of exposures to a single party/a single group of parties.

### *Capital Adequacy Norms*

As per the Prudential Norms Directions, every NBFC-ND-SI is subject to capital adequacy requirements. A minimum capital ratio consisting of Tier I and Tier II capital of not less than 12% of its aggregate risk weighted assets on balance sheet and of risk adjusted value of off-balance sheet items is required to be maintained. 'Tier I' Capital means owned fund as reduced by investment in shares of other non-banking financial companies and in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, ten per cent of the owned fund; and "Tier II" capital includes, (a) preference shares other than those which are compulsorily convertible into equity; (b) revaluation reserves at discounted rate of fifty five percent; (c) general provisions and loss reserves to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of one and one fourth percent of risk weighted assets; (d) hybrid debt capital instruments; (e) subordinated debt to the extent the aggregate does not exceed Tier I capital; and (f) perpetual debt instruments issued by a NBFC-ND-SI in each year to the extent it does not exceed 15% of its aggregate Tier I capital, as on March 31 of the previous fiscal year.

Currently, the RBI requires that such ratio shall not be less than 15% by March 31, 2011. Also, the total of Tier II capital of a NBFC -ND shall not exceed 100% of Tier I capital.

### *Information to be furnished in relation to certain changes*

As per the Prudential Norms Directions, a NBFC-ND is required to furnish the following information to the Regional Office of the Department of Non-Banking Supervision of the RBI within one month of the occurrence of any change: (i) complete postal address, telephone/fax number of the registered/corporate office, (ii) name and residential address of the directors of the company, (iii) names and official designations of its principal officers, (iv) names and office address of its auditors, and (v) specimen signatures of the officers authorized to sign on behalf of the company.

### **Other Regulations**

#### *Monthly Return*

As per the RBI circulars dated September 6, 2005 and June 4, 2009, all NBFC – ND-SIs with an asset size of Rs. 1,000 million and above are required to submit a monthly return on the important financial parameters to the RBI. It has been clarified by the RBI that the asset size as stated aforesaid may be less than Rs. 1,000 million as on the balance sheet date but may subsequently add on assets before the next balance sheet due to several reasons, including business expansion. Once the asset size of the NBFC reaches Rs. 1,000 million or above, it shall come under the regulatory requirement of the NBFC-ND-SI despite not having such assets as on the last balance sheet.

It has been further clarified by the RBI that if the asset size of the NBFC falls below Rs. 1,000 million in any given month (which may be due to temporary fluctuations and not due to actual downsizing), then such a NBFC shall continue to submit the monthly returns on the important financial parameters to the RBI until the submission of the next audited balance sheet to the RBI and a specific dispensation is received in this regard.

#### *Asset Liability Management*

The RBI has prescribed the Guidelines for Asset Liability Management ("ALM") System in relation to NBFCs ("ALM Guidelines") that are applicable to all NBFCs through a Master Circular on Miscellaneous Instructions to All Non-Banking Financial Companies dated July 1, 2010. As per this Master Circular, the NBFCs (engaged in and classified as equipment leasing, hire purchase finance, loan, investment and residuary non-banking companies) meeting certain criteria, including, an asset base of Rs. 1,000 million, irrespective of whether they are accepting / holding public deposits or not,

are required to put in place an ALM system. The ALM system rests on the functioning of ALM information systems within the NBFC, ALM organization including an Asset Liability Committee (“ALCO”) and ALM support groups, and the ALM process including liquidity risk management, management of marketing risk, funding and capital planning, profit planning and growth projection, and forecasting/ preparation of contingency plans. It has been provided that the management committee of the board of directors or any other specific committee constituted by the board of directors should oversee the implementation of the system and review its functioning periodically. The ALM Guidelines mainly address liquidity and interest rate risks. In case of structural liquidity, the negative gap (i.e. where outflows exceed inflows) in the 1 to 30/ 31 days time-bucket should not exceed the prudential limit of 15% of outflows of each time-bucket and the cumulative gap of up to one year should not exceed 15% of the cumulative cash outflows of up to one year. In case these limits are exceeded, the measures proposed for bringing the gaps within the limit should be shown by a footnote in the relevant statement.

Further for the purposes of monitoring the asset liability gap and strategize action to mitigate the risk associated thereto, the Company in 2007 constituted an Asset Liability Management/Risk Management Committee and also appointed five private consultants to develop a structure/organization for monitoring and controlling the overall risk management framework.

#### *Concentration of Credit*

With effect from April 1, 2007, no NBFC-ND-SI is permitted to lend more than 15% of its owned fund to any single borrower or more than 25% of its owned fund to a single group of borrowers.

#### *Fair Practices Code*

On September 28, 2006 the RBI prescribed broad guidelines towards a fair practices code that was required to be framed and approved by the board of directors of all NBFCs. On July 1, 2010 the RBI issued a Master Circular on fair practices and has required that the Fair Practices Code of each NBFC is to, be published and disseminated on its website. Among others, the code prescribes the following requirements, to be adhered to by NBFCs:

- (i) Inclusion of necessary information affecting the interest of the borrower in the loan application form.
- (ii) Devising a mechanism to acknowledge receipt of loan applications and establishing a time frame within which such loan applications are to be disposed.
- (iii) Conveying, in writing, to the borrower the loan sanctioned and terms thereof. The acceptance of such terms should be kept on record by the NBFC.
- (iv) Giving notice to the borrower of any change in the terms and conditions and ensuring that changes are effected prospectively.
- (v) Refraining from interfering in the affairs of the borrowers except for the purposes provided in the terms and conditions of the loan agreement.
- (vi) Not resorting to undue harassment in the matter of recovery of loans, and an appropriate grievance redressal mechanism for resolving disputes in this regard is to be established.
- (viii) Periodical review of the compliance of the fair practices code and the functioning of the grievances redressal mechanism at various levels of management, a consolidated report whereof may be submitted to the board of directors.

The Fair Practices Code prescribed by the RBI was approved by the Board of the Company on November 2, 2006 and the Company is in compliance with the same.



### *KYC Guidelines*

The RBI has issued a Master Circular on Know Your Customer (“KYC”) guidelines dated July 1, 2010 and advised all NBFCs to adopt such guidelines with suitable modifications depending upon the activity undertaken by them and ensure that a proper policy framework on KYC and anti-money laundering measures is put in place. The KYC policies are required to have certain key elements such as customer acceptance policy, customer identification procedures, monitoring of transactions and risk management, adherence to KYC guidelines by the persons authorized by the NBFCs’ and including brokers/ agents, due diligence of persons authorized by the NBFCs and customer service in terms of identifiable contact with persons authorized by NBFCs.

### *Corporate Governance Guidelines*

In order to enable NBFCs to adopt best practices and greater transparency in their operations, the RBI introduced corporate governance guidelines on May 8, 2007. The RBI consolidated the corporate governance guidelines issued by it from time to time in the Master Circular dated July 1, 2010. As per this Master Circular, all NBFCs-ND-SI are required to adhere to certain corporate governance norms, including:

- (i) Constitution of an audit committee;
- (ii) Constitution of a nomination committee to ensure fit and proper status of the proposed and existing Directors;
- (iii) Constitution of asset liability management committee to monitor the asset gap and strategize actions to mitigate the associated risk. Further a risk management committee may also be formed to manage the integrated risk;
- (iv) Informing the Board of Directors, at regular intervals, the progress made in having a progressive risk management system, a risk management policy and the strategy being followed. The Board of Directors also needs to be informed about compliance with corporate governance standards, including in relation to the composition of various committees and their meetings; and
- (v) Frame internal guidelines on corporate governance for enhancing the scope of the guidelines.

### *Rating of Financial Product*

Pursuant to the RBI circular dated February 4, 2009, all NBFCs with an assets size of Rs. 1,000 million and above are required to furnish at the relevant regional office of the RBI, within whose jurisdiction the registered office of the NBFC is functioning, information relating to the downgrading and upgrading of assigned rating of any financial products issued by them within 15 days of such change.

### *Norms for Excessive Interest Rates*

The RBI, through its circular dated May 24, 2007, directed all NBFCs to put in place appropriate internal principles and procedures in determining interest rates and processing and other charges. In addition to the aforesaid instruction, the RBI has issued a Master Circular on Fair Practices Code dated July 1, 2010 for regulating the rates of interest charged by the NBFCs. These circulars stipulate that the board of each NBFC is required to adopt an interest rate model taking into account the various relevant factors including cost of funds, margin and risk premium. The rate of interest and the approach for gradation of risk and the rationale for charging different rates of interest for different categories of borrowers are required to be disclosed to the borrowers in the application form and expressly communicated in the sanction letter. Further, this is also required to be made available on the NBFCs website or published in newspapers and is required to be updated in the event of any change therein. Further, the rate of interest would have to be an annualized rate so that the borrower is aware of the exact rates that would be charged to the account.

### *Enhancement of Capital funds Raising Option*

Pursuant to the RBI circular on Enhancement of NBFCs' Capital Raising Option for Capital Adequacy Purposes dated October 29, 2008, NBFCs-ND-SI have been permitted to augment their capital funds by issuing perpetual debt instruments ("PDI") in accordance with the prescribed guidelines provided under the circular. Such PDI will be eligible for inclusion as Tier I capital to the extent of 15% of the total Tier I capital as on March 31 of the previous accounting year. Any amount in excess of the amount admissible as Tier I capital will qualify as Tier II capital within the eligible limits. The minimum investment in each issue/tranche by any single investor shall not be less than Rs. 0.5 million. It has been clarified that the amount of funds so raised shall not be treated as public deposit within the meaning of clause 2 (1) (xii) of the Non Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.

### *Foreign Currency Short Term Borrowings*

Pursuant to RBI circular on Raising of Short Term Foreign Currency Borrowings – NBFC-ND dated December 23, 2008, NBFCs-ND-SI have been permitted, as a temporary measure, to raise foreign currency short term borrowings with the prior approval of the RBI subject to certain conditions in terms of the RBI press release dated October 31, 2008. In this regard, all NBFCs that have availed short term currency loans are required to furnish monthly return within 10 days from the end of the month to which it pertains.

### *Supervisory Framework*

In order to ensure adherence to the regulatory framework by NBFCs-ND-SI, the RBI has directed such NBFCs to put in place a system for submission of an annual statement of capital funds, and risk asset ratio etc. as at the end of March every year, in a prescribed format. This return is to be submitted electronically within a period of three months from the close of every financial year. Further, a NBFC is required to submit a certificate from its statutory auditor that it is engaged in the business of non banking financial institution requiring to hold a CoR under the RBI Act. This certificate is required to be submitted within one month of the date of finalization of the balance sheet and in any other case not later than December 30 of that particular year. Further, in addition to the auditor's report under Section 227 of the Companies Act, the auditors are also required to make a separate report to the Board of Directors on certain matters, including correctness of the capital adequacy ratio as disclosed in the return NBS-7 to be filed with the RBI and its compliance with the minimum CRAR, as may be prescribed by the RBI.

### **Opening of Offices or Undertaking Investment Abroad by NBFCs**

The RBI has issued Draft Guidelines for extending no objection certificate for opening of branch/subsidiary/representative office or undertaking investment abroad by NBFCs on January 24, 2008. These guidelines amongst others require every NBFC to obtain prior approval of the RBI for opening of subsidiaries/Joint Ventures/representative office abroad or for undertaking investment in foreign entities. NBFCs are required to comply with certain conditions such as maintaining minimum net owned fund as prescribed in the explanation to Section 45-IA of the RBI Act, complying with the regulations issued under FEMA, 1999 from time to time; and complying with KYC norms as prescribed under these guidelines for permitting subsidiaries/Joint Ventures/representative office or making investments abroad.

### **Anti Money Laundering**

The RBI has issued a Master Circular dated July 1, 2010 to ensure that a proper policy frame work for the Prevention of Money Laundering Act, 2002 ("PMLA") is put into place. The PMLA seeks to prevent money laundering and provides for confiscation of property derived from, or involved in money laundering and for other matters connected therewith or incidental thereto. It extends to all banking companies, financial institutions, including NBFCs and intermediaries. Pursuant to the provisions of PMLA and the RBI guidelines, all NBFCs are advised to appoint a principal officer for internal reporting of suspicious transactions and cash transactions and to maintain a system of proper record (i) for all cash transactions of value of more than Rs. 1 million; (ii) all series of cash transactions integrally connected to each other which have been valued below Rs. 1 million where such series of

transactions have taken place within one month and the aggregate value of such transaction exceeds Rs. 1 million. We have appointed Mr. Suresh Gurumani, Mr. S. Dilli Raj, Ms. Kanchan Pandhre and Mr. Manish Kumar as the principal officers in this respect pursuant to Board resolution dated November 10, 2008. Further, all NBFCs are required to take appropriate steps to evolve a system for proper maintenance and preservation of account information in a manner that allows data to be retrieved easily and quickly whenever required or when requested by the competent authorities. Further, NBFCs are also required to maintain for at least ten years from the date of transaction between the NBFCs and the client, all necessary records of transactions, both domestic or international, which will permit reconstruction of individual transactions (including the amounts and types of currency involved if any) so as to provide, if necessary, evidence for prosecution of persons involved in criminal activity.

Additionally, NBFCs should ensure that records pertaining to the identification of their customers and their address are obtained while opening the account and during the course of business relationship, and that the same are properly preserved for at least ten years after the business relationship is ended. The identification records and transaction data is to be made available to the competent authorities upon request.

### ***Securitization***

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (“SARFAESI Act”) is the central law in India pertaining to the Securitization of assets. According to provisions of the SARFAESI Act any securitization or reconstruction company, may acquire the assets of a bank or financial institution by entering into an agreement with such bank or financial institution for the transfer of such assets to the company on terms which may be mutually agreed to by the contracting parties. The SARFAESI Act further states that in case the bank or financial institution is a lender in relation to any financial assets acquired by the means as mentioned above, then the company acquiring the assets shall be deemed to be the lender. Further, all material contracts entered into by the bank or financial institution, in this regard, also get transferred pursuant to such purchase.

### ***Applicable Foreign Investment Regime***

#### ***FEMA Regulations***

Foreign investment in India is governed primarily by the provisions of the FEMA which relates to regulation primarily by the RBI and the rules, regulations and notifications thereunder, and the policy prescribed by the Department of Industrial Policy and Promotion, GoI, (“FDI Policy”) and the FDI Policy issued by the DIPP (circular 1 of 2010, with effect from April 1, 2010).

The RBI, in exercise of its power under the FEMA, has notified the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000, as amended (“FEMA Regulations”) to prohibit, restrict or regulate, transfer by or issue of security to a person resident outside India. As specified by the FEMA Regulations, no prior consent and approval is required from the FIPB or the RBI, for FDI under the “automatic route” within the specified sectoral caps. In respect of all industries not specified as FDI under the automatic route, and in respect of investment in excess of the specified sectoral limits under the automatic route, approval may be required from the FIPB and/or the RBI.

#### ***Foreign Direct Investment***

FDI is permitted (except in the prohibited sectors) in Indian companies either through the automatic route or the approval route, depending upon the sector in which FDI is sought to be made. Investors are required to file the required documentation with the RBI within 30 days of such issue/ acquisition of securities.

Under the approval route, prior approval of the FIPB and/or RBI is required. FDI for the items/ activities not under the automatic route (other than in prohibited sectors) may depend upon the activity be brought in through the approval route. Further:

- (a) As per the sector specific guidelines of the Government of India, 100% FDI/ NRI investments are allowed under the automatic route in certain NBFC activities subject to compliance with guidelines of the RBI in this regard.
- (b) Minimum Capitalisation Norms for fund-based NBFCs are the following:
  - (i) For FDI up to 51% - US\$ 0.5 million to be brought upfront
  - (ii) For FDI above 51% and up to 75% - US \$ 5 million to be brought upfront
  - (iii) For FDI above 75% and up to 100% - US \$ 50 million out of which US \$ 7.5 million to be brought upfront and the balance in 24 months
- (c) Minimum capitalization norm of US\$0.5 million is applicable in respect of all permitted non-fund based NBFCs with foreign investment
- (d) Foreign investors can set up 100% operating subsidiaries without the condition to disinvest a minimum of 25% of its equity to Indian entities, subject to bringing in US\$ 50 million specified in (b) (iii) above (without any restriction on number of operating subsidiaries without bringing in additional capital)
- (e) Joint ventures operating NBFC's that have 75% or less than 75% foreign investment will also be allowed to set up subsidiaries for undertaking other NBFC activities, subject to the subsidiaries also complying with the applicable minimum capital inflow, i.e., (b) (i) and (b) (ii) above.

Where FDI is allowed on an automatic basis without FIPB approval, the RBI would continue to be the primary agency for the purposes of monitoring and regulating foreign investment. In cases where FIPB approval is obtained, the prior approval of the RBI may not be required other than in certain circumstances although a declaration in the prescribed form, detailing the foreign investment, must be filed with the RBI once the foreign investment is made in the Indian company. Every Indian company issuing shares or convertible debentures in accordance with the RBI regulations is required to submit a report to the RBI within 30 days of receipt of the consideration and another report within 30 days from the date of issue of the shares to the non resident purchaser.

NBFC's having FDI are required to submit a certificate from the statutory auditors on half yearly basis certifying compliance with the terms and conditions of the FDI regulations. Such certificate should be submitted not later than one month from the close of the half year to which the certificates pertain to the regional office of the RBI in whose jurisdiction the head office of the Company is registered.

#### *Calculation of Total Foreign Investment in Indian Companies*

On February 13, 2009, the Indian Government issued two press notes setting out guidelines for foreign investment in India. Press Note 2 of 2009 prescribes the guidelines for the calculation of total foreign investment (direct and indirect) in Indian companies. Press Note 3 of 2009 prescribes the transfer of ownership or control of Indian companies in sectors with caps from resident Indian citizens to non-resident entities. Additionally, Press Note 4 of 2009 issued on February 25, 2009 clarifies the guidelines on downstream investments by Indian companies. These press notes have been consolidated by the Government of India an FDI Policy issued by the Department of Industrial Policy & Promotion (Circular 1 of 2010, with effect from April 1, 2010).

#### **Laws relating to our Operations in the Insurance Sector**

Any person including companies registered under the Companies Act and any NBFC registered with the RBI desirous to act as a corporate agent or composite corporate agent is required to obtain a licence from the Insurance Regulatory and Development Authority of India under the provisions of the Insurance Regulatory and Development Authority (Licensing of Corporate Agents) Regulations, 2002, as amended. Further, pursuant to the RBI circular dated February 10, 2004, NBFCs registered with RBI may take up insurance agency business subject to its obtaining requisite permission from the IRDA and compliance with the IRDA regulations. Further, administration of group insurance policies are subject to the guidelines on Group Insurance Policies issued by IRDA on July 14, 2005. These guidelines prescribe, amongst other stipulations, formulation of a 'group' and guidelines on the premium to be

charged and benefits admissible to each member of such group, commission to be paid to the agent or corporate agent, and restrictions on payment of any description to the agent or corporate agent or group organizer or group manager, administering such group policies.

### **Laws relating to Employment**

#### *Shops and Establishments Legislations in Various States*

The provisions of various Shops and Establishments legislations, as applicable, regulate the conditions of work and employment in shops and commercial establishments and generally prescribe obligations in respect of registration, opening and closing hours, daily and weekly working hours, holidays, leave, health and safety measures and wages for overtime work.

#### *Labour Laws*

The Company is required to comply with various labour laws, including the Minimum Wages Act, 1948, the Payment of Bonus Act, 1965, the Payment of Wages Act, 1936, the Payment of Gratuity Act, 1972, Employees State Insurance Act, 1948 and the Employees' Provident Funds and Miscellaneous Provisions Act, 1952.

### **Laws relating to Intellectual Property**

The Trade Marks Act, 1999 and the Copyright Act, 1957 amongst others govern the law in relation to intellectual property, including brand names, trade names and service marks and research works.

### **Other regulations**

In addition to the above, the Company is required to comply with the provisions of the Companies Act, FEMA, various tax related legislations and other applicable statutes for its day-to-day operations.

## HISTORY AND CERTAIN CORPORATE MATTERS

The Company was incorporated as 'SKS Microfinance Private Limited', on September 22, 2003 under the Companies Act, 1956. The Registered Office of the Company is situated at Ashoka Raghupathi Chambers, D No. 1-10-60 to 62, Opposite to Shoppers Stop, Begumpet, Hyderabad 500 016, Andhra Pradesh. The Company had obtained a certificate of registration from the RBI on January 20, 2005 to commence the business of a non-banking financial institution without accepting public deposits. With effect from September 1, 2005, the Company acquired business operations, assets and loan portfolio from SKS Society that was structured as a NGO and was engaged in microfinance.

The name of the Company was changed from 'SKS Microfinance Private Limited' to 'SKS Microfinance Limited' pursuant to a resolution of our shareholders passed at an EGM held on May 2, 2009 and fresh certificate of incorporation bearing CIN number U65999AP2003PLC041732 was issued on May 20, 2009. Subsequently, a fresh certificate of registration dated June 3, 2009 was obtained from RBI for carrying on the business of non-banking financial institution without accepting public deposits.

The Company is the largest MFI in India in terms of total value of loans outstanding, number of borrowers and number of branches, according to the October 2009 CRISIL report titled India Top 50 Microfinance Institutions, or the CRISIL Report. The Company is engaged in providing microfinance services to women in the lower income segment predominantly located in rural areas in India. For details regarding the description of activities, services and products, see "Business" on page 75 of this Red Herring Prospectus.

### Changes in Registered Office

| Date             | Address                                                                                                 |
|------------------|---------------------------------------------------------------------------------------------------------|
| August 19, 2004  | Flat No. 301, 3rd Floor, Babukhan Estate, Basheerbagh, Hyderabad 500 001                                |
| May 16, 2007     | 8-2-608/1/1, Karama Enclave, Road No 10, Banjara Hills, Hyderabad 500 034                               |
| July 20, 2008    | #2-3-578/1, Maruthi Mansion, Kachi Colony, Nallagutta, Minister Road, Secunderabad 500 003              |
| January 15, 2010 | Ashoka Raghupathi Chambers, D No. 1-10-60 to 62, Opposite to Shoppers Stop, Begumpet, Hyderabad 500 016 |

The changes mentioned above were made to enable greater operational efficiency.

### Our Main Objects

The main objects as contained in our Memorandum of Association are:

1. To reduce poverty in India, by carrying on the business of providing Microfinance services (mainly Non Banking Financial Services as permitted by the Reserve bank of India) exclusively to large number of poor men and women directly or indirectly, and thus to help them and their families out of poverty and improve their standard of living.
2. To carry on the business of financing development activities through long term loans and other means of financing upon such terms and conditions as the company may think fit for the purposes of:
  - (i) agricultural development (which term includes, *inter alia*, land acquisition and development, irrigation, watershed development, crop cultivation, plantation, horticulture, forestry, animal husbandry and allied activities, such as dairy, poultry, fishery, aqua culture and floriculture).
  - (ii) industrial development (which term includes, *inter alia*, agro-processing, mining and quarrying utilities – (including water, power and renewable sources of energy),

manufacturing, (including handicrafts, construction, trade and distribution, transport and services of all kinds).

- (iii) market linkage development (which term includes, *inter alia*, provision of inputs for and marketing of output of agricultural and industrial development activities including facilities for storage, trading and transport for such inputs and outputs).
- (iv) habitat development (which term includes, *inter alia*, purchase, construction upgradation, extension and modification of buildings and infrastructure for residential, agricultural, commercial or industrial purposes).

But exclusively targeted to the poor men and women in generation and enhancement of livelihoods in India.

3. To provide collateral free credit to poor men and women, deliver credits, thrift and savings, insurance and other financial services to them in the cities, towns, villages of India with a view to provide them sustainable livelihood and enhancement of their and their family's living conditions based on their needs, skills and traditional livelihood occupations and to carry on the business of microfinance.
4. To carry on and undertake the business of insurance, including life and general insurance as intermediary or agent of other insurance companies, subject to the rules and regulations prescribed by the Insurance Regulatory and Development Authority and/or Reserve Bank of India, Non-Banking Finance Companies Rules, as applicable to insurance business.
5. To carry on and undertake the business of research, consultancy, technical assistance and training in the field of livelihood promotion, development finance and other financial services, as intermediary for other companies or organizations.

#### Key Events and Milestones

| Date               | Details                                                                                                                                                                                                                                                                                                                                 |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| September 22, 2003 | Incorporation of SKS Microfinance Private Limited                                                                                                                                                                                                                                                                                       |
| January 20, 2005   | Registration with RBI in the name of SKS Microfinance Private Limited to carry on the business as a non-banking financial institution without accepting deposits                                                                                                                                                                        |
| September 1, 2005  | Transfer of all assets and properties, pursuant to a MoU including the existing loans and receivables in relation to micro finance activities, to the Company from SKS Society                                                                                                                                                          |
| January 31, 2006   | Entered into a Subscription cum Shareholders Agreement dated January 31, 2006 with SIDBI for allotment of 1,000,000 Equity Shares.                                                                                                                                                                                                      |
| March 24, 2006     | Issue of Equity Shares pursuant to equity investments by the following:<br>(i) Unitus Equity Fund LLP – 2,099,040 Equity Shares;<br>(ii) Mr. Vinod Khosla – 2,099,040 Equity Shares; and<br>(iii) The Ravi and Pratibha Reddy Foundation – 1,033,920 Equity Shares.                                                                     |
| February 28, 2007  | The membership of the Company crosses 500,000 in more than 250 branches across 11 states.                                                                                                                                                                                                                                               |
| March 29, 2007     | Issue of Equity Shares pursuant to equity investments by the following:<br>(i) MUC – 1,319,069 Equity Shares;<br>(ii) Mr. Vinod Khosla – 1,319,069 Equity Shares;<br>(iii) Kismet Microfinance - 1,319,069 Equity Shares;<br>(iv) Odyssey Capital Private Limited – 894,064 Equity Shares; and<br>(v) SCI II – 5,430,468 Equity Shares. |
| September 30, 2007 | The membership of the Company crosses 1,000,000 in more than 500 branches across 15 states.                                                                                                                                                                                                                                             |
| December 14, 2007  | Social and Corporate Governance Award issued by BSE and Nasscom Foundation for Best Corporate Social Responsibility Practice                                                                                                                                                                                                            |
| December 27, 2007  | Issue of Equity Shares pursuant to equity investments by the following:<br>(i) SIDBI – 807,461 Equity Shares;<br>(ii) Yatish Trading– 962,050 Equity Shares;                                                                                                                                                                            |

| Date              | Details                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                   | (iii) Infocom Ventures – 283,020 Equity Shares;<br>(iv) Mr. Vinod Khosla – 820,757 Equity Shares;<br>(v) MUC – 2,274,020 Equity Shares;<br>(vi) SCI II – 2,847,013 Equity Shares;<br>(vii) Kismet Microfinance – 3,678,027 Equity Shares;<br>(viii) Columbia Pacific Opportunity – 275,944 Equity Shares;<br>(ix) SCIGI I – 2,996,396;<br>(x) SVB India Capital Partners I, L.P – 275,944 Equity Shares; and<br>(xi) Tejas Ventures – 1,760,552 Equity Shares. |
| May 6, 2008       | Certification bearing number 17998/08/S received from IQ Net that the quality management system of the Company is in compliance with the standard ISO 9001:2000 in relation to the conducting of internal audits as per the policies and applicable standards.                                                                                                                                                                                                 |
| July 31, 2008     | The membership of the Company crosses 2,500,000 in more than 1,100 branches across 15 states.                                                                                                                                                                                                                                                                                                                                                                  |
| October 20, 2008  | Issue of Equity Shares pursuant to equity investments by the following:<br>(i) SIP I – 2,085,448 Equity Shares and 6,256,344 Preference Shares<br>(ii) Kismet SKS II – 885,044 Equity Shares and 2,655,131 Preference Shares<br>(iii) ICP Holdings I – 81,383 Equity Shares and 244,150 Preference Shares                                                                                                                                                      |
| February 27, 2009 | Issue of 2,500 10.5% secured redeemable NCD of face value of Rs. 100,000 each aggregating to Rs. 250 million to Yes Bank Limited on a private placement basis.                                                                                                                                                                                                                                                                                                 |
| April 23, 2009    | Issue of 750 10.0% secured redeemable NCD of face value of Rs. 1,000,000 each aggregating to Rs. 750 million to Standard Chartered Bank on a private placement basis. The said debentures have been listed on BSE pursuant to the listing agreement dated April 24, 2009.                                                                                                                                                                                      |
| April 30, 2009    | The membership of the Company crosses 4,000,000 in more than 1,400 branches across 18 states.                                                                                                                                                                                                                                                                                                                                                                  |
| May 20, 2009      | Fresh certificate of incorporation consequent to the change of the name on conversion to a public limited company pursuant to a resolution of its shareholders dated May 2, 2009                                                                                                                                                                                                                                                                               |
| June 3, 2009      | Registration with the RBI in the name of SKS Microfinance Limited to carry on the business of non-banking financial institutions without accepting deposits pursuant to the change in the name of the Company on conversion to a public limited company.                                                                                                                                                                                                       |
| August 31, 2009   | The membership of the Company crosses 5,000,000 in more than 1,600 branches across 19 states.                                                                                                                                                                                                                                                                                                                                                                  |
| November 24, 2009 | Religare Asset Management Company Limited has subscribed to commercial papers issued by the Company for value of Rs. 250 million having a discount rate of 8.10% per annum                                                                                                                                                                                                                                                                                     |
| November 10, 2009 | Yes Bank Limited has subscribed to commercial papers issued by the Company for value of Rs. 1,000 million having a discount rate of 8.00% per annum                                                                                                                                                                                                                                                                                                            |
| December 9, 2009  | Issue of 500 NCD of Rs. 1,000,000 each aggregating to Rs. 500 million to BALICL at a coupon rate of 9.25% per annum                                                                                                                                                                                                                                                                                                                                            |
| December 23, 2009 | Issue of 500 NCD of Rs. 1,000,000 each aggregating to Rs. 500 million to Yes Bank Limited at a coupon rate of 8.30% per annum. The said debentures have been listed on BSE pursuant to the listing agreement dated December 29, 2009.                                                                                                                                                                                                                          |
| December 30, 2009 | Tata Capital Limited has subscribed to commercial papers issued by the Company for value of Rs. 200 million having a discount rate of 8.10% per annum                                                                                                                                                                                                                                                                                                          |
| January 11, 2010  | Sanction by State Bank of India of Rs. 350 million towards term loans and Rs. 650 million towards cash credit for on lending purpose.                                                                                                                                                                                                                                                                                                                          |
| January 12, 2010  | Availing of microfinance corporate loan facility from HDFC for Rs. 100 million to provide financial assistance for undertaking housing finance activities                                                                                                                                                                                                                                                                                                      |
| January 18, 2010  | Agreement with HDFC on Technology license and service usage for                                                                                                                                                                                                                                                                                                                                                                                                |



| Date              | Details                                                                                                                                                                                                                                                                                     |
|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                   | undertaking housing finance activities.                                                                                                                                                                                                                                                     |
| January 19, 2010  | Issue of 937,770 Equity Shares pursuant to equity investments by Catamaran                                                                                                                                                                                                                  |
| February 3, 2010  | Tie up with State Bank of India, State Bank of Hyderabad and State Bank of Mysore for online integration of 585 branch bank accounts of the Company through CMS                                                                                                                             |
| February 4, 2010  | Religare Asset Management Company Limited subscribed to commercial papers issued by the Company for value of Rs. 250 million having a discount rate of 6.6% per annum.                                                                                                                      |
| February 10, 2010 | MOU with FAL for purchase of supplies by <i>kirana</i> stores on a wholesale basis located in and around New Delhi                                                                                                                                                                          |
| March 8, 2010     | Sanction of Tier-II unsecured subordinated debt of Rs. 1,000 million by SIDBI for a tenure of eight years                                                                                                                                                                                   |
| July 2, 2010      | CRSIL has assigned MFI grading of 'm/R1' to the Company indicating the ability of a microfinance institution to conduct its operations in a scalable and sustainable manner. The grading is assigned on an eight point scale, with 'm/R1' being the highest grading and 'm/R8', the lowest. |

### Amendments to the Memorandum of Association

Since our incorporation, the following changes have been made to our Memorandum of Association:

| Date of Shareholder Resolution | Particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| December 19, 2003              | Increase in the authorised share capital of the Company from Rs. 60,000,000 divided into 3,000,000 Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each to Rs. 62,000,000 divided into 3,200,000 Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| March 15, 2006                 | Reclassification of the authorised share capital from Rs. 62,000,000 divided into 3,200,000 Equity Shares of Rs. 10 each sub-divided into (i) 2,100,000 "Class A" Equity Shares of Rs. 10 each, and (ii) 1,100,000 "Class B" Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each to Rs. 62,000,000 by consolidating the existing "Class A" and "Class B" Equity Shares into one class of Equity Shares divided into 3,200,000 Equity Shares of Rs. 10 each totalling Rs. 32,000,000 and 3,000,000 Preference Shares of Rs. 10 each.<br><br>Increase in the authorised share capital of the Company from Rs. 62,000,000 divided into 3,200,000 Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each to Rs. 200,000,000 divided into 17,000,000 Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each. |
| February 9, 2007               | Increase in the authorised share capital from Rs. 200,000,000 divided into 17,000,000 Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each to Rs. 400,000,000 divided into 37,000,000 Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| October 27, 2007               | Increase in the authorised share capital Rs. 400,000,000 divided into 37,000,000 Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each to Rs. 550,000,000 divided into 52,000,000 Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| August 7, 2008                 | Increase in the authorised share capital from Rs. 550,000,000 divided into 52,000,000 Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each to Rs. 850,000,000 divided into 82,000,000 Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| October 8, 2008                | Increase in the authorised share capital from Rs. 850,000,000 divided into                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

| <b>Date of Shareholder Resolution</b> | <b>Particulars</b>                                                                                                                                                                                              |
|---------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                       | 82,000,000 Equity Shares of Rs. 10 each and 3,000,000 Preference Shares of Rs. 10 each to Rs. 950,000,000 divided into 82,000,000 Equity Shares of Rs. 10 each and 13,000,000 Preference Shares of Rs. 10 each. |
| May 2, 2009                           | Pursuant to the conversion of the Company to a public limited company, the name of the Company changed from “SKS Microfinance Private Limited” to “SKS Microfinance Limited”                                    |

### **Promoters and Subsidiaries**

For details regarding our Promoters, see “Our Promoters and Group Companies” on page 130 of the Red Herring Prospectus. We do not have any subsidiaries.

### **Total Number of Shareholders of the Company**

For details of members and the shareholding pattern of the Company, see “Capital Structure - Shareholding Pattern of the Company” on page 36 of the Red Herring Prospectus. As of the date of filing of this Red Herring Prospectus, the total number of holders of Equity Shares are 229.

### **Details of Major Events of the Company**

For details on the various rounds of equity investments in the Company, please see the sub-section titled “Material Agreements” below.

There have been no injunctions or restraining order against the Company.

For details of the Company’s business, products, marketing, the description of its activities, products, market of segment, the growth of the Company, standing of the Company with reference to the prominent competitors with reference to its products, major suppliers and customers, environmental issues and geographical segment, see “The Microfinance Industry” and “Business” on pages 66 and 75, respectively of this Red Herring Prospectus.

For details of the management of the Company and managerial competence, please see section titled “Our Management” on page 111 of this Red Herring Prospectus.

### **Material Agreements**

#### *Lease Deeds for the Registered Office of the Company*

The Company has entered into two lease deeds dated December 31, 2009 with (i) Mr. K. Vijaya Bhaskar Reddy, Mr. N. Jaideep Reddy, Mr. K. Laxma Reddy, Ms. K. Leela Reddy, Mr. N. Jaiveer Reddy, Ms. K. Neeraja, Ms. N. Shilpitha Reddy, Mr. G. Sunil Reddy, Ms. A. Uma, Ms. M. Mitelesh Kumari, Mr. K. Alok, Mr. K. Gowtham Reddy, Mr. Nabeel Hussain, Mr. Rizwan Hyder, Ms. Bilquis Hussain, Mr. M. Sankeerth Reddy, Mr. A. Narender Reddy, Ms. A. Prashanthi, Mr. C. H. Devi Reddy, Ms. C. H. Surya Kumari, Mr. B. Rajesh Reddy, Ms. Padma Reddy, Mr. S. Suresh Kumar, Ms. G. Renuka in relation to the office space admeasuring 36,220 sq. ft, and (ii) Ms. R. Amala Devi, Ms. R. Uthara Devi and Ms. R. Preetha Devi in relation to the office space admeasuring 43,780 sq. ft (collectively the “Lessors”), in the commercial complex building at Ashoka Raghupati Chambers at D No. 1-10-60 to 62, opposite Shopper’s Stop, Begumpet, Hyderabad 500 016. The terms of the leases are for a period of five years from January 1, 2010 to December 31, 2014. The Company shall have the option to renew the lease for a further period of five years and the options for renewal shall have to be exercised at least six months prior to the expiry of the term of the lease granted. The Company is not permitted to sublease or part with the possession of the premises in favour of any third party without prior consent of the Lessors.

The Company and the Lessors are not entitled to terminate this lease deed for an initial two years period of the term, except for breach of terms and conditions failing which the Company is required to

pay the monthly rental for the unexpired period of the lease. The Company and the Lessors shall be entitled to terminate the lease deed upon happening of certain events.

### ***Shareholders Agreements***

Shares of the Company have been subscribed to by various investors in the following manner:

- (i) Subscription-cum-shareholders agreement dated January 31, 2006 executed between the Company, Mr. Sitaram Rao, Dr. Vikram Akula and SIDBI whereby SIDBI had acquired 1,000,000 Equity Shares.
- (ii) An investment was made by Unitus Equity Fund LLP, Mr. Vinod Khosla, and Ravi & Pratibha Reddy Foundation Inc, ("First Round Investors") pursuant to a share subscription agreement dated March 27, 2006. Pursuant to the investment a shareholders' agreement dated March 27, 2006 was entered into between the Company and Dr. Vikram Akula, SIDBI, SKS MBTs and the First Round Investors.
- (iii) Subsequent to the investment by the First Round Investors, the next round of investment was made by Mr. Vinod Khosla, Kismet Microfinance (formerly known as SKS Capital), Odyssey Capital Private Limited, SCI II ("Second Round Investors") and MUC, through a share subscription agreement dated March 29, 2007. Pursuant to this round investment, a shareholders' agreement dated March 29, 2007 was entered into between the Company and Dr. Vikram Akula, SIDBI, SKS MBTs, MUC, and the Second Round Investors.
- (iv) Further, the next round of investment was further made by the SKS MBTs, MUC, Mr. Vinod Khosla, Kismet Microfinance, SCI II, SCIGI I, Tejas Ventures, Yatish Trading, SIDBI, Infocom Ventures, SVB India Capital Partners I L.P., and Columbia Pacific Opportunity, through a share subscription agreement dated December 27, 2007. Pursuant to such investment, a shareholders agreement dated December 27, 2007 was entered into between the Company and Dr. Vikram Akula, SIDBI, SKS MBTs, MUC, Mr. Vinod Khosla, Kismet Microfinance, SCI II, SCIGI I, Tejas Ventures, Yatish Trading, Infocom Ventures, SVB India Capital Partners I L.P., and Columbia Pacific Opportunity.
- (v) The next round of investments made by ICP Holdings - I, SIP I and Kismet SKS II ("Fourth Round Investors") through a share subscription agreement dated October 20, 2008. Pursuant to the such investment, an amended and restated shareholders agreement dated October 20, 2008 superseding all the aforementioned shareholders agreements has been entered into between the Company Dr. Vikram Akula, SKS MBTs, SIDBI, Fourth Round Investors, MUC, Mr. Vinod Khosla, Kismet Microfinance, SCI II, SCIGI I, Tejas Ventures, Yatish Trading, Infocom Ventures, and Columbia Pacific Opportunity (collectively referred to as "Investors") ("Restated Shareholders Agreement"). Pursuant to the IPO Committee's meeting held on December 23, 2009, the Company sent termination notices on December 29, 2009 to all Investors who held Equity Shares as of December 23, 2009. However, the above mentioned Restated Shareholders Agreement stood automatically terminated as of January 5, 2010, when the Board (including a majority of the Investor Directors) authorised the Issue, which was further approved by the shareholders of the Company at their EGM held on January 8, 2010.

### ***Terms and Conditions as stated in the Restated Shareholders Agreement***

***Right to appoint Nominees:*** The Board is required to consist of 11 Directors immediately following closing (as contemplated therein). Each of SIP I, SCI II, Kismet Microfinance, Kismet SKS II, MUC, SIDBI, and Mr. Vinod Khosla have been given a right to individually nominate one Director to the Board. Additionally Dr. Vikram Akula would have to be appointed as a Director on the Board, if he is not the Chief Executive Officer. Further, the Chief Executive Officer is required to be appointed as a Director on the Board. Subject to the approval of the majority of the Board of Directors, the SKS MBTs have a right to appoint one Director who shall be independent from the Company, the shareholders and Dr. Vikram Akula. The majority of the Investor Directors have the right to jointly nominate two Directors who shall be independent from the Company, Dr. Vikram Akula and the other shareholders. SIDBI, SKS MBTs, MUC, Mr. Vinod Khosla, Kismet Microfinance, Kismet SKS II, SCI II,

SCIGI I, Tejas Ventures, Yatish Trading, Infocom Ventures shall have the right to appoint nominee Directors so long as they directly or indirectly through their affiliates continue to own not less than 5% of the Company's outstanding Equity Shares. SIP I would continue to have the right to appoint a Director as long as it holds 25% of its original shareholding (directly or jointly with its affiliates). By a letter dated July 8, 2010, SIP I has waived its right to appoint a Director.

*IPO:* If the Board and a majority of the Investor directors mutually agree to pursue an initial public offer all the Investor Directors and Dr. Vikram Akula shall cooperate in good faith to effect the IPO as expeditiously as possible and on such terms and conditions which shall maximize the price per share to be received by the Investors and Company in the IPO.

*Committees:* The Board may constitute such committees, including an audit committee and a compensation committee, with such composition and functions as may be determined by a majority of the Directors, comprising at least two nominee Directors from SIDBI, MUC, Mr. Vinod Khosla, Kismet Microfinance, Kismet SKS II, SCI II, Tejas Ventures, Yatish Trading, Infocom Ventures. If an executive committee of the Board is established, the three largest Investors by shareholding shall have the right to nominate one Director each to serve on such executive committee.

*Appointment of Certain Managerial Personnel:* The Company appointed Dr. Vikram Akula as the Chief Executive Officer, Mr. M.R. Rao as the Chief Operating Officer and Mr. S. Dilli Raj as the Chief Financial Officer. Any changes to these appointments shall require the approval of Board of Directors including 51% of directors appointed by Investors of the Restated Shareholders Agreement.

*Termination:* The Restated Shareholders Agreement automatically terminates in the event of an IPO, however SIP I would continue to have the right to appoint a nominee Director on the Board even after the IPO, so long as it, directly or jointly with its affiliates, holds 25% of its shareholding. By a letter dated July 8, 2010, SIP I has waived its right to appoint a Director.

- (vi) A deed of Addendum to the Shareholders Agreement dated March 24, 2009 was entered into between the Company and Investors, wherein the definition of aggregate fourth round investor price as stated in the Shareholders Agreement, was amended to mean Rs. 300 per share allotted to ICP Holdings, SIP I and Kismet SKS II resulting in the increase in the shareholding of ICP Holdings, SIP I and Kismet SKS II.
- (vii) Further, a Share Subscription Agreement was entered into between the Company and BALICL dated May 21, 2009, whereby BALICL acquired 416,666 Equity Shares and 1,250,000 compulsorily convertible preference shares aggregating to 1,666,666 Equity Shares.

#### ***Share Transfer Agreement dated March 26, 2009 by and between the Investors***

Pursuant to a Share Transfer Agreement dated March 26, 2009 Dr. Vikram Akula, SKS Mutual Benefit Trusts, SIDBI, ICP Holdings I, SIP I, Kismet SKS II, MUC, Mr. Vinod Khosla, Kismet Microfinance, SCI II, SCIGI I, Tejas Ventures, Yatish Trading, Infocom Ventures, and Columbia Pacific Opportunity have agreed to certain covenants, obligations and restrictions with respect to transfer of shares which includes amongst others prior written consent of majority of the Investor directors, right of first refusal and co-sale rights. The agreement is co-terminous with the duration of the Restated Shareholders Agreement.

#### ***Put Call Agreement***

A Put/Call agreement dated July 25, 2007 was executed between the Company, Dr. Vikram Akula, Kismet Microfinance, and SCI II whereby Dr. Vikram Akula has a put option against Kismet Microfinance and SCI II, and Kismet Microfinance and SCI II each have a call option against Dr. Vikram Akula to purchase upto 818,069 equity shares respectively, held by Dr. Vikram Akula in the Company. Subsequent to this agreement a Share Purchase Agreement dated June 2, 2008 was executed between the parties whereby Kismet Microfinance and SCI II have exercised their call option.

***Share Subscription Agreement between Dr. Vikram Akula, Catamaran Fund 1-A and Catamaran Fund 1-B (represented by their trustees Catamaran Management Services Private Limited) and the Company***

Pursuant to the Share Subscription Agreement dated January 16, 2010 between Dr. Vikram Akula (as a founder), Catamaran Fund 1-A and Catamaran Fund 1-B collectively represented by their trustees Catamaran Management Services Private Limited and the Company, Catamaran has agreed to subscribe to 937,770 Equity Shares of the Company, subject to certain other conditions.

Certain terms and conditions of the Share Subscription Agreement are as follows:

- (i) The Company shall utilize the subscription price as working capital or for other related purpose at the discretion of the Company, acting through its Board and not for repayment of debts, other than in the ordinary course of business.
- (ii) The Company shall constitute an Advisory Council to provide operational expertise to the Company for an initial period of 24 months from the closing of this transaction. For details, see “Our Management” on page 111 of this Red Herring Prospectus.
- (iii) The Company shall not raise any finance against the issue of securities (other than by way of an initial public offer) resulting in a dilution of 10% of the share capital of the Company, during the period commencing from the closing date and ending on the third anniversary of the completion of its initial public offering, without the approval of the majority of the shareholders.
- (iv) The Equity Shares subscribed by Catamaran shall be subject to lock in for a period of two years from the closing. However, the said lock in shall not apply, if the Company fails to complete the initial public offer within the period of nine months from the closing of this transaction or if the Company completes the initial public offering and the market value of the Equity Shares as calculated on the basis of average closing prices in a calendar week falls below Rs. 400 (Rupees Four Hundred Only) per Equity Share.

The Company or Catamaran may terminate the agreement in the event of breach of any of the material representations, warranties, covenants or other obligations by the other party and if the same is not cured or remedied by the defaulting party within 30 business days of the receipt of the written notice of the default from the non defaulting party. The share subscription agreement is governed by the laws of India.

The funds raised from the preferential allotment of Equity Shares were utilized by the Company for onward lending to its members, as certified by RPVS & Associates, Chartered Accountants by their certificate dated July 8, 2010.

***Share Purchase Agreement dated December 10, 2009 between Dr. Vikram Akula, Tree Line and the Company***

Pursuant to the Share Purchase Agreement dated December 10, 2009 entered into between Dr. Vikram Akula, Tree Line and the Company, Dr. Vikram Akula agreed to sell 945,424 Equity Shares of the Company and Tree Line has agreed to purchase these Equity Shares pursuant to completion of certain conditions. The aggregate consideration for the sale and transfer of the 945,424 Equity Shares of the Company is equal to US\$ 12,924,042. The share purchase agreement is governed by the laws of the state of New York, United States.

Dr. Vikram Akula has received approval from the RBI on February 3, 2010 for the aforesaid transfer.

Dr. Vikram Akula has acquired the aforesaid Equity Shares through the exercise of the stock options in accordance with the terms of the ESOP. For details of ESOP please see the section titled “Capital Structure – Notes to Capital Structure – SKS Microfinance Employees Stock Option Plan 2007” on page 40 of the Red Herring Prospectus.

***Share Purchase Agreements dated January 27, 2010 between Mr. Suresh Gurumani, Mr. M.R. Rao and certain employees, Tree Line and the Company***

Pursuant to two Share Purchase Agreements with Tree Line and the Company, each dated January 27, 2010, (a) Mr. Suresh Gurumani, and (b) Mr. M.R. Rao and certain other employees, including the Chief Financial Officer, Mr. S. Dilli Raj, have agreed to sell an aggregate of 472,500 Equity Shares held by them in the Company and Tree Line has agreed to purchase such Equity Shares, subject to completion of certain conditions.

As per the terms of the relevant Share Purchase Agreement regarding Mr. Suresh Gurumani, he proposes to transfer 225,000 Equity Shares to Tree Line. The aggregate consideration for the sale and transfer of the 225,000 Equity Shares of the Company is equal to Rs. 143,262,000. Mr. Suresh Gurumani has received approval from the RBI on February 18, 2010 for the aforesaid transfer.

As per the terms of the relevant Share Purchase Agreement regarding Mr. M.R. Rao and other employees, (a) Mr. M.R. Rao, our Chief Operating Officer, propose to transfer 62,500 Equity Shares to Tree Line; (b) Mr. S. Dilli Raj, our Chief Financial Officer, propose to transfer 25,000 Equity Shares to Tree Line; and (c) certain other employees, not being our key managerial personnel, propose to transfer an aggregate of 160,000 Equity Shares to Tree Line. The aggregate consideration for the sale and transfer of the 247,500 Equity Shares of the Company is equal to Rs. 157,588,200. These Equity Shares have been acquired by the aforesaid employees pursuant to the ESPS 2007. For details of ESPS 2007 and ESOP 2008, see “Capital Structure – Notes to Capital Structure – Employee Stock Option Plans and Stock Purchase Plan” on page 40 of this Red Herring Prospectus. Mr. M.R. Rao, Mr. S. Dilli Raj and certain other employees have received approval from the RBI on March 25, 2010 for the aforesaid transfer.

***Share Purchase Agreement dated January 27, 2010 between Tree Line, Ms. V.L. Santha Kumari and the Company***

Pursuant to the Share Purchase Agreement dated January 27, 2010 entered into between Tree Line, Ms. V.L. Santha Kumari and the Company, Ms. V.L. Santha Kumari has agreed to sell 75,000 Equity Shares of the Company and Tree Line has agreed to purchase these Equity Shares pursuant to completion of certain conditions. The aggregate consideration for the sale and transfer of the 75,000 Equity Shares of the Company is equal to Rs. 47,754,000. The share purchase agreement is governed by the laws of India. Ms. V.L. Santha Kumari has received the approval from the RBI on March 25, 2010 for the aforesaid transfer.

***Share Purchase Agreement dated April 27, 2010 entered into between Tree Line, SIDBI and the Company.***

Pursuant to the Share Purchase Agreement dated April 27, 2010 entered into between Tree Line, SIDBI and the Company, SIDBI has agreed to sell 37,675 Equity Shares of the Company and Tree Line has agreed to purchase these Equity Shares pursuant to completion of certain conditions. The aggregate consideration for the sale and transfer of the 37,675 Equity Shares of the Company is equal to Rs. 23,988,426. The share purchase agreement is governed by the laws of India.

***Share Purchase Agreement dated May 12, 2010 between Yatish Trading, Quantum (M) Limited and the Company***

Pursuant to the Share Purchase Agreement dated May 12, 2010 entered into between Yatish Trading Company Private Limited, Quantum (M) Limited and the Company, Yatish Trading has agreed to sell 300,000 Equity Shares of the Company and Quantum (M) Limited has agreed to purchase these Equity Shares pursuant to completion of certain conditions. The aggregate consideration for the sale and transfer of the 300,000 Equity Shares of the Company is equal to Rs. 190,800,000. The share purchase agreement is governed by the laws of India. Application to the RBI dated June 30, 2010 has been made for its approval for the transfer. The parties have also entered into an amendment agreement dated July 9, 2010 wherein certain terms of the share purchase agreement relating to DP ID and filing of Form FC-TRS were amended.

## **Other Agreements**

### ***Composition Agreement and Deed of Assignment between Dr. Palash Sen (representing ‘Euphoria’) and the Company.***

The Company has entered into a Composition Agreement dated March 19, 2009 with Dr. Palash Sen (representing “Euphoria”, which is marketed as a band of music composers and singers). As per the terms of the Agreement, the Company has commissioned Euphoria to compose and record an anthem song (‘Udhte Jaayein, Badhte Jaayein’) including its various versions based on the theme provided by the Company and to reassign all contractual rights including rights relating to lyrics, musical works, sound recording obtained from third parties relating to the song and also agrees to assign and transfer the copyright in relation to the literary works, musical works and sound recording in the name of the Company. The Company shall on assignment have the exclusive, unlimited and perpetual right on the intellectual property rights in relation to the song and shall have the right to manufacture, reproduce, advertise, sell, license, distribute or use by any method under any trade name or trademark at its own discretion, to assign the intellectual property rights to any third party and also to register the copy right in the name of the Company.

Pursuant to the aforesaid Agreement, the Company has entered into a Deed of Assignment dated May 18, 2009 with Dr. Palash Sen (“Assignor”) (representing “Euphoria”). As per the terms of this Deed of Assignment, the Assignor has agreed to irrevocably convey and assign exclusive, royalty free, worldwide intellectual property rights together with the Assignor’s rights, title and all related intellectual property right in relation thereto, to the Company and also waive any right to raise any objection or claims to the Indian Copyright Board with respect to ownership of intellectual property rights.

### ***Service Agreement dated January 2, 2010 between the Company and Aspiring Minds Assessment Private Limited (‘AMAPL’)***

The Company has entered into a service agreement with Aspiring Minds Assessment Private Limited (AMAPL) on January 2, 2010. Pursuant to this agreement AMAPL would be assisting SKS in its entry-level recruitment decisions. The services of AMAPL would be utilized in the evaluation of candidates interested in joining the Company more particularly at entry level jobs. AMAPL will assist the Company with hiring team inputs on whether the candidate should be hired or rejected on the basis of his personality. Dr. Tarun Khanna, an independent Director of the Company is a member of AMAPL, therefore the Central Government approval as required under Section 297 of the Companies Act has been obtained.

### ***Strategic Partners and Financial Partners***

The Company does not have any strategic partners and financial partners which are not in our ordinary course of business.

## OUR MANAGEMENT

Under our Articles of Association we cannot have fewer than three directors and more than 12 directors. We currently have 10 Directors on our Board.

The following table sets forth details regarding our Board as of the date of filing the Red Herring Prospectus with SEBI:

| Name, Designation, Father's Name, Address, Occupation and DIN                                                                                                                                                                                                | Age (Years) | Status of Director in the Company                         | Nationality | Other Directorships                                                                                                                                                                                                                                                                                                                                                                                   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------------------------------------------------------|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Dr. Vikram Akula</b><br>S/o Mr. Krishna Akula<br>Address: 24, Road No. 76, Film Nagar, Jubilee Hills, Hyderabad – 500 034, Andhra Pradesh<br>Occupation: Service<br>Term: Liable to retire by rotation<br>DIN: 00906907                                   | 41          | Chairman,<br><br><i>Non-Executive Director</i>            | American    | <ul style="list-style-type: none"> <li>Tejas Ventures</li> <li>STAPL</li> <li>Tejas Capital</li> <li>Akula Ventures LLC</li> </ul>                                                                                                                                                                                                                                                                    |
| <b>Mr. Suresh Gurumani</b><br>S/o Mr. O.N. Gurumani<br>Address: 2203/C, Chaitanya Towers, Appa Saheb Marathe Marg, Prabhadevi, Mumbai 400 025<br>Occupation: Service<br>Term: Five years with effect from April 1, 2009<br>DIN: 00636844                     | 47          | Managing Director<br><br><i>Chief Executive Officer</i>   | Indian      | <ul style="list-style-type: none"> <li>Alpha Microfinance Consultants Private Limited</li> <li>Gausun Properties Private Limited</li> </ul>                                                                                                                                                                                                                                                           |
| <b>Mr. P.H. Ravi Kumar</b><br>S/o Mr. P.V. Subramanyam Puranam Venhata<br>Address: 501, Yashowan Towers behind Mahim Post Office, T.H. Kataria Marg, Mahim (W), Mumbai 400 016<br>Occupation: Service<br>Term: Liable to retire by rotation<br>DIN: 00280010 | 58          | Independent Director<br><br><i>Non Executive Director</i> | Indian      | <ul style="list-style-type: none"> <li>Federal Bank Limited</li> <li>Fedbank Financial Services Limited</li> <li>Eveready Industries India Limited</li> <li>Bharat Forge Limited</li> <li>Ackruti City Limited</li> <li>BOB Capital Markets Limited</li> <li>Titan Energy Limited</li> <li>Invent Assets Securitisation &amp; Reconstruction Private Limited</li> <li>FVP Kairos Hong Kong</li> </ul> |
| <b>Dr. Tarun Khanna</b><br>S/o Mr. Ramesh Pal Khanna                                                                                                                                                                                                         | 44          | Independent Director<br><br><i>Non Executive</i>          | Indian      | <ul style="list-style-type: none"> <li>GVK Biosciences Private Limited</li> <li>TVS Logistics Services</li> </ul>                                                                                                                                                                                                                                                                                     |



| Name, Designation, Father's Name, Address, Occupation and DIN                                                                                                                                                                                                                                                                   | Age (Years) | Status of Director in the Company                                                                        | Nationality | Other Directorships                                                                                                                                                                                                                                                                                                                                                                                                                            |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|----------------------------------------------------------------------------------------------------------|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Address: 66 Druid Hill Road, Newton 02461, United States Of America</p> <p>Occupation: Professor</p> <p>Term: Liable to retire by rotation</p> <p>DIN: 01760700</p>                                                                                                                                                          |             | Director                                                                                                 |             | <p>Limited</p> <ul style="list-style-type: none"> <li>The AES Corporation, USA</li> </ul>                                                                                                                                                                                                                                                                                                                                                      |
| <p><b>Mr. V. Chandrasekaran</b></p> <p>S/o Late Mr. Ranga Swamy Vaidyanatha Swamy</p> <p>Address: Flat No. 603, Raheja Majestic, Plot No. 161, TPS III, Manamala Tank Road Mahim (West), Mumbai – 400 016, Maharashtra</p> <p>Occupation: Retired Banker</p> <p>Term: Not liable to retire by rotation</p> <p>DIN: 01262266</p> | 62          | <p>Independent Director</p> <p><i>Non Executive Director</i></p> <p><i>Nominee Director of SIDBI</i></p> | Indian      | -                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <p><b>Mr. Geoffrey Tanner Woolley</b></p> <p>S/o Mr. Jack Boyd Woolley</p> <p>Address: 33 Union Park, Apartment 1, Boston MA, 002 118, United States of America</p> <p>Occupation: Investment Manager</p> <p>Term: Liable to retire by rotation</p> <p>DIN: 00306749</p>                                                        | 51          | <p>Independent Director</p> <p><i>Non Executive Director</i></p>                                         | American    | <ul style="list-style-type: none"> <li>Hild Partners LLC</li> <li>Huntsman Gay Capital Impact, LLC</li> <li>Montara Point LLC</li> <li>SHOF Managment Co., LLC</li> <li>Sorenson Opportunity Fund Founders, LLC</li> <li>Sorenson Housing Opportunity Fund</li> <li>University Opportunity Fund</li> <li>Utah Fund of Fund</li> <li>Unitus Capital Founders</li> <li>Hild Asset Management Limited</li> <li>University Venture Fund</li> </ul> |
| <p><b>Mr. Pramod Bhasin</b></p> <p>S/o Late Mr. Satya Dev Bhasin</p> <p>Address: C 6/6 Vasant Vihar, New Delhi 110057</p> <p>Occupation: Service</p> <p>Term: Liable to retire by rotation</p>                                                                                                                                  | 58          | <p>Independent Director</p> <p><i>Non Executive Director</i></p>                                         | Indian      | <ul style="list-style-type: none"> <li>Genpact Limited</li> <li>New Delhi Television Limited</li> <li>NGEN Media Services Private Limited</li> <li>NIIT Institute of Process Excellence Limited</li> <li>Junior Achivement India Services</li> </ul>                                                                                                                                                                                           |

| Name, Designation, Father's Name, Address, Occupation and DIN                                                                                                                                                                                                     | Age (Years) | Status of Director in the Company                                                              | Nationality | Other Directorships                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|------------------------------------------------------------------------------------------------|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| DIN: 01197009                                                                                                                                                                                                                                                     |             |                                                                                                |             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Mr. Sumir Chadha</b><br>S/o Mr. Surinder Mohan Singh Chadha<br><br>Address: 200, Woodridge Road, Hillsborough, California 94010, United States of America<br><br>Occupation: Investment Manager<br><br>Term: Liable to retire by rotation<br><br>DIN: 00040789 | 39          | Non Executive Director<br><br><i>Nominee Director of SCIGI I and SCI II</i>                    | American    | <ul style="list-style-type: none"> <li>Sequoia Capital India Advisors Private Limited</li> <li>Minglebox Communications Private Limited</li> <li>WestBridge Ventures I, LLC</li> <li>WestBridge Ventures Co-Investment I, LLC</li> <li>WestBridge Advisors I, LLC</li> <li>WestBridge Ventures I, Investment Holdings</li> <li>CBD Holdings</li> <li>SCI II</li> <li>SC India Management II, LLC</li> <li>Sequoia Capital India Investments Holdings II</li> <li>Sequoia Capital India Growth Investments Holdings I</li> <li>Nambe Investment Holdings</li> <li>Sequoia Capital India Investments Holdings III</li> <li>Sequoia Capital India Investments III</li> <li>SCIGI I</li> <li>Sequoia Capital India Operations – US LLC</li> <li>Sequoia Capital India Operations LLC</li> <li>Satellier Inc.</li> <li>SC India Holdings Limited</li> <li>Guruji.com Technologies</li> <li>Saffronart Management Corporation</li> <li>SCIOinspire Holdings Inc.</li> <li>Sequoia Capital India Growth Investment Holdings II</li> <li>Beaver Investment Holdings</li> <li>Ironwood Investment Holdings</li> <li>Tejas Ventures</li> <li>SCI Growth Investments II</li> <li>Global Logic Inc</li> <li>Pangea 3 Inc</li> </ul> |
| <b>Mr. Ashish Lakhanpal</b><br>S/o Mr. Vinod Lakhanpal<br><br>Address: 11694 Farside Road, Ellicott City, 21042, United States of America<br>Occupation: Investment Manager<br>Term: Liable to retire by rotation<br><br>DIN: 02410201                            | 36          | Non Executive Director<br><br><i>Nominee Director of Kismet Microfinance and Kismet SKS II</i> | American    | <ul style="list-style-type: none"> <li>Kismet Holdings LLC</li> <li>Kismet Capital LLC</li> <li>Kismet TMF Holdings LLC</li> <li>Kismet TMF Cayman, Inc</li> <li>Lumina Worldwide Inc.</li> <li>TMF Holdings Inc.</li> <li>Beringer International Limited</li> <li>Brisa Assets Limited</li> <li>Claremont Pacific Limited</li> <li>Decision Global Limited</li> <li>Encanto Pacific Limited</li> <li>Equity Link Global Limited</li> <li>Nuvo Pacific Limited</li> <li>Rex Globe Limited</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

| Name, Designation, Father's Name, Address, Occupation and DIN                                                                                                                                                                                      | Age (Years) | Status of Director in the Company                              | Nationality | Other Directorships                                                                                                                                                                                                          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|----------------------------------------------------------------|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                    |             |                                                                |             | <ul style="list-style-type: none"> <li>Somerset Asian Limited</li> <li>Ultima Worldwide Limited</li> <li>SKS Capital Partners LLC</li> <li>Kismet Microfinance</li> <li>Kismet SKS II</li> <li>Kismet TMF GP, LLC</li> </ul> |
| <b>Mr. Paresh D. Patel</b><br><br>S/o Mr. Dinesh Patel<br><br>Address: Wellington Mews,<br>33 Nathalal Parekh Marg,<br>Colaba, Mumbai 400 001<br><br>Occupation: Investment Manager<br><br>Term: Liable to retire by rotation<br><br>DIN: 01689226 | 39          | Non Executive Director<br><br><i>Nominee Director of SIP I</i> | American    | <ul style="list-style-type: none"> <li>Sandstone Capital Advisors Private Limited</li> <li>Sandstone Capital LLC</li> </ul>                                                                                                  |

None of our Directors are related to each other.

#### Brief Profile of the Directors

**Dr. Vikram Akula** is the Chairman of the Company. He became a member of the Board of Directors of the Company on September 22, 2003. He holds a degree of Bachelor of Arts (B.A.) from Tufts University, and Master of Arts (M.A.) from Yale University and Doctor of Philosophy (Ph.D.) from the University of Chicago. He has over 10 years of experience in the field of microfinance, and has worked as a community organizer with the Deccan Development Society in India. Prior to joining the Company he was with McKinsey & Company. Dr. Akula is currently also on the board of STAPL, the trustee for the SKS MBTs and is founder of SKS NGO. Dr. Akula has received several awards for his work, including the Ernst & Young Entrepreneur of the Year in India (Business Transformation in 2010; Start-up in 2006), the World Economic Forum's Young Global Leader award (2008), Social Entrepreneur of the Year in India (2006), and the Echoing Green Public Service Entrepreneur Fellowship (1998-2002). In 2006, he was named by TIME Magazine as one of the world's 100 most influential people.

**Mr. Suresh Gurumani** is the Managing Director and CEO of the Company. He joined the Board of Directors of the Company on December 8, 2008. He is a qualified Chartered Accountant with 22 years of experience in the banking sector. Before joining the Company, he was with Barclays Bank Plc as Retail Banking head. He was appointed for a term of 5 years with effect from April 1, 2009 pursuant to a resolution of our shareholders dated September 30, 2009, and the date of expiry of his term is March 31, 2014.

**Mr. P.H Ravi Kumar** is an Independent Director of the Company. He became a member of the Board of Directors of the Company on March 22, 2006. He has over 37 years of experience in financial services sector including over 32 years as a commercial banker, spanning retail, corporate and treasury banking areas in India and abroad. He has a Bachelor's Degree in Commerce from Osmania University, Hyderabad and is an Associate of Indian Institute of Bankers, Mumbai and of Chartered Institute of Bankers London. He is also a fellow of Chartered Institute of Securities and Investment, London. He is currently the Managing Director and CEO of Invent Assets Securitisation & Reconstruction Private Limited. He was earlier the Managing Director & CEO of NCDEX Ltd. and was also the Senior General Manager & Head of Emerging Corporates (SMEs) & Agri Business at ICICI Limited.

**Mr. Sumir Chadha** is a Nominee Director of SCI II on the Board of the Company. He became a member of the Board of Directors of the Company on May 16, 2007 pursuant to the Amended and Restated Shareholders Agreement dated March 29, 2007 entered into between the Company and Dr. Vikram Akula, SIDBI, MBTs, MUC, Mr. Vinod Khosla, Kismet Microfinance, Odyssey Capital Private Limited and SCI II. He holds a degree in Master of Business Administration from Harvard Business School and a Bachelor of Science in Computer Science from Princeton University. He has 10 years of experience in investing Indian venture capital industry including offshore services, consumer internet and financial services. Prior to co-founding WestBridge in 2000 (which merged with Sequoia Capital in 2006) he was with Goldman Sachs & Co. and with McKinsey & Co. He is also the co-founder and Chairman of the Global Indian Venture capital Association and also a Charter Member of The Indus Entrepreneurs.

**Mr. Geoffrey Tanner Woolley** is an Independent Director of the Company. He became a member of the Board of Directors of the Company on March 22, 2006. He holds a degree of Bachelor of Science in Business Management from Brigham Young University and Master of Business Administration from the University of Utah. He has over 25 years of experience as an investment manager. He co-founded Dominion Ventures, Kreos Partners and is also the Managing Director and co-founder of Huntsman Gay Capital Impact.

**Dr. Tarun Khanna**, is an Independent Director of the Company. He became a member of the Board of Directors of the Company on February 1, 2008. He holds a Bachelors of Science in Engineering degree from Princeton University in 1988, *summa cum laude*, Phi Beta Kappa, and a Ph.D. in Business Economics from Harvard University in 1993. He has almost 20 years of experience as an author, educator, consultant and investor in emerging markets worldwide.

**Mr. Pramod Bhasin** is an Independent Director of the Company. He became a member of the Board of Directors of the Company on November 4, 2009. He has 25 years of experience in corporate management. He is a Chartered Accountant from Thomson McLintock & Co., London, and holds a Bachelor of Commerce degree from Delhi University. He is the president and chief executive officer of Genpact Limited. Prior to this he was with General Electric for a period of 25 years.

**Mr. V. Chandrasekaran** is a Nominee Director of SIDBI on the Board of the Company. He became a member of the Board of Directors of the Company on February 1, 2008, pursuant to the Subscription cum Shareholders Agreement dated January 31, 2006. He holds a Bachelors degree in Engineering and a Masters degree in Financial Management from Mumbai University. He has seven years of experience in the industry and around 30 years of experience in development banking. While joining the Board of the company, he was the Executive Director of SIDBI and has since retired.

**Mr. Paresh D. Patel** is a Nominee Director of SIP I on the Board of the Company. He became a member of the Board of Directors of the Company on November 10, 2008 pursuant to the Shareholders' Agreement dated October 20, 2008. He has 10 years of experience as an investment manager. He is a graduate of Harvard Business School and Boston College. He is currently the Chief Executive Officer of Sandstone Capital, an India-focused hedge fund. Prior to Sandstone Capital LLC, Mr. Patel was Managing Director of Sparta Group, a private investment company. He is also a founder member of the South Asia Research Initiative at Harvard University.

**Mr. Ashish Lakhanpal** is a Nominee Director of Kismet Microfinance and Kismet SKS II on the Board of the Company. He became a member of the Board of Directors of the Company on November 10, 2008 pursuant to Restated Shareholders' Agreement dated October 20, 2008. He holds a MBA from Harvard Business School and a Bachelor of Arts, Summa Cum Laude, from Georgetown University. He has 10 years of experience as an investment manager. He is the founder and managing director of Kismet Capital, LLC, prior to which he managed Think Capital, LLC, a U.S. based private investment firm. Mr. Lakhanpal has prior experience with Goldman Sachs & Co. and McKinsey & Co.

#### **Borrowing Powers of the Board**

Pursuant to the resolution passed by the shareholders of the Company at their AGM held on July 16, 2010 and in accordance with the provisions of the Companies Act, the Board has been authorized to borrow monies (apart from temporary loans obtained from the bankers of the Company in the ordinary

course of business) time to time, for the purpose of Company's business in excess of the aggregate of the paid-up capital of the Company and its free reserves (not being reserves set apart for any specific purpose), provided that the total amount of such borrowings together with the amounts already borrowed and outstanding, shall not exceed Rs. 90,000 million over and above the aggregate, for the time being, of the paid up capital and free reserves of the Company.

#### **Details of Appointment of the Directors**

| <b>Name of Directors</b>    | <b>Date of Resolution</b>                                                             | <b>Term</b>                               | <b>Date of Expiration of Term</b> |
|-----------------------------|---------------------------------------------------------------------------------------|-------------------------------------------|-----------------------------------|
| Mr. Sumir Chadha            | Shareholders resolution passed at the Annual General Meeting dated September 30, 2009 | Liable to retire by rotation              | -                                 |
| Mr. P.H. Ravi Kumar         | Shareholders resolution passed at the Annual General Meeting dated July 16, 2010      | Liable to retire by rotation              | -                                 |
| Dr. Tarun Khanna            | Shareholders resolution passed at the Annual General Meeting dated September 30, 2009 | Liable to retire by rotation              | -                                 |
| Mr. Ashish Lakhanpal        | Shareholders resolution passed at the Annual General Meeting dated September 30, 2009 | Liable to retire by rotation              | -                                 |
| Mr. Paresh D. Patel         | Shareholders resolution passed at the Annual General Meeting dated July 16, 2010      | Liable to retire by rotation              | -                                 |
| Dr. Vikram Akula            | Shareholders resolution passed at the Annual General Meeting dated July 16, 2010      | Liable to retire by rotation              | -                                 |
| Mr. Suresh Gurumani         | Shareholders resolution passed at the Annual General Meeting dated September 30, 2009 | Five years with effect from April 1, 2009 | March 31, 2014                    |
| Mr. Geoffrey Tanner Woolley | Shareholders resolution passed at the Annual General Meeting dated September 30, 2009 | Liable to retire by rotation              | -                                 |
| Mr. V. Chandrasekaran       | Board resolution dated February 1, 2008 as nominee director of SIDBI                  | Not liable to retire by rotation          | -                                 |
| Mr. Pramod Bhasin           | Shareholders resolution passed at the Annual General Meeting dated July 16, 2010      | Liable to retire by rotation              | -                                 |

#### **Terms of Appointment of the Executive Directors**

Mr. Suresh Gurumani was appointed on December 8, 2008 as the Chief Executive Officer and Managing Director of the Company. Further, the shareholders of the Company by way of a resolution dated September 30, 2009 confirmed his appointment as the Managing Director for a period of five years with effect from April 1, 2009. The consolidated salary, inclusive of employer's contribution to provident fund payable to Mr. Suresh Gurumani, as its director during the tenure of his appointment

would amount to Rs. 15,000,000 per annum and performance bonus of Rs. 1,500,000 per annum with annual increments up to maximum of 100% with liberty to the Board of Directors to sanction any further increase over and above the 100% as it may in its absolute discretion determine. The amount payable of performance bonus will depend on Mr. Suresh Gurumani's performance rating against the performance targets and benchmarks as determined from time to time by the Board of Directors/Committee based on the Company's achievement of the results of operation contemplated by its business plan.

Subject to the above, the total monthly salary is Rs. 1,250,000 comprising of the following:

Basic Salary – Rs. 585,206  
House Rent Allowance – Rs. 234,082  
Children Education Allowance – Rs. 200  
Medical Allowance – Rs. 1,250  
Fuel Reimbursement – Rs. 9,000  
Leave Travel Allowance – Rs. 43,890  
Driver's Salary – Rs. 7,000  
Vehicle Maintenance and Insurance - Rs. 7,000  
Food Vouchers - Rs. 7,500  
Post Allowance - Rs. 275,284  
Employer Contribution to Provident Fund - Rs. 79,588

In addition to the above Mr. Suresh Gurumani is entitled to a onetime bonus of Rs. 10,000,000 which was paid in April 2009. However, in the event of resignation from the Company on or before the completion of one year of service from the date of joining, he shall be liable to refund such amount before expiry of the notice period.

Further, the Company also provides certain insurance benefits such as life insurance cover amounting to Rs.40,000,000, hospitalization floater cover of Rs. 125,000 and group personal accident cover of Rs.100,000.

The Remuneration and Compensation Committee has pursuant to a resolution passed in its meeting held on May 4, 2010 approved the annual fixed remuneration of Rs. 20,025,000 for Mr. Suresh Gurumani for fiscal year 2011.

#### **Other service contracts entered into with the Directors**

None of the Directors of the Company have entered into any service contract with the Company.

#### **Details of Remuneration of the Directors**

The following table sets forth the remuneration paid to the Company's executive Directors during the fiscal 2010:

| <b>Name of the Director</b> | <b>Salary<br/>(Rs. in million)</b> | <b>Monetary Value<br/>of Perquisites<br/>(Rs. in million)</b> | <b>Contribution<br/>to the<br/>Provident<br/>Fund</b> | <b>ESOPs</b> | <b>Total<br/>(Rs. in million)</b> |
|-----------------------------|------------------------------------|---------------------------------------------------------------|-------------------------------------------------------|--------------|-----------------------------------|
| Mr. Suresh Gurumani         | 11.90                              | 3.64                                                          | 0.96                                                  | 0.46         | 16.96                             |

The following table sets the remuneration paid to the Company's non-executive Directors during the fiscal 2010:

| Name of the Director        | Sitting fees paid during financial year 2010<br>(Rs. in million) | Commission paid during financial year 2010<br>(Rs. in million) | Total<br>(Rs. in million) |
|-----------------------------|------------------------------------------------------------------|----------------------------------------------------------------|---------------------------|
| Dr. Vikram Akula**          | -                                                                | - <sup>#</sup>                                                 | -                         |
| Mr. Gurcharan Das*          | 0.02                                                             | Nil                                                            | 0.02                      |
| Mr. P.H. Ravi Kumar         | 0.04                                                             | Nil                                                            | 0.04                      |
| Dr. Tarun Khanna            | 0.04                                                             | Nil                                                            | 0.04                      |
| Mr. Geoffrey Tanner Woolley | 0.00                                                             | Nil                                                            | 0.00                      |
| Mr. Sumir Chadha**          | 0.00                                                             | Nil                                                            | 0.00                      |
| Mr. V. Chandrasekaran       | 0.03                                                             | Nil                                                            | 0.03                      |
| Mr. Ashish Lakhpal**        | 0.00                                                             | Nil                                                            | 0.00                      |
| Mr. Paresh D. Patel**       | 0.00                                                             | Nil                                                            | 0.00                      |

\* Resigned with effect from January 5, 2010.

\*\* Waived their sitting fees in Board meeting November 4, 2009.

# The Shareholders at the AGM of the Company held on July 16, 2010 approved a commission not exceeding one per cent of the net profits of the Company for a period of three years, with effect from the FY 2011 be paid to Dr. Vikram Akula.

In addition to the above, the Company has also implemented a stock option plan for the Independent Directors of the Company. For more information please see the chapter titled "Capital Structure" on page 28 of this Red Herring Prospectus.

## Corporate Governance

The provisions of the Listing Agreement to be entered into with BSE and NSE and the SEBI Regulations in respect of corporate governance will be applicable to the Company immediately upon the listing of the Company's Equity Shares on the Stock Exchanges. The Company undertakes to adopt the corporate governance code as per Clause 49 of the Listing Agreement to be entered into with the Stock Exchanges on listing. The Board of Directors consists of a total of 10 Directors of which five are independent Directors (as defined under Clause 49 of the Listing Agreement), which constitutes 50% of our Board of Directors. This is in compliance with the requirements of Clause 49 of the Listing Agreement.

In terms of Clause 49, the Company has already appointed independent Directors and constituted the following committees:

### Audit Committee

The Audit Committee was reconstituted on January 5, 2010.

|          |                       |                                             |
|----------|-----------------------|---------------------------------------------|
| Members: | Mr. P.H. Ravi Kumar   | Chairman (Independent Director)             |
|          | Mr. Paresh D. Patel   | Member (Non-executive Director)             |
|          | Mr. V. Chandrasekaran | Member (Non-executive Independent Director) |

The purpose of the Audit Committee is to monitor and provide effective supervision of the managements financial reporting with a view to ensure accurate, timely and proper disclosure by maintaining transparency and, integrity and quality of financial reporting. The powers of the Audit Committee include the following:

- to investigate any activity within its terms of reference;
- to seek information from any employee;
- to obtain outside legal or other professional advice; and
- to secure attendance of outsiders with relevant expertise, if it considers necessary.

*Terms of Reference/ Scope of the Audit Committee are:*

**General Functions and Powers:**

- a. Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
- b. Recommending to the Board, the appointment, reappointment and if required the replacement or removal of the statutory auditor and the fixation of audit fees;
- c. Approval of payment to statutory auditors for any other services rendered by the statutory auditors;
- d. Reviewing with the management the annual financial statements before submission to the Board for approval, with particular reference to:
  - Matters required to be included in the Directors Responsibility Statement to be included in the Board report in terms of clause (2AA) of Section 217 of the Companies Act,;
  - Changes, if any, in accounting policies and practices and reasons for the same;
  - Major accounting entries involving estimates based on the exercise of judgement by management;
  - Significant adjustments made in the financial statements arising out of audit findings;
  - Compliance with listing and other legal requirements relating to financial statements;
  - Disclosure of any related party transactions; and
  - Qualifications in the draft audit report.
- e. Reviewing with the management, the quarterly financial statements before submission to the Board for approval;
- f. Reviewing with the management the statement of use / application of funds raised through an issue( public issue, rights issue, preferential issue etc.) the report submitted by the monitoring agency and making appropriate recommendations to the Board to take up steps in this matter;
- g. Reviewing with the management, performance of the statutory and internal auditors and adequacy of the internal control systems;
- h. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;
- i. Discussion with internal auditors, any significant findings and follow up there-on;
- j. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularly or a failure of internal control systems of a material nature and reporting the matter to the Board;
- k. Discussion with statutory auditors before the audit commences about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;
- l. To look into reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors; and
- m. To review the functioning of the Whistle Blower mechanism.



The Audit Committee has met three times in the last one year. The following members of the Audit Committee have attended the meetings:

| Name of the Member      | Designation | Number of Meetings Attended |
|-------------------------|-------------|-----------------------------|
| Mr. P. H Ravi Kumar     | Chairman    | 3                           |
| Mr. Paresh D. Patel     | Member      | 3                           |
| Mr. Sumir Chadha*       | Member      | 1                           |
| Mr. V. Chandrasekaran** | Member      | 2                           |
| Dr. Tarun Khanna ** #   | Member      | –                           |

\* Ceased to be a member with effect from 4th November, 2009.

\*\* Appointed as Committee member on 4th November, 2009.

# Ceased to be a member with effect from 5th January, 2010.

### **Shareholders'/Investors' Grievance Committee**

|          |                      |                                               |
|----------|----------------------|-----------------------------------------------|
| Members: | Mr. P.H. Ravi Kumar  | Chairman (Non executive Independent Director) |
|          | Mr. Suresh Gurumani  | Member (Managing Director, CEO)               |
|          | Dr. Tarun Khanna     | Member (Non-executive Independent Director)   |
|          | Mr. Ashish Lakhanpal | Member (Non-executive Director)               |

The committee was reconstituted pursuant to Board resolution dated January 5, 2010. The Committee performs amongst others the role / functions as are set out in Clause 49 of the Listing Agreement with Stock Exchanges and includes:

- Review and redress the Shareholders /Investor's Grievance Committee like transfer of shares, debentures, non receipt of balance sheet, declaration of dividends;
- Deal with all aspects relating to issue and allotment of shares and debentures and /or other securities of the Company;
- to consider and approve subdivision, consolidation, transfer and issue of duplicate shares and debenture certificate;
- function in close association with the compensation committee for the allotment of Equity Shares under the Stock Option or Stock Purchase Plans and to accept and implement the recommendation of the compensation committee;
- to delegate any of the powers mentioned above to the company executives; and
- authority to do any other matter in relation to the above functions and powers.

The Shareholders'/Investors' Grievance Committee has met one time in the last one year, where Mr. P. H Ravi Kumar and Mr. Suresh Gurumani and Mr. Ashish Lakhanpal (through audio conference) attended the meeting.

### **Other Committees of the Board**

#### **Finance Committee**

|          |                      |                                             |
|----------|----------------------|---------------------------------------------|
| Members: | Mr. Paresh D. Patel  | Chairman (Non-executive Director)           |
|          | Mr. P.H. Ravi Kumar  | Member (Non-executive Independent Director) |
|          | Mr. Suresh Gurumani  | Member (Managing Director, CEO)             |
|          | Mr. Ashish Lakhanpal | Member (Non-executive Director)             |

The Finance Committee was reconstituted on July 29, 2009.

#### *Terms of reference / Scope of the Finance Committee*

- a. Review and approve the loan facilities (on balance sheet and /or off balance sheet) and borrowings within the limit specified. If the facilities are beyond the limits, the same shall be reviewed and thereafter proposed to the Board for approval;
- b. Nominate and designate representatives to carry out the required documentation for the facilities approved by the Committee;
- c. Review the annual budget and revisions made to the business plan and make specific recommendation to the Board on its adoption, including where desirable, comments on expense level, revenue structures, fees and charges, adequacy of proposed funding levels and adequacy of provision for reserves;
- d. Review of the cash flows in comparison of the liquidity metric and review of the funding mix from time to time, to ensure mitigation of concentration risk in terms of specific lenders or lender class; and
- e. Power to open Bank Accounts in the name of the Company in/outside India

The Finance Committee has met nine times in the last one year.

#### ***Asset Liability Management/Risk Management Committee***

|          |                     |                                             |
|----------|---------------------|---------------------------------------------|
| Members: | Mr. Paresh D. Patel | Chairman (Non-executive Director)           |
|          | Mr. P.H. Ravi Kumar | Member (Non-executive Independent Director) |
|          | Mr. Suresh Gurumani | Member (Managing Director, CEO)             |
|          | Mr. Ashish Lakhapal | Member (Non-executive Director)             |

The Asset Liability Management/Risk Management Committee has been constituted on May 16, 2007 pursuant to relevant RBI regulations to monitor the asset liability gap and to strategize action to mitigate risks associated with the Company.

#### *Terms of Reference /Scope of the Asset Liability Management/Risk Management Committee:*

- a. The scope of the Committee pertains to the review or operational risk (including sub risk for operational risk), information technology risk, integrity risk
- b. The role and function of the committee shall include:
  - Addressing concerns regarding asset liability mismatches and interest rate risk exposure;
  - Taking strategic actions to mitigate the risk associated with the nature of the business;
  - Achieving optimal return on capital employed, whilst maintaining acceptable levels of risk including and relating to liquidity, market, & operational aspects) and adhering to the policies and regulations;
  - Reporting statement of short term dynamic liquidity, structural liquidity and interest rate sensitivity to the RBI; and
  - Apprising the Board of Directors at regular intervals regarding the process made in putting in place a progressive risk management system and risk management policy and strategy.

The Asset Liability Management/Risk Management Committee has met two times in the last one year.

#### ***Remuneration and Compensation Committee***

|          |                  |                                               |
|----------|------------------|-----------------------------------------------|
| Members: | Dr. Tarun Khanna | Chairman (Non-executive Independent Director) |
|          | Mr. Sumir Chadha | Member (Non-executive Director)               |

|                             |                                             |
|-----------------------------|---------------------------------------------|
| Mr. Pramod Bhasin           | Member (Non-executive Independent Director) |
| Mr. Geoffrey Tanner Woolley | Member (Non-executive Independent Director) |

The Remuneration and Compensation Committee was reconstituted pursuant to Board resolution dated January 5, 2010 to discharge the Board's responsibilities relating to the compensation of the Company's Executive Directors and senior management. The Compensation Committee has the overall responsibility of approving and evaluating the compensation plans, policies and programs for Executive Directors and Senior Management of the Company.

*Terms of reference and scope of the Remuneration and Compensation Committee:*

The role and functions of the Remuneration and Compensation Committee includes as follows:

- a. Determining on behalf of the Board and on behalf of the shareholders with agreed terms of reference, the company's policy on specific remuneration packages for executive directors including pension rights and any compensation payment;
- b. Determining the revenue matrix, salary and bonus to be paid to Whole time Director(s) or Managing Director of the Company;
- c. Determining the sitting fee to be paid to the members of the Board;
- d. Determining the revenue matrix, salary and bonus to be paid to "Key Management Personnel" of the company;
- e. To identify, appoint and review the performance of "Key Management Personnel" of the company;
- f. Making recommendation to the Board of Directors with respect to the compensation to be paid to the Executive Directors and Key Management Personnel of the company;
- g. Determining the criteria for the grant of options or shares under the Stock Option or Stock Purchase Scheme;
- h. Considering any other matter as may be required by under the Stock Option or Stock Purchase Scheme of the Company;
- i. Authority to do any matter in relation to the above functions/powers;
- j. To delegate any of the powers mentioned above to the Company Executives.

The Remuneration and Compensation Committee has met four times in the last one year.

**Nomination Committee**

|          |                             |                                               |
|----------|-----------------------------|-----------------------------------------------|
| Members: | Dr. Tarun Khanna            | Chairman (Non-executive independent Director) |
|          | Mr. Sumir Chadha            | Member (Non-executive Director)               |
|          | Mr. Ashish Lakhanpal        | Member (Non-executive Director)               |
|          | Mr. Geoffrey Tanner Woolley | Member (Non-executive Independent Director)   |

The Nomination Committee has been constituted on May 16, 2007 to ensure that the general character of the management or the proposed management of the non-banking financial company shall not be prejudicial to the interest of its present and future stakeholders and to ensure 'fit and proper' credentials/status of proposed/existing Directors of the company.

*Terms of reference and scope of the Nomination Committee*

The role and function of the Nomination Committee is as follows:

- a. To ensure fit and proper credentials of proposed/existing Directors;

- b. Appointment and reappointment of Directors on the Board;
- c. Filling of a vacancy on the Board; and
- d. Appointment of members to the Executive Committee of the Board.

The Nomination Committee has met two times in the last one year.

#### **IPO Committee**

|          |                      |                                    |
|----------|----------------------|------------------------------------|
| Members: | Dr. Vikram Akula     | Chairman (Chairman, Non-executive) |
|          | Mr. Sumir Chadha     | Member (Non-executive Director)    |
|          | Mr. Pares D. Patel   | Member (Non-executive Director)    |
|          | Mr. Suresh Gurumani  | Member (Managing Director and CEO) |
|          | Mr. Ashish Lakhanpal | Member (Non-executive Director)    |

The IPO Committee was constituted pursuant to a circular resolution dated December 17, 2009 and the taken on record by the Board of Directors dated January 5, 2010. The IPO Committee was reconstituted on February 12, 2010.

#### *The terms of reference of IPO Committee*

The role and functions of the IPO Committee includes as follows:

- a) Evaluating the viability of the proposed IPO of the company vis-a-vis market conditions, investors interest and recommend to the Board on the timings of the proposed IPO, the number of equity shares that may be offered under the Issue, the objects of the Issue, allocation of the Equity Shares to a specific category of persons and the estimated expenses on the Issue as percentage of Issue size;
- b) Identify, appoint and enter into necessary agreements / arrangements with the book running lead managers, underwriters syndicate members, brokers / sub brokers, Bankers, escrow collection bankers, registrars, legal advisors, placement, agents, depositories, trustees, custodians, advertising agencies, monitoring agency stabilization agent and all such persons or agencies as may be involved in or concerned with and to negotiate and finalize the terms of their appointment, including mandate letter, negotiation, finalization and execution of the memorandum of understandings etc.;
- c) Remunerating all such intermediaries, advisors, agencies and persons as may be involved in or concerned with the Issue, if any, by way of commission, brokerage, fees or the like and opening bank accounts, share/securities accounts, escrow or custodian accounts, in India or abroad;
- d) Guiding the intermediaries in the preparation and finalization of the Draft Red Herring Prospectus, the Red Herring Prospectus, the Prospectus and the preliminary and final international wrap, and approving the same including any amendments, supplements, notices or corrigenda thereto, together with any summaries thereto;
- e) Finalizing and arranging for the submission of the Draft Red Herring Prospectus, the Red Herring Prospectus, the Prospectus and the preliminary and final international wrap and any amendments, supplements, notices or corrigenda thereto, to SEBI, the Stock Exchanges, Registrar of Companies and other appropriate government and regulatory authorities, institutions or bodies;
- f) Making applications for listing of the shares in one or more stock exchange(s) for listing of the equity shares of the Company and to execute and to deliver or arrange the delivery of necessary documentation to the concerned stock exchange(s);
- g) Seeking, if required, the consent of the Company's lenders, parties with whom the Company

has entered into various commercial and other agreements, all concerned government and regulatory authorities in India or outside India, and any other consents that may be required in connection with the Issue, if any;

- h) Determining and finalizing the price band for the Issue, any revision to the price band and the final Issue Price after bid closure, determining the bid opening and closing dates and determining the price at which the Equity Shares are offered or issued/allotted to investors in the Issue;
- i) Making applications to the Foreign Investment Promotion Board, RBI and such other authorities as may be required for the purpose of allotment of shares to non-resident investors;
- j) Opening with the bankers to the Public Issue such accounts as are required by the regulations issued by SEBI;
- k) To do all such acts, deeds, matters and things and execute all such other documents, etc. as it may, in its absolute discretion, deem necessary or desirable for such purpose, including without limitation, finalize the basis of allocation and to allot the shares to the successful allottees as permissible in law, issue of share certificates in accordance with the relevant rules;
- l) To settle all questions, difficulties or doubts that may arise in regard to such issues or allotment as it may, in its absolute discretion deem fit;
- m) To delegate any of the powers mentioned above to the Company Executives.

The IPO Committee has met two times in the last one year.

#### ***Strategic Initiatives and Organizational Redesigning Committee***

|          |                             |                                             |
|----------|-----------------------------|---------------------------------------------|
| Members: | Dr. Vikram Akula            | Member (Non-executive)                      |
|          | Mr. Paresh D. Patel         | Member (Non-executive Director)             |
|          | Mr. Sumir Chadha            | Member (Non-executive Director)             |
|          | Mr. Ashish Lakhanpal        | Member (Non-executive Director)             |
|          | Mr. Pramod Bhasin           | Member (Non-executive Independent Director) |
|          | Mr. Geoffrey Tanner Woolley | Member (Non-executive Independent Director) |

The Strategic Initiatives and Organizational Redesigning Committee was constituted pursuant to Board resolution dated May 4, 2010 to discharge the Board's responsibilities relating to the formulation of policies and future business expansion and diversification plans of the Company.

#### ***Terms of reference and scope of the Remuneration and Compensation Committee:***

The role and functions of the Strategic Initiatives and Organizational Redesigning Committee includes as follows:

- a. To formulate policy (ies) on the future Business expansion and diversification plans of the Company.
- b. To evaluate various strategic options / business proposals with key parameters like Growth, Revenue and execution capabilities.
- c. To suggest the organization structure for undertaking new business proposals.

#### **Policy on Disclosures and Internal Procedure for Prevention of Insider Trading**

The provisions of Regulation 12 (1) of the SEBI (Prohibition of Insider Trading) Regulations, 1992 will be applicable to the Company immediately upon the listing of its Equity Shares on the Stock Exchanges. We shall comply with the requirements of the SEBI (Prohibition of Insider Trading) Regulations, 1992 following the listing of our Equity Shares.

### Shareholding of Directors in the Company

Except as set out below, none of the Directors hold any Equity Shares in the Company:

| S. No. | Name of the Director | No. of Equity Shares | Pre-Issue Percentage Shareholding | Post-Issue Percentage Shareholding |
|--------|----------------------|----------------------|-----------------------------------|------------------------------------|
| 1.     | Dr. Tarun Khanna     | 8,080                | 0.01%                             | 0.01%                              |
| 2.     | Mr. Suresh Gurumani  | 10,000               | 0.01%                             | 0.01%                              |

### Interest of our Directors

All the Directors may be deemed to be interested to the extent of fees payable to them if any, for attending meetings of the Board or a committee thereof as well as to the extent of other remuneration and reimbursement of expenses payable to them, if any under the Articles of Association, and to the extent of remuneration paid to them, if any for services rendered as an officer or employee of the Company.

The Directors may also be regarded as interested in the Equity Shares, if any, held by them or by the companies/firms/ventures promoted by them or that may be subscribed by or allotted to the companies, firms, trusts, in which they are interested as Directors, members, partners, trustees and Promoter, pursuant to this Issue. All of the Directors may also be deemed to be interested to the extent of any dividend payable to them and other distributions in respect of the said Equity Shares. Further, some of our Directors may be interested to the extent of stock options that have been granted to them.

The Directors have no interest in any property acquired by the Company within two years of the date of this Red Herring Prospectus.

Except as stated in “Related Party Transactions” on page 140 of this Red Herring Prospectus, the Directors do not have any other interest in the business of the Company.

### Changes in our Board of Directors in the Last Three Years

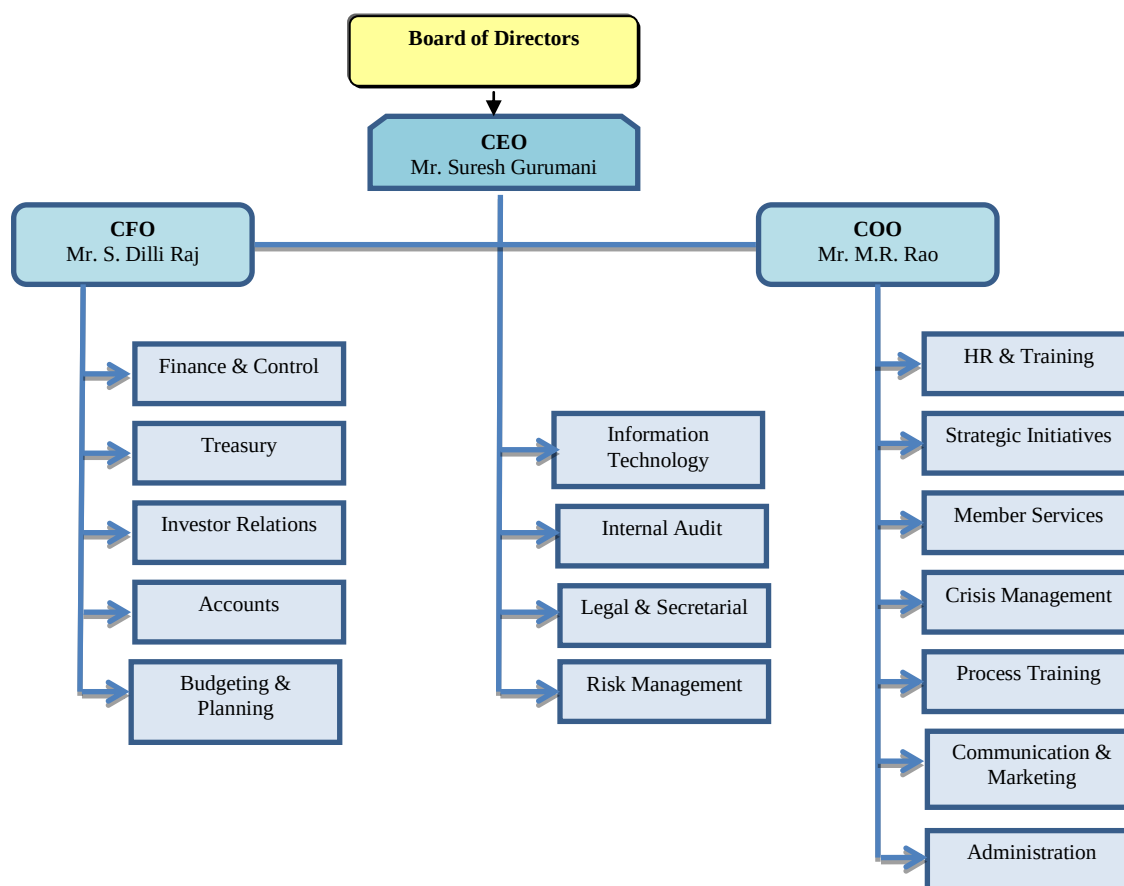
The following changes have occurred in Board of Directors of the Company in the last three years:

| Name of Director    | Date of Appointment / Re-appointment                                                                                                                                                                                                                                                                                                                         | Date of Cessation | Reason      |
|---------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------|
| Mr. Sumir Chadha    | <ul style="list-style-type: none"><li>Appointed as an additional Director to represent SCI II, as its nominee pursuant to Board resolution dated May 16, 2007;</li><li>Appointed as a Director pursuant to AGM dated August 7, 2008; and</li><li>Re-appointed as a Director liable to retire by rotation pursuant to AGM dated September 30, 2009.</li></ul> |                   | Appointment |
| Mr. P.H. Ravi Kumar | <ul style="list-style-type: none"><li>Re-appointed as a Director pursuant to AGM dated September 8, 2007; and</li><li>Appointed as a Director pursuant to AGM dated August 7, 2008.</li><li>Appointed as a Director pursuant the AGM of the shareholders held on July 16, 2010.</li></ul>                                                                    |                   | Appointment |
| Mr. Gurcharan Das   | <ul style="list-style-type: none"><li>Appointed as an additional Independent Director pursuant to Board resolution dated February 1, 2008;</li><li>Appointed as an Independent Director of the Company pursuant to AGM dated August 7, 2008;</li><li>Re-appointed as a Director pursuant to the AGM dated September 30, 2009 liable to retire</li></ul>      | January 5, 2010   | Cessation   |

| Name of Director            | Date of Appointment / Re-appointment                                                                                                                                                                                                                                                                                                                                                                                       | Date of Cessation | Reason      |
|-----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------|
|                             | by rotation; and<br><ul style="list-style-type: none"> <li>Resigned as a Director pursuant to Board resolution dated January 5, 2010.</li> </ul>                                                                                                                                                                                                                                                                           |                   |             |
| Dr. Tarun Khanna            | <ul style="list-style-type: none"> <li>Appointed as an additional Director pursuant to the Board resolution dated February 1, 2008;</li> <li>Appointed as an Independent Director pursuant to AGM dated August 7, 2008; and</li> <li>Re-appointed as a Director pursuant to the AGM dated September 30, 2009.</li> </ul>                                                                                                   |                   | Appointment |
| Mr. R.M. Nair               | <ul style="list-style-type: none"> <li>Resigned as a Director pursuant to Board resolution dated February 1, 2008.</li> </ul>                                                                                                                                                                                                                                                                                              | February 1, 2008  | Cessation   |
| Mr. Shekhar Iyer            | <ul style="list-style-type: none"> <li>Resigned as a Director pursuant to Board resolution dated November 10, 2008.</li> </ul>                                                                                                                                                                                                                                                                                             | November 10, 2008 | Cessation   |
| Mr. Sitaram Rao             | <ul style="list-style-type: none"> <li>Resigned as a Director pursuant to Board resolution dated November 10, 2008.</li> </ul>                                                                                                                                                                                                                                                                                             | November 1, 2008  | Cessation   |
| Mr. Ashish Lakhanpal        | <ul style="list-style-type: none"> <li>Appointed as an additional Director pursuant to the Board resolution dated November 10, 2008; and</li> <li>Appointed as a Director pursuant to the AGM dated September 30, 2009.</li> </ul>                                                                                                                                                                                         |                   | Appointment |
| Mr. V. Chandrasekaran       | Appointed as a Director (nominee of SIDBI) pursuant to the Board resolution dated February 1, 2008.                                                                                                                                                                                                                                                                                                                        |                   | Appointment |
| Mr. Paresh D. Patel         | <ul style="list-style-type: none"> <li>Appointed as an additional Director (nominees of SIP I) pursuant Board resolution dated November 10, 2008; and</li> <li>Appointed as a Director of the Company to represent SIP I pursuant to AGM dated March 25, 2009.</li> <li>Appointed as a Director of the Company pursuant to AGM dated July 16, 2010</li> </ul>                                                              |                   | Appointment |
| Dr. Vikram Akula            | <ul style="list-style-type: none"> <li>Resigned as the Managing Director and Chief Executive Officer and was appointed as the Chairman, Non Executive Director with effect from December 8, 2008 pursuant to the Board resolution dated November 10, 2008.</li> <li>Appointed as a Director pursuant the AGM of the shareholders held on July 16, 2010.</li> </ul>                                                         |                   | Appointment |
| Mr. Suresh Gurumani         | <ul style="list-style-type: none"> <li>Appointed as an additional Director pursuant to Board resolution dated September 30, 2008 with effect from December 8, 2008;</li> <li>Appointed as the Managing Director pursuant to the Board resolution dated November 10, 2008; and</li> <li>Re-appointed as the Managing Director pursuant to Board resolution dated July 29, 2009 and AGM dated September 30, 2009.</li> </ul> |                   | Appointment |
| Mr. Geoffrey Tanner Woolley | <ul style="list-style-type: none"> <li>Pursuant to the letter dated May 4, 2009 issued by MUC has withdrawn the nomination of Mr. Geoffrey Tanner Woolley as its nominee;</li> <li>Appointed as an additional Director pursuant to the Board resolution dated May 6, 2009; and</li> <li>Appointed as a Director pursuant the AGM of the shareholders held on September 30, 2009.</li> </ul>                                |                   | Appointment |
| Mr. Pramod Bhasin           | <ul style="list-style-type: none"> <li>Appointed as an additional Director pursuant to the Board resolution dated November 4, 2009.</li> </ul>                                                                                                                                                                                                                                                                             |                   | Appointment |

| Name of Director | Date of Appointment / Re-appointment                                                                                                  | Date of Cessation | Reason |
|------------------|---------------------------------------------------------------------------------------------------------------------------------------|-------------------|--------|
|                  | <ul style="list-style-type: none"> <li>Appointed as a Director pursuant the AGM of the shareholders held on July 16, 2010.</li> </ul> |                   |        |

### Organisational Chart



### Advisory Council

The Company entered into a Share Subscription Agreement dated January 16, 2010 with Catamaran (represented by their trustees Catamaran Management Services Private Limited) and Dr. Vikram Akula. The said agreement required the constitution of an Advisory Council to provide operational expertise to the Company. For details see “History and Certain Corporate Matters” on page 101 of this Red Herring Prospectus. The Company has accordingly constituted an Advisory Council on February 12, 2010.

The Advisory Council will advise the Board, amongst other aspects, on the following:

- Managing next phase of growth;
- Best industry practices to benchmark;
- Corporate governance policies and practices;
- Improving the disclosure standards;
- Risk management & internal control; and
- Best international accounting practices.



## Key Managerial Personnel

The details of our Key Managerial Personnel are as under:

**Mr. Suresh Gurumani** – for details see “Brief Profile of the Directors”. For the fiscal year ended March 31, 2010, the total remuneration that he received was Rs. 16.96 million.

**Mr. M.R. Rao**, aged 46 years and an Indian national, is the Chief Operating Officer of the Company. He joined the Company on October 24, 2006. He holds a Post Graduate degree in Management Studies (specialisation in marketing) from BITS, Pilani. He has 22 years of experience in retail financial services. Before joining the Company, he was with ING Vysya as head Alternate Channels. For the fiscal year ended March 31, 2010, the total remuneration that he received was Rs. 11.74 million.

**Mr. S. Dilli Raj**, aged 42 years and an Indian national, is the Chief Financial Officer of the Company. He joined the Company on January 28, 2008. He holds a degree of Bachelor in Commerce from Vivekananda College, Chennai and Masters in Business Administration from Central University of Pondicherry. He has 18 years of experience in funding, finance, taxation & accounting. Before joining the Company, he was with First Leasing Company of India Limited as the Chief Financial Officer. For the fiscal year ended March 31, 2010, the total remuneration that he received was Rs. 7.84 million.

All our key managerial personnel are permanent employees of the Company and none of key managerial personnel are related to each other.

## Retirement Benefits of Key Management Personnel

Our key managerial personnel are entitled to the benefits in regard to the gratuity and provident fund as per the applicable laws. The Company provides for payment of gratuity to employees at retirement or termination of employment due to resignation who have rendered continuous service for not less than five years and for death or disability. The amount of gratuity to be paid is computed at the rate of 15 days of wages for every completed year of service.

## Shareholding of the Key Managerial Personnel

Except as stated below, none of our Key Managerial Personnel hold Equity Shares in the Company\*.

| Name of the Key Managerial Personnel | Number of Equity Shares |
|--------------------------------------|-------------------------|
| Mr. S. Dilli Raj                     | 77,666                  |
| Mr. M.R. Rao                         | 294,166                 |

\* The Company has received Letters of Undertaking dated January 19, 2010 from Mr. Suresh Gurumani, Mr. S. Dilli Raj and Mr. M.R. Rao (“KMP”). In accordance with the terms of these letters, the KMP have consented that they will not sell, transfer, encumber or pledge the Equity Shares held by them to any person for the period commencing from the date of listing of the Equity Shares to three years after the listing or the date of cessation of employment of the KMP, whichever is earlier.

For details of shareholding of Mr. Suresh Gurumani, please see “Our Management – Shareholding of Directors in the Company” on page 125 of this Red Herring Prospectus.

## Bonus or Profit Sharing Plan for our Key Managerial Personnel

The Company has a performance-based cash bonus sharing plan, which is common for all employees and does not have a profit sharing plan.

## Interests of Key Management Personnel

The KMP of the Company do not have any interest in the Company other than to the extent of the remuneration or benefits to which they are entitled to as per their terms of appointment and reimbursement of expenses incurred by them during the ordinary course of business and to the extent of their shareholding, if any, in the Company or to the extent of the stock options that have been granted to them.

None of our KMP have been paid any consideration of any nature from the Company, other than their remuneration.

#### **Changes in Key Management Personnel during the Last Three Years**

| <b>Name</b>          | <b>Date</b>                                                                                                                   | <b>Reason</b> |
|----------------------|-------------------------------------------------------------------------------------------------------------------------------|---------------|
| Ms. Jennifer Leonard | March 31, 2007                                                                                                                | Resignation   |
| Mr. S. Dilli Raj     | Appointed on January 28, 2008                                                                                                 | Appointment   |
| Dr. Vikram Akula     | Resigned as Managing Director and Chief Executive Officer with effect from December 8, 2008                                   | Resignation   |
| Mr. Suresh Gurumani  | Appointed as CEO and Managing Director with effect from December 8, 2008 pursuant to board resolution dated November 10, 2008 | Appointment   |

#### **Details of Other Agreements**

Other than as stated above, none of our Directors or Key Managerial Personnel have been selected pursuant to any arrangement or understanding with major shareholders, customers, suppliers or others.

#### **Payment or Benefit to officers of the Company**

Except as stated otherwise in this Red Herring Prospectus, no amount or benefit has been paid or given or is intended to be paid or given to any of the officers except the normal remuneration for services rendered as Directors, officers or employees, since the incorporation of the Company.

#### **Employees Share Purchase and Stock Option Scheme**

For details of our ESOP and ESPS, see Employee Stock Option Plans and Stock Purchase Plan in “Capital Structure” on page 28 of the Red Herring Prospectus.

## OUR PROMOTERS AND GROUP COMPANIES

### Our Promoters

Dr. Vikram Akula, SKS Mutual Benefit Trusts, MUC, Kismet Microfinance, SCI II and Sequoia Capital India Growth Investments –I are the Promoters of our Company.

#### 1. **Dr. Vikram Akula**



Dr. Vikram Akula, 41, is the founder of the Company and Chairman of our Company. For further details, see “Our Management” on page 111 of this Red Herring Prospectus.

Dr. Akula is an American national and his social security number is 055 - 643781, his driving license number is A240-8716-8317 (issued by the State of Illinois, USA) and his passport number is 43207046314. His PAN number is AGSPA2340K.

#### 2. **SKS Mutual Benefit Trust - Medak:**

MBT-Medak was originally formed pursuant to a trust deed dated June 26, 2003. The trust deed was thereafter amended and restated on November 25, 2009. Pursuant to further changes and additions in relation to the activities to be undertaken for the benefit of the beneficiaries, the trust deed was amended on March 13, 2010. Under the terms of the trust deed, the trustee of MBT-Medak can hold and stands possessed of the trust funds upon trust and in its discretion, subject to the limitation set forth in trust deed, and may distribute the whole or any part thereof or any income or property or the corpus of the trust fund for the purposes of the objectives as mentioned in the Trust Deed. The trustee is also vested with the general superintendence, direction and management of the affairs of the MBT-Medak and all powers, authorities and discretion appurtenant to or incidental to the purpose of the MBT-Medak, subject to the provisions of the bye-laws. Further, no distribution of the trust funds are permitted to be made unless at the time of such distribution the members of the board of directors of the trustee have no economic ties with, and are independent of, the settlor, the Company and their respective affiliates and associates.

The registered office of MBT-Medak is Plot No.13, NGO's Colony, near Telephone Tower, Medak, Andhra Pradesh. The overall objective of MBT - Medak is to promote and enhance the social and economic well being of the beneficiaries by adopting any and all such lawful means as may be appropriate or necessary.

SKS Society is the settlor of MBT-Medak. The beneficiaries of MBT-Medak consist of members of *Sangams* or Self Help Groups formed with an objective of socio-economic development of women living in a neighbourhood and functioning for the mutual benefit of its members, who are promoted by SKS Society or its affiliates and associates and is reflected in the register of Sangams maintained by the settlor. To continue representation from the beneficiary member groups, MBT- Medak, on March 13, 2010, resolved to have the membership select and appoint up to 100 beneficiary representatives to represent their interests.

#### *Financial performance of MBT- Medak:*

(In Rs.)

| Particulars                        | FY 2010     | FY 2009    | FY 2008    |
|------------------------------------|-------------|------------|------------|
| Trust Fund                         | 11,778,675  | 15,839,950 | 15,828,828 |
| Trust Income/Receipt               | 2,846       | -          | -          |
| Surplus of Income Over Expenditure | (4,094,275) | (26,528)   | (18,790)   |

SKS Trust Advisors Private Limited (“STAPL”), previously known as Utthan Trust Advisors Private Limited, a company incorporated in India on November 10, 2009 with its registered office at Ashoka Raghupathi Chambers, D.No. 1-10-60 to 62, opposite Shopper's Stop,

Begumpet, Hyderabad 500 016, is the sole trustee of MBT-Medak. STAPL was set up with an objective of assisting in the management and governance of the SKS Mutual Benefit Trusts.

*Board of Directors of STAPL as of July 15, 2010:*

| <b>Name</b>      | <b>Position</b>          |
|------------------|--------------------------|
| Dr. Vikram Akula | Chairperson and Director |
| Dr. Ankur Sarin  | Director                 |

Under the terms of the Trust Deed, the board of directors of STAPL is required to consist of at least two and no more than seven persons. The members of the Board shall not have economic ties with, and shall be independent of, the Settlor, the Company and their respective affiliates and associates.

For further details, see, “Business- History and Evolution” on page 75 of this Red Herring Prospectus.

*Shareholding pattern of STAPL as of July 15, 2010:*

| <b>S. No.</b> | <b>Name</b>            | <b>No. of Shares held</b> | <b>Percentage</b> |
|---------------|------------------------|---------------------------|-------------------|
| 1.            | Mr. K.V.S. Subramanyam | 9,999                     | 99.9              |
| 2.            | Dr. Ankur Sarin        | 1                         | 0.1               |
|               | <b>TOTAL</b>           | 10,000                    | 100               |

### **3. SKS Mutual Benefit Trust - Sangareddy:**

MBT- Sangareddy was originally formed pursuant to a trust deed dated June 24, 2003. The trust deed was thereafter amended and restated on November 25, 2009. Pursuant to further changes and additions in relation to the activities to be undertaken for the benefit of the beneficiaries, the trust deed was amended on March 13, 2010. Under the terms of the trust deed, the trustee of MBT- Sangareddy can hold and stands possessed of the trust funds upon trust and in its discretion, subject to the limitation set forth in trust deed, and may distribute the whole or any part thereof or any income or property or the corpus of the trust fund for the purposes of the objectives as mentioned in the Trust Deed. The trustee is also vested with the general superintendence, direction and management of the affairs of the Trust and all powers, authorities and discretion appurtenant to or incidental to the purpose of the MBT - Sangareddy, subject to the provisions of the bye-laws. Further, no distribution of the trust funds are permitted to be made unless at the time of such distribution the members of the board of directors of the trustee have no economic ties with, and are independent of, the settlor, the Company and their respective affiliates and associates.

The registered office of MBT- Sangareddy is House No.1-87/2/C, beside Church Road, Siddhartha Nagar, Sangareddy, Medak, Andhra Pradesh. The overall objective of MBT- Sangareddy is to promote and enhance the social and economic well being of the beneficiaries by adopting any and all such lawful means as may be appropriate or necessary.

SKS Society is the settlor of MBT- Sangareddy. The beneficiaries of MBT- Sangareddy consist of members of *Sangams* or Self Help Groups formed with an objective of socio-economic development of women living in a neighbourhood and functioning for the mutual benefit of its members, who are promoted by SKS Society or its affiliates and associates and is reflected in the register of Sangams maintained by the settlor. To continue representation from the beneficiary member groups, MBT- Sangareddy, on March 13, 2010, resolved to have the membership select and appoint up to 100 beneficiary representatives to represent their interests.

*Financial performance of MBT- Sangareddy:*

(In Rs.)

| Particulars                        | FY 2010     | FY 2009    | FY 2008    |
|------------------------------------|-------------|------------|------------|
| Trust Fund                         | 11,685,077  | 15,837,860 | 15,830,468 |
| Trust Income/Receipt               | 2,846       | -          | -          |
| Surplus of Income Over Expenditure | (4,180,583) | (26,408)   | (18,730)   |

STAPL is the sole trustee of MBT- Sangareddy. For more details of STAPL, see above.

**4. SKS Mutual Benefit Trust - Jogipet:**

MBT - Jogipet was originally formed pursuant to a trust deed dated June 30, 2003. The trust deed was thereafter amended and restated on November 25, 2009. Pursuant to further changes and additions in relation to the activities to be undertaken for the benefit of the beneficiaries, the trust deed was amended on March 13, 2010. Under the terms of the trust deed, the trustee of MBT- Jogipet can hold and stands possessed of the trust funds upon trust and in its discretion, subject to the limitation set forth in trust deed, and may distribute the whole or any part thereof or any income or property or the corpus of the trust fund for the purposes of the objectives as mentioned in the Trust Deed. The trustee is also vested with the general superintendence, direction and management of the affairs of the Trust and all powers, authorities and discretion appurtenant to or incidental to the purpose of the MBT - Jogipet, subject to the provisions of the bye-laws. Further, no distribution of the trust funds are permitted to be made unless at the time of such distribution the members of the board of directors of the trustee have no economic ties with, and are independent of, the settlor, the Company and their respective affiliates and associates.

The registered office of MBT - Jogipet is House No. 11/78, Vasavinagar colony, Jogipet, Medak District, Andhra Pradesh. The overall objective of MBT - Jogipet is to promote and enhance the social and economic well being of the beneficiaries by adopting any and all such lawful means as may be appropriate or necessary.

SKS Society is the settlor of MBT- Jogipet. The beneficiaries of MBT- Jogipet consist of members of *Sangams* or Self Help Groups formed with an objective of socio-economic development of women living in a neighbourhood and functioning for the mutual benefit of its members, who are promoted by SKS Society or its affiliates and associates and is reflected in the register of Sangams maintained by the settlor. To continue representation from the beneficiary member groups, MBT- Jogipet, on March 13, 2010, resolved to have the membership select and appoint up to 100 beneficiary representatives to represent their interests.

*Financial performance of MBT- Jogipet:*

(In Rs.)

| Particulars                        | FY 2010     | FY 2009    | FY 2008    |
|------------------------------------|-------------|------------|------------|
| Trust Fund                         | 11,778,675  | 15,839,950 | 15,828,828 |
| Trust Income/Receipt               | 2,846       | -          | -          |
| Surplus of Income Over Expenditure | (4,094,275) | (26,528)   | (18,790)   |

STAPL is the sole trustee of MBT- Jogipet. For more details of STAPL, see above.

**5. SKS Mutual Benefit Trust - Narayankhed:**

MBT - Narayankhed was originally formed pursuant to a trust deed dated June 26, 2003. The trust deed was thereafter amended and restated on November 25, 2009. Pursuant to further changes and additions in relation to the activities to be undertaken for the benefit of the beneficiaries, the trust deed was amended on March 13, 2010. Under the terms of the trust deed, the trustee of MBT- Narayankhed can hold and stands possessed of the trust funds upon trust and in its discretion, subject to the limitation set forth in trust deed, and may distribute the whole or any part thereof or any income or property or the corpus of the trust fund for the purposes of the objectives as mentioned in the Trust Deed. The trustee is also vested with the

general superintendence, direction and management of the affairs of the Trust and all powers, authorities and discretion appurtenant to or incidental to the purpose of the MBT - Narayankhed, subject to the provisions of the bye-laws. Further, no distribution of the trust funds are permitted to be made unless at the time of such distribution the members of the board of directors of the trustee have no economic ties with, and are independent of, the settlor, the Company and their respective affiliates and associates.

The registered office of MBT - Narayankhed is Near Basweshwar chowk, Bypass road, Narayankhed, Medak District, Andhra Pradesh. The overall objective of MBT - Narayankhed is to promote and enhance the social and economic well being of the beneficiaries by adopting any and all such lawful means as may be appropriate or necessary.

SKS Society is the settlor of MBT- Narayankhed. The beneficiaries of MBT- Narayankhed consist of members of *Sangams* or Self Help Groups formed with an objective of socio-economic development of women living in a neighbourhood and functioning for the mutual benefit of its members, who are promoted by SKS Society or its affiliates and associates and is reflected in the register of Sangams maintained by the settlor. To continue representation from the beneficiary member groups, MBT- Narayankhed, on March 13, 2010, resolved to have the membership select and appoint up to 100 beneficiary representatives to represent their interests.

*Financial performance of MBT- Narayankhed:*

(In Rs.)

| Particulars                        | FY 2010     | FY 2009    | FY 2008    |
|------------------------------------|-------------|------------|------------|
| Trust Fund                         | 12,783,738  | 16,840,823 | 16,830,451 |
| Trust Income/Receipt               | 2,846       | -          | -          |
| Surplus of Income Over Expenditure | (4,070,585) | (26,408)   | (18,730)   |

STAPL is the sole trustee of MBT- Narayankhed. For more details of STAPL, see above.

#### 6. **SKS Mutual Benefit Trust - Sadasivapet:**

MBT - Sadasivapet was originally formed pursuant to a trust deed dated June 26, 2003. The trust deed was thereafter amended and restated on November 25, 2009. Pursuant to further changes and additions in relation to the activities to be undertaken for the benefit of the beneficiaries, the trust deed was amended on March 13, 2010. Under the terms of the trust deed, the trustee of MBT- Sadasivapet can hold and stand possessed of the trust funds upon trust and in its discretion, subject to the limitation set forth in trust deed, and may distribute the whole or any part thereof or any income or property or the corpus of the trust fund for the purposes of the objectives as mentioned in the Trust Deed. The trustee is also vested with the general superintendence, direction and management of the affairs of the Trust and all powers, authorities and discretion appurtenant to or incidental to the purpose of the MBT - Sadasivapet, subject to the provisions of the bye-laws. Further, no distribution of the trust funds are permitted to be made unless at the time of such distribution the members of the board of directors of the trustee have no economic ties with, and are independent of, the settlor, the Company and their respective affiliates and associates.

The registered office of MBT - Sadasivapet is Raghavendra Colony, Opp. APSEB Office, Mominpet Road, Sadashivpet, Medak District, Andhra Pradesh. The overall objective of MBT - Sadasivapet is to promote and enhance the social and economic well being of the beneficiaries by adopting any and all such lawful means as may be appropriate or necessary

SKS Society is the settlor of MBT- Sadasivapet. The beneficiaries of MBT- Sadasivapet consist of members of *Sangams* or Self Help Groups formed with an objective of socio-economic development of women living in a neighbourhood and functioning for the mutual benefit of its members, who are promoted by SKS Society or its affiliates and associates and is reflected in the register of Sangams maintained by the settlor. To continue representation from the beneficiary member groups, MBT- Sadasivapet, on March 13, 2010, resolved to have the membership select and appoint up to 100 beneficiary representatives to represent their interests.

*Financial performance of MBT- Sadasivapet:*

*(In Rs.)*

| Particulars                        | FY 2010     | FY 2009    | FY 2008    |
|------------------------------------|-------------|------------|------------|
| Trust Fund                         | 11,787,624  | 15,828,140 | 15,828,019 |
| Trust Income/Receipt               | 2,846       | -          | -          |
| Surplus of Income Over Expenditure | (4,063,666) | (26,408)   | (18,730)   |

STAPL is the sole trustee of MBT- Sadasivapet. For more details of STAPL, see above.

**7. Mauritius Unitus Corporation**

MUC is a company incorporated in Mauritius. The registered office of MUC is IFS Court, Twenty Eight, Cyber City, Ebene, Mauritius.

*Principal Business of MUC*

This company is engaged in the activity of investing in microfinance company's shares and securities.

As on July 15, 2010 MUC holds investments in five companies, all of which are incorporated in India and operate in the financial services sector.

*Board of Directors of MUC as of July 15, 2010:*

| Name                       | Position |
|----------------------------|----------|
| Mr. Christopher Brookfield | Director |
| Ms. Johanna Posada         | Director |
| Mr. Couldip Basanta Lala   | Director |
| Mr. Dev Joory              | Director |

*Shareholding pattern of MUC as of July 15, 2010:*

The share capital of MUC is held by Unitus Equity Fund LLP (Unitus Equity), an exempt limited partnership duly constituted in the Cayman Islands. Unitus Equity has an investment committee consisting of Mr. Jim Bunch, Mr. Jim Sorenson, Mr. Bernard Wendeln, Mr. Mike Murray and Mr. Geoffrey Tanner Woolley. Unitus Investment Management, Inc, a company incorporated in the state of Washington, U.S.A, is the asset manager of Unitus Equity. The registered office of Unitus Equity is PO Box 2636 GT, Strathvale House, 90 N Church Street, Grand Cayman, Cayman Islands.

As of July 15, 2010 Unitus Equity had 94 investors consisting of companies and individuals, with one investor that holds more than 10% of Unitus Equity. As on July 15, 2010 Unitus Equity holds investments in six companies, of which five are incorporated in India and one is in Mexico. All the investments made by Unitus Equity are in the microfinance sector.

*Financial performance of MUC*

The financial year of MUC is from January to December of the same calendar year. Further, the audited accounts for the financial year ended December 31, 2009 are in the process of being prepared.

*(In USD)*

| Particulars          | 2008       | 2007      | 2006     |
|----------------------|------------|-----------|----------|
| Sales & Other Income | 3,743      | 22,912    | 106      |
| PAT                  | (18,416)   | 6,448     | (16,641) |
| Equity Capital       | 11,790,437 | 9,218,438 | 768,438  |
| Reserves             | (28,609)   | (10,193)  | (16,641) |

#### *Other information*

MUC is an unlisted company. It is neither a sick company within the meaning of SICA nor is it under winding up.

#### **8. Kismet Microfinance**

Kismet Microfinance, formerly known as SKS Capital is a company incorporated in Mauritius. The registered office of Kismet Microfinance is 3<sup>rd</sup> Floor, Harbour Front Building, President John Kennedy Street, Port Louis, Republic of Mauritius. A fresh certificate of incorporation was issued to the SKS Capital on June 8, 2010 pursuant to which, its name was changed to Kismet Microfinance.

#### *Principal Business of Kismet Microfinance*

Kismet Microfinance is engaged in the activity of investing in shares and securities.

As on July 15, 2010 Kismet Microfinance holds investment only in SKS Microfinance Limited.

#### *Board of Directors of Kismet Microfinance as of July 15, 2010:*

| <b>Name</b>          | <b>Position</b> |
|----------------------|-----------------|
| Ms. Tanya Sek Sum    | Chairperson     |
| Mr. Salim Jhumka     | Secretary       |
| Mr. Ashish Lakhanpal | Director        |

#### *Shareholding pattern of Kismet Microfinance as of July 15, 2009:*

| <b>S. No.</b> | <b>Name</b>  | <b>No. of Shares held</b> | <b>Percentage</b> |
|---------------|--------------|---------------------------|-------------------|
| 1.            | SKSCP        | 7,979,674                 | 85.81             |
| 2.            | QSM          | 1,320,080                 | 14.19             |
|               | <b>TOTAL</b> | <b>9,299,754</b>          | <b>100.00</b>     |

The share capital of Kismet Microfinance is held by SKS Capital Partners, LLC (SKSCP), a company incorporated in Delaware, United States of America, and QS Microfinance Inc. (QSM), a company incorporated in the British Virgin Islands. The registered office of SKSCP is c/o Think Capital, LLC 480 Mundet Place Hillside, NJ 07205.

Kismet Capital, LLC, a company incorporated in Delaware, United States of America, is the Managing Member (i.e. investment manager) of SKSCP. Mr. Ashish Lakhanpal manages and controls the beneficial interest of Kismet Capital, LLC.

As of July 15, 2010 SKSCP has 28 investors consisting of individuals and body corporates, and four investors own more than 10% of SKSCP. Mr. Ashish Lakhanpal also has indirect holding in SKSCP. As of July 15, 2010 SKSCP has made investments in two companies, both of which are incorporated in Mauritius. SKSCP is focused on the financial services sector, specifically opportunities arising in micro-finance, micro-housing, micro-insurance and related sectors.

#### *Financial performance of Kismet Microfinance*

The financial year of Kismet Microfinance is from January to December of the same calendar year.



(In USD, except per share data)

| Particulars          | 2009       | 2008       | 2007      |
|----------------------|------------|------------|-----------|
| Sales & Other Income | 0          | 1,680      | 0         |
| PAT                  | -11,340    | -33,073    | -26,417   |
| Equity Capital       | 9,299,754  | 9,299,754  | 1,550,000 |
| Share Application    | 40,911     | 30,551     | 9,379,486 |
| Reserves             | 13,509,971 | 10,912,109 | -26,417   |
| EPS (Basic)          | -0.001     | -0.004     | -0.017    |
| (Diluted)            | -0.001     | -0.004     | -0.002    |
| Book Value per share | 2.457      | 2.177      | 7.041     |

#### Other Information

Kismet Microfinance is an unlisted company. It is neither a sick company within the meaning of SICA nor is it under winding up.

### 9. Sequoia Capital India Growth Investments I

SCIGI I is a company incorporated in Mauritius. The registered office of SCIGI I is 608 St. James Court, St. Denis Street, Port Louis, Mauritius.

#### Principal Business of SCIGI I

SCIGI I is engaged in the activity of investments in Indian companies and foreign companies which have businesses in India.

As on July 15, 2010 SCIGI I holds investments in six companies, five of which are incorporated in India and one in Mauritius. SCIGI I does not have any specific sector focus.

#### Board of Directors of SCIGI I as of July 15, 2010:

| Name                 | Position     |
|----------------------|--------------|
| Mr. Sumir Chadha     | Board Member |
| Mr. Aslam Koomar     | Board Member |
| Ms. Suzanne Gujadhur | Board Member |

#### Shareholding pattern of SCIGI I as of July 15, 2010:

| S. No. | Name                                               | Percentage   |
|--------|----------------------------------------------------|--------------|
| 1      | Sequoia Capital India Growth Fund I, LP            | 91.49        |
| 2      | Sequoia Capital India Growth Principals Fund I, LP | 8.51         |
|        | <b>TOTAL</b>                                       | <b>100.0</b> |

The share capital of SCIGI I is principally held by Sequoia Capital India Growth Fund I, L.P (SCIGF), a company incorporated in Cayman Islands. SC India GF Management I, LP (SCIGFM), a company incorporated in Cayman Islands is the asset manager to SCIGF. The registered office of SCIGF is c/o Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1 – 1111. The principal shareholders of SCIGFM are SCV WB Holdings (owned by Mr. Sumir Chadha and his family), registered in Cayman Islands, KPB Investments (owned by Mr. KP Balaraj and his family), DS Capital (owned by Mr. Sandeep Singhal and his family) and SNJ Capital (owned by Mr. Surendra Jain and his family), all of which are registered in Mauritius.

As of July 15, 2010 SCIGF had 106 investors, consisting of individuals and body corporates. As on July 15, 2010 SCIGF holds investments in 20 companies, of which 16 are incorporated in India, three in USA and one in Mauritius. SCIGF does not have any sector specific focus and has invested in various sectors including, IT/ITES companies, infrastructure, financial services and retail sectors. SCIGF has investments in five companies which are in the financial services sector.

#### *Financial performance of SCIGI I*

The financial year of SCIGI I is from January to December of the same calendar year.

*(In USD, except per share data)*

| <b>Particulars</b>                    | <b>2009</b> | <b>2008</b>  | <b>2007*</b> |
|---------------------------------------|-------------|--------------|--------------|
| Sales & Other Income                  | 188,946     | 27,828       | 33,656       |
| PAT                                   | 143,678     | (28,857)     | (13,711)     |
| Unrealized loss / gain on investments | 78,174,861  | (16,782,764) | 17,179,525   |
| Equity Capital                        | 90,032,289  | 67,999,219   | 26,040,000   |
| Reserves                              | 78,663,403  | 354,193      | 17,165,814   |
| EPS (Basic)**                         | 0.96        | 0.27         | 1.71         |
| – (face value of shares - \$1 each)   |             |              |              |
| (Diluted)                             | 0.87        | 0.25         | 0.66         |
| Book Value per share                  | 2.07        | 1.11         | 4.30         |

\* from the date of incorporation, being June 20, 2007 to December 31, 2007

\*\* Unrealized loss / gain on investments has been included for EPS computation

#### *Other information*

SCIGI I is an unlisted company. It is neither a sick company within the meaning of SICA nor is it under winding up.

### **10. Sequoia Capital India II LLC**

SCI II is a company incorporated in Mauritius. The registered office of SCI II is IFS Court, Twenty Eight, Cybercity, Ebene, Mauritius.

#### *Principal Business of SCI II*

This company is engaged in the activity of equity and equity related investments in both Indian and non-Indian companies which have business linkages to India.

As on July 15, 2010 SCI II holds investments in 12 companies, of which five are incorporated in India, three in Mauritius and one in Cayman Islands. SCI II does not have any sector specific focus and has invested in various sectors including, IT / ITES companies, internet, mobile and financial services retail sectors.

#### *Board of Directors of SCI II as of July 15, 2010:*

| <b>Name</b>            | <b>Position</b> |
|------------------------|-----------------|
| Mr. Dev Joory          | Board Member    |
| Mr. Fareed Soreefan    | Board Member    |
| Mr. Sumir Chadha       | Board Member    |
| Mr. Uday Khemka        | Board Member    |
| Ms. Ann Wingerstrand * | Board Member    |

\* Permanent Alternate to Mr. Uday Khemka

#### *Shareholding pattern of SCI II as of July 15, 2010:*

The share capital of SCI II is primarily held by 29 investors of which 17 are companies, 10 are institutions and two are individuals.

SC India Management II, LLC (SCM), a company incorporated in Mauritius is the asset manager to SCI II. The principal shareholders of SCM are SCV WB Holdings (owned by Mr. Sumir Chadha and his family), registered in Cayman Islands, KPB Investments (owned by Mr. KP Balaraj and his family), DS Capital (owned by Mr. Sandeep Singhal and his family) and SNJ Capital (owned by Mr. Surendra Jain and his family), registered in Mauritius.

#### *Financial performance of SCI II*

The financial year of SCI II is from January to December of the same calendar year.

*(In USD, except share data)*

| Particulars                                                                   | 2009        | 2008         | 2007        |
|-------------------------------------------------------------------------------|-------------|--------------|-------------|
| Sales & Other Income                                                          | 1,530,030   | 30,677       | 7,827,644   |
| PAT                                                                           | (3,757,734) | (5,386,014)  | 2,557,192   |
| Unrealized loss / gain on investments                                         | 62,988,504  | (11,291,241) | 48,707,162  |
| Equity Capital                                                                | 152,408,175 | 137,929,002  | 111,528,356 |
| Reserves                                                                      | 98,858,762  | 39,627,992   | 56,305,247  |
| EPS (Basic)*<br>– (20,203 shares of the face value of shares - \$10,000 each) | 2932        | (825)        | 2,537       |
| (Diluted)                                                                     | 2932        | (825)        | 2,537       |
| Book Value per share                                                          | 12,437      | 8,789        | 8,307       |

\* Unrealized loss / gain on investments has been included for EPS computation

#### *Other information*

SCI II is an unlisted company. It is neither a sick company within the meaning of SICA nor is it under winding up.

We confirm that the permanent account number, bank account number, registration number and passport number of our Promoters, as available, have been submitted to BSE and NSE, at the time of filing the Draft Red Herring Prospectus with them.

#### **Change in Control**

Each of the SKS-MBTs initially had five trustees comprising of three employees and two beneficiary members from each respective region where the groups were located. Ms. Praseeda Kunam was the initial chairperson of the SKS MBTs till December 2005 following which Dr. G.V. Ramana Babu was appointed as the chairperson of the MBTs. Dr. G.V. Ramana Babu was the director of the Company from October 23, 2003 till October 22, 2005. He is not related to the Company or the Promoters or the Directors of the Company. In May 2009 Dr. Vikram Akula was made the chairperson of the SKS MBTs. In November 2009, SKS Trust Advisors Private Limited, formerly known as Utthan Trust Advisors Private Limited, was designated the sole trustee of each SKS MBT.

Except as stated above, there has been no change in the control of our corporate Promoters in the last three years.

#### **Payment of benefits to our Promoters**

Except as stated in the section “Financial Statements - Related Party Transactions” on page 194 of this Red Herring Prospectus, there has been no payment of benefits to our Promoters during the two years

prior to the filing of this Red Herring Prospectus.

### **Group Companies**

None of our Promoters have promoted any companies, firms, ventures, etc.

### **Other Confirmations**

None of our Promoters and relatives of Promoters have been declared as willful defaulters by the RBI or any other governmental authority and there are no violations of securities laws committed by them in the past and no proceedings pertaining to such penalties are pending against them.

Additionally, none of the Promoters and relatives of Promoters have been debarred or prohibited from accessing the capital markets for any reasons by the SEBI or any other authorities. None of the Promoter Group and persons in control of the Promoters (whether promoters are body corporates) or any companies in which the Promoters are or were associated as promoter, director or person in control have been debarred or prohibited from accessing the capital markets for any reasons by the SEBI or any other authorities.

### **Litigation**

For details relating to the legal proceeding involving the Promoters, see “Outstanding Litigation and Material Developments” on page 244 of the Red Herring Prospectus.

### **Common Pursuits and Interests of Promoters**

The Promoters of our Company are interested to the extent of their shareholding in us and the dividend they are entitled to receive, if declared, by our Company. Further, our individual Promoter also holds certain stock options of our Company.

Except as stated otherwise in this Red Herring Prospectus, we have not entered into any contracts, agreements or arrangements during the preceding two years from the date of this Red Herring Prospectus in which the Promoters are directly or indirectly interested and no payments have been made to them in respect of the contracts, agreements or arrangements which are proposed to be made with them including the properties purchased by our Company other than in the normal course of business.

Further, except as disclosed in this section titled “Our Promoters and Group Companies” on page 130 of this Red Herring Prospectus, our Promoters do not have any interest in any venture that is involved in any activities similar to those conducted by us which could result in any conflict of interest. We shall adopt necessary procedures and practices as permitted by law to address any conflict situations, if and when they may arise. For, further details on the related party transactions, to the extent of which our Company is involved, see “Related Party Transactions” on page 140 of the Red Herring Prospectus.

### **Disassociation by our Promoters in the last three years**

There has been no disassociation by our Promoters in the last three years.

## **RELATED PARTY TRANSACTIONS**

For details of the related party transactions, see “Financial Statements – Related Party Transactions” on page 194 of the Red Herring Prospectus.

## **DIVIDEND POLICY**

The declaration and payment of any dividends in the future will be recommended by our Board of Directors and approved by our shareholders at their discretion, and will depend on a number of factors, including but not limited to, our earnings, general financial conditions, capital requirements, results of operations, contractual obligations, overall financial position, applicable Indian legal restrictions, our Articles of Association and other factors considered relevant by the Board of Directors. The Company has not paid any dividends in the past and it has no stated dividend policy. The Board may from time to time also pay interim dividends.

## INDEBTEDNESS

Set forth below is a brief summary of our aggregate borrowings as of March 31, 2010:

| Category of Borrowing       | Outstanding Amount<br>(Rs. in million) |
|-----------------------------|----------------------------------------|
| Term Loan                   | 23,031.38                              |
| Secured NCD                 | 1,750.00                               |
| Commercial paper            | 1,150.99                               |
| Fixed deposits              | 0.00                                   |
| Cash Credit Bank Borrowings | 1,014.35                               |
| <b>Total Borrowings</b>     | <b>26,946.72</b>                       |

### Restrictive covenants with respect to our borrowings

Under these agreements, we are required to:

- Obtain the consent of the lender if a resolution is passed by the board for winding up or the Company commits or omit any act, deed or thing whatsoever so as to incur winding up or liquidation proceedings.
- Inform the lender of any adverse material change in the financial condition or prospects of the Company.
- Keep our properties insured.
- Maintain all accounts.
- Obtain prior consent of the respective lender for
  - effecting any change in its constitution, management, ownership or control of the Company.
  - making any change in the shareholding pattern.
  - making any alterations to our Memorandum and Articles.
  - effecting any scheme of amalgamation or reconstruction.
  - making any drastic change in the management set-up of the Company.
  - undertaking any expansion, diversification, restructuring or mergers.
  - issuing any debentures, raise any loans, accept deposits from public, issue equity or preference capital, change its capital structure or create any charge on its assets or give any guarantees without the prior approval of the lenders.
  - declaring any dividend. or distribute profits, except where the instalments of principal and interest payable to the lender are being paid regularly and there are no irregularities whatsoever in respect of the same
  - creating any subsidiaries or become a subsidiary.
  - undertaking any merger, consolidation, reorganization, scheme or arrangement or compromise with its creditors or shareholders.
  - revaluing assets of the company.
  - creating any charges on all or any of our assets during currency of loan.
  - making any changes to the composition of its board of directors.

## SECTION V: FINANCIAL INFORMATION

### AUDITORS' REPORT

(as required by Part II of Schedule II to the Companies Act, 1956)

To

The Board of Directors  
SKS Microfinance Limited  
Ashoka Raghupathi Chambers,  
D No - 1-10-60 to 62,  
Opp Shopper's Stop,  
Begumpet, Hyderabad — 500 016 (A.P)

Dear Sirs,

1. We have examined the restated financial information of SKS Microfinance Limited ('Company') annexed to this report for the purpose of inclusion in the offer document prepared by the Company in connection with its proposed Initial Public Offer ('IPO'). Such financial information which has been approved by the IPO Committee of the Company has been prepared in accordance with the requirements of:
  - a. paragraph B(1) of Part II of Schedule II to the Companies Act, 1956 ('the Act') and
  - b. the Securities and Exchange Board of India (Issue of Capital and Disclosure requirements) Regulations 2009, as amended ('the Regulations') issued by the Securities and Exchange Board of India ('SEBI'), as amended from time to time in pursuance of section 11 of the Securities and Exchange Board of India Act, 1992.
2. We have examined such restated financial information taking into consideration:
  - a. the terms of reference vide our engagement letter dated December 4, 2009 to carry out work on such financial information, proposed to be included in the offer document of the Company in connection with its proposed IPO; and
  - b. the Guidance Note on Reports in Company Prospectuses (Revised) issued by the Institute of Chartered Accountants of India.
3. The Company proposes to make an IPO of equity shares of Rs. 10 each at such premium, arrived at by the 100% book building process (referred to as 'the Issue'), as may be decided by the Board of Directors.

#### **Financial information as per audited financial statements:**

4. The restated financial information has been extracted by the management from the financial statements of the Company for the years ended March 31, 2010, March 31, 2009, March 31, 2008, March 31, 2007, March 31, 2006 and approved by the Board of Directors. The audit for the year ended March 31, 2006 were conducted by previous auditors, V. Nagarajan & Co., and accordingly, reliance has been placed on the financial statements audited by them for the said years.
5. In accordance with the requirements of Paragraph B of Part II of Schedule II of the Act, the Regulations and terms of our engagement agreed with you, we further report that:
  - a. The Restated Summary Statement of Assets and Liabilities (Annexure A) and schedules forming part thereof, Restated Summary Statement of Profit and Loss (Annexure B) and schedules forming part thereof and Restated Summary Statement of Cash Flow (Annexure C) ('together referred to as 'Restated Summary Statements') of the Company, including as at and for the years ended March 31, 2010, March 31, 2009, March 31, 2008, March 31, 2007, March



31, 2006 , examined by us, are after making adjustments and regrouping as in our opinion were appropriate and more fully described in Significant Accounting Policies, Notes and Changes in Significant Accounting Policies. (Refer Annexure D).

- b. Based on the above, we are of the opinion that the restated financial information has been made after incorporating:
- The impact arising on account of changes in accounting policies adopted by the Company as at and for the year ended March 31, 2010 applied with retrospective effect in the Restated Summary Statements;
  - Adjustments for the material amounts in the respective financial years to which they relate;
  - There are no extraordinary items which need to be disclosed separately in the Restated Summary Statements; and
  - There are no qualifications in the auditors' reports, which require any adjustments to the Restated Summary Statements.

Further, the statement on matters specified in the Companies (Auditors' Report) Order, 2003, annexed to the auditors' reports on the financial statements for the years ended March 31, 2010, March 31, 2009, March 31, 2008, March 31, 2007 and March 31, 2006, included, certain qualified statements which do not require any corrective adjustments in the restated financial statements. Such statements are included in paragraph 3(h) of Annexure D.

6. We have not audited any financial statements of the Company as of any date or for any period subsequent to March 31, 2010. Accordingly, we express no opinion on the financial position, results of operations or cash flows of the Company as of any date or for any period subsequent to March 31, 2010.

**Other financial information:**

7. At the Company's request, we have also examined the following financial information proposed to be included in the offer document prepared by the management and approved by the Board of Directors of the Company and annexed to this report relating to the Company, for the year ended March 31, 2010, March 31, 2009, March 31, 2008, March 31, 2007, March 31, 2006 :
1. Statement of other income (Annexure E)
  2. Statement of related party transactions (Annexure F)
  3. Statement of contingent liabilities (Annexure G)
  4. Statement of dividends declared (Annexure H)
  5. Capitalization statement as at March 31, 2010 (Annexure I)
  6. Statement of accounting ratios (Annexure J)
  7. Statement of tax shelter (Annexure K)
  8. Statement of terms of loan borrowings as at March 31, 2010 (Annexure L)
8. In our opinion, the financial information as disclosed in the annexures to this report, read with the respective significant accounting policies and notes disclosed in Annexure D, and after making adjustments and re-groupings as considered appropriate and disclosed in Annexure D, has been prepared in accordance with Part II of Schedule II of the Act and the Regulations.

9. This report should not be in any way construed as a reissuance or redating of any of the previous audit reports issued by us or by other firm of Chartered Accountants, nor should this report be construed as a new opinion on any of the financial statements referred to herein.
10. We have no responsibility to update our report for events and circumstances occurring after the date of the report.
11. This report is intended solely for your information and for inclusion in the offer document in connection with the proposed IPO of the Company, and is not to be used, referred to or distributed for any other purpose without our prior written consent.

**For S.R. Batliboi & Co.**  
**Firm registration number: 301003E**  
**Chartered Accountants**

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

Mumbai  
Date: July 12, 2010

# FINANCIAL STATEMENTS

## ANNEXURE A - STATEMENT OF RESTATED ASSETS AND LIABILITIES

(Rs. in million)

|          | Particulars                                              | Schedule | As at March 31,  |                  |                  |                 |                 |
|----------|----------------------------------------------------------|----------|------------------|------------------|------------------|-----------------|-----------------|
|          |                                                          |          | 2010             | 2009             | 2008             | 2007            | 2006            |
| <b>A</b> | <b><u>Fixed assets</u></b>                               |          |                  |                  |                  |                 |                 |
|          | <b>Gross block</b>                                       |          | 403.94           | 250.99           | 123.29           | 36.51           | 10.32           |
|          | Less: Accumulated depreciation                           |          | 215.42           | 126.86           | 48.36            | 15.88           | 0.99            |
|          | <b>Net block</b>                                         |          | <b>188.52</b>    | <b>124.13</b>    | <b>74.93</b>     | <b>20.63</b>    | <b>9.33</b>     |
|          | Capital work in progress<br>(including capital advances) |          | -                | 0.07             | 4.00             | 0.04            | -               |
|          | <b>Subtotal</b>                                          |          | <b>188.52</b>    | <b>124.20</b>    | <b>78.93</b>     | <b>20.67</b>    | <b>9.33</b>     |
| <b>B</b> | <b><u>Intangible assets</u></b>                          |          |                  |                  |                  |                 |                 |
|          | <b>Gross block</b>                                       |          | 136.91           | 121.24           | 100.00           | 47.95           | 47.95           |
|          | Less: Accumulated amortization                           |          | 99.52            | 65.55            | 35.66            | 17.02           | 8.13            |
|          | <b>Net block</b>                                         |          | <b>37.39</b>     | <b>55.69</b>     | <b>64.34</b>     | <b>30.93</b>    | <b>39.82</b>    |
|          | Capital work in progress<br>(including capital advances) |          | 17.68            | 9.83             | 1.68             | 0.54            | -               |
|          | <b>Subtotal</b>                                          |          | <b>55.07</b>     | <b>65.52</b>     | <b>66.02</b>     | <b>31.47</b>    | <b>39.82</b>    |
| <b>C</b> | <b>Investment (Non trade and unquoted)</b>               |          | <b>2.00</b>      | -                | -                | -               | -               |
| <b>D</b> | <b>Deferred tax assets (net)</b>                         | 12       | <b>94.80</b>     | <b>42.40</b>     | <b>9.39</b>      | <b>8.90</b>     | -               |
| <b>E</b> | <b><u>Current assets, loans and advances</u></b>         |          |                  |                  |                  |                 |                 |
|          | Sundry Debtors                                           | 1        | 29.54            | 21.41            | -                | 1.16            | 0.29            |
|          | Cash and bank balances                                   |          | 9,735.18         | 15,470.21        | 2,752.28         | 564.54          | 175.73          |
|          | Other current assets                                     |          | 622.96           | 315.78           | 49.14            | 10.58           | 3.59            |
|          | Loans and advances                                       | 2        | 29,746.90        | 14,349.48        | 7,931.70         | 2,712.87        | 788.69          |
|          | <b>Subtotal</b>                                          |          | <b>40,134.58</b> | <b>30,156.88</b> | <b>10,733.12</b> | <b>3,289.15</b> | <b>968.30</b>   |
| <b>F</b> | <b>Total (F =A+B+C+D+E)</b>                              |          | <b>40,474.97</b> | <b>30,389.00</b> | <b>10,887.46</b> | <b>3,350.19</b> | <b>1,017.45</b> |
| <b>G</b> | <b><u>Liabilities and provisions</u></b>                 |          |                  |                  |                  |                 |                 |
|          | <b>Loan funds</b>                                        |          |                  |                  |                  |                 |                 |
|          | Secured loans                                            | 3        | 25,795.73        | 20,971.31        | 7,898.45         | 2,490.19        | 692.18          |
|          | Unsecured loans                                          | 4        | 1,150.99         | 394.37           | -                | -               | -               |
|          | <b>Deferred tax liabilities (net)</b>                    | 12       | -                | -                | -                | -               | <b>3.31</b>     |
|          | <b>Current liabilities and provisions</b>                |          |                  |                  |                  |                 |                 |
|          | Current liabilities                                      | 5        | 3,684.32         | 2,223.77         | 769.44           | 81.61           | 141.24          |
|          | Provisions                                               | 6        | 340.76           | 159.91           | 97.75            | 64.46           | 25.12           |
|          | <b>Total</b>                                             |          | <b>30,971.80</b> | <b>23,749.36</b> | <b>8,765.64</b>  | <b>2,636.26</b> | <b>861.85</b>   |
|          | <b>NETWORTH (F-G)</b>                                    |          | <b>9,503.17</b>  | <b>6,639.64</b>  | <b>2,121.82</b>  | <b>713.93</b>   | <b>155.60</b>   |

**ANNEXURE A - STATEMENT OF RESTATED ASSETS AND LIABILITIES**
*(Rs. in million)*

|  | Particulars                                           | Schedule | As at March 31, |                 |                 |               |               |
|--|-------------------------------------------------------|----------|-----------------|-----------------|-----------------|---------------|---------------|
|  |                                                       |          | 2010            | 2009            | 2008            | 2007          | 2006          |
|  | <b><u>Net worth represented by:</u></b>               |          |                 |                 |                 |               |               |
|  | <b>Share capital:</b>                                 |          |                 |                 |                 |               |               |
|  | Equity share capital                                  |          | 645.27          | 479.01          | 443.32          | 266.43        | 139.07        |
|  | Preference share capital                              |          | -               | 91.56           | -               | -             | -             |
|  | <b>Stock options outstanding</b>                      |          | 41.79           | 19.29           | 2.57            | -             | -             |
|  | <b>Reserves and surplus</b>                           |          |                 |                 |                 |               |               |
|  | Securities premium account                            |          | 6,143.32        | 5,048.24        | 1,471.32        | 408.91        | -             |
|  | Statutory reserve                                     |          | 549.98          | 202.07          | 41.62           | 8.33          | 1.00          |
|  | Profit and loss account                               |          | 2,199.96        | 799.47          | 162.99          | 30.26         | 15.53         |
|  | Less: Miscellaneous                                   |          | (77.15)         | -               | -               | -             | -             |
|  | Expenditure to the extent not written off or adjusted |          |                 |                 |                 |               |               |
|  | <b>NET WORTH</b>                                      |          | <b>9,503.17</b> | <b>6,639.64</b> | <b>2,121.82</b> | <b>713.93</b> | <b>155.60</b> |

**Note:** The above statement should be read in conjunction with the significant accounting policies and notes on adjustments for Restated Summary Statements in Annexure D.

**As per our report of even date**

**For S. R. Batliboi & Co.**

**Firm Registration No: 301003E**  
**Chartered Accountants**

**per Viren H. Mehta**

Partner

Membership No: 048749

Place: Mumbai

Date: July 12, 2010

**ANNEXURE B – STATEMENT OF RESTATED PROFIT AND LOSS ACCOUNT**
*(Rs. in million)*

|          | Particulars                                                                                                                    | Schedule | For the year ended March 31, |                 |                 |               |              |
|----------|--------------------------------------------------------------------------------------------------------------------------------|----------|------------------------------|-----------------|-----------------|---------------|--------------|
|          |                                                                                                                                |          | 2010                         | 2009            | 2008            | 2007          | 2006         |
| <b>A</b> | <b><u>INCOME</u></b>                                                                                                           |          |                              |                 |                 |               |              |
|          | Income from operations                                                                                                         | 7        | 8,735.70                     | 5,060.72        | 1,624.66        | 444.95        | 89.59        |
|          | Other income                                                                                                                   |          | 853.58                       | 479.28          | 75.42           | 11.71         | 9.85         |
|          | <b>Subtotal</b>                                                                                                                |          | <b>9,589.28</b>              | <b>5,540.00</b> | <b>1,700.08</b> | <b>456.66</b> | <b>99.44</b> |
| <b>B</b> | <b><u>EXPENDITURE</u></b>                                                                                                      |          |                              |                 |                 |               |              |
|          | Financial expenses                                                                                                             | 8        | 2,884.05                     | 1,944.31        | 564.65          | 138.53        | 27.79        |
|          | Personnel expenses                                                                                                             | 9        | 2,163.79                     | 1,360.01        | 474.98          | 129.67        | 27.53        |
|          | Operating and other expenses                                                                                                   | 10       | 1,221.25                     | 752.49          | 277.83          | 98.96         | 19.25        |
|          | Depreciation and amortization                                                                                                  |          | 126.00                       | 108.47          | 51.11           | 23.79         | 7.53         |
|          | Provisions and write offs                                                                                                      | 11       | 517.18                       | 134.15          | 42.08           | 20.32         | 7.51         |
|          | <b>Subtotal</b>                                                                                                                |          | <b>6,912.27</b>              | <b>4,299.43</b> | <b>1,410.65</b> | <b>411.27</b> | <b>89.61</b> |
| <b>C</b> | <b>Profit before prior period items and tax as per audited financial statements</b>                                            |          | <b>2,677.01</b>              | <b>1,240.57</b> | <b>289.43</b>   | <b>45.39</b>  | <b>9.83</b>  |
|          | Prior period [(income) / expenses]                                                                                             |          | -                            | -               | -               | (18.64)       | -            |
| <b>D</b> | <b>Profit before tax as per audited financial statements</b>                                                                   |          | <b>2,677.01</b>              | <b>1,240.57</b> | <b>289.43</b>   | <b>64.03</b>  | <b>9.83</b>  |
|          | Adjustments on account of changes in accounting policies [(increase) / decrease in income] <b>(Refer Note 3 of Annexure D)</b> |          | -                            | -               | -               | 19.53         | (19.79)      |
|          | Adjustments on account of prior period items [(increase) / decrease in income] <b>(Refer Note 3 of Annexure D)</b>             |          | -                            | -               | -               | (0.89)        | 0.89         |
| <b>E</b> | <b>Profit before tax as restated</b>                                                                                           |          | <b>2,677.01</b>              | <b>1,240.57</b> | <b>289.43</b>   | <b>45.39</b>  | <b>28.73</b> |
|          |                                                                                                                                |          |                              |                 |                 |               |              |

**ANNEXURE B – STATEMENT OF RESTATED PROFIT AND LOSS ACCOUNT**
*(Rs. in million)*

|          | Particulars                                                                             | Schedule | For the year ended March 31, |               |               |               |              |
|----------|-----------------------------------------------------------------------------------------|----------|------------------------------|---------------|---------------|---------------|--------------|
|          |                                                                                         |          | 2010                         | 2009          | 2008          | 2007          | 2006         |
| <b>F</b> | <b>Tax expense</b>                                                                      |          |                              |               |               |               |              |
|          | <b>Per audited financial statements</b>                                                 |          |                              |               |               |               |              |
|          | [(increase) / decrease in income]                                                       |          |                              |               |               |               |              |
|          | Current tax                                                                             |          | 981.00                       | 453.30        | 111.63        | 36.79         | 1.47         |
|          | Deferred tax                                                                            |          | (52.39)                      | (33.01)       | (0.49)        | (12.21)       | 3.31         |
|          | Income tax for the previous years                                                       |          | 8.67                         | 2.68          | 2.84          | -             | -            |
|          | Fringe benefit tax                                                                      |          | -                            | 15.35         | 8.99          | 2.77          | 0.62         |
|          | Fringe benefit tax for the previous year                                                |          | 0.20                         | -             | -             | -             | -            |
|          | <b>Subtotal</b>                                                                         |          | <b>937.48</b>                | <b>438.32</b> | <b>122.97</b> | <b>27.35</b>  | <b>5.40</b>  |
|          | <b>Restatement tax adjustments</b>                                                      |          |                              |               |               |               |              |
|          | [(increase) / decrease in income]                                                       |          |                              |               |               |               |              |
|          | Adjustment on account of prior period taxes                                             |          | (8.87)                       | 5.32          | 0.71          | 2.84          | -            |
|          | <b>(Refer Note 3 of Annexure D)</b>                                                     |          |                              |               |               |               |              |
|          | Tax impact on restatement adjustments                                                   |          | -                            | -             | -             | (6.86)        | 6.86         |
|          | <b>(Refer Note 3 of Annexure D)</b>                                                     |          |                              |               |               |               |              |
|          | <b>Subtotal</b>                                                                         |          | <b>(8.87)</b>                | <b>5.32</b>   | <b>0.71</b>   | <b>(4.02)</b> | <b>6.86</b>  |
|          | <b>Total tax expense as restated</b>                                                    |          | <b>928.61</b>                | <b>443.64</b> | <b>123.68</b> | <b>23.33</b>  | <b>12.26</b> |
| <b>G</b> | <b>Profit after tax as restated (E-F)</b>                                               |          | <b>1,748.40</b>              | <b>796.93</b> | <b>165.75</b> | <b>22.06</b>  | <b>16.47</b> |
| <b>H</b> | Surplus brought forward from previous year, as restated**                               |          | 799.47                       | 162.99        | 30.26         | 15.53         | 0.26         |
| <b>I</b> | Opening reserve adjustment relating to earlier years**                                  |          |                              |               |               |               |              |
|          | [(increase) / decrease in income]:                                                      |          |                              |               |               |               |              |
|          | - Employee benefit provision as per AS 15 (Revised) as per audited financial statements |          | -                            | -             | (0.27)        | -             | -            |
|          | <b>(Refer Note 3(f) of Annexure D)</b>                                                  |          |                              |               |               |               |              |
|          | - Restatement adjustment for changes in accounting policy                               |          |                              |               |               |               | (0.09)       |
|          | <b>(Refer Note 3 of Annexure D)</b>                                                     |          |                              |               |               |               |              |
|          | - Restatement adjustment for prior period miscellaneous expenditure write / off         |          | -                            | -             | -             | -             | 0.35         |
|          | <b>(Refer Note 3 of Annexure D)</b>                                                     |          |                              |               |               |               |              |
|          | <b>Subtotal</b>                                                                         |          | <b>-</b>                     | <b>-</b>      | <b>(0.27)</b> | <b>-</b>      | <b>0.26</b>  |
| <b>J</b> | <b>Profit available for appropriation</b>                                               |          | <b>2,547.87</b>              | <b>959.92</b> | <b>196.28</b> | <b>37.59</b>  | <b>16.47</b> |
|          |                                                                                         |          |                              |               |               |               |              |

\*\* The surplus brought forward for the year 2005-06 represents the amount as per the audited financial statements. The adjustments pertaining to the years prior to 2005-06, have been presented as the opening reserve adjustment in the above table.

**ANNEXURE B – STATEMENT OF RESTATED PROFIT AND LOSS ACCOUNT***(Rs. in million)*

|  | <b>Particulars</b>                                                   | <b>Schedule</b> | <b>For the year ended March 31,</b> |               |               |              |              |
|--|----------------------------------------------------------------------|-----------------|-------------------------------------|---------------|---------------|--------------|--------------|
|  |                                                                      |                 | <b>2010</b>                         | <b>2009</b>   | <b>2008</b>   | <b>2007</b>  | <b>2006</b>  |
|  | Transferred to statutory reserve as per audited financial statements |                 | 347.91                              | 160.45        | 33.29         | 7.33         | 0.94         |
|  |                                                                      |                 | <b>2,199.96</b>                     | <b>799.47</b> | <b>162.99</b> | <b>30.26</b> | <b>15.53</b> |

**Note:** The above statement should be read in conjunction with the significant accounting policies and notes on adjustments for Restated Summary Statements in Annexure D.

**As per our report of even date**

**For S. R. Batliboi & Co.**  
**Firm Registration No: 301003E**  
**Chartered Accountants**

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

Place: Mumbai  
Date: July 12, 2010

**ANNEXURE C - STATEMENT OF RESTATED CASH FLOW**
*(Rs. in million)*

|  | Particulars                                                     | For the year ended March 31, |                   |                   |                   |                 |
|--|-----------------------------------------------------------------|------------------------------|-------------------|-------------------|-------------------|-----------------|
|  |                                                                 | 2010                         | 2009              | 2008              | 2007              | 2006            |
|  | <b><u>Cash flow from operating activities</u></b>               |                              |                   |                   |                   |                 |
|  | <b>Profit before tax as Restated</b>                            | <b>2,677.01</b>              | <b>1240.57</b>    | <b>289.43</b>     | <b>45.39</b>      | <b>28.73</b>    |
|  | <b>Adjustments for:</b>                                         |                              |                   |                   |                   |                 |
|  | Depreciation and amortization                                   | 126.00                       | 108.47            | 51.11             | 23.79             | 9.11            |
|  | Provision for employee benefits                                 | 57.95                        | 46.67             | 18.85             | 1.77              | 0.33            |
|  | Stock options expenditure                                       | 29.39                        | 16.72             | 2.57              | -                 | -               |
|  | Employee Share purchase scheme expenditure                      | -                            | 5.35              | -                 | -                 | -               |
|  | Share issue expenses                                            | 7.53                         | 29.39             | 0.90              | 3.76              | 2.65            |
|  | Provision for standard assets and non-performing assets         | 59.61                        | 0.15              | 32.15             | 10.53             | 3.09            |
|  | Bad debts written off                                           | 288.57                       | 103.30            | 4.48              | 9.79              | 4.42            |
|  | Loss on assigned loans                                          | 169.00                       | 30.71             | 5.45              | -                 | -               |
|  | Other provisions and written off's                              | 66.18                        | 29.54             | 8.68              | 1.80              | 0.22            |
|  | (Profit)/Loss on disposal of fixed assets                       | 0.84                         | (0.01)            | -                 | -                 | -               |
|  | Dividend income                                                 | -                            | -                 | (0.14)            | (0.59)            | (0.11)          |
|  | <b>Restated operating profit before working capital changes</b> | <b>3,482.08</b>              | <b>1,610.86</b>   | <b>413.48</b>     | <b>96.24</b>      | <b>48.44</b>    |
|  | <b>Movements in working capital:</b>                            |                              |                   |                   |                   |                 |
|  | <b>(Increase) / decrease in:</b>                                |                              |                   |                   |                   |                 |
|  | Sundry debtors                                                  | (8.13)                       | (21.4)            | 1.16              | (0.87)            | (0.29)          |
|  | Other current assets                                            | (307.17)                     | (251.50)          | (39.91)           | (8.36)            | (1.82)          |
|  | Portfolio loans                                                 | (15,480.55)                  | (6,469.63)        | (5,179.43)        | (1,873.02)        | (768.32)        |
|  | Other loans and advances                                        | (409.96)                     | (131.63)          | (61.52)           | (61.40)           | (7.54)          |
|  | <b>(Decrease) / increase in:</b>                                |                              |                   |                   |                   |                 |
|  | Current liabilities                                             | 1,410.55                     | 1,454.33          | 687.83            | (61.22)           | 138.85          |
|  | <b>Cash generated from operations</b>                           | <b>(11,313.18)</b>           | <b>(3,808.98)</b> | <b>(4,178.39)</b> | <b>(1,908.63)</b> | <b>(590.68)</b> |
|  | Direct taxes paid                                               | (948.40)                     | (456.50)          | (136.74)          | (6.89)            | (3.97)          |
|  | <b>Net cash generated from operating activities (A)</b>         | <b>(12,261.58)</b>           | <b>(4,265.48)</b> | <b>(4,315.13)</b> | <b>(1,915.52)</b> | <b>(594.65)</b> |
|  |                                                                 |                              |                   |                   |                   |                 |



**ANNEXURE C - STATEMENT OF RESTATED CASH FLOW**
*(Rs. in million)*

|  | Particulars                                                            | For the year ended March 31, |                   |                 |                 |                |
|--|------------------------------------------------------------------------|------------------------------|-------------------|-----------------|-----------------|----------------|
|  |                                                                        | 2010                         | 2009              | 2008            | 2007            | 2006           |
|  | <b><u>Cash flow from investing activities</u></b>                      |                              |                   |                 |                 |                |
|  | Purchase of fixed assets (including capital work in progress)          | (157.23)                     | (124.02)          | (90.75)         | (26.22)         | (10.32)        |
|  | Sale of fixed assets                                                   | 0.05                         | 0.18              | -               | -               | -              |
|  | Purchase of intangible assets (including capital work in progress)     | (23.52)                      | (29.40)           | (53.18)         | (0.54)          | (47.95)        |
|  | Bank deposits not considered as cash and cash equivalent (net)         | 322.70                       | (2,146.20)        | (108.88)        | (13.52)         | (14.50)        |
|  | Purchase of investments                                                | (2.00)                       | -                 | (100.00)        | (320.00)        | (75.00)        |
|  | Sale / Redemption of investments                                       | -                            | -                 | 100.00          | 320.00          | 75.00          |
|  | Dividend income                                                        | -                            | -                 | 0.14            | 0.59            | 0.11           |
|  | Purchase of Pre-incorporation expenses                                 | -                            | -                 | -               | -               | (1.95)         |
|  | <b>Net cash flow from investing activities (B)</b>                     | <b>140.00</b>                | <b>(2,299.44)</b> | <b>(252.67)</b> | <b>(39.69)</b>  | <b>(74.61)</b> |
|  | <b><u>Cash flow from financing activities</u></b>                      |                              |                   |                 |                 |                |
|  | Proceeds from issuance of share capital (including securities premium) | 1,162.90                     | 3,698.82          | 1,239.31        | 536.26          | 118.47         |
|  | Share issue expenses                                                   | (34.68)                      | (29.39)           | (0.90)          | (3.76)          | (0.71)         |
|  | Secured borrowings (net)                                               | 4,824.42                     | 13,072.86         | 5,408.25        | 1,798.01        | 692.18         |
|  | Unsecured borrowings (net)                                             | 756.62                       | 394.37            | -               | -               | -              |
|  | <b>Net cash generated from financing activities (C)</b>                | <b>6,709.26</b>              | <b>17,136.66</b>  | <b>6,646.66</b> | <b>2,330.51</b> | <b>809.94</b>  |
|  | <b>Net increase/ (decrease) in cash and cash equivalents (A+B+C)</b>   | <b>(5,412.32)</b>            | <b>10,571.74</b>  | <b>2,078.86</b> | <b>375.30</b>   | <b>140.68</b>  |
|  | Cash and cash equivalents at the beginning of the year                 | 13,187.12                    | 2,615.38          | 536.52          | 161.22          | 20.54          |
|  | <b>Cash and cash equivalents at the end of the year</b>                | <b>7,774.80</b>              | <b>13,187.12</b>  | <b>2,615.38</b> | <b>536.52</b>   | <b>161.22</b>  |

# ANNEXURE C - STATEMENT OF RESTATED CASH FLOW

(Rs. in million)

|  | Particulars                                                                                 | For the year ended March 31, |                  |                 |               |               |
|--|---------------------------------------------------------------------------------------------|------------------------------|------------------|-----------------|---------------|---------------|
|  |                                                                                             | 2010                         | 2009             | 2008            | 2007          | 2006          |
|  | <b><u>Composition of cash and cash equivalents:</u></b>                                     |                              |                  |                 |               |               |
|  | Cash on hand                                                                                | 11.81                        | 12.04            | 106.79          | 40.39         | 11.75         |
|  | Balance with banks                                                                          |                              |                  |                 |               |               |
|  | On Current accounts                                                                         | 2,243.19                     | 1,567.26         | 1,483.95        | 424.04        | 149.47        |
|  | On Deposit accounts<br>(net of bank deposits not considered as<br>cash and cash equivalent) | 5,519.80                     | 11,607.82        | 1,024.64        | 72.09         | -             |
|  | <b>Total</b>                                                                                | <b>7,774.80</b>              | <b>13,187.12</b> | <b>2,615.38</b> | <b>536.52</b> | <b>161.22</b> |
|  |                                                                                             |                              |                  |                 |               |               |

**Note 1:** The above statement should be read in conjunction with the significant accounting policies and notes on adjustments for Restated Summary Statements in Annexure D.

**Note 2:** The above Cash Flow Statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard 3 on Cash Flow Statements notified accounting standard by Companies (Accounting Standards) Rules, 2006 (as amended).

**As per our report of even date**

**For S. R. Batliboi & Co.**

**Firm Registration No: 301003E**

**Chartered Accountants**

**per Viren H. Mehta**

Partner

Membership No: 048749

Place: Mumbai

Date: July 12, 2010

# SCHEDULES TO STATEMENT OF RESTATED ASSETS AND LIABILITIES

## SCHEDULE 1 – SUNDRY DEBTORS

(Rs. in million)

| Particulars                                                | As at March 31, |              |          |             |             |
|------------------------------------------------------------|-----------------|--------------|----------|-------------|-------------|
|                                                            | 2010            | 2009         | 2008     | 2007        | 2006        |
| <b>Debts outstanding for a period exceeding six months</b> |                 |              |          |             |             |
| Unsecured, considered good                                 | 0.83            | -            | -        | -           | -           |
| <b>Other debts</b>                                         |                 |              |          |             |             |
| Unsecured, considered good                                 | 28.71           | 21.41        | -        | 1.16        | 0.29        |
| <b>Total</b>                                               | <b>29.54</b>    | <b>21.41</b> | <b>-</b> | <b>1.16</b> | <b>0.29</b> |

## SCHEDULE 2 - LOANS AND ADVANCES

(Rs. in million)

|           | Particulars                                             | As at March 31,  |                  |                 |                 |               |
|-----------|---------------------------------------------------------|------------------|------------------|-----------------|-----------------|---------------|
|           |                                                         | 2010             | 2009             | 2008            | 2007            | 2006          |
| <b>A.</b> | <b>Portfolio loans (Secured, considered good)</b>       |                  |                  |                 |                 |               |
|           | Individual loans                                        | 13.95            | -                | -               | -               | -             |
|           | <b>Subtotal (a)</b>                                     | <b>13.95</b>     | <b>-</b>         | <b>-</b>        | <b>-</b>        | <b>-</b>      |
|           | <b>Portfolio loans (Unsecured, considered good)</b>     |                  |                  |                 |                 |               |
|           | Loans under joint liability group scheme                | 29,256.91        | 13,625.11        | 7,188.56        | 2,606.41        | 726.41        |
|           | Individual loans                                        | 0.28             | 502.24           | 604.90          | 32.38           | 42.44         |
|           | <b>Subtotal (b)</b>                                     | <b>29,257.19</b> | <b>14,127.35</b> | <b>7,793.46</b> | <b>2,638.79</b> | <b>768.85</b> |
|           | <b>Portfolio loans (Unsecured, considered doubtful)</b> |                  |                  |                 |                 |               |
|           | Loans under joint liability group scheme                | 96.06            | 37.27            | 14.51           | 3.14            | 11.65         |
|           | Individual loans                                        | -                | 10.61            | 0.93            | -               | -             |
|           | <b>Subtotal (c)</b>                                     | <b>96.06</b>     | <b>47.88</b>     | <b>15.44</b>    | <b>3.14</b>     | <b>11.65</b>  |
|           | <b>Total Portfolio Loans (a+b+c)</b>                    | <b>29,367.20</b> | <b>14,175.23</b> | <b>7,808.90</b> | <b>2,641.93</b> | <b>780.50</b> |

**SCHEDULES TO STATEMENT OF RESTATED ASSETS AND LIABILITIES**

**SCHEDULE 2 - LOANS AND ADVANCES (Continuation)**

*(Rs. in million)*

|           | Particulars                                                      | As at March 31,  |                  |                 |                 |               |
|-----------|------------------------------------------------------------------|------------------|------------------|-----------------|-----------------|---------------|
|           |                                                                  | 2010             | 2009             | 2008            | 2007            | 2006          |
| <b>B.</b> | <b>Other loans and advances</b>                                  |                  |                  |                 |                 |               |
|           | <b>Secured, considered good</b>                                  |                  |                  |                 |                 |               |
|           | Employee loans                                                   | 0.43             | 3.81             | 9.26            | 9.84            | 1.18          |
|           | <b>Unsecured, considered good</b>                                |                  |                  |                 |                 |               |
|           | Loans to directors                                               | -                | -                | -               | 16.36           | -             |
|           | Loans to SKS Microfinance<br>Employees Benefit Trust             | 87.29            | 69.81            | 33.83           | 8.23            | -             |
|           | Deposits                                                         | 60.49            | 58.02            | 10.37           | 3.13            | 0.71          |
|           | Interest accrued and due on portfolio<br>loans                   | 4.31             | 2.33             | 0.36            | 0.74            | -             |
|           | Advance fringe benefit tax (net of<br>provisions)                | 0.94             | -                | -               | -               | -             |
|           | Advances recoverable in cash or kind<br>for value to be received |                  |                  |                 |                 |               |
|           | Prepaid expenses                                                 | 41.26            | 14.68            | 6.85            | 1.78            | 0.67          |
|           | Others                                                           | 172.08           | 25.60            | 62.13           | 4.22            | 2.50          |
|           | Others                                                           | -                | -                | -               | 25.54           | 3.13          |
|           | <b>Unsecured, considered doubtful</b>                            |                  |                  |                 |                 |               |
|           | Advances recoverable in cash or kind                             | 12.90            | -                | -               | 1.1             | -             |
|           | <b>Subtotal (d)</b>                                              | <b>379.70</b>    | <b>174.25</b>    | <b>122.80</b>   | <b>70.94</b>    | <b>8.19</b>   |
|           | <b>Total Loans and Advances<br/>(a+b+c+d)</b>                    | <b>29,746.90</b> | <b>14,349.48</b> | <b>7,931.70</b> | <b>2,712.87</b> | <b>788.69</b> |

# SCHEDULES TO STATEMENT OF RESTATED ASSETS AND LIABILITIES

## SCHEDULE 3 - SECURED LOANS

(Rs. in million)

| Particulars                                                                                                                                                                                                             | As at March 31,  |                  |                 |                 |               |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|-----------------|-----------------|---------------|
|                                                                                                                                                                                                                         | 2010             | 2009             | 2008            | 2007            | 2006          |
| <b>Term loans</b>                                                                                                                                                                                                       |                  |                  |                 |                 |               |
| From banks<br>(Secured by hypothecation of portfolio loans and by lien on bank deposits)                                                                                                                                | 16,251.53        | 14,290.74        | 5,935.10        | 2,014.51        | 492.18        |
| From financial institutions<br>(Secured by hypothecation of portfolio loans and by lien on bank deposits)                                                                                                               | 6,096.52         | 4,116.37         | 1,963.35        | 475.68          | 200.00        |
| From Non Banking Financial Companies ('NBFC') (Secured by hypothecation of portfolio loans and by lien marked on bank deposits)                                                                                         | 683.33           | 816.67           | -               | -               | -             |
| <b>Debentures (Short term)</b>                                                                                                                                                                                          |                  |                  |                 |                 |               |
| 2,500, 10.5% Secured Redeemable Non-Convertible Debentures of Rs. 100,000 each redeemable at par at the end of one year from the date of allotment February 27, 2009<br>(Secured by hypothecation of portfolio loans)   | -                | 250.00           | -               | -               | -             |
| 7,500, 10% Secured Redeemable Non - Convertible Debentures of Rs. 100,000 each redeemable at par at the end of one year from the date of allotment April 23, 2010<br>(Secured by hypothecation of portfolio loans)      | 750.00           | -                | -               | -               | -             |
| 500, 8.30% Secured Redeemable Non - Convertible Debentures of Rs. 1,000,000 each redeemable at par at the end of one year from the date of allotment December 23, 2010<br>(Secured by hypothecation of portfolio loans) | 500.00           | -                | -               | -               | -             |
| 500, 9.25% Secured Redeemable Non - Convertible Debentures of Rs. 1,000,000 each redeemable at par at the end of one year from the date of allotment December 23, 2010<br>(Secured by hypothecation of portfolio loans) | 500.00           | -                | -               | -               | -             |
| <b>Other borrowings:</b>                                                                                                                                                                                                |                  |                  |                 |                 |               |
| Banks overdraft (Short term)<br>(Secured by hypothecation of portfolio loans and by lien marked on bank deposits)                                                                                                       | 1,014.35         | 1,497.53         | -               | -               | -             |
| <b>Total</b>                                                                                                                                                                                                            | <b>25,795.73</b> | <b>20,971.31</b> | <b>7,898.45</b> | <b>2,490.19</b> | <b>692.18</b> |

# SCHEDULES TO STATEMENT OF RESTATED ASSETS AND LIABILITIES

## SCHEDULE 4 - UNSECURED LOANS

(Rs. in million)

| Particulars                            | As at March 31, |               |          |          |          |
|----------------------------------------|-----------------|---------------|----------|----------|----------|
|                                        | 2010            | 2009          | 2008     | 2007     | 2006     |
| <b>Terms Loans</b>                     |                 |               |          |          |          |
| From banks                             | -               | 150.00        | -        | -        | -        |
| Commercial paper (short term) 1,200.00 |                 |               |          |          |          |
| Less: Unamortized interest (49.01)     | 1,150.99        | 244.37        | -        | -        | -        |
| <b>Total</b>                           | <b>1,150.99</b> | <b>394.37</b> | <b>-</b> | <b>-</b> | <b>-</b> |

## SCHEDULE 5 - CURRENT LIABILITIES

(Rs. in million)

| Particulars                                        | As at March 31, |                 |               |              |               |
|----------------------------------------------------|-----------------|-----------------|---------------|--------------|---------------|
|                                                    | 2010            | 2009            | 2008          | 2007         | 2006          |
| Sundry creditors                                   | 206.34          | 130.46          | 46.73         | 13.38        | 2.64          |
| Employee payable                                   | 203.46          | 138.14          | 33.83         | 19.19        | 3.92          |
| Payable to loan asset assigned                     | 2,001.17        | 1,442.55        | 548.13        | -            | -             |
| Deferred income                                    |                 |                 |               |              |               |
| Unamortised interest income                        | 199.77          | 93.81           | -             | -            | -             |
| Unamortised loan origination charges               | -               | -               | 86.62         | 22.12        | -             |
| Unamortised group insurance administrative charges | 316.99          | 71.49           | 25.82         | 7.28         | -             |
| Deferred gain on asset assignment                  | 495.78          | 256.45          | -             | -            | -             |
| Interest accrued but not due                       |                 |                 |               |              |               |
| On term loans                                      | 144.40          | 68.31           | 26.15         | 10.69        | 3.63          |
| On debentures                                      | 93.99           | -               | -             | -            | -             |
| Statutory dues                                     | 22.42           | 22.56           | 2.16          | 8.95         | 4.17          |
| Undisbursed loan on account of managed loans       | -               | -               | -             | -            | 115.85        |
| Due to Swayam Krishi Sangam Society                | -               | -               | -             | -            | 6.93          |
| Others                                             | -               | -               | -             | -            | 4.10          |
| <b>Total</b>                                       | <b>3,684.32</b> | <b>2,223.77</b> | <b>769.44</b> | <b>81.61</b> | <b>141.24</b> |

# SCHEDULES TO STATEMENT OF RESTATED ASSETS AND LIABILITIES

## SCHEDULE 6 - PROVISIONS

(Rs. in million)

| Particulars                                                    | As at March 31, |               |              |              |              |
|----------------------------------------------------------------|-----------------|---------------|--------------|--------------|--------------|
|                                                                | 2010            | 2009          | 2008         | 2007         | 2006         |
| Provision for taxation (net of advance tax payments)           | 74.65           | 40.24         | 20.42        | 33.16        | 4.50         |
| Provision for fringe benefit tax (net of advance tax payments) | -               | 0.86          | 0.54         | 0.36         | 0.37         |
| Provision for standard assets and non performing assets        | 121.25          | 61.64         | 61.49        | 30.44        | 19.92        |
| Provision for loss on assigned loans                           | 40.70           | 5.96          | -            | -            | -            |
| Provision for other assets                                     | 12.90           | 0.85          | -            | -            | -            |
| Provision for gratuity                                         | 1.60            | 1.81          | 0.08         | 0.50         | 0.33         |
| Provision for leave encashment and availment                   | 89.66           | 48.55         | 15.22        | -            | -            |
| <b>Total</b>                                                   | <b>340.76</b>   | <b>159.91</b> | <b>97.75</b> | <b>64.46</b> | <b>25.12</b> |

# SCHEDULE TO STATEMENT OF RESTATED PROFIT AND LOSS ACCOUNT

## SCHEDULE 7 - INCOME FROM OPERATIONS

(Rs. in million)

| Particulars                          | For the year ended March 31, |                 |                 |               |              |
|--------------------------------------|------------------------------|-----------------|-----------------|---------------|--------------|
|                                      | 2010                         | 2009            | 2008            | 2007          | 2006         |
| Interest income on portfolio loans   | 7,565.42                     | 4,418.01        | 1,330.79        | 396.36        | 62.92        |
| Membership fees                      | 157.75                       | 75.78           | 36.65           | 10.79         | 2.61         |
| Loan origination charges             | -                            | 86.71           | 87.99           | 18.90         | 10.22        |
| Income from assignment of loans      | 1,012.53                     | 480.22          | 165.62          | -             | -            |
| Income from loan management services | -                            | -               | 3.61            | 18.90         | 13.84        |
| <b>Total</b>                         | <b>8,735.70</b>              | <b>5,060.72</b> | <b>1,624.66</b> | <b>444.95</b> | <b>89.59</b> |

## SCHEDULE 8 - FINANCIAL EXPENSES

(Rs. in million)

| Particulars                               | For the year ended March 31, |                 |               |               |              |
|-------------------------------------------|------------------------------|-----------------|---------------|---------------|--------------|
|                                           | 2010                         | 2009            | 2008          | 2007          | 2006         |
| <b>Interest :</b>                         |                              |                 |               |               |              |
| On term loans from banks                  | 1,866.72                     | 1,308.03        | 424.98        | 97.80         | 15.21        |
| On term loans from financial institutions | 554.44                       | 312.30          | 96.52         | 27.31         | 0.41         |
| On term loans from NBFC                   | 83.15                        | 88.10           | -             | -             | -            |
| On other loans                            | 46.62                        | 0.48            | -             | 6.35          | 10.47        |
| On overdraft facility                     | 34.24                        | 22.46           | 0.29          | -             | -            |
| On debentures                             | 121.75                       | 2.86            | -             | -             | -            |
| Loan processing fees                      | 159.76                       | 176.95          | 28.18         | 3.27          | 1.06         |
| Guarantee fees                            | 0.21                         | 1.42            | 1.73          | -             | -            |
| Bank charges                              | 17.16                        | 31.71           | 12.95         | 3.80          | 0.64         |
| <b>Total</b>                              | <b>2,884.05</b>              | <b>1,944.31</b> | <b>564.65</b> | <b>138.53</b> | <b>27.79</b> |

## SCHEDULE 9 - PERSONNEL EXPENSES

(Rs. in million)

| Particulars                                | For the year ended March 31, |                 |               |               |              |
|--------------------------------------------|------------------------------|-----------------|---------------|---------------|--------------|
|                                            | 2010                         | 2009            | 2008          | 2007          | 2006         |
| Salaries and incentives                    | 1,851.42                     | 1,189.37        | 417.32        | 109.97        | 24.04        |
| Staff leave encashment                     | 88.42                        | 56.30           | 16.90         | 6.31          | 0.77         |
| Contribution to Provident fund             | 65.03                        | 37.63           | 13.15         | 3.79          | 0.81         |
| Contribution to ESIC                       | 23.30                        | 12.11           | 4.49          | 0.70          | 0.37         |
| Gratuity (Refer Note 2e to Annexure D)     | 16.92                        | 13.33           | 3.63          | 1.76          | -            |
| Staff welfare expenses                     | 90.78                        | 45.92           | 19.49         | 7.14          | 1.54         |
| Employee stock option expenditure          | 27.92                        | -               | -             | -             | -            |
| Employee share purchase scheme expenditure | -                            | 5.35            | -             | -             | -            |
| <b>Total</b>                               | <b>2,163.79</b>              | <b>1,360.01</b> | <b>474.98</b> | <b>129.67</b> | <b>27.53</b> |



# SCHEDULE TO STATEMENT OF RESTATED PROFIT AND LOSS ACCOUNT

## SCHEDULE 10 - OPERATING AND OTHER EXPENSES

(Rs. in million)

| Particulars                                | For the year ended March 31, |               |               |              |              |
|--------------------------------------------|------------------------------|---------------|---------------|--------------|--------------|
|                                            | 2010                         | 2009          | 2008          | 2007         | 2006         |
| Rent                                       | 140.85                       | 88.13         | 26.26         | 8.78         | 1.32         |
| Rates and taxes                            | 13.79                        | 25.68         | 11.64         | 4.61         | 1.16         |
| Insurance                                  | 49.31                        | 2.15          | 0.86          | 0.89         | 0.25         |
| Repairs and maintenance:                   |                              |               |               |              |              |
| Plant and machinery                        | 12.12                        | 6.87          | 2.04          | 1.49         | 0.33         |
| Others                                     | 70.50                        | 35.50         | 15.33         | 5.02         | 0.95         |
| Electricity charges                        | 22.95                        | 15.23         | 4.86          | 1.65         | 0.34         |
| Travelling and conveyance                  | 417.27                       | 253.60        | 110.18        | 38.89        | 7.90         |
| Communication expenses                     | 97.36                        | 49.48         | 16.87         | 5.67         | 1.24         |
| Printing and stationery                    | 157.20                       | 112.19        | 51.67         | 17.69        | 2.06         |
| Professional and consultancy charges       | 121.07                       | 69.53         | 18.07         | 5.11         | 1.27         |
| Directors' sitting fees                    | -                            | 0.21          | 0.17          | 0.12         | -            |
| Director's Stock Option Expenditure        | 1.46                         | 16.72         | 2.57          | -            | -            |
| Auditors' remuneration                     |                              |               |               |              |              |
| Audit fees                                 | 6.65                         | 3.90          | 2.50          | 2.22         | 0.46         |
| Certification fees                         | 0.12                         | 0.13          | -             | -            | -            |
| Out of pocket expenses                     | 1.54                         | 0.75          | 0.43          | -            | 0.04         |
| Share issue expenses                       | 7.53                         | 29.39         | 0.90          | 3.76         | 0.71         |
| Other provisions and written off's         | 66.18                        | 29.54         | 8.68          | 1.80         | 0.22         |
| Amortization of pre incorporation expenses | -                            | -             | -             | -            | 0.48         |
| Incorporation charges                      | -                            | -             | -             | -            | -            |
| Filing fees                                | -                            | -             | -             | -            | -            |
| Loss on disposal of fixed assets           | 0.84                         | -             | -             | -            | -            |
| Miscellaneous expenses                     | 34.51                        | 13.49         | 4.80          | 1.26         | 0.52         |
| <b>Total</b>                               | <b>1,221.25</b>              | <b>752.49</b> | <b>277.83</b> | <b>98.96</b> | <b>19.25</b> |

## SCHEDULE 11 - PROVISIONS AND WRITE OFFS

(Rs. in million)

| Particulars                                      | For the year ended March 31, |               |              |              |             |
|--------------------------------------------------|------------------------------|---------------|--------------|--------------|-------------|
|                                                  | 2010                         | 2009          | 2008         | 2007         | 2006        |
| Provision for standard and non performing assets | 59.61                        | 0.15          | 32.15        | 10.53        | 3.09        |
| Bad debts written off                            | 288.57                       | 103.29        | 4.48         | 9.79         | 4.42        |
| Loss from assigned loans                         | 169.00                       | 30.71         | 5.45         | -            | -           |
| <b>Total</b>                                     | <b>517.18</b>                | <b>134.15</b> | <b>42.08</b> | <b>20.32</b> | <b>7.51</b> |

# SCHEDULES TO STATEMENT OF RESTATED ASSETS AND LIABILITIES

## SCHEDULE 12– DEFERRED TAX ASSETS / (LIABILITIES) (net)

(Rs. in million)

| Particulars                                                                                                                       | As at March 31, |              |             |             |               |
|-----------------------------------------------------------------------------------------------------------------------------------|-----------------|--------------|-------------|-------------|---------------|
|                                                                                                                                   | 2010            | 2009         | 2008        | 2007        | 2006          |
| <b>Deferred Tax Assets/(Liabilities)</b>                                                                                          |                 |              |             |             |               |
| Difference due to disallowance of expenses under section 43B of Income tax Act, 1961                                              | 30.48           | 16.50        | 3.92        | 3.47        | -             |
| Difference due to disallowance of provision for standard assets and non performing assets                                         | 59.43           | 23.26        | 10.93       | 3.58        | -             |
| Difference due to charge of tax on income on non performing assets                                                                | -               | 2.89         | -           | 0.12        | -             |
| Differences in depreciation and other differences in block of fixed assets and intangible assets as per tax and books of accounts | 4.89            | (0.25)       | (5.46)      | 0.69        | (4.87)        |
| Difference due to disallowance of provision for gratuity                                                                          | -               | -            | -           | 0.60        | -             |
| Difference due to others disallowances                                                                                            | -               | -            | -           | 0.44        | 1.56          |
| <b>Deferred Tax Assets / (Liability) (net)</b>                                                                                    | <b>94.80</b>    | <b>42.40</b> | <b>9.39</b> | <b>8.90</b> | <b>(3.31)</b> |

## **ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT**

### **Background:**

The restated summary statement of assets and liabilities of the Company as at March 31, 2010, March 31, 2009, March 31, 2008, March 31, 2007 and March 31, 2006 and the related restated summary statement of profits and losses and cash flows for the years ended at March 31, 2010, March 31, 2009, March 31, 2008, March 31, 2007 and March 31, 2006 (hereinafter collectively referred to as “Restated Summary Statements”) relate to SKS Microfinance Limited (“the Company”) and have been prepared specifically for inclusion in the offer document to be filed by the Company with the Securities and Exchange Board of India (“SEBI”) in connection with its proposed Initial Public Offering.

These Restated Summary Statements have been prepared to comply in all material respects with the requirements of Schedule II to the Companies Act, 1956 (“the Act”) and the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended (the “Regulations”).

### **1. Significant Accounting Policies**

#### **a. Basis of preparation of financial statements**

The financial statements have been prepared to comply in all material respects with the accounting standards notified by Companies (Accounting Standards) Rules, 2006 (as amended), the relevant provisions of the Companies Act, 1956 (‘the Act’) and the provisions of the Reserve Bank of India (‘RBI’) as applicable to a non banking financial company. The financial statements have been prepared under the historical cost convention on an accrual basis except interest/discount on a loan which have been classified as Non Performing Assets and is accounted for on cash basis. The accounting policies have been consistently applied by the Company and are consistent with those applied in the previous year.

#### **b. 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 and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management’s best knowledge of current events and actions, actual results could differ from these estimates.

#### **c. Revenue recognition**

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

- i. Interest income on loans given is recognized under the internal rate of return method. Income on non-performing loans is recognized only when realized and any interest recognized and remaining unrealized on such loans becoming non performing is reversed.
- ii. Interest income on deposits with banks is recognized on a time proportion accrual basis taking into account the amount outstanding and the rate applicable.

## **ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT**

- iii. Membership fees from members are recognized on an upfront basis.
- iv. On sale of receivables under asset assignment arrangement, the profit arising on account of sale is recognized over the life of the receivables assigned on an accrual basis and loss, if any, arising on account of sale is accounted immediately.
- v. Commission income on insurance agency activities is recognized on accrual basis.
- vi. Dividend income is recognized when the right to receive payment is established by the balance sheet date.
- vii. All other income is recognized on an accrual basis.

### **d. Fixed assets**

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

Asset under development as at the balance sheet date are shown as capital work in progress. Advance paid towards such development are also included under capital work in progress.

### **e. Intangibles**

- i. Goodwill is amortized using the straight-line method over a period of five years.
- ii. Software cost related to computers are capitalized and amortized using the written down value method at a rate of 40% per annum.

### **f. Depreciation**

- i. Depreciation on fixed assets is provided on the written down value method as per the rates prescribed under Schedule XIV of the Companies Act, 1956 which is in accordance with management estimates.
- ii. Fixed assets costing upto Rs. 5,000 individually are fully depreciated in the year of purchase.

### **g. Impairment**

The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

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

## **ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT**

### **h. Leases**

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item are classified as operating leases. Operating lease payments are recognized as an expense in the Profit and Loss Account on a straight-line basis over the lease term.

### **i. Investments**

Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognize a decline other than temporary in the value of the investments.

### **j. Foreign Currency Transactions**

- i. All transactions in the foreign currency are recognized at the exchange rate prevailing on the date of transaction.
- ii. Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.
- iii. Foreign currency monetary items are reported using the exchange rate prevailing at the close of the financial year.
- iv. Exchange differences arising on the settlement of monetary items or on the Company's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognized as income or as expenses in the year in which they arise.

### **k. Retirement and other employee benefits**

- i. Retirement benefits in the form of Provident Fund are a defined contribution scheme and the contributions are charged to the Profit and Loss Account of the year when the contributions to the respective funds are due. There are no other obligations other than the contribution payable to the respective funds.
- ii. Gratuity liability is defined benefit obligations and is provided for on the basis of an actuarial valuation on projected unit credit method made at the end of each financial year.
- iii. Short term compensated absences are provided for based on estimates. Long term compensated absences are provided for based on actuarial valuation at the year end. The actuarial valuation is done as per projected unit credit method at the year end.
- iv. Actuarial gains/losses are immediately taken to profit and loss account and are not deferred.

## **ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT**

### **l. Income taxes**

Tax expense comprises of current, deferred and fringe benefit tax. Current income tax and fringe benefit 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.

The carrying amount of the deferred tax assets are reviewed at each balance sheet date. The Company writes down the carrying amount of the deferred tax assets 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. Any such write down is reversed to the extent that it becomes reasonably certain or virtually certain, as the case may be that sufficient future taxable income will be available.

### **m. Earnings per Share**

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

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

### **n. Provisions**

A provision is recognized when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

### **o. Cash and Cash Equivalents**

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

**ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT**

**p. Share Based payments**

- (a) In case of Employee Share Purchase Plan, measurement and disclosure of the employee share-based payment plans is done in accordance with the Guidance Note on Accounting for Employee Share-based Payments, issued by the ICAI. The Company measures compensation cost relating to employee share purchase plan using the fair value method.
- (b) Such compensation expense is recognized immediately as these are granted and vested immediately.
- (c) In case of Stock Option Plan, measurement and disclosure of the share-based payment plans is done in accordance with the Guidance Note on Accounting for Employee Share-based Payments, issued by the ICAI. The Company measures compensation cost relating to stock options using the Black-Scholes Model. Compensation expense is amortized over the vesting period of the option on the straight line basis.

**q. Classification of Loan Portfolio**

**Estimate for the year ended March 31, 2006**

- i. All loans and advances overdue up to 4 weeks have been classified as Standard assets, overdue beyond 4 weeks and up to 50 weeks (which is the maximum loan duration) are classified as Sub-standard assets. Loans overdue beyond the loan durations' are classified as doubtful of recoveries.
- ii. Loans and advances where possibility of recovery is remote in the assessment of the management are classified as loss assets.

**Estimate for the year ended March 31, 2007 and March 31, 2008**

**i. Loans are classified as follows:**

| <b>Asset Classification</b> | <b>Loans under JLG</b>         | <b>Individual Loans</b>         |
|-----------------------------|--------------------------------|---------------------------------|
| Non Performing Assets       | Overdue over 8 weeks           | Overdue over 3 months           |
| Sub-Standard                | Overdue for 8 weeks – 25 weeks | Overdue for 3 – 6 months        |
| Doubtful assets             | Overdue for 25weeks – 50 weeks | Overdue for 6 – 12 months       |
| Loss Assets                 | Overdue for more than 50 weeks | Overdue for more than 12 months |

“Overdue” refer to interest and/ or installment remaining unpaid from the day it became receivable.

- ii. All other loans & advances are classified as standard, sub-standard, doubtful, and loss assets in accordance with the extant Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.
- iii. Under exceptional circumstances, management may renegotiate loans by rescheduling repayment terms for clients have defaulted in repayment but who appear willing and able to repay their loans under longer term agreement. All rescheduled loans are separately identified and provided for in full.

**ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS  
FOR RESTATED SUMMARY STATEMENT**

**Estimate for the year ended March 31, 2009 and March 31, 2010**

**i. Loans are classified as follows:**

| <b>Asset classification</b> | <b>Loans under JLG scheme</b>  | <b>Individual loans</b>         |
|-----------------------------|--------------------------------|---------------------------------|
| Non-Performing Assets       | Overdue over 8 weeks           | Overdue over 3 months           |
| Sub-standard                | Overdue for 8 weeks – 25 weeks | Overdue for 3 – 6 months        |
| Doubtful assets             | --                             | Overdue for 6 – 12 months       |
| Loss assets                 | Overdue for more than 25 weeks | Overdue for more than 12 months |

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

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

**r. Provision policy for Portfolio Loans**

**Estimate for the year ended March 31, 2006**

- i. The Provision of 1% is provided on advance outstanding and classified as Standard assets, provision of 10% is provided on advances classified as Sub-standard, up to 25 weeks, and 50% between 25-50 weeks, whereas, 100% provision is provided for in case of advances classified as Doubtful and loss assets.
- ii. All rescheduled loans are provided for in full.
- iii. Advances classified as loss assets by the management are either written off or fully provided for in Income and Expenditure Account.
- iv. The provision, thus made, is larger than the provision required under the Non Banking Financial Companies Prudential Norms (Reserve Bank) Directions 1998.

**Estimate for the year ended March 31, 2007**

Loans are provided for as per the management’s estimates, subject to the minimum provision required as per Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007. The provision norms adopted by the Company is as follows:

**Provisioning norms for JLG loans:**

| <b>Asset classification</b> | <b>Arrear period as determined by the Company</b> | <b>Provision as per RBI prudential norms</b> | <b>Estimated provision adopted by the Company</b> |
|-----------------------------|---------------------------------------------------|----------------------------------------------|---------------------------------------------------|
| Standard                    | Less than 8 weeks                                 | NIL                                          | 1%                                                |
| Sub-standard                | Over 8 weeks – 25 weeks                           | 10%                                          | 10%                                               |
| Doubtful assets             | Over 25 weeks – 50 weeks                          | 10%                                          | 50%                                               |
| Loss assets                 | More than 50 weeks                                | 100%                                         | 100%                                              |



**ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT**

**Provisioning norms for Individual loans:**

| Asset classification | Arrear period as determined by the Company | Provision as per RBI prudential norms | Estimated provision adopted by the Company |
|----------------------|--------------------------------------------|---------------------------------------|--------------------------------------------|
| Standard             | Less than 3 months                         | NIL                                   | 1%                                         |
| Sub-standard         | Over 3 – 6 months                          | 10%                                   | 10%                                        |
| Doubtful assets      | Over 6 – 12 months                         | 10%                                   | 50%                                        |
| Loss assets          | More than 12 months                        | 100%                                  | 100%                                       |

All other loans and advances are provided for in accordance with the extant Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.

**Estimate for the year ended March 31, 2008**

Loans are provided for as per the management's estimates, subject to the minimum provision required as per Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007. The provision norms adopted by the Company is as follows:

**Provisioning norms for JLG loans:**

| Asset classification | Arrear period as determined by the Company | Provision as per RBI prudential norms | Estimated provision adopted by the Company |
|----------------------|--------------------------------------------|---------------------------------------|--------------------------------------------|
| Standard             | Less than 8 weeks                          | NIL                                   | 0.75%                                      |
| Sub-standard         | Over 8 weeks – 25 weeks                    | 10%                                   | 10%                                        |
| Doubtful assets      | Over 25 weeks – 50 weeks                   | 10%                                   | 50%                                        |
| Loss assets          | More than 50 weeks                         | 100%                                  | 100%                                       |

**Provisioning norms for Individual loans:**

| Asset classification | Arrear period as determined by the Company | Provision as per RBI prudential norms | Estimated provision adopted by the Company |
|----------------------|--------------------------------------------|---------------------------------------|--------------------------------------------|
| Standard             | Less than 3 months                         | NIL                                   | 0.75%                                      |
| Sub-standard         | Over 3 – 6 months                          | 10%                                   | 10%                                        |
| Doubtful assets      | Over 6 – 12 months                         | 10%                                   | 50%                                        |
| Loss assets          | More than 12 months                        | 100%                                  | 100%                                       |

All other loans and advances are provided for in accordance with the extant Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.

## ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT

### Estimate for the year ended March 31, 2009

Loans are provided for as per the management's estimates, subject to the minimum provision required as per Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007. The provisions norm adopted by the Company is as follows:

#### Joint Liability Group (JLG) loans - provisioning and write off policy

| Asset classification | Arrear period as determined by the Company | Provision as per RBI prudential norms | Estimated provision adopted by the Company |
|----------------------|--------------------------------------------|---------------------------------------|--------------------------------------------|
| Standard             | Less than 8 weeks                          | Nil                                   | Note 1                                     |
| Sub-standard         | Over 8 weeks - 25weeks                     | 10%                                   | 50%                                        |
| Loss assets          | More than 25 weeks                         | 100%                                  | Write off                                  |

#### Individual Loan Portfolio (ILP) loans - provisioning and write off policy

| Asset classification | Arrear period as determined by the Company | Provision as per RBI prudential norms | Estimated provision adopted by the Company |
|----------------------|--------------------------------------------|---------------------------------------|--------------------------------------------|
| Standard             | Less than 3 months                         | NIL                                   | Note 1                                     |
| Sub-standard         | Over 3 – 6 months                          | 10%                                   | 10%                                        |
| Doubtful assets      | Over 6 – 12 months                         | 10%                                   | 50%                                        |
| Loss assets          | More than 12 months                        | 100%                                  | 100%                                       |

#### Note 1:

- i. Standard asset provision is linked to the Portfolio at risk (PAR) as shown below:

| If Portfolio at risk | Estimated provision adopted by the Company (% of Standard assets) |
|----------------------|-------------------------------------------------------------------|
| 0 – 1%               | 0.25%                                                             |
| Above 1% to 1.5%     | 0.50%                                                             |
| Above 1.5% to 2%     | 0.75%                                                             |
| Above 2%             | 1.00%                                                             |

Portfolio at risk represents overdue as percentage at gross loans outstanding computed separately for JLG loans and ILP loans.

- ii. All other loans & advances are provided for in accordance with the extant Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.
- iii. All overdue loans where the tenure of the loan is completed and in the opinion of the management amount is not recoverable, are written off.
- iv. Further all loss assets identified per the extant RBI guidelines are provided / written off.

## ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT

### Estimate for the year ended March 31, 2010

Loans are provided for as per the management's estimates, subject to the minimum provision required as per Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 as amended from time to time. The provisioning norms adopted by the Company is as follows:

#### **JLG (Joint liability group) Loans - Provisioning and write off policy**

| Asset Classification | Arrear Period as determined by the Company | Provision as per RBI prudential norms | Estimated Provision adopted by the Company |
|----------------------|--------------------------------------------|---------------------------------------|--------------------------------------------|
| Standard             | Less than 8 weeks                          | Nil                                   | Note 1                                     |
| Sub-Standard         | Over 8 weeks - 25weeks                     | 10%                                   | 50%                                        |
| Loss Assets          | More than 25 weeks                         | 100% / Write off                      | Write Off                                  |

#### **ILP Loans - Provisioning and write off policy**

| Asset Classification | Arrear Period as determined by the Company | Provision as per RBI prudential norms | Estimated Provision adopted by the Company |
|----------------------|--------------------------------------------|---------------------------------------|--------------------------------------------|
| Standard             | Less than 3 months                         | NIL                                   | Note 1                                     |
| Sub-Standard         | Over 3 – 6 months                          | 10%                                   | 10%                                        |
| Doubtful assets      | Over 6 – 12 months                         | 10%                                   | 50%                                        |
| Loss Assets          | More than 12 months                        | 100%                                  | 100%                                       |

Note 1: Standard Asset provision is linked to the Portfolio at Risk\*\* (PAR) as shown below:

| If Portfolio at Risk | Estimated Provision adopted by the Company (% of Standard Assets) |
|----------------------|-------------------------------------------------------------------|
| 0 – 1%               | 0.25%                                                             |
| Above 1% to 1.5%     | 0.50%                                                             |
| Above 1.5% to 2%     | 0.75%                                                             |
| Above 2%             | 1.00%                                                             |

\*\* Portfolio at Risk represents overdue as a percentage of gross loans outstanding computed separately for JLG loans and ILP loans.

- ii. Provision for losses under assignment arrangements is made as higher of the incurred loss and provision as per the company provisioning policy for JLG loans subject to the maximum guarantee given to respective assignee bank or financial institution.
- iii. All other loans & advances are provided for in accordance with the extant Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, as amended from time to time.
- iv. All overdue loans where the tenure of the loan is completed and in the opinion of the management amount is not recoverable, are written off.
- v. Further all loss assets identified per the extant RBI guidelines are provided / written off.

**ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS  
FOR RESTATED SUMMARY STATEMENT**

**2. Notes to accounts**

**a. Assignment of loans**

During the year ended March 31, 2010, 2009 and 2008 the Company has sold loans through direct assignment. The information on direct assignment activity of the Company as an originator is as shown below:

*(Rs. in million)*

| <b>Particulars</b>                                                        | <b>For the year ended 31-Mar-2010</b> | <b>For the year ended 31-Mar-2009</b> | <b>For the year ended 31-Mar-2008</b> | <b>For the year ended 31-Mar-2007</b> | <b>For the year ended 31-Mar-2006</b> |
|---------------------------------------------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Total book value of the loan asset assigned                               | 17,761.48                             | 13,977.40                             | 4,102.68                              | -                                     | -                                     |
| Sale consideration received for the loan asset assigned                   | 18,408.84                             | 14,413.00                             | 4,102.68                              | -                                     | -                                     |
| Income from assignment of loans recognized in the Profit and Loss Account | 1,012.53                              | 480.21                                | 165.62                                | -                                     | -                                     |
| <b>Particulars</b>                                                        | <b>As at March 31, 2010</b>           | <b>As at March 31, 2009</b>           | <b>As at March 31, 2008</b>           | <b>As at March 31, 2007</b>           | <b>As at March 31, 2006</b>           |
| Cash margin placed with banks outstanding                                 | 1,198.13                              | 834.04                                | 40.62                                 | -                                     | -                                     |
| Portfolio loan assigned and outstanding                                   | 13,839.70                             | 10,388.90                             | 2,697.12                              | -                                     | -                                     |

Under the agreement for the assignment of loans the Company has transferred all the rights and obligations relating to the loan asset assigned as shown above to various banks. The guarantee given by the Company under the asset assignment has been disclosed in Annexure G below.

**b. Capital commitments**

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

*(Rs. in million)*

| <b>Particulars</b>                              | <b>March 31, 2010</b> | <b>March 31, 2009</b> | <b>March 31, 2008</b> | <b>March 31, 2007</b> | <b>March 31, 2006</b> |
|-------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| For purchase / development of computer software | 39.80                 | 8.99                  | -                     | 1.26                  | -                     |
| For purchase of fixed assets                    | 8.19                  | 6.39                  | 4.43                  | -                     | -                     |

**ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS  
FOR RESTATED SUMMARY STATEMENT**

**c. Stock option scheme**

The Company has provided various share-based payment schemes to its directors and employee. During the year ended March 31, 2010, the following schemes were in operation:

| <b>Particulars</b>             | <b>Plan I(a)</b>                   | <b>Plan I (b)</b>                  | <b>Plan I (c)</b>                    |
|--------------------------------|------------------------------------|------------------------------------|--------------------------------------|
| Date of grant                  | Oct 15, 2007                       | Nov 10, 2008                       | Dec 8, 2008                          |
| Date of Board approval         | July 31, 2007                      | Oct 30, 2008                       | Oct 30, 2008                         |
| Date of shareholder's approval | Sept 8, 2007                       | Nov 8, 2008                        | Nov 8, 2008                          |
| Number of options granted      | 1,852,158                          | 1,769,537                          | 900,000                              |
| Method of settlement           | Equity                             | Equity                             | Equity                               |
| Vesting option                 | Immediate                          | Immediate                          | 25 % equally at the end of each year |
| Exercise period                | 48 months from the date of vesting | 60 months from the date of vesting | 48 months from the date of grant     |
| Vesting conditions             | ***None                            | ***None                            | ***None                              |

| <b>Particulars</b>             | <b>Plan II(a)</b>                  | <b>Plan II (b)</b>                 | <b>Plan II (c)</b>                 | <b>Plan II (d)</b>                 | <b>Plan II (e)</b>                   |
|--------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|--------------------------------------|
| Date of grant                  | Feb 1, 2008                        | Feb 1, 2008                        | Nov 10, 2008                       | July 29, 2009                      | Feb 1, 2010                          |
| Date of Board approval         | Oct 15, 2007                       | Oct 15, 2007                       | Oct 15, 2007                       | Oct 15, 2007                       | Jan 5, 2010                          |
| Date of shareholder's approval | Jan 16, 2008                       | Jan 16, 2008                       | Jan 16, 2008                       | Jan 16, 2008                       | Jan 08, 2010                         |
| Number of options granted      | 30,000                             | 15,000                             | 6,000                              | 18,000                             | 90,000                               |
| Method of settlement           | Equity                             | Equity                             | Equity                             | Equity                             | Equity                               |
| Vesting option                 | *Immediate                         | **Immediate                        | *Immediate                         | *Immediate                         | 25 % equally at the end of each year |
| Exercise period                | 36 months from the date of vesting | 36 months from the date of vesting | 36 months from the date of vesting | 36 months from the date of vesting | 60 months from the date of grant     |
| Vesting conditions             | ***None                            | ***None                            | ***None                            | ***None                            | ***None                              |

**ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS  
FOR RESTATED SUMMARY STATEMENT**

| <b>Particulars</b>             | <b>Plan III(a)</b>                                                                        | <b>Plan III(b)</b>                   | <b>Plan III (c)</b>                  |
|--------------------------------|-------------------------------------------------------------------------------------------|--------------------------------------|--------------------------------------|
| Date of grant                  | Nov 3, 2009                                                                               | Dec 15, 2009                         | Dec 15, 2009                         |
| Date of Board approval         | July 29, 2009                                                                             | Nov 04, 2009                         | Nov 04, 2009                         |
| Date of shareholder's approval | Sep 30, 2009                                                                              | Dec 10, 2009                         | Dec 10, 2009                         |
| Number of options granted      | 514,750                                                                                   | 1,313,160                            | 568,000                              |
| Method of settlement           | Equity                                                                                    | Equity                               | Equity                               |
| Vesting option                 | End of year 1 - 40 %<br>End of year 2 – 25%<br>End of year 3 – 25%<br>End of year 4 – 10% | 20 % equally at the end of each year | 20 % equally at the end of each year |
| Exercise period                | 60 months from the date of grant                                                          | 72 months from the date of grant     | 72 months from date of grant         |
| Vesting conditions             | ***None                                                                                   | ***None                              | ***None                              |

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

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

\*\*\*Option holders are required to hold the services being provided to the Company at the time of exercise of options.

The details of **Plan I (a)** have been summarized below:

| <b>Particulars</b>                                     | <b>As at March 31, 2010</b> |                                       | <b>As at March 31, 2009</b> |                                       |
|--------------------------------------------------------|-----------------------------|---------------------------------------|-----------------------------|---------------------------------------|
|                                                        | Number of options           | Weighted average exercise price (Rs.) | Number of options           | Weighted average exercise price (Rs.) |
| Outstanding at the beginning of the year               | 1,852,158                   | 49.77                                 | 1,852,158                   | 49.77                                 |
| Granted during the year                                | -                           | -                                     | -                           | -                                     |
| Forfeited during the year                              | -                           | -                                     | -                           | -                                     |
| Exercised during the year                              | 945,424                     | 49.77                                 | -                           | -                                     |
| Expired during the year                                | -                           | -                                     | -                           | -                                     |
| Outstanding at the end of the year                     | 906,734                     | 49.77                                 | 1,852,158                   | 49.77                                 |
| Exercisable at the end of the year                     | 906,734                     | -                                     | 1,852,158                   | -                                     |
| Weighted average remaining contractual life (in years) | 1.6                         | -                                     | 2.6                         | -                                     |
| Weighted average fair value of options granted         | -                           | 7.28                                  | -                           | 7.28                                  |

**ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT**

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

| Particulars                                            | As at March 31, 2010 |                                       | As at March 31, 2009 |                                       |
|--------------------------------------------------------|----------------------|---------------------------------------|----------------------|---------------------------------------|
|                                                        | Number of options    | Weighted average exercise price (Rs.) | Number of options    | Weighted average exercise price (Rs.) |
| Outstanding at the beginning of the year               | 1,769,537            | 300.00                                | -                    | -                                     |
| Granted during the year                                | -                    | -                                     | 1,769,537            | 300.00                                |
| Forfeited during the year                              | -                    | -                                     | -                    | -                                     |
| Exercised during the year                              | -                    | -                                     | -                    | -                                     |
| Expired during the year                                | -                    | -                                     | -                    | -                                     |
| Outstanding at the end of the year                     | 1,769,537            | 300.00                                | 1,769,537            | 300.00                                |
| Exercisable at the end of the year                     | 1,769,537            | -                                     | 1,769,537            | -                                     |
| Weighted average remaining contractual life (in years) | 3.6                  | -                                     | 4.6                  | -                                     |
| Weighted average fair value of options granted         | -                    | 2.92                                  | -                    | 2.92                                  |

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

| Particulars                                            | As at March 31, 2010 |                                       | As at March 31, 2009 |                                       |
|--------------------------------------------------------|----------------------|---------------------------------------|----------------------|---------------------------------------|
|                                                        | Number of options    | Weighted average exercise price (Rs.) | Number of options    | Weighted average exercise price (Rs.) |
| Outstanding at the beginning of the year               | 900,000              | 300.00                                | -                    | -                                     |
| Granted during the year                                | -                    | -                                     | 900,000              | 300.00                                |
| Forfeited during the year                              | -                    | -                                     | -                    | -                                     |
| Exercised during the year                              | 225,000              | 300.00                                | -                    | -                                     |
| Expired during the year                                | -                    | -                                     | -                    | -                                     |
| Outstanding at the end of the year                     | 675,000              | 300.00                                | 900,000              | 300.00                                |
| Exercisable at the end of the year                     | -                    | -                                     | -                    | -                                     |
| Weighted average remaining contractual life (in years) | 2.6                  | -                                     | 3.6                  | -                                     |
| Weighted average fair value of options granted         | -                    | 1.81                                  | -                    | 1.81                                  |

**ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT**

The details of **Plan II (a)** have been summarized below:

| Particulars                                            | As at March 31, 2010 |                                       | As at March 31, 2009 |                                       |
|--------------------------------------------------------|----------------------|---------------------------------------|----------------------|---------------------------------------|
|                                                        | Number of options    | Weighted average exercise price (Rs.) | Number of options    | Weighted average exercise price (Rs.) |
| Outstanding at the beginning of the year               | 30,000               | 70.67                                 | 30,000               | 70.67                                 |
| Granted during the year                                | -                    | -                                     | -                    | -                                     |
| Forfeited during the year                              | -                    | -                                     | -                    | -                                     |
| Exercised during the year                              | -                    | -                                     | -                    | -                                     |
| Expired during the year                                | -                    | -                                     | -                    | -                                     |
| Outstanding at the end of the year                     | 30,000               | 70.67                                 | 30,000               | 70.67                                 |
| Exercisable at the end of the year                     | 30,000               | -                                     | 20,000               | -                                     |
| Weighted average remaining contractual life (in years) | 0.8                  | -                                     | 1.8                  | -                                     |
| Weighted average fair value of options granted         | -                    | 15.28                                 | -                    | 15.28                                 |

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

| Particulars                                            | As at March 31, 2010 |                                       | As at March 31, 2009 |                                       |
|--------------------------------------------------------|----------------------|---------------------------------------|----------------------|---------------------------------------|
|                                                        | Number of options    | Weighted average exercise price (Rs.) | Number of options    | Weighted average exercise price (Rs.) |
| Outstanding at the beginning of the year               | 15,000               | 70.67                                 | 15,000               | 70.67                                 |
| Granted during the year                                | -                    | -                                     | -                    | -                                     |
| Forfeited during the year                              | -                    | -                                     | -                    | -                                     |
| Exercised during the year                              | -                    | -                                     | -                    | -                                     |
| Expired during the year                                | -                    | -                                     | -                    | -                                     |
| Outstanding at the end of the year                     | 15,000               | 70.67                                 | 15,000               | 70.67                                 |
| Exercisable at the end of the year                     | 15,000               | -                                     | 7,500                | -                                     |
| Weighted average remaining contractual life (in years) | 0.8                  | -                                     | 1.8                  | -                                     |
| Weighted average fair value of options granted         | -                    | 17.72                                 | -                    | 17.72                                 |



**ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT**

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

| Particulars                                            | As at March 31, 2010 |                                       | As at March 31, 2009 |                                       |
|--------------------------------------------------------|----------------------|---------------------------------------|----------------------|---------------------------------------|
|                                                        | Number of options    | Weighted average exercise price (Rs.) | Number of options    | Weighted average exercise price (Rs.) |
| Outstanding at the beginning of the year               | 6,000                | 70.67                                 | -                    | -                                     |
| Granted during the year                                | -                    | -                                     | 6,000                | 70.67                                 |
| Forfeited during the year                              | -                    | -                                     | -                    | -                                     |
| Exercised during the year                              | -                    | -                                     | -                    | -                                     |
| Expired during the year                                | -                    | -                                     | -                    | -                                     |
| Outstanding at the end of the year                     | 6,000                | 70.67                                 | 6,000                | 70.67                                 |
| Exercisable at the end of the year                     | 4,000                | -                                     | 2,000                | -                                     |
| Weighted average remaining contractual life (in years) | 1.6                  | -                                     | 2.5                  | -                                     |
| Weighted average fair value of options granted         | -                    | 52.14                                 | -                    | 52.14                                 |

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

| Particulars                                            | As at March 31, 2010 |                                       | As at March 31, 2009 |                                       |
|--------------------------------------------------------|----------------------|---------------------------------------|----------------------|---------------------------------------|
|                                                        | Number of options    | Weighted average exercise price (Rs.) | Number of options    | Weighted average exercise price (Rs.) |
| Outstanding at the beginning of the year               | -                    | -                                     | -                    | -                                     |
| Granted during the year                                | 18,000               | 300.00                                | -                    | -                                     |
| Forfeited during the year                              | -                    | -                                     | -                    | -                                     |
| Exercised during the year                              | -                    | -                                     | -                    | -                                     |
| Expired during the year                                | -                    | -                                     | -                    | -                                     |
| Outstanding at the end of the year                     | 18,000               | 300.00                                | -                    | -                                     |
| Exercisable at the end of the year                     | 6,000                | -                                     | -                    | -                                     |
| Weighted average remaining contractual life (in years) | 2.3                  | -                                     | -                    | -                                     |
| Weighted average fair value of options granted         | -                    | 21.57                                 | -                    | -                                     |

**ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT**

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

| Particulars                                            | As at March 31, 2010 |                                       | As at March 31, 2009 |                                       |
|--------------------------------------------------------|----------------------|---------------------------------------|----------------------|---------------------------------------|
|                                                        | Number of options    | Weighted average exercise price (Rs.) | Number of options    | Weighted average exercise price (Rs.) |
| Outstanding at the beginning of the year               | -                    | -                                     | -                    | -                                     |
| Granted during the year                                | 90,000               | 300.00                                | -                    | -                                     |
| Forfeited during the year                              | -                    | -                                     | -                    | -                                     |
| Exercised during the year                              | -                    | -                                     | -                    | -                                     |
| Expired during the year                                | -                    | -                                     | -                    | -                                     |
| Outstanding at the end of the year                     | 90,000               | 300.00                                | -                    | -                                     |
| Exercisable at the end of the year                     | -                    | -                                     | -                    | -                                     |
| Weighted average remaining contractual life (in years) | 4.8                  | -                                     | -                    | -                                     |
| Weighted average fair value of options granted         | -                    | 72.53                                 | -                    | -                                     |

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

| Particulars                                            | As at March 31, 2010 |                                       | As at March 31, 2009 |                                       |
|--------------------------------------------------------|----------------------|---------------------------------------|----------------------|---------------------------------------|
|                                                        | Number of options    | Weighted average exercise price (Rs.) | Number of options    | Weighted average exercise price (Rs.) |
| Outstanding at the beginning of the year               | -                    | -                                     | -                    | -                                     |
| Granted during the year                                | 5,14,750             | 300.00                                | -                    | -                                     |
| Forfeited during the year                              | 12,500               | -                                     | -                    | -                                     |
| Exercised during the year                              | -                    | -                                     | -                    | -                                     |
| Expired during the year                                | -                    | -                                     | -                    | -                                     |
| Outstanding at the end of the year                     | 5,02,250             | 300.00                                | -                    | -                                     |
| Exercisable at the end of the year                     | -                    | -                                     | -                    | -                                     |
| Weighted average remaining contractual life (in years) | 4.6                  | -                                     | -                    | -                                     |
| Weighted average fair value of options granted         | -                    | 41.18                                 | -                    | -                                     |

**ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT**

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

| Particulars                                            | As at March 31, 2010 |                                       | As at March 31, 2009 |                                       |
|--------------------------------------------------------|----------------------|---------------------------------------|----------------------|---------------------------------------|
|                                                        | Number of options    | Weighted average exercise price (Rs.) | Number of options    | Weighted average exercise price (Rs.) |
| Outstanding at the beginning of the year               | -                    | -                                     | -                    | -                                     |
| Granted during the year                                | 1,313,160            | 150.00                                | -                    | -                                     |
| Forfeited during the year                              | 76,120               | -                                     | -                    | -                                     |
| Exercised during the year                              | -                    | -                                     | -                    | -                                     |
| Expired during the year                                | -                    | -                                     | -                    | -                                     |
| Outstanding at the end of the year                     | 1,237,040            | 150.00                                | -                    | -                                     |
| Exercisable at the end of the year                     | -                    | -                                     | -                    | -                                     |
| Weighted average remaining contractual life (in years) | 5.6                  | -                                     | -                    | -                                     |
| Weighted average fair value of options granted         | -                    | 115.30                                | -                    | -                                     |

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

| Particulars                                            | As at March 31, 2010 |                                       | As at March 31, 2009 |                                       |
|--------------------------------------------------------|----------------------|---------------------------------------|----------------------|---------------------------------------|
|                                                        | Number of options    | Weighted average exercise price (Rs.) | Number of options    | Weighted average exercise price (Rs.) |
| Outstanding at the beginning of the year               | -                    | -                                     | -                    | -                                     |
| Granted during the year                                | 568,000              | 300.00                                | -                    | -                                     |
| Forfeited during the year                              | 6,000                | -                                     | -                    | -                                     |
| Exercised during the year                              | -                    | -                                     | -                    | -                                     |
| Expired during the year                                | -                    | -                                     | -                    | -                                     |
| Outstanding at the end of the year                     | 562,000              | 300.00                                | -                    | -                                     |
| Exercisable at the end of the year                     | -                    | -                                     | -                    | -                                     |
| Weighted average remaining contractual life (in years) | 5.6                  | -                                     | -                    | -                                     |
| Weighted average fair value of options granted         | -                    | 69.29                                 | -                    | -                                     |

**ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT**

The details of exercise price for stock options outstanding at the end of the year March 31, 2010 are:

| Series                                                                 | Range of exercise prices (Rs.) | Number of options outstanding (31-Mar-10) | Number of options outstanding (31-Mar-09) | Weighted average remaining contractual life of options (in years) (31-Mar-10) | Weighted average remaining contractual life of options (in years) (31-Mar-09) | Weighted average exercise prices (Rs.) |
|------------------------------------------------------------------------|--------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------------------------------------------|-------------------------------------------------------------------------------|----------------------------------------|
| <b>Options outstanding as on 31-Mar-09 and 31-Mar-10:</b>              |                                |                                           |                                           |                                                                               |                                                                               |                                        |
| <b>Plan I (a)</b>                                                      | 49.77                          | 906,736                                   | 1,852,158                                 | 1.6                                                                           | 2.6                                                                           | 49.77                                  |
| <b>Plan I (b)</b>                                                      | 300.00                         | 1,769,537                                 | 1,769,537                                 | 3.6                                                                           | 4.6                                                                           | 300.00                                 |
| <b>Plan I (c)</b>                                                      | 300.00                         | 675,000                                   | 900,000                                   | 2.6                                                                           | 3.6                                                                           | 300.00                                 |
| <b>Plan II(a)</b>                                                      | 70.67                          | 30,000                                    | 30,000                                    | 0.8                                                                           | 1.8                                                                           | 70.67                                  |
| <b>Plan II(b)</b>                                                      | 70.67                          | 15,000                                    | 15,000                                    | 0.8                                                                           | 1.8                                                                           | 70.67                                  |
| <b>Plan II (c)</b>                                                     | 70.67                          | 6,000                                     | 6,000                                     | 1.6                                                                           | 2.6                                                                           | 70.67                                  |
| <b>Options issued during the year and outstanding as at 31-Mar-10:</b> |                                |                                           |                                           |                                                                               |                                                                               |                                        |
| <b>Plan II (d)</b>                                                     | 300.00                         | 18,000                                    | -                                         | 2.3                                                                           | -                                                                             | 300.00                                 |
| <b>Plan II (e)</b>                                                     | 300.00                         | 90,000                                    | -                                         | 4.8                                                                           | -                                                                             | 300.00                                 |
| <b>Plan III (a)</b>                                                    | 300.00                         | 502,250                                   | -                                         | 4.6                                                                           | -                                                                             | 300.00                                 |
| <b>Plan III (b)</b>                                                    | 150.00                         | 1,237,040                                 | -                                         | 5.6                                                                           | -                                                                             | 150.00                                 |
| <b>Plan III (c)</b>                                                    | 300.00                         | 562,000                                   | -                                         | 5.6                                                                           | -                                                                             | 300.00                                 |

**Stock Options granted:**

**Plan II (d)** - The weighted average fair value of stock options granted during the year was Rs. 21.57. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

|                                      | <b>Yr 1</b> | <b>Yr 2</b> | <b>Yr 3</b> |
|--------------------------------------|-------------|-------------|-------------|
| Weighted average share price (Rs.)   | 153.53      | 153.53      | 153.53      |
| Exercise price (Rs.)                 | 300.00      | 300.00      | 300.00      |
| Expected volatility (%)              | 56.00       | 56.00       | 56.00       |
| Historical volatility                | -           | -           | -           |
| Life of the options granted in years | 1.0         | 2.0         | 3.0         |
| Expected dividends per annum (Rs.)   | -           | -           | -           |
| Average risk-free interest rate (%)  | 4.93        | 5.20        | 6.15        |
| Expected dividend rate (%)           | 0%          | 0%          | 0%          |

Expected Volatility – Since SKS Microfinance Limited is not a listed Company, a 56% Standard Deviation is assumed based on the volatility of the Bank Nifty Index over the last year preceding the grant date.

**ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT**

**Plan II (e)** - The weighted average fair value of stock options granted during the year was Rs. 72.53. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

|                                      | <b>Yr 1</b> | <b>Yr 2</b> | <b>Yr 3</b> | <b>Yr 4</b> |
|--------------------------------------|-------------|-------------|-------------|-------------|
| Weighted average share price (Rs.)   | 235.87      | 235.87      | 235.87      | 235.87      |
| Exercise price (Rs.)                 | 300.00      | 300.00      | 300.00      | 300.00      |
| Expected volatility (%)              | 40.51       | 40.51       | 40.51       | 40.51       |
| Historical volatility                | -           | -           | -           | -           |
| Life of the options granted in years | 1.0         | 2.0         | 3.0         | 4.0         |
| Expected dividends per annum (Rs.)   | -           | -           | -           | -           |
| Average risk-free interest rate (%)  | 6.21        | 6.5         | 6.8         | 7.09        |
| Expected dividend rate (%)           | 0%          | 0%          | 0%          | 0%          |

Expected Volatility – Since SKS Microfinance Limited is not a listed Company, a 40.51 % Standard Deviation is assumed based on the volatility of the Bank Nifty Index over the one year period before Feb 1, 2010

**Plan III (a)** - The weighted average fair value of stock options granted during the year was Rs. 41.18. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

|                                      | <b>Yr 1</b> | <b>Yr 2</b> | <b>Yr 3</b> | <b>Yr 4</b> |
|--------------------------------------|-------------|-------------|-------------|-------------|
| Weighted average share price (Rs.)   | 196.04      | 196.04      | 196.04      | 196.04      |
| Exercise price (Rs.)                 | 300.00      | 300.00      | 300.00      | 300.00      |
| Expected volatility (%)              | 37.51       | 37.51       | 37.51       | 37.51       |
| Historical volatility                | -           | -           | -           | -           |
| Life of the options granted in years | 3.0         | 3.5         | 4.0         | 4.5         |
| Expected dividends per annum (Rs.)   | -           | -           | -           | -           |
| Average risk-free interest rate (%)  | 6.54        | 6.72        | 6.89        | 7.07        |
| Expected dividend rate (%)           | 0%          | 0%          | 0%          | 0%          |

Expected Volatility – Since SKS Microfinance Limited is not a listed Company, a 37.51% Standard Deviation is assumed based on the volatility of the Bank Nifty Index on the NSE over the one year period before November 3, 2009.

**Plan III (b)** - The weighted average fair value of stock options granted during the year was Rs. 115.30. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

|                                      | <b>Yr 1</b> | <b>Yr 2</b> | <b>Yr 3</b> | <b>Yr 4</b> | <b>Yr 5</b> |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Weighted average share price (Rs.)   | 205.23      | 205.23      | 205.23      | 205.23      | 205.23      |
| Exercise price (Rs.)                 | 150.00      | 150.00      | 150.00      | 150.00      | 150.00      |
| Expected volatility (%)              | 43.92       | 43.92       | 43.92       | 43.92       | 43.92       |
| Historical volatility                | -           | -           | -           | -           | -           |
| Life of the options granted in years | 3.5         | 4.0         | 4.5         | 5.0         | 5.5         |
| Expected dividends per annum (Rs.)   | -           | -           | -           | -           | -           |
| Average risk-free interest rate (%)  | 6.74        | 6.91        | 7.09        | 7.26        | 7.32        |
| Expected dividend rate (%)           | 0%          | 0%          | 0%          | 0%          | 0%          |

## ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT

Expected Volatility – Since SKS Microfinance Limited is not a listed Company, a 43.92% Standard Deviation is assumed based on the volatility of the Bank Nifty Index on the NSE over the one year period before December 15, 2009.

**Plan III (c)** - The weighted average fair value of stock options granted during the year was Rs. 69.29. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

|                                      | Yr 1   | Yr 2   | Yr 3   | Yr 4   | Yr 5   |
|--------------------------------------|--------|--------|--------|--------|--------|
| Weighted average share price (Rs.)   | 205.23 | 205.23 | 205.23 | 205.23 | 205.23 |
| Exercise price (Rs.)                 | 300.00 | 300.00 | 300.00 | 300.00 | 300.00 |
| Expected volatility (%)              | 43.92  | 43.92  | 43.92  | 43.92  | 43.92  |
| Historical volatility                | -      | -      | -      | -      | -      |
| Life of the options granted in years | 3.5    | 4      | 4.5    | 5      | 5.5    |
| Expected dividends per annum (Rs.)   | -      | -      | -      | -      | -      |
| Average risk-free interest rate (%)  | 6.74   | 6.91   | 7.09   | 7.26   | 7.32   |
| Expected dividend rate (%)           | 0%     | 0%     | 0%     | 0%     | 0%     |

Expected Volatility – Since SKS Microfinance Limited is not a listed Company, a 43.92% Standard Deviation is assumed based on the volatility of the Bank Nifty Index on the NSE over the one year period before December 15, 2009.

Effect of the share-based payment plans on the Profit and Loss Account and on its financial position:

(Rs. in millions)

| Particulars                                                                             | For the year ended<br>31-Mar-21010 | For the year ended<br>31-Mar-21009 |
|-----------------------------------------------------------------------------------------|------------------------------------|------------------------------------|
| Directors stock option expenditure for the year pertaining to share- based payment plan | 1.46                               | 16.72                              |
| Employee stock option expenditure for the year pertaining to share- based payment plan  | 27.92                              | -                                  |
| Particulars                                                                             | As at<br>31-Mar-21010              | As at<br>31-Mar-21009              |
| Deferred compensation cost outstanding                                                  | 18.18                              | 2.02                               |
| Stock Options Outstanding                                                               | 22.36                              | 21.32                              |

## ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT

### d. Leases

The table below sets forth information regarding our contractual obligations towards lease agreements entered into by the Company as of March 31, 2010, 2009, 2008 and 2007:

**Office Premises** - Head office and the Branch office premises are obtained on operating lease. The Branch office premises are generally rented on cancellable term for less than twelve months with no escalation clause and renewable at the option of the Company. However, the Head office premise has been obtained on the non-cancelable lease term of (Year ended March, 2010: Twenty four months, Year ended March, 2009 Sixty months, Year ended March 2008, 2007 and 2006: Not Applicable). with an escalation clause of (Year ended March, 2010 : Five percent for every twelve months, Year ended March, 2009: fifteen at the end of three years, Year ended March 2008, 2007 and 2006: Not Applicable). There are no restrictions imposed by lease arrangements. There are no subleases. Lease payments during the year are charged to Profit and Loss Account.

(Rs. in million)

|                                                       | As of March 31, |        |       |      |      |
|-------------------------------------------------------|-----------------|--------|-------|------|------|
|                                                       | 2010            | 2009   | 2008  | 2007 | 2006 |
| Operating lease payments recognized during the period | 140.85          | 88.12  | 26.26 | 8.78 | 1.32 |
| Minimum Lease Obligations                             |                 |        |       |      |      |
| Not later than one year                               | 41.31           | 40.94  | -     | -    | -    |
| Later than one year but not later than five years     | 32.13           | 145.91 | -     | -    | -    |
| Later than five years                                 | -               | -      | -     | -    | -    |

**Vehicles** - The Company has taken certain vehicles on cancellable operating leases. Total lease expense under cancellable operating lease during the year ended March 31, 2010 and 2009 are Rs.4.8 million and Rs.1.49 million respectively.

### e. Retirement and employee benefits

The Company has a defined contribution gratuity plan. Every employee who has completed five years or more of service is eligible for gratuity on departure and it is computed at 15 days salary (last drawn salary) for each completed year of service. The scheme is funded with an insurance company in the form of a qualifying insurance policy. The following tables summarize the components of net benefit expense recognized in the Profit and Loss Account and the funded status and amounts recognized in the Balance Sheet for the gratuity plan.

**Profit and Loss Account** - Net employees benefit expense:

(Rs. in million)

| Particulars                                        | As at March 31, |              |             |                   |                   |
|----------------------------------------------------|-----------------|--------------|-------------|-------------------|-------------------|
|                                                    | 2010            | 2009         | 2008        | 2007 <sup>^</sup> | 2006 <sup>^</sup> |
| Current service cost                               | 12.46           | 4.31         | 1.47        | -                 | -                 |
| Interest cost on benefit obligation                | 2.53            | 0.83         | 0.27        | -                 | -                 |
| Expected return on plan assets                     | (1.51)          | (0.40)       | (0.12)      | -                 | -                 |
| Net actuarial (gain) / loss recognized in the year | 3.44            | 8.59         | 2.01        | -                 | -                 |
| Past service cost                                  | -               | -            | -           | -                 | -                 |
| <b>Net employee benefit expense</b>                | <b>16.92</b>    | <b>13.33</b> | <b>3.63</b> | <b>1.76</b>       | <b>0.33</b>       |
| <b>Actual return on plan assets</b>                | <b>(0.04)</b>   | <b>0.83</b>  | <b>0.03</b> | <b>-</b>          | <b>-</b>          |

**ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT**

**Balance Sheet** - Details of provision for gratuity:

(Rs. in million)

| Particulars                          | Gratuity        |             |             |             |             |
|--------------------------------------|-----------------|-------------|-------------|-------------|-------------|
|                                      | As at March 31, |             |             |             |             |
|                                      | 2010            | 2009        | 2008        | 2007^       | 2006^       |
| Defined benefit obligation           | 36.48           | 19.64       | 5.48        | 1.83        | -           |
| Fair value of plan assets            | (34.89)         | (17.82)     | (5.40)      | (1.60)      | -           |
|                                      | 1.60            | 1.82        | 0.08        | 0.23        | 0.33        |
| Less: Unrecognized past service cost | -               | -           | -           | -           | -           |
| <b>Plan liability</b>                | <b>1.60</b>     | <b>1.82</b> | <b>0.08</b> | <b>0.23</b> | <b>0.33</b> |

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

(Rs. in million)

| Particulars                               | Gratuity        |              |             |             |             |
|-------------------------------------------|-----------------|--------------|-------------|-------------|-------------|
|                                           | As at March 31, |              |             |             |             |
|                                           | 2010            | 2009         | 2008        | 2007^       | 2006^       |
| Opening defined benefit obligation        | 19.64           | 5.48         | 1.83        | -           | -           |
| Interest cost                             | 2.53            | 0.83         | 0.27        | -           | -           |
| Current service cost                      | 12.46           | 4.31         | 1.47        | -           | -           |
| Benefits paid                             | (0.04)          | -            | -           | -           | -           |
| Actuarial (gains) / losses on obligation  | 1.89            | 9.02         | 1.91        | -           | -           |
| <b>Closing defined benefit obligation</b> | <b>36.48</b>    | <b>19.64</b> | <b>5.48</b> | <b>1.83</b> | <b>0.33</b> |

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

(Rs. In million)

| Particulars                              | Gratuity        |                   |                   |             |          |
|------------------------------------------|-----------------|-------------------|-------------------|-------------|----------|
|                                          | As at March 31, |                   |                   |             |          |
|                                          | 2010*           | 2009 <sup>#</sup> | 2008 <sup>@</sup> | 2007^       | 2006^    |
| Opening fair value of plan assets        | 17.82           | 5.40              | 1.59              | -           | -        |
| Expected return                          | 1.52            | 0.40              | 0.12              | -           | -        |
| Contributions by employer                | 17.14           | 11.59             | 3.78              | -           | -        |
| Benefits paid                            | (0.04)          | -                 | -                 | -           | -        |
| Actuarial gains / (losses)               | (1.55)          | 0.43              | (0.09)            | -           | -        |
| <b>Closing fair value of plan assets</b> | <b>34.89</b>    | <b>17.82</b>      | <b>5.40</b>       | <b>1.59</b> | <b>-</b> |

\* The Company has contributed Rs. 17.16 million, towards gratuity during the period April 1, 2009 to March 31, 2010.

<sup>#</sup> The Company has contributed Rs. 11.59 million, towards gratuity during the period April 1, 2008 to March 31, 2009.

<sup>@</sup> The Company has contributed Rs. 3.78 million, towards gratuity during the period April 1, 2007 to March 31, 2008.

Employer's estimate of contribution expected to be paid to the plan during the annual period beginning after the balance sheet date could not be reasonably determined.



# **ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT**

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

| Particulars            | Gratuity        |      |      |                   |                   |
|------------------------|-----------------|------|------|-------------------|-------------------|
|                        | As at March 31, |      |      |                   |                   |
|                        | 2010            | 2009 | 2008 | 2007 <sup>^</sup> | 2006 <sup>^</sup> |
| Insurance Managed Fund | 100%            | 100% | 100% | -                 | -                 |

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

## **The principal assumptions used in determining gratuity:**

| Particulars                               | Gratuity                                        |       |                                                  |       |           |       |                   |       |                   |       |
|-------------------------------------------|-------------------------------------------------|-------|--------------------------------------------------|-------|-----------|-------|-------------------|-------|-------------------|-------|
|                                           | As at March 31,                                 |       |                                                  |       |           |       |                   |       |                   |       |
|                                           | 2010                                            |       | 2009                                             |       | 2008      |       | 2007 <sup>^</sup> |       | 2006 <sup>^</sup> |       |
| Discount rate                             | 8.30%                                           |       | 7.90%                                            |       | 8.55%     |       | 8.25%             |       | -                 |       |
| Expected rate of return on assets         | 7.50%                                           |       | 7.50%                                            |       | 7.50%     |       | 7.50%             |       | -                 |       |
| Salary escalation rate per annum          | 10% for the first four years and 7% there after |       | 10% for the first three years and 7% there after |       | 7.00%     |       | 7.00%             |       | -                 |       |
| Rates of leaving service at specimen ages | Age (Yrs)                                       | Rates | Age (Yrs)                                        | Rates | Age (Yrs) | Rates | Age (Yrs)         | Rates | Age (Yrs)         | Rates |
|                                           | 21-30                                           | 5%    | 21-30                                            | 5%    | 21-30     | 5%    | 21-30             | 5%    | 21-30             | 5%    |
|                                           | 31-40                                           | 3%    | 31-40                                            | 3%    | 31-40     | 3%    | 31-40             | 3%    | 31-40             | 3%    |
|                                           | 41-59                                           | 2%    | 41-59                                            | 2%    | 41-59     | 2%    | 41-59             | 2%    | 41-59             | 2%    |

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors.

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

*(Rs. in million)*

| Particulars                                | Gratuity        |        |        |                   |                   |
|--------------------------------------------|-----------------|--------|--------|-------------------|-------------------|
|                                            | As at March 31, |        |        |                   |                   |
|                                            | 2010            | 2009   | 2008   | 2007 <sup>^</sup> | 2006 <sup>^</sup> |
| Defined benefit obligation                 | 36.48           | 19.64  | 5.48   | 1.83              | 0.33              |
| Plan assets                                | 34.89           | 17.82  | 5.40   | 1.60              | -                 |
| Surplus / (deficit)                        | (1.60)          | (1.82) | (0.08) | (0.23)            | (0.33)            |
| Experience adjustments on plan liabilities | 4.58            | 5.14   | 2.21   | -                 | -                 |
| Experience adjustments on plan assets      | (1.55)          | 0.43   | (0.09) | -                 | -                 |

<sup>^</sup> Refer note 3(f) to Annexure D

## ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT

### f. Segment Information

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

- g. The Company has incurred Rs.77.15 million in connection with the proposed public offer of equity shares during the year ended March 31, 2010. The amount shall be adjusted against securities premium arising from the proposed issue of equity shares, as permitted under Sec 78 of the Companies Act, 1956. The amount has been carried forward and disclosed as "Miscellaneous Expenditure" in the balance sheet as at March 31, 2010.
- h. **Disclosure pursuant to RBI circular no. RBI/2008-09/116 DNBS (PD).CC No.125/03.05.002/2008-2009 dated August 1, 2008.**

#### (a) Capital Risk to Asset Ratio ('CRAR')

|      | Item                       | 31-Mar-10 |
|------|----------------------------|-----------|
| i.   | CRAR (%)                   | 28.32%    |
| ii.  | CRAR – Tier I Capital (%)  | 28.32%    |
| iii. | CRAR - Tier II Capital (%) | 0.00%     |

#### (b) Asset Liability Management

Maturity pattern of certain items of assets and liabilities as on March 31, 2010:

(Rs. in million)

|                       | 1 day - 30/31 days (one Month ) | Over 1 month to 2 months | Over 2 month to 3 months | Over 3 month to 6 months | Over 6 month to 1 year | Over 1 year to 3 years | Over 3 year to 5 years | Over 5 year | Total     |
|-----------------------|---------------------------------|--------------------------|--------------------------|--------------------------|------------------------|------------------------|------------------------|-------------|-----------|
| <b>Liabilities</b>    |                                 |                          |                          |                          |                        |                        |                        |             |           |
| Borrowings from Banks | 2,288.84                        | 686.83                   | 1,415.91                 | 2,520.49                 | 6,919.35               | 6,139.21               | -                      | -           | 19,970.63 |
| Market Borrowings     | 332.50                          | 196.39                   | 629.66                   | 1,036.20                 | 1,459.60               | 2,999.40               | 322.30                 | -           | 6,976.05  |
| <b>Assets</b>         |                                 |                          |                          |                          |                        |                        |                        |             |           |
| Advances              | 4,614.28                        | 4,351.56                 | 3,736.55                 | 9,112.70                 | 7,799.59               | 7.84                   | 34.75                  | 89.64       | 29,746.91 |
| Investment            | -                               | -                        | -                        | -                        | -                      | -                      | -                      | 2.00        | 2.00      |

- (c) The Company has no exposure to Real Estate Sector directly or indirectly as at March 31, 2010.

**ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT**

**3. Adjustments arising out of change in accounting policies and prior period adjustment [(increase)/decrease in income]**

*(Rs. in million)*

| Particulars                                                                       | For the year ended March 31, |             |             |               |                |
|-----------------------------------------------------------------------------------|------------------------------|-------------|-------------|---------------|----------------|
|                                                                                   | 2010                         | 2009        | 2008        | 2007          | 2006           |
| <b>I) Change in accounting policies for:</b>                                      |                              |             |             |               |                |
| a) Accounting for miscellaneous expenditure** [Note 3(a) below]                   | -                            | -           | -           | (1.74)        | 1.48           |
| b) Accounting of interest income on loans [Note 3(b) below]                       | -                            | -           | -           | 22.85         | (22.85)        |
| c) Accounting of depreciation for assets costing below Rs. 5000 [Note 3(c) below] | -                            | -           | -           | (1.58)        | 1.58           |
| <b>Total</b>                                                                      | -                            | -           | -           | <b>19.53</b>  | <b>(19.79)</b> |
| <b>II) Prior period items</b>                                                     |                              |             |             |               |                |
| a) Prior period expenses [Note 3(d) below]                                        | -                            | -           | -           | (0.89)        | 0.89           |
| <b>Total</b>                                                                      | -                            | -           | -           | <b>(0.89)</b> | <b>0.89</b>    |
| <b>III) Taxes</b>                                                                 |                              |             |             |               |                |
| a) Prior period taxes [Note 3(d) below]                                           | (8.87)                       | 5.32        | 0.71        | 2.84          | -              |
| b) Tax impact on restatement adjustments [Note 3(e) below]                        | -                            | -           | -           | (6.86)        | 6.86           |
| <b>Total</b>                                                                      | <b>(8.87)</b>                | <b>5.32</b> | <b>0.71</b> | <b>(4.02)</b> | <b>6.86</b>    |

\*\* An amount of Rs.0.09 million for adjustment for changes in accounting policy and Rs.0.35 million for prior period miscellaneous expenditure has been adjusted against the opening reserve for the year 2005-06 as it pertains to the period prior to the year 2005-06.

**Notes to Restated Summary Statement for adjustments arising out of changes in accounting policies and prior period adjustment**

**a. Accounting for miscellaneous expenditure:-**

During the year ended March 31, 2004 and March 31, 2006 the Company had incurred miscellaneous expenditure in the nature of pre incorporation expenses and in the nature of share issue expenses. This expenditure was being amortized over a period of five years. However, amortization of miscellaneous expenditure over a period of five years, is against the requirement of Accounting Standard 26, "Intangible assets" notified accounting standard by Companies (Accounting Standards) Rules, 2006 (as amended), which requires miscellaneous expenditure in nature of pre incorporation expenses to be charged off in the year in which they are incurred. Similarly, in case of share issue expenses, this expense was being expensed off over a period of five years as against the Company's policy of expensing off the same in the year in which the share issue expenses were incurred unless the management intends to adjust the same against the share premium as permitted under section 78 of the Companies Act, 1956. Accordingly, restatement adjustment has been made to the audited Balance Sheet, Profit and Loss Account and Cash Flow Statement ('the Audited Financial Statements'), for the year ended March 31, 2006 and March 31, 2007.

## **ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT**

**b. Accounting for interest income on loans:-**

Till the year ended March 31, 2006 the Company has accounted its interest income on portfolio loans on flat interest rate method, as against the requirement of the Accounting Standard - 9 "Revenue Recognition" notified accounting standard by Companies (Accounting Standards) Rules, 2006 (as amended), which provides that the interest income is to be recognized on internal rate of return method. The change in the accounting policy was adopted during the year ended March 31, 2007. Accordingly, restatement adjustments have been made to the Audited Financial Statements, for the year ended March 31, 2006 and March 31, 2007.

**c. Accounting for depreciation on assets costing below Rs. 5000:-**

Till the year ended March 31, 2006 the assets costing below Rs. 5000 were depreciated on Written Down Value method using the rates of depreciation prescribed in Schedule XIV to the Companies Act, 1956 ('the Act'), as against the requirement of the Act to charge 100% depreciation on acquisition of such items. The change in the accounting policy was adopted during the year ended March 31, 2007. Accordingly, restatement adjustments have been made to the Audited Financial Statements, for the year ended March 31, 2006 and March 31, 2007.

**d. Prior period items:-**

In the Audited Financial Statements for the years ended March 31, 2010, 2009, 2008, 2007 and 2006 certain items of income/expenses both in the nature of taxes, employee welfare and statutory dues were identified as prior period items. For the purpose of this statement, such prior period items have been appropriately adjusted in the respective years.

**e. Tax impact on restatement adjustments:-**

Income Tax has been computed on restatement adjustments made as detailed above and has been adjusted in the restated profits and losses for the years ended March 31, 2010, 2009, 2008, 2007 and 2006.

**f. Adoption of Accounting Standard AS-15 (Revised 2005) Employee Benefits**

The Company adopted Accounting Standard 15 (Revised 2005) Accounting for retirement Benefits during the year ended March 31, 2008. This change did not have a material impact either on the profits for the year ended March 31, 2008 or on the liability as at April 1, 2007.

**g. The figures have been re-grouped / re-classified wherever necessary.**

**h. Non adjusting items**

**Audit qualification** - There are no qualifications in the auditors' reports which may require any adjustments to the Restated Summary Statements. Further, the statement on matters specified in the Companies (Auditors' Report) Order, 2003 (as amended), annexed to the auditors' reports on the audited financial statements for the years ended March 31, 2010, March 31, 2009, March 31, 2008, March 31, 2007 and March 31, 2006, included, certain qualified statements which do not require any corrective adjustments in the restated summary statements are as follows:

## ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT

### For the financial year ended March 31, 2010

- **Reporting on frauds on/by the Company**

Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no material frauds on or by the Company were noticed / reported during the year though there were some instances of frauds on the Company by its employees and borrowers as given below:

- (a) *Eighty two cases of cash embezzlements by the employees of the Company aggregating Rs.15,024,158 were reported during the year.* The services of all such employees involved have been terminated and the Company is in the process of taking legal action. We have been informed that thirty seven of these employees were absconding. The outstanding balance (net of recovery) aggregating Rs.8,663,302 has been written off;
- (b) *Sixty one cases of loans given to non-existent borrowers on the basis of fictitious documentation created by the employees of the Company aggregating Rs.13,645,345 were reported during the year.* The services of all such employees involved have been terminated and the Company is in the process of taking legal action. The outstanding loan balance (net of recovery) aggregating Rs.11,029,667 has been written off; and
- (c) *Thirty one cases of loans taken by certain borrowers, in collusion with and under the identity of other borrowers, aggregating Rs.6,025,000, were reported during the year.* The Company is pursuing the borrowers to repay the money. The outstanding loan balance (net of recovery) aggregating Rs.2,359,930 has been written off.

### For the financial year ended March 31, 2009

- **Delay in discharge of undisputed statutory dues**

Undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service-tax, customs duty, excise duty and cess have generally been regularly deposited with the appropriate authorities, *except in case of dues of employees' profession tax which have not been regularly deposited with the appropriate authorities though the delays in deposit have not been serious.*

- **Reporting on frauds on/by the Company**

Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no material frauds on or by the Company were noticed / reported during the year although there were some instances of frauds on the Company by its employees as given below:

- (a) *Thirty-three cases of cash embezzlements by the employees of the Company aggregating to Rs 7,079,683 were reported during the year.* The services of all such employees involved have been terminated and the Company is in the process of taking legal action. We have been informed that nine of these employees are absconding. The outstanding loan balance (net of recovery) aggregating to Rs 5,377,428 has been written off;

**ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT**

- (b) Eighteen cases of loans given to non-existent borrowers on the basis of fictitious documentation created by the employees of the Company aggregating to Rs.5,645,657 were reported during the year. The services of all such employees involved have been terminated and the Company is in the process of taking legal action. The outstanding loan balance (net of recovery) aggregating to Rs.4,253,379 has been written off; and
- (c) *Eighteen cases of loans given to non-existent borrowers on the basis of fictitious documentation created by the employees of the Company aggregating to Rs.5,645,657 were reported during the year. The services of all such employees involved have been terminated and the Company is in the process of taking legal action. The outstanding loan balance (net of recovery) aggregating to Rs.4,253,379 has been written off; and*
- (d) *One case of fraud by an employee of the Company in collusion with vendors has been reported during the year. The aggregate value of transactions is Rs.9,610,755 (including Rs.3,051,510 in respect of the previous year). The services of the said employee and the arrangement with the said vendors have been terminated. The Company has initiated legal action and criminal proceedings against such employee. The financial effect of the loss incurred by the Company is not currently quantifiable.*

**For the financial year ended March 31, 2008**

• **Adequacy of internal audit system**

Company has an internal audit system, *the scope and coverage of which, in our opinion requires to be enlarged to be commensurate with the size and nature of its business.*

• **Delay in discharge of undisputed statutory dues**

Undisputed statutory dues including provident fund, employees' state insurance, sales-tax, wealth-tax, customs duty, excise duty, cess have generally been regularly deposited with the appropriate authorities *though there has been a slight delay in a few cases; in case of advance income-tax, there has been a significant delay in one case; and in case of dues for service tax, there have been considerable delays in many cases.*

• **Reporting on frauds on/by the Company**

We have been informed that during the period covered by our audit report, *following cases of frauds were noticed or reported by the Company as given below:*

- (a) *Twenty-one cases of cash embezzlements by the employees of the Company aggregating to Rs.6,290,091. The services of all such employees involved have been terminated and the Company is in the process of taking legal action. We have been informed that eleven of these employees are absconding. The outstanding loan balance (net of recovery) aggregating to Rs.5,665,580 has been written off;*
- (b) *Two cases of misrepresentation by the employees of the Company aggregating to Rs.1,354,000. The services of all such employees involved have been terminated and the Company is in the process of taking legal action. We have been informed that one such employee is absconding. The outstanding loan balance (net of recovery) aggregating to Rs.925,753 has been provided for; and*
- (c) *Misrepresentation by a borrower who collected loan repayments from other borrowers aggregating to Rs.1,55,000. The Company is pursuing the borrower to repay the money. The amount has been fully written off.*

## ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT

### For the financial year ended March 31, 2007

- **Adequacy of internal audit system**

The Company has an internal audit system, *the scope and coverage of which, in our opinion requires to be enlarged to be commensurate with the size and nature of its business.*

- **Delay in discharge of undisputed statutory dues**

Undisputed statutory dues including provident fund, investor education and protection fund, or employees' state insurance, income-tax, sales-tax, wealth-tax, customs duty, excise duty, cess have generally been regularly deposited with the appropriate authorities *though there has been a slight delay in a few cases and in case of dues for service tax, these have not been regularly deposited with the appropriate authorities and there have been serious delays in large number of cases.*

- **Undisputed statutory dues remaining unpaid for more than six months as at the balance sheet date**

According to the information and explanations given to us, undisputed dues in respect of provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty, cess and other statutory dues which were outstanding, at the year end for a period of more than six months from the date they became payable are as follows:

| Name of the statute                    | Nature of the dues                             | Amount (Rs.) | Period to which the amount relates | Due Date                                | Date of Payment                                    |
|----------------------------------------|------------------------------------------------|--------------|------------------------------------|-----------------------------------------|----------------------------------------------------|
| Employee State Insurance Corporation   | Contribution to the fund                       | 123,754      | November 2005 – September 2006     | 21 <sup>st</sup> of the following month | Of the total, Rs. Rs.64,033 paid on April 17, 2007 |
| Maharashtra Professional Tax Act, 1975 | Professional Tax                               | 16,620       | April 2006 – September 2006        | 15 <sup>th</sup> of the following month | -                                                  |
| Service Tax Act                        | Service tax on membership fees                 | 648,535      | September 2005 – September 2006    | 5 <sup>th</sup> of the following month  | -                                                  |
| Service Tax Act                        | Interest on service tax dues above             | 87,001       | September 2005 – September 2006    | Not Applicable                          | -                                                  |
| Service Tax Act                        | Service tax on loan processing fees            | 951,262      | September 2005 – September 2006    | 5 <sup>th</sup> of the following month  | -                                                  |
| Service Tax Act                        | Interest on service tax dues above             | 104,938      | September 2005 – September 2006    | Not Applicable                          | -                                                  |
| Service Tax Act                        | Service tax on income from management services | 434,194      | May 2006 – September 2006          | 5th of the following month              | -                                                  |
| Service Tax Act                        | Interest on service tax dues above             | 36,237       | May 2006 – September 2006          | Not Applicable                          | -                                                  |

## **ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT**

- **Default in Term loan repayment**

Based on our procedures and as per the information and explanations given by the management, *the Company has defaulted in repayment of dues to bank. Term loan repayment amounting to Rs 5,000,000 became due for repayment on January 18, 2007 which was repaid by the Company on January 23, 2007.* The Company has not defaulted in repayment of dues to a financial institution. The Company did not have any outstanding debentures during the year.

- **Reporting on frauds on/by the Company**

We have been informed that during the period covered by our audit report, *six cases of frauds were noticed / reported by the Company as given below*

- (a) *Five cases of cash embezzlements by the employees of the Company aggregating to Rs. 751,095.* Of these, we have been informed that three employees are absconding. The services of all five employees involved have been terminated and the Company is in the process of taking legal action. We have been informed that the Company is adequately covered by fidelity insurance cover;
- (b) *Misrepresentation by a member who collected loans disbursed to several other members aggregating to Rs. 165,000.* The Company is pursuing the member to repay the money. The loan balance remaining uncollected has been fully provided.

### **For the financial year ended March 31, 2006 as per the previous auditor V. Nagarajan & Co.**

- **Adequacy of internal audit system**

The Company has an internal audit system, the scope and coverage of which, in our opinion requires being covered Head office and be enlarged to be commensurate with the size and nature of its business, including its future expansion.

- **Delay in discharge of undisputed statutory dues**

According to the records of the company, the company is generally regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education protection fund, income-tax, sales-tax, wealth-tax, service tax, fringe benefit tax, custom duty, excise-duty, cess and other statutory dues applicable to it, except for:

- (d) Non-deposit of ESI contribution of Rs.498,411/- (including of employees share of Rs.124,559/-) as on 31.03.06 pending registration with ESI authorities.
- (e) Professional Tax of Rs.29,661/- outstanding as on 31.03.06, of which Rs.4,589/- still remains outstanding.

- **Undisputed statutory dues remaining unpaid for more than six months as at the balance sheet date**

According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, service tax, customs duty and excise duty were outstanding, as at March 31, 2006 for a period of more than six months from the date they became payable, except to the extent referred above.



**ANNEXURE D - SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON  
ADJUSTMENTS FOR RESTATED SUMMARY STATEMENT**

- **Reporting on frauds on/by the Company**

Based on the audit procedures performed and information and explanations given to us by the management, we report that there was a solitary instance of fraud which was in the nature of misappropriation of collection from customers to the extent of Rs. 34,000/- by an employee, which is yet to be recovered.

**As per our report of even date**

**For S. R. Batliboi & Co.**  
**Firm Registration No: 301003E**  
**Chartered Accountants**

**per Viren H. Mehta**

Partner

Membership No: 048749

Place: Mumbai

Date: July 12, 2010

# ANNEXURE E - STATEMENT OF OTHER INCOME

(Rs. in million)

| Particulars                                             | For the year ended March 31, |         |        |        |        |
|---------------------------------------------------------|------------------------------|---------|--------|--------|--------|
|                                                         | 2010                         | 2009    | 2008   | 2007   | 2006   |
| Other income                                            | 853.58                       | 479.28  | 75.42  | 11.71  | 9.85   |
| Profit before tax, as restated                          | 2,677.01                     | 1240.57 | 289.43 | 45.39  | 28.73  |
| % of other income to net profit before tax, as restated | 31.89%                       | 38.63%  | 26.06% | 25.80% | 34.28% |

The details of other income for the years ended March 31, 2010, March 31, 2009, March 31, 2008, March 31, 2007 and March 31, 2006:

(Rs. in million)

| Particulars                            | Recurring Income | Related to business | For the year ended March 31, |               |              |              |             |
|----------------------------------------|------------------|---------------------|------------------------------|---------------|--------------|--------------|-------------|
|                                        |                  |                     | 2010                         | 2009          | 2008         | 2007         | 2006        |
| Interest on bank deposits              | Yes              | Yes                 | 272.31                       | 171.37        | 20.16        | 1.84         | 0.42        |
| Insurance commission                   | Yes              | Yes                 | 192.51                       | 118.85        | -            | -            | -           |
| Other commission income                | Yes              | Yes                 | 32.31                        | 0.71          | -            | -            | -           |
| Dividend from mutual fund              | Yes              | Yes                 | -                            | -             | 0.14         | 0.59         | 0.11        |
| Group insurance administrative charges | Yes              | Yes                 | 323.23                       | 175.39        | 45.82        | 4.91         | 2.43        |
| Profit on disposal of fixed assets     | No               | Yes                 | -                            | 0.01          | -            | -            | -           |
| Miscellaneous income                   | No               | Yes                 | 33.22                        | 12.95         | 9.30         | 4.37         | 6.89        |
| <b>Total</b>                           |                  |                     | <b>853.58</b>                | <b>479.28</b> | <b>75.42</b> | <b>11.71</b> | <b>9.85</b> |

# ANNEXURE F - STATEMENT OF RELATED PARTY TRANSACTIONS

## I. Names of the related parties and their relationship

| Category of Related Parties            | For the year ended March 31,                                                                 |                                                                                       |      |      |                              |
|----------------------------------------|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|------|------|------------------------------|
|                                        | 2010                                                                                         | 2009                                                                                  | 2008 | 2007 | 2006                         |
| Entities holding significant influence | Sequoia Capital India II, LLC                                                                |                                                                                       |      |      | Swayam Krishi Sangam Society |
|                                        | Sequoia Capital India Growth Investment I                                                    |                                                                                       |      | -    |                              |
|                                        | Tejas Ventures                                                                               |                                                                                       |      | -    |                              |
| Key management personnel               | Dr. Vikram Akula<br>(Chairman )                                                              | Dr. Vikram Akula<br>(Managing director and CEO till October 13, 2008)                 |      |      |                              |
|                                        | Mr. Suresh Gurumani<br>(Managing Director and Chief Executive Officer from December 8, 2009) |                                                                                       | -    |      |                              |
|                                        | Mr. S. Dilli Raj (Chief Financial Officer)<br>Mr. M R Rao ( Chief Operating Officer)         |                                                                                       | -    |      |                              |
| Relatives of key management personnel  | -                                                                                            | Mr. Krishna Akula (Father of Dr. Vikram Akula), (related party till October 13, 2008) |      |      |                              |

## ANNEXURE F – STATEMENT OF RELATED PARTY TRANSACTIONS

### II. Related Party transactions

(Rs in million)

| Nature of Transaction                                 | Entities with Significant Influence |             |             |           |           | Key Management Personnel |            |           |           |           | Relatives of Key Management Personnel |           |           |           |           | Total     |           |           |           |           |
|-------------------------------------------------------|-------------------------------------|-------------|-------------|-----------|-----------|--------------------------|------------|-----------|-----------|-----------|---------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Transactions during the year/period ended             | 2009-2010\$                         | 2008-2009\$ | 2007-2008\$ | 2006-2007 | 2005-2006 | 2009-2010*               | 2008-2009* | 2007-2008 | 2006-2007 | 2005-2006 | 2009-2010                             | 2008-2009 | 2007-2008 | 2006-2007 | 2005-2006 | 2009-2010 | 2008-2009 | 2007-2008 | 2006-2007 | 2005-2006 |
| Issue of equity shares (including securities premium) | -                                   | -           | 537.37      | 270.27    | -         | 117.55                   | -          | -         | 16.36     | -         | -                                     | -         | -         | -         | -         | 117.55    | -         | 537.37    | 286.63    | -         |
| Rent expense                                          | -                                   | -           | -           | -         | -         | -                        | -          | -         | -         | -         | -                                     | -         | 0.88      | 0.90      | 0.65      | -         | -         | 0.88      | 0.90      | 0.65      |
| Loan given                                            | -                                   | -           | -           | -         | -         | -                        | -          | -         | 16.36     | -         | -                                     | -         | -         | -         | -         | -         | -         | -         | 16.36     | -         |
| Remuneration #                                        | -                                   | -           | -           | -         | -         | 40.13                    | 48.97      | 16.59     | 4.93      | 2.40      | -                                     | -         | -         | -         | -         | 40.13     | 48.97     | 16.59     | 4.93      | 2.40      |
| Business acquisition                                  | -                                   | -           | -           | -         | 55.22     | -                        | -          | -         | -         | -         | -                                     | -         | -         | -         | -         | -         | -         | -         | -         | 55.22     |
| Interest paid                                         | -                                   | -           | -           | -         | 10.47     | -                        | -          | -         | -         | -         | -                                     | -         | -         | -         | -         | -         | -         | -         | -         | 10.47     |
| <b>Balances at year / period end</b>                  | -                                   | -           | -           | -         | -         | -                        | -          | -         | -         | -         | -                                     | -         | -         | -         | -         | -         | -         | -         | -         | -         |
| Share capital outstanding                             | 158.07                              | 138.52      | 130.34      | 54.30     | -         | 6.94                     | -          | 16.36     | 16.36     | -         | -                                     | -         | -         | -         | -         | 165.01    | 138.52    | 146.70    | 70.66     | -         |
| Incentive payables                                    | -                                   | -           | -           | -         | -         | 3.10                     | 10.00      | 7.04      | 1.10      | -         | -                                     | -         | -         | -         | -         | 3.10      | 10.00     | 7.04      | 1.10      | -         |
| Loan outstanding                                      | -                                   | -           | -           | -         | -         | -                        | -          | -         | 16.36     | -         | -                                     | -         | -         | -         | -         | -         | -         | -         | 16.36     | -         |
| ESOP outstanding                                      | -                                   | -           | -           | -         | -         | 12.40                    | 18.83      | 2.51      | -         | -         | -                                     | -         | -         | -         | -         | 12.40     | 18.83     | 2.51      | -         | -         |
| Rent payable                                          | -                                   | -           | -           | -         | -         | -                        | -          | -         | -         | -         | -                                     | -         | -         | 0.06      | -         | -         | -         | -         | 0.06      | -         |

\$Refer Note-1 below.

\*Refer Note-2 below.

# As the liability for employee benefits pertaining to the key managerial personnel are provided on an actuarial basis for the Company as a whole, the amounts pertaining to the key management personnel are not included above.

**Note - 1**

(Rs in million)

|                                                                                        | Entities with Significant Influence |               |               |
|----------------------------------------------------------------------------------------|-------------------------------------|---------------|---------------|
|                                                                                        | 31-Mar-10                           | 31-Mar-09     | 31-Mar-2008   |
| <b>Transactions during the year - Issue of Equity shares (including share premium)</b> |                                     |               |               |
| Sequoia Capital India II, LLC                                                          | -                                   | -             | 201.20        |
| Sequoia Capital India Growth Investment I                                              | -                                   | -             | 211.75        |
| Tejas Ventures                                                                         | -                                   | -             | 124.42        |
| <b>Total</b>                                                                           | -                                   | -             | <b>537.37</b> |
| <b>Balances as at year end - Share capital outstanding</b>                             |                                     |               |               |
| Sequoia Capital India II, LLC                                                          | 90.96                               | 90.96         | 82.77         |
| Sequoia Capital India Growth Investment I                                              | 49.51                               | 29.96         | 17.61         |
| Tejas Ventures                                                                         | 17.60                               | 17.60         | 29.96         |
| <b>Total</b>                                                                           | <b>158.07</b>                       | <b>138.52</b> | <b>130.34</b> |

**Note - 2**

(Rs in million)

|                                                              | Key Management Personnel |              |
|--------------------------------------------------------------|--------------------------|--------------|
|                                                              | 31-Mar-10                | 31-Mar-09    |
| <b>Transaction during the year</b>                           |                          |              |
| <b>Issue of equity shares (including securities premium)</b> |                          |              |
| Mr. Suresh Gurumani                                          | 70.50                    | -            |
| Dr. Vikram Akula                                             | 47.05                    | -            |
| <b>Total</b>                                                 | <b>117.55</b>            | -            |
| <b>Remuneration</b>                                          |                          |              |
| Mr. Vikram Akula                                             | -                        | 17.98        |
| Mr. Suresh Gurumani                                          | 16.96                    | 14.81        |
| Mr. M.R. Rao                                                 | 14.14                    | 10.76        |
| Mr. S. Dilli Raj                                             | 9.03                     | 5.42         |
| <b>Total</b>                                                 | <b>40.13</b>             | <b>48.97</b> |
| <b>Balances as at year end</b>                               |                          |              |
| <b>Share Capital Outstanding</b>                             |                          |              |
| Mr. Suresh Gurumani                                          | 2.35                     | -            |
| Mr. M.R. Rao                                                 | 3.56                     | -            |
| Mr. S. Dilli Raj                                             | 1.03                     | -            |
| <b>Total</b>                                                 | <b>6.94</b>              | -            |
| <b>Incentive Payable</b>                                     |                          |              |
| Mr. Suresh Gurumani                                          | 1.50                     | 10.00        |
| Mr. M.R. Rao                                                 | 1.00                     | -            |
| Mr. S. Dilli Raj                                             | 0.60                     | -            |
| <b>Total</b>                                                 | <b>3.10</b>              | <b>10.00</b> |
| <b>ESOP Outstanding</b>                                      |                          |              |
| Mr. Suresh Gurumani                                          | 0.63                     | 0.18         |
| Dr. Vikram Akula                                             | 11.77                    | 18.65        |
| <b>Total</b>                                                 | <b>12.40</b>             | <b>18.83</b> |

## ANNEXURE G – STATEMENT OF CONTINGENT LIABILITIES

(Rs. in million)

| Particulars                                                                                                            | As at March 31, |          |        |       |      |
|------------------------------------------------------------------------------------------------------------------------|-----------------|----------|--------|-------|------|
|                                                                                                                        | 2010            | 2009     | 2008   | 2007  | 2006 |
| Guarantees given and outstanding for the assigned loans (including cash collaterals and receivable placed with banks). | 2,409.38        | 1,958.16 | 276.09 | -     | -    |
| Guarantees provided by the Company for the management of portfolio of other banks.                                     | -               | -        | -      | 27.00 | 8.00 |
| Claims against the Company not acknowledged as debts*                                                                  | 24.09           | -        | -      | -     | -    |

\*Represents the tax on amortization of goodwill disallowed by the Income Tax department not acknowledged by the Company.

## ANNEXURE H - STATEMENT OF DIVIDEND DECLARED:

| Particulars                        | For the year ended March 31, |      |      |      |      |
|------------------------------------|------------------------------|------|------|------|------|
|                                    | 2010                         | 2009 | 2008 | 2007 | 2006 |
| Equity shares - Face value – (Rs.) | 10                           | 10   | 10   | 10   | 10   |
| Final dividend                     | Nil                          | Nil  | Nil  | Nil  | Nil  |

## ANNEXURE I - CAPITALISATION STATEMENT AS AT MARCH 31, 2010

(Rs. in million)

| Particulars                                                              | Pre-Issue        | Post-issue** |
|--------------------------------------------------------------------------|------------------|--------------|
| <b>Debt</b>                                                              |                  |              |
| Short term debt                                                          | 3,915.35         | [.]          |
| Long term debt                                                           | 23,031.37        | [.]          |
| <b>Total debt</b>                                                        | <b>26,946.72</b> | [.]          |
| <b>Shareholders' funds</b>                                               |                  |              |
| Share capital (Equity Share Capital)                                     | 645.27           | [.]          |
| Stock Options Outstanding                                                | 41.79            | [.]          |
| Reserves and surplus                                                     | 8,893.26         | [.]          |
| Less: Miscellaneous Expenditure to the extent not written off / adjusted | (77.15)          |              |
| <b>Total shareholders' funds</b>                                         | <b>9,503.17</b>  | [.]          |
| <b>Total debt / shareholders' funds (ratio)</b>                          | <b>2.84</b>      | [.]          |

\*\* The corresponding Post-Issue Debt / Shareholders' funds ratio are not determinable at this stage as it can be ascertained only after the conclusion of the book building process.

## ANNEXURE J - STATEMENT OF ACCOUNTING RATIOS

### EARNINGS PER SHARE AND RETURN ON NET WORTH

| Particulars                                    | For the year ended March 31, |       |      |      |       |
|------------------------------------------------|------------------------------|-------|------|------|-------|
|                                                | 2010                         | 2009  | 2008 | 2007 | 2006  |
| Earnings per Share (EPS) – Basic (Rs.)         | 32.98                        | 17.83 | 5.50 | 1.58 | 6.31  |
| Earnings per Share (EPS) - Diluted (Rs.)       | 27.47                        | 16.08 | 5.38 | 1.58 | 6.31  |
| Return on Net Worth (%) for equity shareholder | 18.40                        | 12.17 | 7.81 | 3.09 | 10.58 |

### NET ASSET VALUE (NAV) PER EQUITY SHARE

| Particulars                | For the year ended March 31, |        |       |       |       |
|----------------------------|------------------------------|--------|-------|-------|-------|
|                            | 2010                         | 2009   | 2008  | 2007  | 2006  |
| NAV per equity share (Rs.) | 147.27                       | 136.70 | 47.88 | 26.80 | 11.19 |

#### Basis of computation:

#### **Formulae:**

|                                        |                                                                                                           |
|----------------------------------------|-----------------------------------------------------------------------------------------------------------|
| <b>Earnings per Share (Rs.)</b>        | Net profit after tax as restated / Weighted average number of equity shares outstanding during the year** |
| <b>Net Asset Value per Share (Rs.)</b> | Net worth for equity shareholders / Number of equity shares outstanding as at the year end **             |
| <b>Return on Net Worth</b>             | Net profit after tax as restated/ Net worth for equity shareholders                                       |

**Note 1:** Net worth for equity shareholders = Equity share capital + Reserves and surplus + Stock options outstanding.

**Note 2:** Profit after tax, as restated and appearing in the statement of Restated Profit and Loss of the Company has been considered for the purpose of computing the above ratios.

**Note3:** Earnings per Share is calculated in accordance with Accounting Standard 20 'Earnings Per Share', notified accounting standard by Companies (Accounting Standards) Rules, 2006 (as amended).

\*\* includes 3,863,415 equity shares of Rs. 10 each, Re.0.50 paid up considered as 193,171 equity shares of Rs. 10 each fully paid for fiscal 2008 and fiscal 2009.

## ANNEXURE J - STATEMENT OF ACCOUNTING RATIOS

### **Note 4:** Weighted average number of shares outstanding during the year for Basic and Diluted Earnings per share

| Particulars                                                                                                         | For the year ended March 31, |            |            |            |            |
|---------------------------------------------------------------------------------------------------------------------|------------------------------|------------|------------|------------|------------|
|                                                                                                                     | 2010                         | 2009       | 2008       | 2007       | 2006       |
| Nominal value of equity shares - (Rs.)                                                                              | 10                           | 10         | 10         | 10         | 10         |
| (A) weighted average number of equity shares outstanding during the year – for computing Basic Earnings per Share   | 53,009,025                   | 44,692,320 | 30,114,632 | 13,942,063 | 2,611,834  |
| (B) weighted average number of equity shares outstanding during the year – for computing Diluted Earnings per Share | 63,641,183                   | 49,574,138 | 30,816,591 | 13,942,063 | 2,611,834  |
| (C) Shares outstanding as at the period / year end – For computing Net Asset Value                                  | 64,527,219                   | 47,901,027 | 44,331,652 | 26,643,047 | 13,907,170 |

### **Note 5:** Net worth for equity shareholders

| Particulars          | Net worth as per Restated Assets and Liabilities stated in Annexure A of the Restated Summary Statements | Preference Share Capital | Net worth for the equity share holders |
|----------------------|----------------------------------------------------------------------------------------------------------|--------------------------|----------------------------------------|
|                      | (a)                                                                                                      | (b)                      | (c) = (a) – (b)                        |
| As at March 31, 2010 | 9,503.17                                                                                                 | -                        | 9,503.17                               |
| As at March 31, 2009 | 6,639.64                                                                                                 | 91.56                    | 6,548.08                               |
| As at March 31, 2008 | 2,121.82                                                                                                 | -                        | 2,121.82                               |
| As at March 31, 2007 | 713.93                                                                                                   | -                        | 713.93                                 |
| As at March 31, 2006 | 155.60                                                                                                   | -                        | 155.60                                 |



**ANNEXURE K - STATEMENT OF TAX SHELTER**
*(Rs. in million)*

| Particulars                                                                     | As at March 31, |                 |               |              |                |
|---------------------------------------------------------------------------------|-----------------|-----------------|---------------|--------------|----------------|
|                                                                                 | 2010            | 2009            | 2008          | 2007         | 2006           |
| <b>Profits before tax, as restated</b>                                          | <b>2,677.01</b> | <b>1,240.57</b> | <b>289.43</b> | <b>45.39</b> | <b>28.73</b>   |
| <b>Income tax rate - statutory rate</b>                                         | 33.99%          | 33.99%          | 33.99%        | 33.66%       | 33.66%         |
| Tax at statutory rate <b>(A)</b>                                                | 909.92          | 421.67          | 98.38         | 15.28        | 9.67           |
| <b>Adjustments:</b>                                                             |                 |                 |               |              |                |
| <b>Permanent Difference</b>                                                     |                 |                 |               |              |                |
| Exempt income (dividend income)                                                 | -               | -               | (0.14)        | (0.60)       | (0.11)         |
| Disallowance of prior period expenditure                                        | -               | -               | 0.30          | 2.47         | -              |
| Expenses of capital nature (share issue and pre incorporation expenses)         | 7.53            | 29.39           | 0.90          | 5.50         | 5.80           |
| ESOP Amortization expense                                                       | 29.39           | 22.07           | 2.57          | -            | -              |
| Donations disallowed                                                            | 5.05            | -               | -             | -            | -              |
| Others                                                                          | (0.34)          | -               | 1.99          | 0.02         | -              |
| <b>Total permanent difference (B)</b>                                           | <b>41.63</b>    | <b>51.46</b>    | <b>5.62</b>   | <b>7.39</b>  | <b>5.69</b>    |
| <b>Timing Difference</b>                                                        |                 |                 |               |              |                |
| Difference between tax depreciation and book depreciation                       | 18.93           | 14.12           | (12.82)       | 6.72         | (14.47)        |
| Disallowance for provision for bad and doubtful assets                          | 107.26          | 6.96            | 32.15         | 10.53        | 3.09           |
| Interest income on non performing assets de-recognised in books offered for tax | -               | -               | 0.02          | 0.35         | -              |
| Expenses disallowable under Section 43B of the Income tax Act, 1961             | 41.10           | 33.33           | 11.53         | 10.20        | 0.50           |
| Others                                                                          | -               | -               | (1.28)        | 3.04         | -              |
| <b>Total timing difference (C )</b>                                             | <b>167.29</b>   | <b>54.41</b>    | <b>29.60</b>  | <b>30.84</b> | <b>(10.88)</b> |
| <b>Total adjustments (B + C)</b>                                                | <b>208.92</b>   | <b>105.87</b>   | <b>35.22</b>  | <b>38.23</b> | <b>(5.19)</b>  |
| Tax on total adjustments at statutory rate <b>(D)</b>                           | 71.01           | 35.99           | 11.97         | 12.87        | (1.75)         |
| Tax liability after considering the adjustments <b>(A + D)</b>                  | 980.93          | 457.65          | 110.35        | 28.15        | 7.92           |
| Interest on income tax under Section 234B and 234C of Income Tax Act, 1961      | -               | 3.18            | 4.85          | 5.25         | -              |
| <b>Total tax payable</b>                                                        | <b>980.93</b>   | <b>460.83</b>   | <b>115.20</b> | <b>33.40</b> | <b>7.92</b>    |

**ANNEXURE L: STATEMENT OF TERMS OF LOAN BORROWINGS AS AT MARCH 31, 2010**

**Secured Loans:**

| Sr. No. | Lender                                    | Type of Facility | Sanctioned Amount (Rs. In millions) | Principal Outstanding as on 31-Mar-10 (Rs. In millions) | Date of availment | Draw-down amount (Rs. In millions) | Rate of interest as at 31-Mar-10 | Repayment Schedule                        | Security                      |
|---------|-------------------------------------------|------------------|-------------------------------------|---------------------------------------------------------|-------------------|------------------------------------|----------------------------------|-------------------------------------------|-------------------------------|
| 1       | Royal Bank of Scotland NV                 | Term Loan        | 1,000.00                            | 223.59                                                  | 27-Aug-07         | 300.00                             | 11.25%                           | Principal: Quarterly<br>Interest: Monthly | Book Debts                    |
|         |                                           |                  |                                     |                                                         | 3-Sep-07          | 100.00                             | 11.35%                           |                                           |                               |
|         |                                           |                  |                                     |                                                         | 10-Sep-07         | 100.00                             | 11.45%                           |                                           |                               |
|         |                                           |                  |                                     |                                                         | 26-Oct-07         | 250.00                             | 11.50%                           |                                           |                               |
|         |                                           |                  |                                     |                                                         | 13-Nov-07         | 150.00                             | 11.50%                           |                                           |                               |
|         |                                           |                  |                                     |                                                         | 12-May-08         | 100.00                             | 12.25%                           |                                           |                               |
| 2       | Andhra Bank                               | Term Loan        | 250.00                              | 187.43                                                  | 23-Jun-09         | 50.00                              | 11.50%                           | Principal & Interest: Monthly             | Book Debts & Security deposit |
|         |                                           |                  |                                     |                                                         | 15-Sep-09         | 200.00                             |                                  |                                           |                               |
|         |                                           |                  | 750.00                              | 416.51                                                  | 12-Nov-09         | 100.00                             | 11.50%                           | Principal & Interest: Monthly             | Book Debts & Security deposit |
|         |                                           |                  |                                     |                                                         | 8-Dec-09          | 100.00                             |                                  |                                           |                               |
|         |                                           |                  |                                     |                                                         | 22-Dec-09         | 100.00                             |                                  |                                           |                               |
|         |                                           |                  |                                     |                                                         | 18-Feb-10         | 100.00                             |                                  |                                           |                               |
|         |                                           |                  |                                     |                                                         | 30-Mar-10         | 100.00                             |                                  |                                           |                               |
| 3       | Allahabad Bank                            | Term Loan        | 250.00                              | 38.10                                                   | 30-Jun-09         | 50.00                              | 12.00%                           | Principal & Interest: Monthly             | Book Debts                    |
| 4       | Axis Bank                                 | Term Loan        | 400.00                              | 57.14                                                   | 28-May-08         | 400.00                             | 11.00%                           | Principal: Quarterly<br>Interest: Monthly | Book Debts                    |
|         |                                           |                  | 500.00                              | 142.86                                                  | 29-Aug-08         | 500.00                             | 11.00%                           |                                           |                               |
|         |                                           |                  | 500.00                              | 428.57                                                  | 7-Sep-09          | 500.00                             | 11.25%                           |                                           |                               |
|         |                                           |                  | 500.00                              | 500.00                                                  | 8-Mar-10          | 500.00                             | 10.50%                           |                                           |                               |
| 5       | Bajaj Allianz Life Insurance Company Ltd. | NCD*             | 500.00                              | 500.00                                                  | 09-Dec-09\$       | 500.00                             | 9.25%                            | Principal & Interest: Bullet              | Book Debts                    |
| 6       | Bank of Baroda                            | Term Loan        | 250.00                              | 93.75                                                   | 29-Dec-08         | 250.00                             | 12.00%                           | Principal: Quarterly<br>Interest: Monthly | Book Debts                    |
| 7       | Bank of India                             | Term Loan        | 250.00                              | 229.20                                                  | 23-Dec-09         | 150.00                             | 11.00%                           | Principal: Quarterly<br>Interest: Monthly | Book Debts                    |
|         |                                           |                  |                                     |                                                         | 18-Feb-10         | 100.00                             |                                  |                                           |                               |
| 8       | Bank of Bahrain & Kuwait                  | Term Loan        | 65.00                               | 32.50                                                   | 13-Aug-08         | 65.00                              | 13.00%                           | Principal: Quarterly<br>Interest: Monthly | Book Debts                    |
|         |                                           |                  | 54.00                               | 54.00                                                   | 26-Mar-10         | 54.00                              | 8.50%                            | Principal: Bullet repayment & Interest:   |                               |

| Sr. No. | Lender                   | Type of Facility | Sanctioned Amount (Rs. In millions) | Principal Outstanding as on 31-Mar-10 (Rs. In millions) | Date of availment | Draw-down amount (Rs. In millions) | Rate of interest as at 31-Mar-10 | Repayment Schedule                        | Security                      |
|---------|--------------------------|------------------|-------------------------------------|---------------------------------------------------------|-------------------|------------------------------------|----------------------------------|-------------------------------------------|-------------------------------|
|         |                          |                  |                                     |                                                         |                   |                                    |                                  | Monthly                                   |                               |
| 9       | Bank of Maharashtra      | Term Loan        | 500.00                              | 392.20                                                  | 26-Mar-09         | 200.00                             | 11.00%                           | Principal: Quarterly<br>Interest: Monthly | Book Debts                    |
|         |                          |                  |                                     |                                                         | 1-Sep-09          | 300.00                             |                                  |                                           |                               |
| 10      | Bank of Rajasthan        | Term Loan        | 400.00                              | 300.00                                                  | 12-Aug-09         | 100.00                             | 11.00%                           | Principal: Quarterly<br>Interest: Monthly | Book Debts                    |
|         |                          |                  |                                     |                                                         | 27-Aug-09         | 300.00                             |                                  |                                           |                               |
| 11      | Barclays Bank            | Term Loan        | 250.00                              | 70.00                                                   | 29-Oct-07         | 250.00                             | 12.50%                           | Principal: Quarterly<br>Interest: Monthly | Book Debts & Security Deposit |
| 12      | BNP Paribas Bank         | Term Loan        | 200.00                              | 66.67                                                   | 11-Feb-09         | 200.00                             | 12.70%                           | Principal: Quarterly<br>Interest: Monthly | Book Debts & Security Deposit |
|         |                          |                  | 200.00                              | 200.00                                                  | 8-Mar-10          | 200.00                             | 10.00%                           |                                           |                               |
| 13      | Central Bank of India    | Term Loan        | 350.00                              | 87.50                                                   | 26-Sep-08         | 200.00                             | 12.50%                           | Principal: Quarterly<br>Interest: Monthly | Book Debts                    |
|         |                          |                  |                                     |                                                         | 29-Sep-08         | 150.00                             |                                  |                                           |                               |
|         |                          |                  | 500.00                              | 400.00                                                  | 31-Mar-09         | 200.00                             | 12.50%                           |                                           |                               |
|         |                          |                  |                                     |                                                         | 26-Mar-10         | 300.00                             | 11.50%                           |                                           |                               |
|         |                          |                  | 1,000.00                            | 708.33                                                  | 31-Mar-09         | 500.00                             | 12.00%                           |                                           |                               |
|         |                          |                  |                                     |                                                         | 25-Jun-09         | 500.00                             |                                  |                                           |                               |
|         |                          |                  | 2,000.00                            | 250.00                                                  | 29-Mar-10         | 250.00                             | 11.00%                           |                                           |                               |
| 14      | Centurion Bank of Punjab | Term Loan        | 250.00                              | 45.45                                                   | 15-Oct-07         | 100.00                             | 11.50%                           | Principal & Interest: Monthly             | Book Debts                    |
|         |                          |                  |                                     |                                                         | 17-Oct-07         | 100.00                             |                                  |                                           |                               |
|         |                          |                  |                                     |                                                         | 22-Oct-07         | 50.00                              |                                  |                                           |                               |
| 15      | Citi Bank & OPIC         | Term Loan        | 780.00                              | 780.00                                                  | 27-Feb-08         | 390.00                             | 10.40%                           | Principal: Bullet<br>Interest: Monthly    | Book Debts                    |
|         |                          |                  |                                     |                                                         | 28-Feb-08         | 390.00                             |                                  |                                           |                               |
|         |                          |                  | 249.85                              | 249.85                                                  | 6-Dec-08          | 249.85                             | 14.00%                           |                                           |                               |
| 16      | City Union Bank          | Term Loan        | 50.00                               | 41.67                                                   | 29-Jul-09         | 50.00                              | 11.50%                           | Principal: Quarterly<br>Interest: Monthly | Book Debts                    |
| 17      | Corporation Bank         | Term Loan        | 200.00                              | 75.00                                                   | 16-Aug-07         | 50.00                              | 11.00%                           | Principal: Quarterly<br>Interest: Monthly | Book Debts                    |
|         |                          |                  |                                     |                                                         | 20-Aug-07         | 100.00                             |                                  |                                           |                               |
|         |                          |                  |                                     |                                                         | 23-Aug-07         | 50.00                              |                                  |                                           |                               |
|         |                          |                  | 200.00                              | 125.00                                                  | 21-Aug-08         | 200.00                             | 12.00%                           |                                           |                               |
|         |                          |                  | 500.00                              | 358.30                                                  | 14-Dec-09         | 50.00                              | 11.25%                           |                                           |                               |
|         |                          |                  |                                     |                                                         | 31-Dec-09         | 100.00                             |                                  |                                           |                               |
|         |                          |                  |                                     |                                                         | 8-Mar-10          | 250.00                             |                                  |                                           |                               |
| 18      | Development Credit Bank  | Term Loan        | 150.00                              | 50.00                                                   | 11-Mar-08         | 150.00                             | 13.75%                           | Principal: Quarterly<br>Interest: Monthly | Book Debts                    |

| Sr. No.   | Lender                           | Type of Facility | Sanctioned Amount (Rs. In millions) | Principal Outstanding as on 31-Mar-10 (Rs. In millions) | Date of availment | Draw-down amount (Rs. In millions) | Rate of interest as at 31-Mar-10 | Repayment Schedule                     | Security                               |            |
|-----------|----------------------------------|------------------|-------------------------------------|---------------------------------------------------------|-------------------|------------------------------------|----------------------------------|----------------------------------------|----------------------------------------|------------|
| 19        | Dena Bank                        | Term Loan        | 500.00                              | 370.00                                                  | 30-Jan-09         | 100.00                             | 13.25%                           | Principal: Quarterly Interest: Monthly | Book Debts                             |            |
|           |                                  |                  |                                     |                                                         | 25-Mar-09         | 200.00                             |                                  |                                        |                                        |            |
|           |                                  |                  |                                     |                                                         | 25-Sep-09         | 200.00                             | 11.50%                           |                                        |                                        |            |
| 20        | Dhanalakshmi Bank                | Term Loan        | 150.00                              | 56.25                                                   | 17-Dec-08         | 150.00                             | 14.00%                           | Principal: Quarterly Interest: Monthly | Book Debts                             |            |
|           |                                  |                  | 150.00                              | 112.50                                                  | 20-Aug-09         | 150.00                             | 11.00%                           |                                        |                                        |            |
| 21        | Friends of Women's World Banking | Term Loan        | 20.00                               | 1.11                                                    | 3-Oct-08          | 20.00                              | 13.50%                           | Principal & Interest: Monthly          | Book Debts                             |            |
|           |                                  |                  | 100.00                              | 21.11                                                   | 20-Oct-08         | 30.00                              | 13.50%                           |                                        |                                        |            |
|           |                                  |                  |                                     |                                                         | 3-Nov-08          | 20.00                              |                                  |                                        |                                        |            |
|           |                                  |                  |                                     |                                                         | 2-Feb-09          | 20.00                              |                                  |                                        |                                        |            |
|           |                                  |                  |                                     |                                                         | 10-Apr-09         | 30.00                              |                                  |                                        |                                        |            |
| 22        | HDFC Bank                        | Term Loan        | 485.00                              | 55.00                                                   | 28-May-07         | 200.00                             | 11.50%                           | Principal: Quarterly Interest: Monthly | Book Debts                             |            |
|           |                                  |                  |                                     |                                                         | 11-Jun-07         | 80.00                              |                                  |                                        |                                        |            |
|           |                                  |                  |                                     |                                                         | 18-Jun-07         | 80.00                              |                                  |                                        |                                        |            |
|           |                                  |                  |                                     |                                                         | 25-Jun-07         | 125.00                             |                                  |                                        |                                        |            |
|           |                                  |                  | 270.00                              | 150.00                                                  | 27-May-08         | 270.00                             | 12.50%                           |                                        |                                        |            |
|           |                                  |                  | 520.00                              | 117.14                                                  | 24-Jun-08         | 220.00                             | 12.50%                           |                                        |                                        |            |
|           |                                  |                  |                                     |                                                         | 7-Jul-08          | 200.00                             | 13.50%                           |                                        |                                        |            |
|           |                                  |                  | 21-Jul-08                           | 100.00                                                  |                   |                                    |                                  |                                        |                                        |            |
|           |                                  |                  | 880.00                              | 733.33                                                  | 30-Oct-09         | 500.00                             | 11.00%                           |                                        |                                        |            |
|           |                                  |                  | 16-Nov-09                           | 380.00                                                  |                   |                                    |                                  |                                        |                                        |            |
|           | 23                               | HSBC Bank        | Term Loan                           | 187.50                                                  | 116.66            | 16-Jun-09                          | 50.00                            | 10.50%                                 | Principal: Quarterly Interest: Monthly | Book Debts |
| 30-Jul-09 |                                  |                  |                                     |                                                         |                   | 137.50                             | 9.50%                            |                                        |                                        |            |
| 150.00    |                                  |                  |                                     | 75.00                                                   | 19-Aug-09         | 150.00                             | 9.35%                            |                                        |                                        |            |
| 24        | IDBI Bank                        | Term Loan        | 500.00                              | 200.00                                                  | 29-Apr-08         | 250.00                             | 11.00%                           | Principal: Quarterly Interest: Monthly | Book Debts                             |            |
|           |                                  |                  |                                     |                                                         | 29-Apr-08         | 250.00                             | 11.50%                           |                                        |                                        |            |
|           |                                  |                  | 400.00                              | 320.00                                                  | 31-Mar-09         | 400.00                             | 13.25%                           |                                        |                                        |            |
|           |                                  |                  | 1,000.00                            | 1,000.00                                                | 9-Nov-09          | 400.00                             | 11%                              |                                        |                                        |            |
|           |                                  |                  |                                     |                                                         | 16-Nov-09         | 300.00                             |                                  |                                        |                                        |            |
|           |                                  |                  |                                     |                                                         | 3-Dec-09          | 300.00                             |                                  |                                        |                                        |            |
| 25        | Indian Overseas Bank             | Term Loan        | 500.00                              | 291.67                                                  | 30-Oct-08         | 500.00                             | 12.50%                           | Principal: Quarterly Interest: Monthly | Book Debts & Security Deposit          |            |
| 26        | Indusind Bank                    | Term Loan        | 500.00                              | 208.33                                                  | 10-Jun-08         | 250.00                             | 12.60%                           | Principal: Quarterly Interest: Monthly | Book Debts                             |            |
|           |                                  |                  |                                     |                                                         | 13-Jun-08         | 250.00                             |                                  |                                        |                                        |            |

| Sr. No. | Lender                    | Type of Facility | Sanctioned Amount (Rs. In millions) | Principal Outstanding as on 31-Mar-10 (Rs. In millions) | Date of availment | Draw-down amount (Rs. In millions) | Rate of interest as at 31-Mar-10 | Repayment Schedule                         | Security                      |
|---------|---------------------------|------------------|-------------------------------------|---------------------------------------------------------|-------------------|------------------------------------|----------------------------------|--------------------------------------------|-------------------------------|
| 27      | ING Vysya Bank            | Term Loan        | 350.00                              | 58.33                                                   | 3-Jul-07          | 100.00                             | 11.75%                           | Principal: Quarterly Interest: Monthly     | Book Debts                    |
|         |                           |                  |                                     |                                                         | 12-Jul-07         | 100.00                             |                                  |                                            |                               |
|         |                           |                  |                                     |                                                         | 16-Jul-07         | 100.00                             |                                  |                                            |                               |
|         |                           |                  |                                     |                                                         | 23-Jul-07         | 50.00                              |                                  |                                            |                               |
|         |                           |                  | 350.00                              | 58.33                                                   | 28-Sep-07         | 300.00                             | 11.75%                           |                                            |                               |
|         |                           |                  |                                     |                                                         | 13-Nov-07         | 50.00                              |                                  |                                            |                               |
|         |                           |                  | 250.00                              | 108.75                                                  | 27-Jun-08         | 150.00                             | 11.75%                           |                                            |                               |
|         |                           |                  |                                     |                                                         | 1-Jul-08          | 45.00                              |                                  |                                            |                               |
|         |                           |                  |                                     |                                                         | 24-Dec-08         | 55.00                              |                                  |                                            |                               |
|         |                           |                  | 100.00                              | 66.67                                                   | 31-Jan-09         | 100.00                             | 12.75%                           |                                            |                               |
|         |                           |                  | 400.00                              | 300.00                                                  | 25-Sep-09         | 250.00                             | 11.25%                           |                                            |                               |
|         |                           |                  |                                     |                                                         | 29-Oct-09         | 150.00                             |                                  |                                            |                               |
|         |                           |                  | 75.00                               | 68.75                                                   | 9-Nov-09          | 75.00                              | 11.75%                           |                                            |                               |
| 28      | Jammu & Kashmir Bank      | Term Loan        | 250.00                              | 31.25                                                   | 7-Jul-08          | 250.00                             | 8.75%                            | Principal: Quarterly Interest: Monthly     | Book Debts                    |
|         |                           |                  | 250.00                              | 156.25                                                  | 24-Jun-09         | 50.00                              | 10.75%                           |                                            |                               |
|         |                           |                  |                                     |                                                         | 27-Aug-09         | 200.00                             |                                  |                                            |                               |
|         |                           |                  | 750.00                              | 500.00                                                  | 4-Mar-10          | 250.00                             | 8.75%                            |                                            |                               |
|         |                           |                  |                                     |                                                         | 4-Mar-10          | 250.00                             | 10.75%                           |                                            |                               |
| 29      | Karnataka Bank            | Term Loan        | 100.00                              | 72.73                                                   | 11-Feb-09         | 50.00                              | 11.75%                           | Principal: Quarterly Interest: Monthly     | Book Debts                    |
|         |                           |                  |                                     |                                                         | 25-Mar-09         | 50.00                              | 11.75%                           |                                            |                               |
|         |                           |                  | 80.00                               | 80.00                                                   | 30-Jan-10         | 10.00                              | 11.00%                           |                                            |                               |
|         |                           |                  |                                     |                                                         | 4-Mar-10          | 70.00                              | 11.00%                           |                                            |                               |
| 30      | Karur Vysya Bank          | Term Loan        | 250.00                              | 125.00                                                  | 30-Apr-08         | 250.00                             | 12.00%                           | Principal: Quarterly Interest: Monthly     | Book Debts & Security Deposit |
| 31      | Oriental Bank of Commerce | Term Loan        | 500.00                              | 450.00                                                  | 25-Sep-09         | 100.00                             | 12.00%                           | Principal: Quarterly Interest: Monthly     | Book Debts & Security Deposit |
|         |                           |                  |                                     |                                                         | 21-Dec-09         | 200.00                             | 11.00%                           |                                            |                               |
|         |                           |                  |                                     |                                                         | 13-Jan-10         | 200.00                             | 11.00%                           |                                            |                               |
| 32      | Punjab National Bank      | Term Loan        | 200.00                              | 91.43                                                   | 8-Sep-08          | 100.00                             | 11.00%                           | Principal & Interest: Monthly              | Book Debts                    |
|         |                           |                  |                                     |                                                         | 7-Nov-08          | 100.00                             |                                  |                                            |                               |
|         |                           |                  | 750.00                              | 458.28                                                  | 7-Nov-08          | 500.00                             | 11.00%                           | Principal: Quarterly Interest: Monthly     |                               |
|         |                           |                  |                                     |                                                         | 26-Mar-09         | 250.00                             |                                  |                                            |                               |
| 33      | Rabo India Finance        | Term Loan        | 600.00                              | 150.00                                                  | 15-Jul-08         | 600.00                             | 7.38%                            | Principal: Half-yearly Interest: Quarterly | Book Debts & Security Deposit |

| Sr. No. | Lender                  | Type of Facility | Sanctioned Amount (Rs. In millions) | Principal Outstanding as on 31-Mar-10 (Rs. In millions) | Date of availment | Draw-down amount (Rs. In millions) | Rate of interest as at 31-Mar-10 | Repayment Schedule                     | Security                      |
|---------|-------------------------|------------------|-------------------------------------|---------------------------------------------------------|-------------------|------------------------------------|----------------------------------|----------------------------------------|-------------------------------|
|         |                         |                  |                                     |                                                         |                   |                                    |                                  |                                        |                               |
| 34      | SIDBI                   | Term Loan        | 1,250.00                            | 250.00                                                  | 8-Feb-08          | 750.00                             | 11.25%                           | Principal & Interest: Monthly          | Book Debts & Security Deposit |
|         |                         |                  |                                     |                                                         | 18-Mar-08         | 500.00                             | 11.00%                           |                                        |                               |
|         |                         |                  | 2,400.00                            | 1,309.30                                                | 12-Sep-08         | 1,200.00                           | 12.85%                           | Principal: Quarterly Interest: Monthly |                               |
|         |                         |                  |                                     |                                                         | 11-Dec-08         | 600.00                             | 13.50%                           |                                        |                               |
|         |                         |                  |                                     |                                                         | 31-Dec-08         | 600.00                             |                                  |                                        |                               |
|         |                         |                  | 750.00                              | 615.00                                                  | 25-Mar-09         | 450.00                             | 13.00%                           | Principal & Interest: Monthly          |                               |
|         |                         |                  |                                     |                                                         | 30-Mar-09         | 300.00                             | 13.00%                           |                                        |                               |
|         |                         |                  | 4,000.00                            | 3,880.00                                                | 9-Sep-09          | 2,000.00                           | 11.50%                           | Principal & Interest: Monthly          |                               |
|         |                         |                  |                                     |                                                         | 9-Mar-10          | 2,000.00                           | 11.00%                           |                                        |                               |
| 35      | South Indian Bank       | Term Loan        | 150.00                              | 37.50                                                   | 28-Dec-07         | 150.00                             | 12.25%                           | Principal: Quarterly Interest: Monthly | Book Debts                    |
|         |                         |                  | 250.00                              | 166.66                                                  | 31-Mar-09         | 100.00                             | 11.00%                           |                                        |                               |
|         |                         |                  |                                     |                                                         | 15-Feb-10         | 150.00                             |                                  |                                        |                               |
| 36      | Standard Chartered Bank | Term Loan        | 300.00                              | 81.25                                                   | 2-Nov-07          | 45.00                              | 11.25%                           | Principal: Quarterly Interest: Monthly | Book Debts                    |
|         |                         |                  |                                     |                                                         | 12-Nov-07         | 45.00                              |                                  |                                        |                               |
|         |                         |                  |                                     |                                                         | 19-Nov-07         | 45.00                              |                                  |                                        |                               |
|         |                         |                  |                                     |                                                         | 26-Nov-07         | 45.00                              |                                  |                                        |                               |
|         |                         |                  |                                     |                                                         | 22-Dec-07         | 45.00                              |                                  |                                        |                               |
|         |                         |                  |                                     |                                                         | 2-Jan-08          | 45.00                              |                                  |                                        |                               |
|         |                         |                  |                                     |                                                         | 12-Feb-08         | 30.00                              |                                  |                                        |                               |
|         |                         |                  | 150.00                              | 62.50                                                   | 14-May-08         | 45.00                              | 11.25%                           |                                        |                               |
|         |                         |                  |                                     |                                                         | 23-May-08         | 45.00                              |                                  |                                        |                               |
|         |                         |                  |                                     |                                                         | 30-May-08         | 45.00                              |                                  |                                        |                               |
|         |                         |                  |                                     |                                                         | 13-Jun-08         | 15.00                              | 12.50%                           |                                        |                               |
|         |                         |                  | 150.00                              | 75.00                                                   | 15-Jul-08         | 47.00                              | 12.25%                           |                                        |                               |
|         |                         |                  |                                     |                                                         | 21-Jul-08         | 47.00                              |                                  |                                        |                               |
|         |                         |                  |                                     |                                                         | 23-Jul-08         | 56.00                              | 14.25%                           |                                        |                               |
|         |                         |                  | 400.00                              | 191.94                                                  | 24-Oct-08         | 20.00                              | 15.25%                           |                                        |                               |
|         |                         |                  |                                     |                                                         | 12-Dec-08         | 100.00                             | 13.00%                           |                                        |                               |
|         |                         |                  |                                     |                                                         | 6-Jan-09          | 100.00                             |                                  |                                        |                               |
|         |                         |                  |                                     |                                                         | 15-Jan-09         | 180.00                             |                                  |                                        |                               |
|         |                         |                  |                                     |                                                         |                   |                                    |                                  |                                        |                               |
|         |                         | NCD*             | 750.00                              | 750.00                                                  | 23-Apr-09         | 750.00                             | 10.00%                           | Principal & Interest: Bullet           | Book Debts                    |
| 37      | State Bank of Hyderabad | Term Loan        | 250.00                              | 250.00                                                  | 30-Mar-10         | 250.00                             | 11.00%                           | Principal: Quarterly Interest: Monthly | Book Debts                    |

| Sr. No. | Lender                   | Type of Facility | Sanctioned Amount (Rs. In millions) | Principal Outstanding as on 31-Mar-10 (Rs. In millions) | Date of availment | Draw-down amount (Rs. In millions) | Rate of interest as at 31-Mar-10 | Repayment Schedule                        | Security                      |
|---------|--------------------------|------------------|-------------------------------------|---------------------------------------------------------|-------------------|------------------------------------|----------------------------------|-------------------------------------------|-------------------------------|
| 38      | State Bank of India      | Term Loan        | 350.00                              | 50.00                                                   | 18-Feb-10         | 50.00                              | 11.75%                           | Principal: Quarterly<br>Interest: Monthly | Book Debts                    |
| 39      | State Bank of Mauritius  | Term Loan        | 150.00                              | 75.00                                                   | 29-Aug-08         | 150.00                             | 14.00%                           | Principal: Quarterly<br>Interest: Monthly | Book Debts                    |
| 40      | State Bank of Patiala    | Term Loan        | 750.00                              | 350.00                                                  | 12-Mar-10         | 250.00                             | 11.00%                           | Principal & Interest: Monthly             | Book Debts                    |
|         |                          |                  |                                     |                                                         | 26-Mar-10         | 100.00                             |                                  |                                           |                               |
| 41      | State Bank of Travancore | Term Loan        | 250.00                              | 59.74                                                   | 31-Mar-09         | 150.00                             | 12.00%                           | Principal & Interest: Monthly             | Book Debts & Security Deposit |
| 42      | Syndicate Bank           | Term Loan        | 1,500.00                            | 750.00                                                  | 29-Dec-09         | 500.00                             | 11.00%                           | Principal: Quarterly<br>Interest: Monthly | Book Debts                    |
|         |                          |                  |                                     |                                                         | 11-Jan-10         | 250.00                             | 11.00%                           |                                           |                               |
| 43      | TATA Capital             | Term Loan        | 400.00                              | 233.33                                                  | 29-Sep-08         | 400.00                             | 13.50%                           | Principal: Quarterly<br>Interest: Monthly | Book Debts                    |
|         |                          |                  | 400.00                              | 300.00                                                  | 25-Sep-09         | 400.00                             | 10.00%                           |                                           |                               |
| 44      | Union Bank of India      | Term Loan        | 250.00                              | 166.67                                                  | 26-Mar-09         | 250.00                             | 11.75%                           | Principal: Quarterly<br>Interest: Monthly | Book Debts & Security Deposit |
| 45      | United Bank of India     | Term Loan        | 750.00                              | 525.00                                                  | 25-Feb-09         | 100.00                             | 11.00%                           | Principal: Quarterly<br>Interest: Monthly | Book Debts & Security Deposit |
|         |                          |                  |                                     |                                                         | 25-Mar-09         | 200.00                             |                                  |                                           |                               |
|         |                          |                  |                                     |                                                         | 25-Sep-09         | 250.00                             |                                  |                                           |                               |
|         |                          |                  |                                     |                                                         | 29-Oct-09         | 200.00                             |                                  |                                           |                               |
| 46      | Vijaya Bank              | Term Loan        | 500.00                              | 375.00                                                  | 8-Apr-09          | 150.00                             | 12.25%                           | Principal: Quarterly<br>Interest: Monthly | Book Debts & Security Deposit |
|         |                          |                  |                                     |                                                         | 30-Jun-09         | 100.00                             |                                  |                                           |                               |
|         |                          |                  |                                     |                                                         | 8-Sep-09          | 250.00                             | 11.75%                           |                                           |                               |
| 47      | Yes Bank                 | NCD*             | 500.00                              | 500.00                                                  | 07-Dec-09#        | 500.00                             | 8.30%                            | Principal & Interest: Bullet              | Book Debts                    |
| 48      | HDFC Limited             | Housing Loan     | 100.00                              | 20.00                                                   | 26-Feb-10         | 20.00                              | 11.50%                           | Principal & Interest: Monthly             | Book Debts                    |

**Unsecured Loans:**

| Sr. No. | Lender       | Type of Facility  | Sanctioned Amount (Rs. In millions) | Principal Outstanding as on 31-Mar-10 (Rs. In millions) | Date of availment | Draw-down amount (Rs. In millions) | Rate of interest as at 31-Mar-10 | Repayment Schedule           | Security |
|---------|--------------|-------------------|-------------------------------------|---------------------------------------------------------|-------------------|------------------------------------|----------------------------------|------------------------------|----------|
| 1       | Yes Bank     | Commercial Paper* | 1,000.00                            | 954.77                                                  | 10-Nov-09         | 1,000.00                           | 8.00%                            | Principal & Interest: Bullet | Nil      |
| 2       | TATA Capital | Commercial Paper* | 200.00                              | 196.22                                                  | 30-Dec-09         | 200.00                             | 8.10%                            | Principal & Interest: Bullet | Nil      |

**Bank Overdraft:**

| Sr. No. | Lender               | Type of Facility | Sanctioned Amount (Rs. In millions) | Principal Outstanding as on 31-Mar-10 (Rs. In millions) | Rate of interest as at 31-Mar-10 | Security                        |
|---------|----------------------|------------------|-------------------------------------|---------------------------------------------------------|----------------------------------|---------------------------------|
| 1       | State Bank of Mysore | Cash Credit      | 1,000.00                            | 712.82                                                  | 11.25%                           | Book Debts and Security Deposit |
| 2       | State Bank of India  | Cash Credit      | 650.00                              | 301.53                                                  | 11.75%                           | Book Debts and Security Deposit |
| 3       | HDFC Bank            | Cash Credit      | 50.00                               | Nil                                                     | 14.00%                           | Book Debts and Security Deposit |

**Notes to Annexure L:**

In connection with the above borrowings from lenders, the Company has agreed to restrictive covenants that require, among other things, to maintain certain levels of debt, capital and asset quality or limit the scope of lending activities to certain specified geographies. These restrictive covenants require the Company either to obtain the prior approval of, or provide notice to, the above lenders in connection with certain activities, such as altering capital structure, raising additional capital, incurring additional indebtedness, declaring or paying dividends, undertaking any merger, amalgamation or restructuring or making substantial changes in the composition of management. In the event of any breach of a restrictive covenant, lenders could deem the Company to be in default and seek early repayment of loans or increase interest rates in certain circumstances.

\* For commercial paper and non convertible debentures ('NCD') lender represents the name of the party to whom funds were initially received from.

# Funds received on 07-Dec-09, however the term begins from 23-Dec-09.

\$ Funds received on 09-Dec-09, however the term begins from 23-Dec-09.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion of our financial condition and results of operations should be read in conjunction with our restated summary statements as of and for the fiscal years ended March 31, 2006, 2007, 2008, 2009 and 2010, including the schedules and notes thereto and the reports thereon, which appear in the section titled "Financial Statements" on page 146 of this Red Herring Prospectus. The financial statements presented and discussed herein have been prepared to comply in all material respects with the notified accounting standards by Companies (Accounting Standards) Rules, 2006 (as amended), the relevant provisions of the Companies Act and the provisions of the RBI as applicable to a non banking financial company, which differs in certain significant respects from IFRS and U.S. GAAP. Our fiscal year ends on March 31 of each year. Accordingly, all references to a particular fiscal year are to the twelve-month period ended on March 31 of that year. The forward-looking statements contained in this discussion and analysis are subject to a variety of factors that could cause actual results to differ materially from those contemplated by such statements. Factors that may cause such a difference include, but are not limited to, those discussed in "Forward-Looking Statements" and "Risk Factors", beginning on pages xii and xiii, respectively, of this Red Herring Prospectus.*

### Overview

We are the largest MFI in India in terms of total value of loans outstanding, number of borrowers, who we call members, and number of branches, according to the October 2009 CRISIL report titled India Top 50 Microfinance Institutions, or the CRISIL Report. We are a non deposit taking non-banking finance company, or NBFC-ND, registered with and regulated by the Reserve Bank of India, or RBI. We are engaged in providing microfinance services to individuals from poor segments of rural India. Our mission is to eradicate poverty. We believe we do that by providing financial services to the poor and by using our channel to provide goods and services that the poor need.

Our core business is providing small loans exclusively to poor women predominantly located in rural areas in India. These loans are provided to such members essentially for use in their small businesses or other income generating activities and not for personal consumption. These individuals often have no, or very limited, access to loans from other sources other than private money lenders that we believe typically charge very high rates of interest.

We utilize a village centered, group lending model to provide unsecured loans to our members. This model ensures credit discipline through mutual support and peer pressure within the group to ensure individual members are prudent in conducting their financial affairs and are prompt in repaying their loans. Failure by an individual member to make timely loan payments will prevent other group members from being able to borrow from us in the future; therefore the group will typically make the payment on behalf of a defaulting member or, in the case of willful default, will use peer pressure to encourage the delinquent member to make timely payments, effectively providing an informal joint guarantee on the member's loan. We also use our distribution channel to help provide other services and goods that we have found that our members need. For instance, we also distribute and administer life insurance policy products for our members and have pilot programs to provide loans to our members to purchase select consumer products that increase their productivity.

In addition to our market leadership position and the expertise in microfinance which we have developed, we believe that our competitive strengths include our scalable operating model which leverages technology, diversified product revenues, diversified sources of capital and our pan-India distribution network. Our strategy is to further expand our membership, loans and product offerings by relying on these strengths.

We continue to finance our expansion by accessing multiple sources of capital, both debt and equity, including listed debentures, priority sector qualifying loans from banks, and equity investments from venture capital and private equity investors, institutions and others. Additionally, we seek to sell or assign our portfolio loans to banks to improve our financial position and finance our growth.

During the four year period from fiscal 2006 to fiscal 2010, we expanded our membership from 201,943 in five states to 6,780,145 in 19 states, and our branches expanded from 80 to 2,029. Our total portfolio loans outstanding increased at a CAGR of 147.7% from Rs. 780.50 million as of March 31, 2006 to Rs. 29,367.20 million as of March 31, 2010. Over the four year period from fiscal 2006 to fiscal 2010, our profit after tax

increased at a CAGR of 221.0%, from Rs. 16.47 million to Rs. 1,748.40 million and our total income for the year ended March 31, 2010, was Rs. 9,589.28 million.

### **Factors Affecting Our Financial Results**

Our financial condition and results of operations are affected by numerous factors, including:

#### ***Fluctuations in our Member Base***

Our financial results are directly affected by the number of members we serve from time to time. Growth in our member base drives corresponding growth in our interest income, commission and fees received, as members utilize our loan products and also avail our other financial products and services.

#### ***Our Network and Outreach***

Our results of operations are also dependent upon the geographic reach and service capabilities of our network of branches. As of March 31, 2010, we had 2,029 branches spread across 19 states in India. Our Sangam Managers and branches are supported by administrative support staff and management personnel in regional offices and our headquarters office. As of March 31, 2010, we had 28 regional offices.

Our Sangam Managers market and sell our proprietary products, distribute our alliance partners' products and, together with our branch managers, manage our customer relationships with members through weekly Sangam meetings. As of March 31, 2010, each of our Sangam Managers managed an average of 571 members. Approximately 18,000 employees, or 86.7% of our workforce, were employed in our branches.

#### ***Our Ability to Manage Financial Expenses and Fluctuations in Interest Rates Effectively***

Our results of operations are dependent on our ability to manage financial expenses, and the impact of fluctuations in interest rates, effectively. Our financial expenses are comprised of interest, loan processing fees, guarantee fees and bank charges. The tenure of our income generating loan product, which comprises the substantial part of our total loan portfolio, is 50 weeks. The interest charged to members for such loans is fixed over the 50-week period.

Our debt service costs and costs of funds depend on many external factors, including developments in the Indian credit market and, in particular, interest rate movements and the existence of adequate liquidity in the debt markets. Internal factors which will impact our cost of funds include changes in our credit ratings, available credit limits and access to loan assignment transactions. With the growth of our operations we have had to increasingly access the debt capital markets and a variety of commercial borrowings and we have generally benefited from competitive rates. We have also benefited from selling portions of our loan portfolio at relatively lower cost resulting in an overall reduction in the expense of servicing our debt capital. Due to our competitive cost of funds, we have been able to offer competitive interest rates on our loans to our members. An increase in our cost of funds could reduce spreads earned on our loan products. Furthermore, competition from banks and other Non-Banking Financial Companies, or NBFCs, continues to increase in the rural and semi-urban India, and as a result there could be further downward pressure on such spreads.

The secular build up in price pressures was visible throughout the fiscal year 2010 and WPI inflation increased significantly to 9.9 per cent by March 2010. The financial year build up of inflation exhibited secular uptrend during the year, which was corroborated by the positive inflation momentum during all the months of 2009-10 (except June 2009). For the week ended 29<sup>th</sup> May 2010, the annual rate of inflation, calculated on point-to-point basis, stood at 10.16 percent.

As WPI inflation increased and reached 9.9 per cent (y-o-y) in February 2010 and March 2010, amidst signs of generalisation of inflation, the Reserve Bank raised the repo and reverse repo rates by 25 basis points each on March, 2010, and April, 2010. After this hike, the repurchase (repo) rate is 5.25% and reverse repurchase rate is 3.75%. The CRR of scheduled banks is currently at 6%, with last hike in April 2010 by 25 basis points.

In the fiscal years ended 2009, 2008, 2007 and 2006, our financial expenses were Rs. 1,944.31 million, Rs. 564.65 million, Rs. 138.53 million and Rs. 27.79 million, respectively, representing as a percentage of our total income, 35.1%, 33.2%, 30.3% and 27.9%, respectively. For the year ended March 31, 2010, our financial expenses totalled Rs. 2,884.05 million.

### ***Availability of Funding Sources***

Our ability to meet demand for new loans will depend on our ability to obtain additional debt on suitable terms. Our funding sources are broad based and spread across public sector banks, domestic private banks, foreign banks and financial institutions. As of March 31, 2010, our total outstanding borrowings from domestic private banks, public sector banks, foreign banks and financial institutions were 23.4%, 37.4%, 11.5% and 27.7% of our total funds base, respectively. Further, assigned loans are 36.3% of our total funds base outstanding as of March 31, 2010, thus, diversifying our funding abilities across a spectrum of institutions and financial products.

We manage our cash flow through active asset liability management strategies. We have structured our model to primarily borrow on a long term basis while lending on a short term basis.

### ***Credit Quality, Provisions and Write-Offs***

The credit quality of our loans is a key driver of our results of operations, as quality loans help to reduce the risk of losses from loan impairment. We believe that our historically low level of non-performing assets, or NPAs, is a function of the joint liability features of our lending model. In our model, if one group member defaults, the other group members or the members organized in the applicable regional Sangam meeting agree to make up the missed payment in order to maintain the group's and the Sangam's eligibility to receive future loans and advances. Because our lending model provides mechanisms for other members to pay on behalf of a defaulting primary borrower, we believe our loan products intrinsically promote high levels of collection and low levels of default.

Our members have maintained on-time repayment rates of greater than 99.0% during the previous five financial years. We believe that our model of group lending, as well as the stringent audit and control processes that we follow, enable us to achieve a high rate of repayment and a lower level of non-performing assets. Our Gross NPAs were Rs. 96.06 million or 0.33%, Rs. 47.88 million or 0.34%, Rs. 15.44 million or 0.20% and Rs. 3.14 million or 0.12% as of March 31, 2010, 2009, 2008 and 2007 respectively. And our Net NPAs were Rs. 48.03 million or 0.16%, Rs. 25.22 million or 0.18%, Rs. 12.32 million or 0.16% and Rs. 1.41 million or 0.05% as of March 31, 2010, 2009, 2008 and 2007 respectively. We believe these ratios are superior to those exhibited by other retail asset classes such as retail loans, automobile loans, credit card debt and short term personal loans during the corresponding periods.

In addition, pursuant to regulations prescribed by the RBI, we are required to make provisions for our substandard, doubtful and loss assets. Our audit committee has approved a policy for making provisions against loans in arrears sooner than the time prescribed by the RBI. Based on our policy, our provisions as of March 31, 2010 were Rs. 121.25 million, while the RBI required provision for the same period was Rs. 5.04 million.

### ***Our Ability to Manage Operating Expenses***

Our results of operations are affected by our ability to manage operating expenses, including those relating to headcount. As we expand our core business and expand our product and service offerings to members, we will need to increase headcount, adding Sangam Managers, area managers and operational management and technology staff. For the fiscal years ended March 31, 2009, 2008, 2007 and 2006, our operating and other expenses were Rs. 752.49 million, Rs. 277.83 million, Rs. 98.96 million and Rs. 19.25 million, respectively. For the year ended March 31, 2010, our operating and other expenses were Rs. 1,221.25 million.

Traveling and conveyance expenses for the year ended March 31, 2010, represent 34.2% of our total operating and other expenses because we provide local financial services in thousands of villages situated throughout rural and semi-urban India. Our Sangam Managers incur substantial traveling and conveyance expenses visiting villages, many of which are remote, to market and sell our products and services, maintain member relationships, conduct Sangam meetings, disburse loans, collect repayments and report transactions at local banks. For the fiscal years ended March 31, 2009, 2008, 2007 and 2006, our traveling and conveyance expenses were Rs. 253.60 million, Rs. 110.18 million, Rs. 38.89 million and Rs. 7.90 million, respectively. For the year ended March 31, 2010, our traveling and conveyance expenses were Rs. 417.27 million.

Rent expenses for the year ended March 31, 2010 represent 11.5% of our total operating and other expenses, as we lease substantially all our facilities. We expect rent expenses to increase as we extend our geographic reach

and expand our network of branches and members. For the fiscal years ended March 31, 2009, 2008, 2007 and 2006, our rent expenses were Rs. 88.13 million, Rs. 26.26 million, Rs. 8.78 million and Rs. 1.32 million, respectively. For the year ended March 31, 2010, our rent expenses were Rs. 140.85 million.

### ***Our Ability to Deliver New or Enhanced Financial Products and Services***

We believe that diversification of our business and revenue base is a key component of our success. While our core business is providing our members with our traditional income generating loan products, we also offer productivity loans, which are designed to enhance the productivity of our members' businesses. We also facilitate distribution of our alliance partners' products and methods of financing them. Our non-core product and service offerings have different pricing structures and payment terms than our core loan products. This differentiation allows us to diversify and increase our revenue streams and revenue. We believe that providing our members with expanded financial product and service offerings fosters brand loyalty.

### ***Regulatory Developments***

We are registered with the RBI as a NBFC-ND. We are currently required by the RBI to maintain a minimum capital to risk asset ratio of 12.0% as of March 31, 2010 and 10.0% as of March 31, 2008 and 2009, where as we have maintained at a higher CRAR ratio of 28.3%, 39.0% and 24.7% as of March 31, 2010, 2009 and 2008 respectively. Further, the RBI has recently issued new requirements increasing our minimum capital to risk asset ratio to 15.0% as of March 31, 2011. We believe these increases will not have a material impact on our results of operations or financial condition. The RBI also requires us to make provisions for NPAs, which we maintain at a higher rate than that prescribed by the RBI.

The RBI has set targets and sub-targets for domestic and foreign banks operating in India to lend to certain designated priority sectors such as the lower income segment of the population. The target for total priority sector loans for domestic banks is 40.0% of its net bank credit and 32.0% for foreign banks. The microcredit loans provided by banks either directly or through a non-banking intermediary, such as SKS, meet the priority sector lending requirements stipulated by the RBI. For further details please refer to "The Microfinance Industry – Policy for Microfinance in India" on page 72 of the Red Herring Prospectus. The instruments available to banks to fulfill their priority sector lending obligations provide considerable flexibility for large scale, or bulk funding of MFIs. Portfolio buyouts, inter-bank participation certificates, structured debt instruments and bulk loans to MFIs are all available to banks for this type of financing.

Changes in the regulatory framework affecting NBFCs, and in particular those increasing the requirements for capital risk to asset or placing restrictions on securitization, accessing foreign funds or lending to NBFCs, would materially and adversely affect our results of operations and growth.

### ***Seasonality***

Our business operations and the banking industry may be affected by seasonal trends in the Indian economy. Generally, the period from October to March is the peak period in India for retail economic activity. This increased, or seasonal, activity is the result of several holiday periods, improved weather conditions and crop harvests. We generally experience higher volumes of business during this period. Any significant event such as unforeseen floods, earthquakes, political instabilities, epidemics or economic slow downs during this peak season would materially and adversely affect our results of operations and growth. During these periods, we may continue to incur operating expenses, but our income from operations may be delayed or reduced.

### ***Critical Accounting Policies***

Management's discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared to comply in all material respects with the accounting standards notified under the Companies (Accounting Standards) Rules, 2006 (as amended), the relevant provisions of the Companies Act and the regulations, rules, provisions and directions of the RBI applicable to a NBFC. The financial statements have been prepared under the historical cost convention on an accrual basis except interest/discount on a loan which have been classified as NPA and is accounted for on a cash basis. We have applied the accounting policies consistently. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, related disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We continually evaluate our estimates and judgments, the most

critical of which are those related to revenue recognition. We base our estimates and judgments on historical experience and other factors that we believe to be reasonable under the circumstances. Materially different results can occur as circumstances change and additional information becomes known. Our significant accounting policies are more fully described under the notes to restated summary statements in the section titled “Financial Statements” on page 146 of the Red Herring Prospectus. We have identified the following critical accounting policies.

### ***Revenue Recognition***

We recognize revenue to the extent that the revenue can be reliably measured and that it is probable that the economic benefits will flow to the Company. Except as noted below, we recognize all income on an accrual basis.

We recognize interest income on loans disbursed under the internal rate of return, or IRR, method. As compared to the flat method of recognizing interest income, the IRR method recognizes the revenue over the period of the loan and interest is calculated on the reduced balance of the loan amount. This method of accounting matches the recognition of financial expenses, showing an equal treatment of income and expenses. Further, income on NPAs is recognized only when realized and any interest accruing on such assets is de-recognized totally by reversing the interest income already recognized.

We recognize interest income on deposits with banks on a time proportion accrual basis taking into account the amount outstanding and the applicable interest rate.

We recognize income from membership fees paid by our members on an upfront basis.

We account for dividend income on establishment of right to receive basis by the balance sheet date.

### ***Assignment of loans***

From time to time we sell and assign a group of similar loans from our outstanding loan portfolio to financial institutions in return for an upfront fixed consideration equal to the aggregate outstanding principal amount of the loans plus a discounted value of the future interest payments of the loans assigned. The consideration we derive from the assignment of our loan portfolios in these transactions depend on a number of factors including the term of the loans, yield of the loan portfolio assigned and the negotiated discounting rate. While we receive the consideration as a lump sum up front payment on the date of assignment of the loan portfolio, we recognize the income from the assignment over the life of the assigned loans to reflect our income in line with interest income on portfolio loans.

We recognize income from assignments of loans, over the life of the receivables assigned on an accrual basis. We recognize loss, if any, arising from assignments of loans immediately.

### ***Impairment***

We review the carrying amounts of our assets at each balance sheet date to analyze whether there is any indication of impairment based on internal or external factors. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, we discount estimated future cash flows to their present value at the weighted average cost of capital. After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.

### ***Investments***

We classify an investment as a current investment if it is readily realizable and not intended to be held for more than a year. We classify all other investments as long-term investments. Current investments are carried at the lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost, subject to a provision for a decline in the value of the investment where such decline is not temporary.

### ***Retirement and Other Employee Benefits***

Our monthly contributions to the Provident Fund and the Employee's State Insurance Scheme are immediately expensed in the period in which they are made. We have no other similar obligations.

Gratuity liability is a defined benefit obligation and is provided for on the basis of an actuarial valuation using the projected unit credit method and made at the end of the fiscal year.

Short term compensated absences are provided for based on estimates. Long term compensated absences are provided for on the basis of an actuarial valuation using the projected unit credit method and made at the end of the fiscal year.

Actuarial gains and losses are immediately expensed and are not deferred.

### ***Income Taxes***

Tax expense includes current and deferred income tax and fringe benefit tax. Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the Income Tax Act. Fringe benefit tax has been retracted effective April 1, 2009. Deferred income tax reflects the impact of current year timing differences between taxable income and accounting income for the applicable fiscal year and reversal of timing differences from earlier years.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted as of 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.

The carrying amount of the deferred tax assets are reviewed as of each balance sheet date. We write down the carrying amount of the deferred tax assets 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 assets can be realized. Any such write down is reversed to the extent that it becomes reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available.

### ***Provisions***

A provision is recognized when an enterprise has a present obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of such outflow can be made. Provisions are not discounted to present value and are determined based on the best estimate of the amount required to settle the obligation at the balance sheet date. Provisions are reviewed at each balance sheet date and adjusted to reflect management's current best estimates.

### ***Employee Share Based Payments***

Measurement and disclosure of the employee share-based payment plans under our Employee Share Purchase Scheme 2007, or ESPS 2007, is done in accordance with the Guidance Note on Accounting for Employee Share-based Payments issued by the ICAI. We measure compensation cost related to our ESPS 2007 using the fair value method and recognized the expense immediately.

Measurement and disclosure of the employee share-based payment plans under our Employee Stock Option Plan, or ESOP, is done in accordance with the Guidance Note on Accounting for Employee Share-based Payments issued by the ICAI. We measure compensation cost relating to employee stock options using the Black-Scholes Model. Compensation expense is amortized over the vesting period of the option on a straight line basis.

### ***Provision Policy for Portfolio Loans***

We maintain provision policy for all loans to members that comply with RBI requirements, as prescribed in the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007. We write off all overdue loans where the tenure of the loan is completed and in the opinion of management the amount is not recoverable, as well as any loss assets identified as such under existing RBI

guidelines. In addition, we maintain provisioning standards in excess of the RBI requirements with respect to our loans outstanding.

Provisions and write offs for assigned loans are made on the basis of the actual short collection of the assigned loan, or as per our provisioning policy for loans, whichever is higher, subject to maximum of any guarantee given to the to the assignee bank. Short collection is the difference between the amount to be collected and the amount actually collected from the member. Short collection for any principal amount due is immediately written off in the period in which the short collection occurs and short collection for any interest payable is provided for in the period in which the short collection occurs.

The following table compares applicable RBI regulations to our provisioning policies for our proprietary loans for the fiscal years ended 2010, 2009, 2008 and 2007.

| Year ended March 31, 2010 and 2009              |                         |                                       |                                            |
|-------------------------------------------------|-------------------------|---------------------------------------|--------------------------------------------|
| Provisions and Write Offs for Proprietary loans |                         |                                       |                                            |
| Asset Classification                            | Arrear Period           | Provision as per RBI prudential norms | Estimated Provision adopted by the Company |
| Standard                                        | Less than 8 weeks       | Nil                                   | (1)                                        |
| Sub-Standard                                    | Over 8 weeks – 25 weeks | 10%                                   | 50%                                        |
| Loss Assets                                     | More than 25 weeks      | 100%                                  | Write Off                                  |

- (1) When RBI regulations stipulate a nil provision, we conservatively calculate a provision using the portfolio at risk method. In this method, the standard asset provision is linked to a portfolio at risk calculation representing the amount overdue as a percentage of gross loan portfolio, and the provision is determined using the following guidelines.

| PAR              | Estimated Provision adopted by the Company<br>(% of Standard Assets) |
|------------------|----------------------------------------------------------------------|
| 0 – 1%           | 0.25%                                                                |
| Above 1% to 1.5% | 0.50%                                                                |
| Above 1.5% to 2% | 0.75%                                                                |
| Above 2%         | 1.00%                                                                |

- (2) All other loans and advances are provided for in accordance with the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007
- (3) All overdue loans where the tenure of the loan is completed and in the opinion of the management, the amount is not recoverable, are written off.
- (4) All loss assets identified pursuant to the RBI guidelines are provided for or written off.

| Year ended March 31, 2008                       |                          |                                       |                                            |
|-------------------------------------------------|--------------------------|---------------------------------------|--------------------------------------------|
| Provisions and Write Offs For Proprietary loans |                          |                                       |                                            |
| Asset Classification                            | Arrear Period            | Provision as per RBI prudential norms | Estimated Provision adopted by the Company |
| Standard                                        | Less than 8 weeks        | Nil                                   | 0.75%                                      |
| Sub-Standard                                    | Over 8 weeks – 25 weeks  | 10%                                   | 10%                                        |
| Doubtful assets                                 | Over 25 weeks – 50 weeks | 10%                                   | 50%                                        |
| Loss Assets                                     | More than 50 weeks       | 100%                                  | Write Off                                  |

| Year ended March 31, 2007                       |                          |                                       |                                            |
|-------------------------------------------------|--------------------------|---------------------------------------|--------------------------------------------|
| Provisions and Write Offs for Proprietary loans |                          |                                       |                                            |
| Asset Classification                            | Arrear Period            | Provision as per RBI prudential norms | Estimated Provision adopted by the Company |
| Standard                                        | Less than 8 weeks        | Nil                                   | 1%                                         |
| Sub-Standard                                    | Over 8 weeks – 25 weeks  | 10%                                   | 10%                                        |
| Doubtful assets                                 | Over 25 weeks – 50 weeks | 10%                                   | 50%                                        |
| Loss Assets                                     | More than 50 weeks       | 100%                                  | Write Off                                  |

## **The Principal Components of Our Statement of Profit and Loss Account**

### ***Income***

#### ***Income from Operations***

Income from operations consists of interest income on portfolio loans, income from assignment of loans and membership fees.

#### ***Other Income***

Other income consists of income from interest on deposits, group insurance administrative charges, insurance commission, other commission income, profit on disposal of fixed assets, dividend income from mutual fund investments and other miscellaneous income.

### ***Expenses***

Our total expenses are comprised of financial expenses, personnel expenses, operating and other expenses, depreciation and amortization and provisions and write offs.

#### ***Financial Expenses***

Financial expenses consist of interest payments on borrowings, loan processing fees, bank charges and guarantee fees.

#### ***Personnel Expenses***

Personnel expenses consist of salaries and employee benefits provided to our employees.

#### ***Operating and Other Expenses***

Operating and other expenses includes lease payments for our facilities, traveling and conveyance costs reimbursed to our employees for travel to village meetings, branch offices and our headquarters, printing and stationery costs relating primarily to loan documentation and notarization, compensation we paid to professional firms and consultants, and write offs relating to petty misappropriation of loan disbursement and repayment amounts.

#### ***Depreciation and Amortization***

Depreciation and amortization expenses are generated by the depreciation of our equipment and other fixed assets and amortization of technology we purchased to assist management of our network of branches and members.

#### ***Provisions and Write offs***

Provisions and write offs includes bad debts written off with respect to our portfolio loans and losses relating to loans we assigned to third parties and provisions for standard and NPAs.



| Selected Financial Information         |                       |                   |                 |                   |                 |                   |               |                   |
|----------------------------------------|-----------------------|-------------------|-----------------|-------------------|-----------------|-------------------|---------------|-------------------|
| (Rs. in million)                       |                       |                   |                 |                   |                 |                   |               |                   |
|                                        | Years Ended March 31, |                   |                 |                   |                 |                   |               |                   |
|                                        | 2010                  | % of total income | 2009            | % of total income | 2008            | % of total income | 2007          | % of total income |
| <b><u>Income</u></b>                   |                       |                   |                 |                   |                 |                   |               |                   |
| <b>Income from operations</b>          |                       |                   |                 |                   |                 |                   |               |                   |
| Interest income on portfolio loans     | 7,565.42              | 78.9              | 4,418.01        | 79.7              | 1,330.79        | 78.3              | 396.36        | 86.8              |
| Income from assignment of loans        | 1,012.53              | 10.6              | 480.22          | 8.7               | 165.62          | 9.7               | -             | 0.0               |
| Other                                  | 157.75                | 1.6               | 162.49          | 2.9               | 128.25          | 7.5               | 48.59         | 10.6              |
| <b>Sub total</b>                       | <b>8,735.70</b>       | <b>91.1</b>       | <b>5,060.72</b> | <b>91.3</b>       | <b>1,624.66</b> | <b>95.5</b>       | <b>444.95</b> | <b>97.4</b>       |
| <b>Other Income</b>                    |                       |                   |                 |                   |                 |                   |               |                   |
| Interest on bank deposits              | 272.31                | 2.8               | 171.37          | 3.1               | 20.16           | 1.2               | 1.84          | 0.4               |
| Group insurance administrative charges | 323.23                | 3.4               | 175.39          | 3.2               | 45.82           | 2.7               | 4.91          | 1.1               |
| Insurance commission                   | 192.51                | 2.0               | 118.85          | 2.1               | -               | 0.0               | -             | 0.0               |
| Others                                 | 65.53                 | 0.7               | 13.67           | 0.2               | 9.44            | 0.6               | 4.96          | 1.1               |
| <b>Sub total</b>                       | <b>853.58</b>         | <b>8.9</b>        | <b>479.28</b>   | <b>8.7</b>        | <b>75.42</b>    | <b>4.5</b>        | <b>11.71</b>  | <b>2.6</b>        |
| <b>Total</b>                           | <b>9,589.28</b>       | <b>100.0</b>      | <b>5,540.00</b> | <b>100.0</b>      | <b>1,700.08</b> | <b>100.0</b>      | <b>456.66</b> | <b>100.0</b>      |
| <b><u>Expenditure</u></b>              |                       |                   |                 |                   |                 |                   |               |                   |
| <b>Financial expenses</b>              |                       |                   |                 |                   |                 |                   |               |                   |
| Interest on borrowings                 | 2,706.92              | 28.2              | 1,734.23        | 31.3              | 521.79          | 30.7              | 131.46        | 28.8              |
| Loan processing fees                   | 159.76                | 1.7               | 176.95          | 3.2               | 28.18           | 1.7               | 3.27          | 0.7               |
| Others                                 | 17.37                 | 0.2               | 33.13           | 0.6               | 14.68           | 0.9               | 3.80          | 0.8               |
| <b>Sub Total</b>                       | <b>2,884.05</b>       | <b>30.1</b>       | <b>1,944.31</b> | <b>35.1</b>       | <b>564.65</b>   | <b>33.3</b>       | <b>138.53</b> | <b>30.3</b>       |
| <b>Personnel expenses</b>              |                       |                   |                 |                   |                 |                   |               |                   |
| Salaries & incentives                  | 1,851.42              | 19.3              | 1,189.37        | 21.4              | 417.32          | 24.5              | 109.97        | 24.1              |
| Others                                 | 312.37                | 3.3               | 170.64          | 3.1               | 57.66           | 3.4               | 19.70         | 4.3               |
| <b>Sub Total</b>                       | <b>2,163.79</b>       | <b>22.6</b>       | <b>1,360.01</b> | <b>24.5</b>       | <b>474.98</b>   | <b>27.9</b>       | <b>129.67</b> | <b>28.4</b>       |
| <b>Operating and other expenses</b>    |                       |                   |                 |                   |                 |                   |               |                   |
| Traveling & conveyance                 | 417.27                | 4.4               | 253.60          | 4.6               | 110.18          | 6.5               | 38.89         | 8.5               |
| Printing & stationery                  | 157.20                | 1.6               | 112.19          | 2.0               | 51.67           | 3.0               | 17.69         | 3.9               |
| Others                                 | 646.78                | 6.7               | 386.70          | 7.0               | 115.98          | 6.8               | 42.38         | 9.3               |
| <b>Sub Total</b>                       | <b>1,221.25</b>       | <b>12.7</b>       | <b>752.49</b>   | <b>13.6</b>       | <b>277.83</b>   | <b>16.3</b>       | <b>98.96</b>  | <b>21.7</b>       |
| <b>Depreciation and amortization</b>   | <b>126.00</b>         | <b>1.3</b>        | <b>108.47</b>   | <b>2.0</b>        | <b>51.11</b>    | <b>3.0</b>        | <b>23.79</b>  | <b>5.2</b>        |
| <b>Provisions and write offs</b>       | <b>517.18</b>         | <b>5.4</b>        | <b>134.15</b>   | <b>2.4</b>        | <b>42.08</b>    | <b>2.5</b>        | <b>20.32</b>  | <b>4.4</b>        |
| <b>Total</b>                           | <b>6,912.27</b>       | <b>72.1</b>       | <b>4,299.43</b> | <b>77.6</b>       | <b>1,410.65</b> | <b>83.0</b>       | <b>411.27</b> | <b>90.0</b>       |
| <b>Profit before tax</b>               | <b>2,677.01</b>       | <b>27.9</b>       | <b>1,240.57</b> | <b>22.4</b>       | <b>289.43</b>   | <b>17.0</b>       | <b>45.39</b>  | <b>10.0</b>       |
| Tax expense                            | 928.61                | 9.7               | 443.64          | 8.0               | 123.68          | 7.3               | 23.33         | 5.1               |
| <b>Profit after tax</b>                | <b>1,748.40</b>       | <b>18.2</b>       | <b>796.93</b>   | <b>14.4</b>       | <b>165.75</b>   | <b>9.7</b>        | <b>22.06</b>  | <b>4.9</b>        |

## Results of Operations for Fiscal 2010 compared to Fiscal 2009

### Income

Our total income is comprised of income from operations and other income. Income from operations consists of interest income on portfolio loans, income from assignment of loans, loan origination charges and membership fees. Other income consists of income from interest on bank deposits, insurance commission, other commission income, group insurance administrative charges, profit on disposal of fixed assets and other miscellaneous income.

Our total income increased by 73.1% from Rs. 5,540.00 million in fiscal 2009 to Rs. 9,589.28 million in fiscal 2010. This increase was due to an increase in income from operations of Rs. 3,674.98 million, or 72.6%, and an increase in other income of Rs. 374.30 million, or 78.1%.

### Income from operations

The table set forth below provides a summary of our income from operations for fiscal 2010 and fiscal 2009.

|                                    | (Rs. in million) |                 |
|------------------------------------|------------------|-----------------|
|                                    | Fiscal 2010      | Fiscal 2009     |
| Interest income on portfolio loans | 7,565.42         | 4,418.01        |
| Income from assignment of loans    | 1,012.53         | 480.22          |
| Loan origination charges           | -                | 86.71           |
| Membership fees                    | 157.75           | 75.78           |
| <b>Total</b>                       | <b>8,735.70</b>  | <b>5,060.72</b> |

The increase in income from operations is primarily due to an increase in our interest income on portfolio loans of Rs. 3,147.41 million, or 71.2%, to Rs. 7,565.42 million in fiscal 2010 from Rs. 4,418.01 million in fiscal 2009, as a result of an increase in new loans of Rs. 31,608.87 million, or 71.9%, to Rs. 75,601.02 million in fiscal 2010 from Rs. 43,992.15 million in fiscal 2009, and an increase in portfolio loans outstanding at the beginning of the year of Rs. 6,366.33 million, or 81.5%, to Rs. 14,175.23 million in fiscal 2010 from Rs. 7,808.90 million in fiscal 2009.

The increase in income from operations was also partially due to an increase in our income from assignment of loans of Rs. 532.31 million, or 110.8%, to Rs. 1,012.53 million in fiscal 2010 from Rs. 480.22 million in fiscal 2009. This increase was primarily the result of an increase in the sale consideration of assigned loans of Rs. 3,995.84 million, or 27.7%, to Rs. 18,408.84 million in fiscal 2010 from Rs. 14,413.00 million in fiscal 2009, and an increase in assigned loans outstanding at the beginning of the year of Rs. 7,691.78 million, or 285.2%, to Rs. 10,388.90 million in fiscal 2010 from Rs. 2,697.12 million in fiscal 2009. The income on assigned loans is amortized over the tenure of loans assigned on a conservative basis, rather than recognizing it upfront upon the consummation of sale.

Our members currently pay a relatively small one time non-refundable membership fee of Rs. 50 when they are first accepted as members and are recognized in the period they are collected. Membership fees increased by Rs. 81.97 million, or 108.2%, to Rs. 157.75 million in fiscal 2010 from Rs. 75.78 million in fiscal 2009. This increase was primarily the result of increase in our membership during the same period.

Our membership increased from 3.95 million in fiscal 2009 to 6.78 million in fiscal 2010 and the number of branches we operate increased from 1,353 to 2,029.

### *Other Income*

The table set forth below provides a summary of our other income for fiscal 2010 and fiscal 2009.

(Rs. in million)

|                                        | <b>Fiscal 2010</b> | <b>Fiscal 2009</b> |
|----------------------------------------|--------------------|--------------------|
| Interest on bank deposits              | 272.31             | 171.37             |
| Group insurance administrative charges | 323.23             | 175.39             |
| Insurance commission                   | 192.51             | 118.85             |
| Other commission income                | 32.31              | 0.71               |
| Profit on disposal of fixed assets     | -                  | 0.01               |
| Miscellaneous Income                   | 33.22              | 12.95              |
| <b>Total</b>                           | <b>853.58</b>      | <b>479.28</b>      |

The increase in other income is primarily due to an increase in our income from interest on bank deposits of Rs. 100.94 million, or 58.9% from fiscal 2009 to fiscal 2010. This increase in income from interest on bank deposits was primarily the result of increase in security deposits placed on higher borrowings for fiscal 2010 as against fiscal 2009 and also an increase in interest recognition on the opening short term deposits of Rs. 12,677.82 million maintained during the global financial crisis, and an equity issuance of Rs. 1,162.90 million we completed in fiscal year ended 2010. We increased our borrowings and invested equity to augment our liquidity and ability to continue to issue more loans to our members at a growing rate during the fiscal year 2010.

An increase of Rs. 147.84 million, or 84.3%, from fiscal 2009 to fiscal 2010 in income from group insurance administrative charges also contributed to the increase of our other income. This increase is due to the increase in our loan portfolio because we require our members to purchase insurance to cover the principal amount of any loan they obtain and charge the member to administer the insurance policy.

An increase of Rs. 73.66 million, or 62.0%, from fiscal 2009 to fiscal 2010 in income from Insurance commission also contributed to the increase of our other income. This increase was primarily the result of increase in distribution of 1.15 million new life insurance policies for fiscal 2010 and in part from trailing commission on the existing policies outstanding at the beginning of the year.

Other commission income includes Rs. 32.31 million in fiscal 2010 received as commission income from our strategic alliance partners through distribution of their products on pilot basis such as mobile phones, water purifier etc.

### *Expenses*

Our total expenses are comprised of financial expenses, personnel expenses, operating and other expenses, depreciation and amortization and provisions and write off's. Our total expenses increased by 60.8% from Rs. 4,299.43 million in fiscal 2009 to Rs. 6,912.27 million in fiscal 2010. This increase was primarily due to an increase in financial expenses of Rs. 939.74 million, or 48.3%, an increase in personnel expenses of Rs. 803.78 million, or 59.1%, an increase in operating and other expenses of Rs. 468.76 million, or 62.3%, an increase in depreciation and amortization of Rs. 17.53 million, or 16.2%, and an increase in provisions and write offs of Rs. 383.03 million, or 285.5%.

### *Financial expenses*

The table set forth below provides a summary of our financial expenses for fiscal 2010 and fiscal 2009.

(Rs. in million)

|                        | <b>Fiscal 2010</b> | <b>Fiscal 2009</b> |
|------------------------|--------------------|--------------------|
| Interest on borrowings | 2,706.92           | 1,734.23           |
| Loan processing fees   | 159.76             | 176.95             |
| Bank charges           | 17.16              | 31.71              |
| Guarantee fees         | 0.21               | 1.42               |
| <b>Total</b>           | <b>2,884.05</b>    | <b>1,944.31</b>    |

Our financial expenses are the largest component of our total expenses and represented 41.7% of total expenses for fiscal 2010. Financial expenses increased by 48.3% to Rs. 2,884.05 million in fiscal 2010 from Rs. 1,944.31 million in fiscal 2009. This increase in financial expenses was primarily the result of an increase in interest on borrowings of 56.1% from Rs. 1,734.23 million in fiscal 2009 to Rs. 2,706.92 million in fiscal 2010 resulting from an increase of Rs. 5,581.04 million, or 26.1%, in our secured and unsecured borrowings. We increased our secured and unsecured borrowings in fiscal 2010 to match an increase of Rs. 15,191.97 million, or 107.2%, in our portfolio loans to augment our liquidity and ability to continue to issue more loans to our members at a growing rate during the fiscal 2010.

Loan processing fees decreased by 9.7% to Rs. 159.76 million in fiscal 2010 from Rs. 176.95 million in fiscal 2009. This decrease in loan processing fees was primarily as a result of a decrease in syndication fees of Rs. 31.43 million to Rs. 22.70 million in fiscal 2010 from Rs. 54.13 million in fiscal 2009 as offset by an increase in the processing fee on managed loans of Rs. 14.20 million.

Bank charges decreased by 45.9% to Rs. 17.16 million in fiscal 2010 from Rs. 31.71 million in fiscal 2009. This decrease in bank charges was primarily as a result of the elimination of cash withdrawal tax effective April 1, 2009. Until fiscal 2009, bank charges comprised of bank transaction fees and taxes we pay to the government of India imposed on each cash withdrawal transaction in excess of Rs. 0.10 million we conduct with our banks.

Guarantee fees consist of fees we pay third parties to guarantee loans we obtain from financial institutions for our operations. Pursuant to the terms of the guarantee, fees decrease in proportion to the outstanding balance on the loan. We received such a guarantee for a loan we obtained in fiscal 2008 which remains outstanding and in good standing. From fiscal 2009 to fiscal 2010, fees for this guarantee decreased by Rs. 1.21 million, or 85.2%, to Rs. 0.21 million as a result of the closure in the principal outstanding on the loan to which this guarantee was related to.

#### *Personnel expenses*

Our personnel expenses consist of salaries and employee benefits. These expenses are a significant component of our total expenses and represented 31.3% of total expenses for fiscal 2010. Personnel expenses increased by 59.1% from Rs. 1,360.01 million in fiscal 2009 to Rs. 2,163.79 million as of March 31, 2010, which was due in part to an increase in our total employees from 12,814 as of March 31, 2009 to 21,154 as of March 31, 2010, and in part to an annual increase in salaries and bonuses for our employees effective at the beginning of fiscal 2010. The average rate of this increase for our employees was 12.1%.

#### *Operating and other expenses*

The table set forth below provides a summary of our operating and other expenses for fiscal 2010 and fiscal 2009.

|                                      | <i>(Rs. in million)</i> |                    |
|--------------------------------------|-------------------------|--------------------|
|                                      | <b>Fiscal 2010</b>      | <b>Fiscal 2009</b> |
| Rent                                 | 140.85                  | 88.13              |
| Traveling and conveyance             | 417.27                  | 253.60             |
| Printing and stationery              | 157.20                  | 112.19             |
| Professional and consultancy charges | 129.38                  | 74.31              |
| Other provisions and written off     | 66.18                   | 29.54              |
| Others                               | 310.37                  | 194.72             |
| <b>Total</b>                         | <b>1,221.25</b>         | <b>752.49</b>      |

Our operating and other expenses represented 17.7% of our total expenses for fiscal 2010. Operating and other expenses increased by 62.3% from Rs. 752.49 million in fiscal 2009 to Rs. 1,221.25 million in fiscal 2010. This increase is primarily the result of an increase in the number of loans we issued to our members and the opening of 676 new branches across India in fiscal 2010.

Rent consists of rent payments for our branch offices, regional offices, area offices and our headquarters. Rent represented 11.7% and 11.5% of our total operating and other expenses for fiscal 2009 and fiscal 2010. Rent

increased 59.8% from Rs. 88.13 million in fiscal 2009 to Rs. 140.85 million in fiscal 2010 primarily as result of the opening of new branches.

Traveling and conveyance represented 33.7% and 34.2% of our total operating and other expenses for fiscal 2009 and fiscal 2010, respectively, and is the largest component of our operating and other expenses. These expenses consist of costs related to reimbursements to employees for travel to village meetings, branch offices and our headquarters. Our operating and other expenses increased as a result of an increase in traveling and conveyance of 64.5% from Rs. 253.60 million in fiscal 2009 to Rs. 417.27 million in fiscal 2010. The increase in traveling and conveyance expenses is the result of increases in our membership, the number of loans we issued to our members and in the number of villages in which we operate.

Printing and stationery consists of costs related to loan documentation, notaries, and printing costs. These expenses increased 40.1% from Rs. 112.19 million in fiscal 2009 to Rs. 157.20 million in fiscal 2010, which is the result of an increase in the number of loans we issued to members.

Professional and consultancy charges, including auditor fees, increased 74.1% from Rs. 74.31 million in fiscal 2009 to Rs. 129.38 million in fiscal 2010 as a result of the growth in our operations and certain non-recurring strategic projects.

Other provisions and written off consists of write offs related to the misappropriation of loan disbursements and repayments. These write offs represented less than 0.25% of our total outstanding loan portfolio in fiscal 2010 and fiscal 2009.

#### *Depreciation and amortization*

Depreciation and amortization increased by 16.2% to Rs. 126.00 million in fiscal 2010 from Rs. 108.47 million in fiscal 2009. The increase was primarily the result of purchases of fixed and intangible assets such as computers, vehicles, software and furniture of Rs. 149.18 million in fiscal 2009 to Rs. 172.97 million in fiscal 2010.

#### *Provisions and Write Offs*

The table set forth below provides a summary of our provisions and write offs for fiscal 2010 and fiscal 2009.

(Rs. in million)

|                                                  | <b>Fiscal 2010</b> | <b>Fiscal 2009</b> |
|--------------------------------------------------|--------------------|--------------------|
| Bad debts written off                            | 288.57             | 103.29             |
| Loss from assigned loans                         | 169.00             | 30.71              |
| Provision for Standard and Non performing assets | 59.61              | 0.15               |
| <b>Total</b>                                     | <b>517.18</b>      | <b>134.15</b>      |

Provisions and write offs represented 7.5% of total expenses for fiscal 2010 and increased 285.5% from Rs. 134.15 million in fiscal 2009 to Rs. 517.18 million in fiscal 2010. The increase is primarily the result of an increase in bad debts written off of Rs. 185.28 million, or 179.4%, loss from assigned loans of Rs. 138.29 million, or 450.3% and an increase in provision for standard and non performing assets (expense) of Rs. 59.46 million.

The ratio of bad debts written off to portfolio loans increased from 0.73% in fiscal 2009 to 0.98% in fiscal 2010. The increase in bad debts written off is primarily the result of an increase in the portfolio loans of Rs. 15,191.97 million, or 107.2%, to Rs. 29,367.20 million in fiscal 2010 from Rs. 14,175.23 million in fiscal 2009 and also an increase of Rs. 54.15 million as a result of other write offs such as non receivables from discontinuation of individual loan product, health insurance claims and life insurance loans not settled by insurer.

The ratio of loss from assigned loans to assigned loan portfolio increased from 0.30% in fiscal 2009 to 1.22% in fiscal 2010. The increase in loss from assigned loans is primarily the result of a 285.2% increase in our assigned loans outstanding at the beginning of the year to Rs. 10,388.90 million in fiscal 2010 from Rs. 2,697.12 million in fiscal 2009 and an increase of Rs. 27.63 million in part as a result of change in the provisioning policy whereby the actual short collection for any interest payable earlier provisioned for 100.0% was regrouped as loss from assigned loans for 100% from fiscal 2010. Losses on assigned loans are subject to

a cap that ranges in general from 5.0% to 20.0% of the total value of the assigned loans depending on the bank and terms of the assignment.

The ratio of provision for standard and non performing assets to portfolio loans increased from 0.001% in fiscal 2009 to 0.20% in fiscal 2010. The provision for standard and non performing assets increased from Rs. 61.64 million in fiscal 2009 to Rs. 121.25 million in fiscal 2010. The net provision charged for standard and non performing assets increased from Rs. 0.15 million in fiscal 2009 to Rs. 59.61 million during fiscal 2010, primarily as a result of the short provision made for fiscal 2009, due to a change in our provision policy, whereby the provision for portfolio loans overdue between 0 to 8 weeks decreased from 0.75% in fiscal 2008 to 0.25% in fiscal 2009 and has resulted in a reversal of excess provision charged for fiscal 2008 in fiscal 2009 and in part from an increase in the portfolio loans for the year.

### ***Profit Before Tax***

As a result of the factors stated above, our profit before tax increased 115.8% from Rs. 1,240.57 million in fiscal 2009, representing 22.4% of total income, to Rs. 2,677.01 million in fiscal 2010, representing 27.9% of total income.

### ***Tax Expense***

Our income tax expense increased 109.3% from Rs. 443.64 million in fiscal 2009 to Rs. 928.61 million in fiscal 2010. This increase was primarily due to an increase in current tax of Rs. 527.70 million, as offset by an increase in deferred tax asset of Rs. 19.38 million and decrease in fringe benefit tax by Rs. 15.35 million in fiscal 2010. Fringe benefit tax was eliminated with effect from April 1, 2010. Our effective tax rate on profits increased from 34.5% in fiscal 2009 to 34.7% in fiscal 2010.

### ***Profit after Tax***

As a result of foregoing factors, profit after tax increased 119.4% from Rs. 796.93 million in fiscal 2009, representing 14.4% of total income, to Rs. 1,748.40 million in fiscal 2010, representing 18.2% of total income.

## **Results of Operations for Fiscal 2009 compared to Fiscal 2008**

### ***Income***

Our total income increased by 225.9% from Rs. 1,700.08 million in fiscal 2008 to Rs. 5,540.00 million in fiscal 2009. This increase was due to an increase in income from operations of Rs. 3,436.06 million, or 211.5%, and an increase in other income of Rs. 403.86 million, or 535.5%.

### ***Income from operations***

The table set forth below provides a summary of our income from operations for fiscal 2009 and fiscal 2008.

|                                      | <i>(Rs. in million)</i> |                    |
|--------------------------------------|-------------------------|--------------------|
|                                      | <b>Fiscal 2009</b>      | <b>Fiscal 2008</b> |
| Interest income on portfolio loans   | 4,418.01                | 1,330.79           |
| Income from assignment of loans      | 480.22                  | 165.62             |
| Loan origination charges             | 86.71                   | 87.99              |
| Membership fees                      | 75.78                   | 36.65              |
| Income from loan management services | -                       | 3.61               |
| <b>Total</b>                         | <b>5,060.72</b>         | <b>1,624.66</b>    |

The increase in income from operations is primarily due to an increase in our interest income on portfolio loans of Rs. 3,087.22 million, or 232.0%, to Rs. 4,418.01 million in fiscal 2009 from Rs. 1,330.79 million in fiscal 2008, as a result of an increase in new loans of Rs. 27,189.85 million, or 161.8%, to Rs. 43,992.15 million in fiscal 2009 from Rs. 16,802.30 million in fiscal 2008, and an increase in portfolio loans outstanding at the beginning of the year of Rs. 5,166.97 million, or 195.6%, to Rs. 7,808.90 million in fiscal 2009 from Rs. 2,641.93 million in fiscal 2008.

The increase in income from operations was also partially due to an increase in our income from assignment of loans of Rs. 314.60 million, or 190.0%, to Rs. 480.22 million in fiscal 2009 from Rs. 165.62 million in fiscal 2008. This increase was primarily the result of an increase in the sale consideration of assigned loans of Rs. 10,310.32 million, or 251.31%, to Rs. 14,413.00 million in fiscal 2009 from Rs. 4,102.68 million in fiscal 2008, and the recognition of unamortized income from the sale consideration of assigned loans existing at the beginning of the year.

Until fiscal 2008, we charged members an initial processing fee when disbursing loans, and amortized the charge over the life of the loan on a straight line method. In fiscal 2009, we discontinued charging such loan origination fees. Income from loan origination charges of Rs. 86.71 million in fiscal year ended 2009 was from unamortized processing fees collected from members for loans issued in fiscal 2008.

Membership fees increased Rs. 39.13 million, or 106.8% from fiscal 2008 to fiscal 2009. This increase was primarily the result of increase in our membership during the same period.

Our membership increased from 1.88 million in fiscal 2008 to 3.95 million in fiscal 2009 and the number of branches we operate increased from 770 to 1,353.

#### *Other Income*

The table set forth below provides a summary of our other income for fiscal 2009 and fiscal 2008.

|                                        | <i>(Rs. in million)</i> |                    |
|----------------------------------------|-------------------------|--------------------|
|                                        | <b>Fiscal 2009</b>      | <b>Fiscal 2008</b> |
| Interest on bank deposits              | 171.37                  | 20.16              |
| Group insurance administrative charges | 175.39                  | 45.82              |
| Insurance commission                   | 118.85                  | -                  |
| Other commission income                | 0.71                    | -                  |
| Profit on disposal of fixed assets     | 0.01                    | -                  |
| Dividend from mutual fund investments  | -                       | 0.14               |
| Miscellaneous Income                   | 12.95                   | 9.30               |
| <b>Total</b>                           | <b>479.28</b>           | <b>75.42</b>       |

The increase in other income is primarily due to an increase in our income from interest on bank deposits of Rs. 151.21 million, or 750.0% from fiscal 2008 to fiscal 2009. This increase in income from interest on bank deposits was the result of increased in total deposits of Rs. 12,729.38 million, or 1,095.9%, and an equity issuance of Rs. 3,698.82 million we completed in fiscal year ended 2009. We increased our borrowings and invested equity to augment our liquidity and ability to continue to issue more loans to our members at a growing rate during the global financial crisis of 2008 and 2009.

An increase of Rs. 129.57 million, or 282.8%, from fiscal 2008 to fiscal 2009 in income from group insurance administrative charges also contributed to the increase of our other income.

Other income also includes Rs. 118.85 million in fiscal 2009 of income from insurance commission relating to a new life insurance product that we began distributing to our members on behalf of a third party insurance company.

#### *Expenses*

Our total expenses increased by 204.8% from Rs. 1,410.65 million in fiscal 2008 to Rs. 4,299.43 million in fiscal 2009. This increase was primarily due to an increase in financial expenses of Rs. 1,379.66 million, or 244.3%, an increase in personnel expenses of Rs. 885.03 million, or 186.3%, an increase in operating and other expenses of Rs. 474.66 million, or 170.8%, an increase in depreciation and amortization of Rs. 57.36 million, or 112.2%, and an increase in provisions and write offs of Rs. 92.07 million, or 218.8%.

### *Financial expenses*

The table set forth below provides a summary of our financial expenses for fiscal 2009 and fiscal 2008.

(Rs. in million)

|                        | <b>Fiscal 2009</b> | <b>Fiscal 2008</b> |
|------------------------|--------------------|--------------------|
| Interest on borrowings | 1,734.23           | 521.79             |
| Loan processing fees   | 176.95             | 28.18              |
| Bank charges           | 31.71              | 12.95              |
| Guarantee fees         | 1.42               | 1.73               |
| <b>Total</b>           | <b>1,944.31</b>    | <b>564.65</b>      |

Our financial expenses are the largest component of our total expenses and represented 45.2% of total expenses for fiscal 2009. Financial expenses increased by 244.3% to Rs. 1,944.31 million in fiscal 2009 from Rs. 564.65 million in fiscal 2008. This increase in financial expenses was primarily the result of an increase in interest on borrowings of 232.4% from Rs. 521.79 million in fiscal 2008 to Rs. 1,734.23 million in fiscal 2009 resulting from an increase of Rs. 13,467.23 million, or 170.5%, in our secured and unsecured borrowings. We increased our secured and unsecured borrowings in fiscal 2009 to match an increase of Rs. 6,366.63 million, or 81.5%, in our portfolio loans and to augment our liquidity and ability to continue to issue more loans to our members at a growing rate during the global financial crisis of 2008 and 2009.

Financial expenses also increased as a result of an increase of 527.9% in loan processing fees related to our additional borrowings from Rs. 28.18 million in fiscal 2008 to Rs. 176.95 million in fiscal 2009.

Our financial expenses increased as a result of an increase in bank charges of 144.9% from Rs. 12.95 million in fiscal 2008 to Rs. 31.71 million in fiscal 2009.

Guarantee fees consist of fees we pay third parties to guarantee loans we obtain from financial institutions for our operations and decreases in proportion to the outstanding balance on the loan. From fiscal 2008 to fiscal 2009, fees for this guarantee decreased by Rs. 0.31 million, or 17.9%, as a result of reductions in the principal outstanding on the loan we obtained in fiscal 2008.

### *Personnel expenses*

Our personnel expenses are a significant component of our total expenses and represented 31.6% of total expenses for fiscal 2009. Personnel expenses increased by 186.3% from Rs. 474.98 million in fiscal 2008 to Rs. 1,360.01 million as of March 31, 2009, which was due in part to an increase in our total employees from 6,818 as of March 31, 2008 to 12,814 as of March 31, 2009, and in part to an annual increase in salaries and bonuses for our employees effective at the beginning of fiscal 2009. The average rate of this increase for our employees was 10.3%.

### *Operating and other expenses*

The table set forth below provides a summary of our operating and other expenses for fiscal 2009 and fiscal 2008.

(Rs. in million)

|                                      | <b>Fiscal 2009</b> | <b>Fiscal 2008</b> |
|--------------------------------------|--------------------|--------------------|
| Rent                                 | 88.13              | 26.26              |
| Traveling and conveyance             | 253.60             | 110.18             |
| Printing and stationery              | 112.19             | 51.67              |
| Professional and consultancy charges | 74.31              | 21.00              |
| Other provisions written off's       | 29.54              | 8.68               |
| Others                               | 194.72             | 60.04              |
| <b>Total</b>                         | <b>752.49</b>      | <b>277.83</b>      |



Our operating and other expenses represented 17.5% of our total expenses for fiscal 2009. Operating and other expenses increased by 170.8% from Rs. 277.83 million in fiscal 2008 to Rs. 752.49 million in fiscal 2009. This increase is primarily the result of an increase in the number of loans we issued to our members and the opening of 583 new branches across India in fiscal 2009.

Rent represented 9.5% and 11.7% of our total operating and other expenses for fiscal 2008 and fiscal 2009. Rent increased 235.6% from Rs. 26.26 million in fiscal 2008 to Rs. 88.13 million in fiscal 2009 primarily as result of the opening of new branches.

Traveling and conveyance represented 39.7% and 33.7% of our total operating and other expenses for fiscal 2008 and fiscal 2009 and is the largest component of our operating and other expenses. Our operating and other expenses increased as a result of an increase in traveling and conveyance of 130.2% from Rs. 110.18 million in fiscal 2008 to Rs. 253.60 million in fiscal 2009.

Printing and stationery increased 117.1% from Rs. 51.67 million in fiscal 2008 to Rs. 112.19 million in fiscal 2009, which is the result of an increase in the number of loans we issued to members.

Professional and consultancy charges, including auditor fees, increased 253.9% from Rs. 21.00 million in fiscal 2008 to Rs. 74.31 million in fiscal 2009 as a result of the growth in our operations and certain non-recurring strategic projects.

Other provisions and written off represented less than 0.25% of our total outstanding loan portfolio in fiscal 2009 and fiscal 2008.

#### *Depreciation and amortization*

Depreciation and amortization increased by 112.2% to Rs. 108.47 million in fiscal 2009 from Rs. 51.11 million in fiscal 2008. The increase was primarily the result of the timing of new purchases of fixed and intangible assets such as computers, software and furniture of Rs. 138.83 million in fiscal 2008 to Rs. 149.18 million in fiscal 2009. New purchases in fiscal 2008 were at the end of the year and therefore were not depreciated and amortized for the entire year, while new purchases in fiscal 2009 were at the beginning of the year and therefore were depreciated and amortized for the entire year.

#### *Provisions and Write Offs*

The table set forth below provides a summary of our provisions and write offs for fiscal 2009 and fiscal 2008.

(Rs. in million)

|                                                  | <b>Fiscal 2009</b> | <b>Fiscal 2008</b> |
|--------------------------------------------------|--------------------|--------------------|
| Bad debts written off                            | 103.29             | 4.48               |
| Loss from assigned loans                         | 30.71              | 5.45               |
| Provision for Standard and Non performing assets | 0.15               | 32.15              |
| <b>Total</b>                                     | <b>134.15</b>      | <b>42.08</b>       |

Provisions and write offs represented 3.1% of total expenses for fiscal 2009 and increased 218.8% from Rs. 42.08 million in fiscal 2008 to Rs. 134.15 million in fiscal 2009. The increase is primarily the result of an increase in bad debts written off of Rs. 98.81 million, or 2,205.6%, loss from assigned loans of Rs. 25.26 million, or 463.5%, as offset by a decrease in provision for standard and non performing assets (expense) of Rs. 32.00 million.

The ratio of bad debts written off to portfolio loans increased from 0.06% in fiscal 2008 to 0.73% in fiscal 2009. The increase in bad debts written off is primarily the result of a change in our provisioning policy for portfolio loans whereby portfolio loans overdue between 25 to 50 weeks were written off 100.0% in fiscal 2009 and written off 50.0% in fiscal 2008 and in part as a result of an 81.5% increase in our portfolio loans from fiscal 2008 to fiscal 2009. The ratio of loss from assigned loans to assigned loan portfolio increased from 0.20% in fiscal 2008 to 0.30% in fiscal 2009. The increase in loss from assigned loans is a result of a 285.2% increase in our assigned loans from fiscal 2008 to fiscal 2009. Losses on assigned loans are subject to a cap that ranges in general from 5.0% to 16.1% of the total value of the assigned loans depending on the bank and terms of the assignment.

The ratio of provision for standard and non performing assets to portfolio loans decreased from 0.41% in fiscal 2008 to 0.001% in fiscal 2009. The provision for standard and non performing assets pertaining to loan portfolio increased from Rs. 61.49 million in fiscal 2008 to Rs. 61.64 million in fiscal 2009. The increase was primarily a result of an increase of Rs. 19.54 million in the provision for loans as a result of a change in our provision policy for loans and advances whereby loans overdue between 9 to 25 weeks were provisioned 50.0% in fiscal 2009 and 10.0% in fiscal 2008, and loans overdue between 26 to 50 weeks were provisioned or written off 100.0% in fiscal 2009 and 50.0% in fiscal 2008; as offset by a reversal of Rs. 19.39 million excess provisioned for portfolio loans as a result of a change in our provision policy for loans and advances whereby loans overdue between 0-8 weeks were provisioned 0.25% in fiscal 2009 and 0.75% in fiscal 2008.

### ***Profit Before Tax***

As a result of the factors stated above, our profit before tax increased 328.6% from Rs. 289.43 million in fiscal 2008, representing 17.0% of total income, to Rs. 1,240.57 million in fiscal 2009, representing 22.4% of total income.

### ***Tax Expense***

Our income tax expense increased 258.7% from Rs. 123.68 million in fiscal 2008 to Rs. 443.64 million in fiscal 2009. This increase was primarily due to an increase in current tax of Rs. 341.67 million, an increase in fringe benefit tax of Rs. 6.36 million, as offset by an increase in deferred tax of Rs. 32.52 million in fiscal 2009. Our effective tax rate on profits decreased from 39.6% in fiscal 2008 to 34.5% in fiscal 2009.

### ***Profit after Tax***

As a result of foregoing factors, profit after tax increased 380.8% from Rs. 165.75 million in fiscal 2008, representing 9.7% of total income, to Rs. 796.93 million in fiscal 2009, representing 14.4% of total income.

## **Results of Operations for fiscal 2008 compared to fiscal 2007**

### ***Income***

Our total income increased by 272.3% from Rs. 456.66 million in fiscal 2007 to Rs. 1,700.08 million in fiscal 2008. This increase was due to an increase in income from operations of Rs. 1,179.71 million, or 265.1%, and an increase in other income of Rs. 63.71 million, or 544.1%.

### ***Income from operations***

The table set forth below provides a summary of our income from operations for fiscal 2008 and fiscal 2007.

|                                      | <i>(Rs. in million)</i> |                    |
|--------------------------------------|-------------------------|--------------------|
|                                      | <b>Fiscal 2008</b>      | <b>Fiscal 2007</b> |
| Interest income on portfolio loans   | 1,330.79                | 396.36             |
| Income from assignment of loans      | 165.62                  | -                  |
| Loan origination charges             | 87.99                   | 18.90              |
| Membership fees                      | 36.65                   | 10.79              |
| Income from loan management services | 3.61                    | 18.90              |
| <b>Total</b>                         | <b>1,624.66</b>         | <b>444.95</b>      |

The increase in income from operations is primarily due to an increase in our interest income on portfolio loans of Rs. 934.43 million, or 235.8%, to Rs. 1,330.79 million in fiscal 2008 from Rs. 396.36 million in fiscal 2007, as a result of an increase in new loans of Rs. 12,279.86 million, or 271.5%, to Rs. 16,802.30 million in fiscal 2008 from Rs. 4,522.44 million in fiscal 2007 and an increase in portfolio loans outstanding at the beginning of the year of Rs. 1,861.43 million, or 238.5%, to Rs. 2,641.93 million in fiscal 2008 from Rs. 780.50 million in fiscal 2007.

In addition, during the same period, our number of members increased from 0.60 million in fiscal 2007 to 1.88 million in fiscal 2008, and the number of branches we operate increased from 276 to 770.

The increase in our total income in fiscal 2008 was also partially due to Rs. 165.62 million in new income from the assignment of loans to banks. For fiscal 2008, income from assignment of loans represented 9.7% of total income.

Loan origination charges increased Rs. 69.09 million, or 365.6%, from Rs. 18.90 million in fiscal 2007 to Rs. 87.99 million in fiscal 2008. For fiscal 2008, loan origination charges represented 5.2% of total income.

Our membership fees increased by Rs. 25.86 million, or 239.7%, from Rs. 10.79 million in fiscal 2007 to Rs. 36.65 million in fiscal 2008. This increase is directly proportional to our increase in membership during the same period of 1.28 million members.

#### *Other Income*

The table set forth below provides a summary of our other income for fiscal 2008 and fiscal 2007.

|                                        | <i>(Rs. in million)</i> |                    |
|----------------------------------------|-------------------------|--------------------|
|                                        | <b>Fiscal 2008</b>      | <b>Fiscal 2007</b> |
| Interest on bank deposits              | 20.16                   | 1.84               |
| Group insurance administrative charges | 45.82                   | 4.91               |
| Dividend from mutual fund investments  | 0.14                    | 0.59               |
| Miscellaneous income                   | 9.30                    | 4.37               |
| <b>Total</b>                           | <b>75.42</b>            | <b>11.71</b>       |

The increase in other income is primarily due to an increase in our income from interest on bank deposits of Rs. 18.32 million, or 995.7% from fiscal 2007 to fiscal 2008, that was the result of increased deposits of Rs. 1,061.43 million, or 1,060.3%, from Rs. 100.11 million in fiscal 2007 to Rs. 1,161.54 million in fiscal 2008, and equity issuance of Rs. 1,239.31 million completed in fiscal 2008. We increased our borrowings and invested equity to augment our liquidity and ability to continue to issue more loans to our members at a growing rate.

An increase of Rs. 40.91 million, or 833.2%, from fiscal 2007 to fiscal 2008 in income from group insurance administrative charges also contributed to the increase of our other income. This increase is due to the increase in our loan portfolio over the same period.

#### *Expenses*

Our total expenses increased by 243.0% from Rs. 411.27 million in fiscal 2007 to Rs. 1,410.65 million in fiscal 2008. This increase was primarily due to an increase in financial expenses of Rs. 426.12 million, or 307.6%, an increase in personnel expenses of Rs. 345.31 million, or 266.3%, an increase in operating and other expenses of Rs. 178.87 million, or 180.7%, an increase in depreciation and amortization of Rs. 27.32 million, or 114.8%, and an increase in provisions and write offs of Rs. 21.76 million, or 107.1%.

#### *Financial expenses*

The table set forth below provides a summary of our financial expenses for fiscal 2008 and fiscal 2007.

|                        | <i>(Rs. in million)</i> |                    |
|------------------------|-------------------------|--------------------|
|                        | <b>Fiscal 2008</b>      | <b>Fiscal 2007</b> |
| Interest on borrowings | 521.79                  | 131.46             |
| Loan processing fees   | 28.18                   | 3.27               |
| Bank charges           | 12.95                   | 3.80               |
| Guarantee fees         | 1.73                    | -                  |
| <b>Total</b>           | <b>564.65</b>           | <b>138.53</b>      |

Our financial expenses are the largest component of our total expenses and represented 40.0% of total expenses for fiscal 2008. Financial expenses increased by 307.6% to Rs. 564.65 million in fiscal 2008 from Rs. 138.53 million in fiscal 2007. This increase was primarily the result of an increase in interest on borrowings of 296.9% from Rs. 131.46 million in fiscal 2007 to Rs. 521.79 million in fiscal 2008 resulting

from an increase of Rs. 5,408.26 million, or 217.2% in our secured and unsecured borrowings from fiscal 2007 to fiscal 2008 to match an increase of Rs. 5,218.83 million, or 192.4%, in our loans and advances and to augment our liquidity and ability to continue to issue more loans to our members at a growing rate.

Financial expenses also increased as a result of an increase of 761.8% from Rs. 3.27 million in fiscal 2007 to Rs. 28.18 million in fiscal 2008 in loan processing fees related to our additional borrowings.

Our financial expenses increased as a result of an increase in bank charges of 240.8% from Rs. 3.80 million in fiscal 2007 to Rs. 12.95 million in fiscal 2008.

We began paying guarantee fees in fiscal 2008 and such fees represented 0.31% of total financial expenses for same period.

#### *Personnel expenses*

Our personnel expenses are a significant component of our total expenses and represented 33.7% of total expenses for fiscal 2008. Personnel expenses increased by 266.3% from Rs. 129.67 million in fiscal 2007 to Rs. 474.98 million in fiscal 2008, which was due in part to an increase in our total employees from 2,381 as of March 31, 2007 to 6,818 as March 31, 2008, and in part to an annual increase in salaries and bonuses for all employees effective at the beginning of fiscal 2008. The average rate of this increase was 18.6%.

#### *Operating and other expenses*

The table set forth below provides a summary of our operating and other expenses for fiscal 2008 and 2007.

(Rs. in million)

|                                      | <b>Fiscal 2008</b> | <b>Fiscal 2007</b> |
|--------------------------------------|--------------------|--------------------|
| Rent                                 | 26.26              | 8.78               |
| Traveling and conveyance             | 110.18             | 38.89              |
| Printing and stationery              | 51.67              | 17.69              |
| Professional and consultancy charges | 21.00              | 7.33               |
| Other provisions and written off's   | 8.68               | 1.80               |
| Other                                | 60.04              | 24.47              |
| <b>Total</b>                         | <b>277.83</b>      | <b>98.96</b>       |

Our operating and other expenses represented 19.7% of our total expenses for fiscal 2008. Operating and other expenses increased by 180.7% from Rs. 98.96 million in fiscal 2007 to Rs. 277.83 million in fiscal 2008. This increase is primarily the result of an increase in the number of loans we issued to our members and the opening of 494 new branches across India.

Rent represented 8.9% and 9.5% of our total operating and other expenses for fiscal 2007 and fiscal 2008. Rent increased 199.1% from Rs. 8.78 million in fiscal 2007 to Rs. 26.26 million in fiscal 2008 primarily as a result of opening new branches.

Traveling and conveyance represented 39.3% and 39.7% of our total operating and other expenses for fiscal 2007 and fiscal 2008. Our operating and other expenses increased as a result of an increase in traveling and conveyance of 183.3% from Rs. 38.89 million in fiscal 2007 to Rs. 110.18 million in fiscal 2008. The increase in traveling and conveyance expenses is the result of increases in our membership, the number of loans we issued to our members and in the number of villages in which we operate.

Printing and stationery expenses increased by 192.1% from Rs. 17.69 million in fiscal 2007 to Rs. 51.67 million in fiscal 2008, which is the result of an increase in the number of loans we issued to members.

Professional and consultancy charges, including auditor fees, increased 186.5% from Rs. 7.33 million in fiscal 2007 to Rs. 21.00 million in fiscal 2008 as a result of the growth in our operations and certain non-recurring strategic projects.

Other provisions and written off consists of write offs related to petty misappropriation of loan disbursements and repayments. These write offs represented less than 0.25% of our total outstanding loan portfolio in fiscal 2008 and fiscal 2007.

#### *Depreciation and amortization*

Depreciation and amortization increased by 114.8% to Rs. 51.11 million in fiscal 2008 from Rs. 23.79 million in fiscal 2007. The increase was primarily the result of new purchases of fixed and intangible assets such as computers, software and furniture of Rs. 26.18 million in fiscal 2007 to Rs. 138.83 million in fiscal 2008.

#### *Provisions and Write Offs*

The table set forth below provides a summary of our provisions and write offs for fiscal 2008 and fiscal 2007.

(Rs. in million)

|                                                  | <b>Fiscal 2008</b> | <b>Fiscal 2007</b> |
|--------------------------------------------------|--------------------|--------------------|
| Bad debts written off                            | 4.48               | 9.79               |
| Loss from assigned loans                         | 5.45               | -                  |
| Provision for standard and non performing assets | 32.15              | 10.53              |
| <b>Total</b>                                     | <b>42.08</b>       | <b>20.32</b>       |

Provisions and write offs represented 3.0% of total expenses for fiscal 2008 and increased by 107.1% from Rs. 20.32 million in fiscal 2007 to Rs. 42.08 million in fiscal 2008. The increase is primarily the result of an increase in provision for standard and non performing assets (expense) of Rs. 21.62 million, or 205.3% and a new write off for this period of loss from assigned loans of Rs. 5.45 million, as offset by a decrease in bad debts written off of Rs. 5.31 million, or 54.2%.

The ratio of bad debts written off to portfolio loans decreased from 0.37% in fiscal 2007 to 0.06% in fiscal 2008. The decrease in bad debts written off is primarily the result of a change in our provision policy for fiscal 2007 for loans whereby we began classifying loans overdue in excess of 50 weeks as bad debts written off. Prior to this period we did not write off loans.

The ratio of loss from assigned loans to assigned loans was 0.20% in fiscal 2008 representing a new write off for this period of loss from assigned loans of Rs. 5.45 million.

The ratio of provision for standard and non performing assets to portfolio loans increased from 0.40% in fiscal 2007 to 0.41% in fiscal 2008. The provision for standard and non performing assets pertaining to loan portfolio increased 102.0% from Rs. 30.44 million in fiscal 2007 to Rs. 61.49 million in fiscal 2008. The increase was the result of an increase of Rs. 34.02 million in the provision for loans and advances related to an increase in our total loan portfolio, as offset by a decrease of Rs. 0.74 million in bad debts during the same period.

#### ***Profit before Tax***

As a result of the factors stated above, our profit before tax increased 537.7% from Rs. 45.39 million in fiscal 2007, representing 9.9% of total income, to Rs. 289.43 million in fiscal 2008, representing 17.0% of total income.

#### ***Tax Expense***

Our income tax expense increased 430.1% from Rs. 23.33 million in fiscal 2007 to Rs. 123.68 million in fiscal 2008. This increase was primarily due to an increase in current tax on our profit of Rs. 74.84 million, an increase in fringe benefit tax of Rs. 6.22 million, an increase in deferred tax of Rs. 11.72 million in fiscal 2008. Our effective tax rate decreased from 45.3% in fiscal 2007 to 39.6% in fiscal 2008.

#### ***Profit after Tax***

As a result of foregoing factors, profit after tax increased 651.4% from Rs. 22.06 million in fiscal 2007, representing 4.8% of total income, to Rs. 165.75 million in fiscal 2008, representing 9.7% of total income.

## Financial Position

As of March 31, 2010 our net worth was Rs. 9,503.17 million. Our net worth increased by Rs. 2,863.53 million, or 43.1%, to Rs. 9,503.17 million as of March 31, 2010 from Rs. 6,639.64 million as of March 31, 2009 and increased by Rs. 4,517.82 million, or 212.9%, to Rs. 6,639.64 million as of March 31, 2009 from Rs. 2,121.82 million as of March 31, 2008 and increased by Rs. 1,407.89 million, or 197.2%, to Rs. 2,121.82 million as of March 31, 2008 from Rs. 713.93 million as of March 31, 2007.

The following discussion compares our financial position as of March 31, 2010, 2009, 2008 and 2007.

### Assets

The following table set forth the principal components of our assets.

(Rs. in million)

|                        | As of March 31,  |                  |                  |                 |
|------------------------|------------------|------------------|------------------|-----------------|
|                        | 2010             | 2009             | 2008             | 2007            |
| Fixed Assets           | 188.52           | 124.20           | 78.93            | 20.67           |
| Intangible Assets      | 55.07            | 65.52            | 66.02            | 31.47           |
| Investments            | 2.00             | -                | -                | -               |
| Deferred tax (net)     | 94.80            | 42.40            | 9.39             | 8.90            |
| Sundry Debtors         | 29.54            | 21.41            | -                | 1.16            |
| Cash and Bank Balances | 9,735.18         | 15,470.21        | 2,752.28         | 564.54          |
| Loans and Advances     | 29,746.90        | 14,349.48        | 7,931.70         | 2,712.87        |
| Other Current Assets   | 622.96           | 315.78           | 49.14            | 10.58           |
| <b>Total Assets</b>    | <b>40,474.97</b> | <b>30,389.00</b> | <b>10,887.46</b> | <b>3,350.19</b> |

As of March 31, 2010, we had total assets of Rs. 40,474.97 million. We had total assets of Rs. 30,389.00 million as of March 31, 2009, compared to Rs. 10,887.46 million as of March 31, 2008, and Rs. 3,350.19 million as of March 31, 2007. The increases in our total assets were primarily due to significant growth in our loan portfolio resulting from the expansion of our member base and geographic reach.

### Fixed Assets

As of March 31, 2010, we had fixed assets of Rs. 188.52 million. We had fixed assets of Rs. 124.20 million as of March 31, 2009, compared to Rs. 78.93 million as of March 31, 2008, and Rs. 20.67 million as of March 31, 2007. The increases in our fixed assets were principally due to purchases of equipment for our expanding network of branches.

### Intangible Assets

Our intangible assets decreased to Rs. 55.07 million as of March 31, 2010 from Rs. 65.52 million as of March 31, 2009. This reduction resulted from a decline in additions on acquisition of computer software from Rs. 29.40 million in fiscal 2009 to Rs. 23.52 million in fiscal 2010 and by an increase in accumulated amortization to Rs. 99.52 million as of March 31, 2010 from Rs. 65.55 million as of March 31, 2009.

Our intangible assets decreased to Rs. 65.52 million as of March 31, 2009 from Rs. 66.02 million as of March 31, 2008. This marginal reduction resulted from a decline in additions on acquisition of computer software from Rs. 53.18 million in 2008 to Rs. 29.40 million in 2009, which was partially offset by an increase in accumulated amortization to Rs. 65.55 million as of March 31, 2009 from Rs. 35.66 million as of March 31, 2008, as the new acquisitions in 2008 were amortized for the full year.

Our intangible assets increased to Rs. 66.02 million as of March 31, 2008 from Rs. 31.47 million as of March 31, 2007 due to software upgrades to the technology we use to manage our network of branches and members.

### *Deferred Taxes, Net*

Our deferred taxes are a net asset mainly comprised of temporary differences to be used as income tax deductions in future fiscal periods.

We had net deferred tax asset of Rs. 94.80 million as of March 31, 2010, compared to Rs. 42.40 million as of March 31, 2009. This increase was primarily due to a disallowance of provision for standard and non performing assets created as a percentage of the total loan portfolio amounting to Rs. 36.17 million, disallowance of certain expenses allowable only on cash basis amounting to Rs. 13.98 million and further increased by a timing difference in depreciation of fixed assets of Rs. 5.14 million. All of these amounts may be applied in future fiscal periods.

We had net deferred tax asset of Rs. 42.40 million as of March 31, 2009, compared to Rs. 9.39 million as of March 31, 2008. This increase was primarily due to a disallowance of provision for standard and non performing assets created as a percentage of the total loan portfolio amounting to Rs. 12.33 million and a disallowance of certain expenses allowable only on cash basis amounting to Rs. 12.58 million.

We had net deferred tax asset of Rs. 9.39 million as of March 31, 2008, compared to Rs. 8.90 million as of March 31, 2007. This increase was primarily due to a disallowance of provision for standard and non performing assets created as a percentage of the total loan portfolio amounting to Rs. 7.35 million that may be applied in future fiscal periods, which was offset by a decrease of Rs. 6.15 million due to the timing differences in depreciation on fixed assets resulting from prior periods.

### *Sundry Debtors*

Our sundry debtors consist of commission receivables from our strategic alliance partners in relation to distribution of their products to our members. Sundry debtors increased by Rs. 8.13 million, or 38.0%, to Rs. 29.54 million as of March 31, 2010, from Rs. 21.41 million as of March 31, 2009. We had sundry debtors of Rs. 21.41 million as of March 31, 2009, compared to Rs. 1.16 million as of March 31, 2007. The increase in our sundry debtors is due to expansion of our geographic foot print and growth in the number of pilot products during the fiscal 2010.

### *Cash and Bank Balances*

Our cash and bank balances consist of cash on hand, cash in the bank, short term deposits and collateral deposits against borrowings.

Our cash and bank balances decreased to Rs. 9,735.18 million as of March 31, 2010 from Rs. 15,470.21 million as of March 31, 2009 primarily as a result of the rundown in the short term deposits maintained in the fiscal 2009 to mitigate the impact of global financial crisis and manage the growth in business.

Our cash and bank balances increased to Rs. 15,470.21 million as of March 31, 2009 from Rs. 2,752.28 million as of March 31, 2008 due to the receipt of the proceeds from our March 2009 equity issuance and an increase in our borrowings.

Our cash and bank balances increased to Rs. 2,752.28 million as of March 31, 2008 from Rs. 564.54 million as of March 31, 2007 due to the receipt of the proceeds from our March 2008 equity issuance and an increase in our borrowings.

The following table shows our cash and bank balances as of March 31, 2010, 2009, 2008 and 2007:

(Rs. in million)

|                     | As of March 31, |                  |                 |               |
|---------------------|-----------------|------------------|-----------------|---------------|
|                     | 2010            | 2009             | 2008            | 2007          |
| Cash on hand        | 11.81           | 12.04            | 106.79          | 40.39         |
| Cash in bank        | 2,243.19        | 1,567.26         | 1,483.95        | 424.04        |
| Short term deposits | 5,552.31        | 12,677.82        | 1,024.64        | 70.24         |
| Security deposits   | 1,927.87        | 1,213.09         | 136.90          | 29.87         |
| <b>Total</b>        | <b>9,735.18</b> | <b>15,470.21</b> | <b>2,752.28</b> | <b>564.54</b> |

### *Loans and Advances*

Our total loans and advances increased by Rs. 15,397.42 million, or 107.3%, to Rs. 29,746.90 million as of March 31, 2010, from Rs. 14,349.48 million as of March 31, 2009 due to expansion of our geographic footprint and growth in our network of branches and members. Loans and advances represented 73.5% of our total assets as of March 31, 2010, compared to 47.2% of our total assets as of March 31, 2009.

Our total loans and advances increased by Rs. 6,417.78 million, or 80.9%, to Rs. 14,349.48 million as of March 31, 2009, from Rs. 7,931.70 million as of March 31, 2008 due to expansion of our geographic footprint and growth in our network of branches and members. Loans and advances represented 47.2% of our total assets as of March 31, 2009, compared to 72.9% of our total assets as of March 31, 2008.

Our total loans and advances increased by Rs. 5,218.83 million, or 192.4%, to Rs. 7,931.70 million as of March 31, 2008, from Rs. 2,712.87 million as of March 31, 2007, due to expansion of our geographic footprint and growth in our network of branches and members. Loans and advances represented 80.9% of total assets as of March 31, 2007.

Our total loans outstanding were Rs. 14,175.23 million, or 98.8%, Rs. 7,808.89 million, or 98.5% and Rs. 2,641.93 million, or 97.4%, of total loans and advances as of March 31, 2009, 2008 and 2007, respectively. As of March 31, 2010, our total loans outstanding were Rs. 29,367.20 million, or 98.7% of total loans and advances.

The following table shows our loans and advances as of March 31, 2010, 2009, 2008 and 2007:

(Rs. in million)

|                          | As of March 31,  |                  |                 |                 |
|--------------------------|------------------|------------------|-----------------|-----------------|
|                          | 2010             | 2009             | 2008            | 2007            |
| Income generating loans  | 29,158.20        | 13,265.37        | 7,203.07        | 2,609.55        |
| Individual loans         | -                | 512.10           | 595.68          | 32.38           |
| Life insurance loans     | 96.09            | 395.20           | -               | -               |
| Productivity loans       | 98.96            | 2.56             | 10.14           | -               |
| Housing loans            | 13.95            | -                | -               | -               |
| Other loans and advances | 379.70           | 174.25           | 122.80          | 70.94           |
| <b>Total</b>             | <b>29,746.90</b> | <b>14,349.48</b> | <b>7,931.70</b> | <b>2,712.87</b> |

### *Liabilities and Provisions*

The following table sets forth the principal components of our liabilities as of March 31, 2010, 2009, 2008 and 2007.

(Rs. in million)

|                     | As of March 31,  |                  |                 |                 |
|---------------------|------------------|------------------|-----------------|-----------------|
|                     | 2010             | 2009             | 2008            | 2007            |
| Secured Loans       | 25,795.73        | 20,971.31        | 7,898.45        | 2,490.19        |
| Unsecured Loans     | 1,150.99         | 394.37           | -               | -               |
| Current Liabilities | 3,684.32         | 2,223.77         | 769.44          | 81.61           |
| Provisions          | 340.76           | 159.91           | 97.75           | 64.46           |
| <b>Total</b>        | <b>30,971.80</b> | <b>23,749.36</b> | <b>8,765.64</b> | <b>2,636.26</b> |

As of March 31, 2010 our total liabilities were Rs. 30,971.80 million. Our total liabilities increased to Rs. 23,749.36 million as of March 31, 2009, from Rs. 8,765.64 million, and Rs. 2,636.26 million, as of March 31, 2008 and 2007, respectively. These increases were due to short term and long term borrowings we made to satisfy the credit needs of our growing member base.



### Secured and Unsecured Loans

The table set forth below provides a summary of our secured and unsecured loans as of March 31, 2010, 2009, 2008 and 2007.

(Rs. in million)

|                                                       | As of March 31,  |                  |                 |                 |
|-------------------------------------------------------|------------------|------------------|-----------------|-----------------|
|                                                       | 2010             | 2009             | 2008            | 2007            |
| <b><u>Secured Loans</u></b>                           |                  |                  |                 |                 |
| <b>Term loans</b>                                     |                  |                  |                 |                 |
| From banks                                            | 16,251.53        | 14,290.74        | 5,935.10        | 2,014.51        |
| From financial institutions                           | 6,096.52         | 4,116.37         | 1,963.35        | 475.68          |
| From non banking financial companies                  | 683.33           | 816.67           | -               | -               |
| <b>Debentures</b>                                     |                  |                  |                 |                 |
| 10.5% Secured Redeemable Non-Convertible Debentures   | -                | 250.00           | -               | -               |
| 10.0% Secured Redeemable Non - Convertible Debentures | 750.00           | -                | -               | -               |
| 8.3% Secured Redeemable Non - Convertible Debentures  | 500.00           | -                | -               | -               |
| 9.25% Secured Redeemable Non - Convertible Debentures | 500.00           |                  |                 |                 |
| <b>Other borrowings</b>                               | 1,014.35         | 1,497.53         | -               | -               |
| <b><u>Unsecured loans</u></b>                         |                  |                  |                 |                 |
| <b>Term loans</b>                                     |                  |                  |                 |                 |
| From banks                                            | -                | 150.00           | -               | -               |
| Commercial paper (short term)                         | 1,150.99         | 244.37           | -               | -               |
| <b>Total</b>                                          | <b>26,946.72</b> | <b>21,365.68</b> | <b>7,898.45</b> | <b>2,490.19</b> |

As of March 31, 2010, we had Rs. 26,946.72 million in balances related to secured loans and unsecured loans from banks and other entities. This represented an increase of Rs. 5,581.04million, or 26.1%, from Rs. 21,365.68 million in outstanding loans as of March 31, 2009. These loans are secured by our cash and bank balances.

As of March 31, 2009, outstanding loans totalled Rs. 21,365.68 million (including unsecured loans in the amount of Rs. 394.37 million). This represented an increase of Rs. 13,467.23 million, or 170.5%, from Rs. 7,898.45 million in outstanding loans as of March 31, 2008. Our outstanding loans in the amount of Rs. 7,898.45 million as of March 31, 2008 represented a Rs. 5,408.26 million, or 217.2%, increase from our outstanding loans of Rs. 2,490.19 million as of March 31, 2007. These increases were due to short term and long term borrowings we made to satisfy the credit needs of our growing member base.

### Current Liabilities

As of March 31, 2010 our current liabilities were Rs. 3,684.32 million. Our current liabilities increased to Rs. 2,223.77 million as of March 31, 2009, from Rs. 769.44 million and Rs. 81.61 million, as of March 31, 2008 and 2007, respectively. These increases resulted primarily from the commencement of loan assignments and differences in the timing of repayments from members and our payments to banks with respect to assigned loans, as well as an increase in deferred income resulting from unamortized group insurance administrative charges and loan processing fees that we receive as a lump sum upfront payment from our members and accelerating costs associated with growth in our network of branches and members.

### *Provisions*

As of March 31, 2010, our provision for standard and non performing assets was Rs. 121.25 million. Our total gross NPAs as of March 31, 2010, 2009, 2008 and 2007 our ratios are 0.33%, 0.34%, 0.20% and 0.12%, respectively.

The provision for standard and non performing assets was Rs. 121.25 million, Rs. 61.64 million, Rs. 61.49 million, Rs. 30.44 million as of March 31, 2010, 2009, 2008 and 2007, respectively. Our total gross non-performing portfolio loans increased by Rs. 48.18 million, or 100.6%, to Rs. 96.06 million as of March 31, 2010 from Rs.47.88 million as of March 31, 2009. Our total gross non-performing portfolio loans increased by Rs. 32.44 million, or 210.1%, to Rs. 47.88 million as of March 31, 2009 from Rs. 15.44 million as of March 31, 2008. Our total gross non-performing portfolio loans increased by Rs. 12.30 million, or 391.7%, to Rs. 15.44 million as of March 31, 2008 from Rs. 3.14 million as of March 31, 2007. These increases resulted from growth in our total portfolio loans.

The ratio of provision on standard and non performing assets to our portfolio loans is 0.43%, 0.79% and 1.15% as of March 31, 2009, 2008 and 2007 respectively. As of March 31, 2010, the ratio of provision on standard and non performing assets to our portfolio loans is 0.41%.

### *Non Convertible Debentures*

We issued 10.0% secured redeemable non convertible debentures of Rs. 750.00 million in April 2009, 8.30% secured redeemable non convertible debentures of Rs. 500.00 million and 9.25% secured redeemable non convertible debentures of Rs. 500.00 million in December 2009. The non convertible debentures are redeemable at par at the end of one year. As of March 31, 2010, non convertible debentures in the aggregate amount of Rs. 1,750 million were outstanding. All of the outstanding debentures are secured by our portfolio loans.

### *Shareholders' Equity*

As of March 31, 2010, our shareholders' equity was Rs. 9,503.17 million, representing 23.5% of our total assets.

Our shareholders' equity increased by Rs. 2,863.53 million, or 43.1%, to Rs. 9,503.17 million as of March 31, 2010 from Rs. 6,639.64 million as of March 31, 2009. This increase resulted from a capital infusion in the amount of Rs. 1,162.90 million in 2010 and net income generated during fiscal 2010 as offset by the miscellaneous expense to the extent not audited. Shareholders' equity represented 23.5% and 21.8%, of our total assets as of March 31, 2010 and 2009, respectively.

We have issued 10,405,625 zero percent compulsorily convertible preference shares at various times in fiscal 2009 and 2010 and represented Rs. 104.05 million of preference share capital as on September 30, 2009. On December 8, 2009, these compulsorily convertible preference shares were converted to equity shares at a conversion ratio of 1:1. Subsequently as of March 31, 2010 our preference share capital was nil.

Our shareholders' equity increased by Rs. 4,517.82 million, or 212.9%, to Rs. 6,639.64 million as of March 31, 2009 from Rs. 2,121.82 million as of March 31, 2008. This increase resulted from a capital infusion in the amount of Rs. 3,698.82 million in 2009 and net income generated during fiscal 2009. Shareholders' equity represented 21.8% and 19.5%, of our total assets as of March 31, 2009 and 2008, respectively.

Our shareholders' equity increased by Rs. 1,407.89 million, or 197.2%, to Rs. 2,121.82 million as of March 31, 2008 from Rs. 713.93 million as of March 31, 2007. This increase resulted from a capital infusion in the amount of Rs. 1,239.31 million in 2008 and net income generated during fiscal 2008. Shareholders' equity represented 21.3% of our total assets as of March 31, 2007.

## **Liquidity and Capital Resources**

### *Liquidity*

The purpose of the liquidity management function is to ensure that we have funds available to make loans to our members, to repay principal and interest on borrowings and to fund our working capital needs. We have

constantly strived to diversify our sources of capital. While many of our MFI competitors rely on priority sector funding from commercial banks, we have been able to fund the growth of our operations and loan portfolio through equity issuances, debt securities, loans with various maturities raised from banks and other entities and the assignment of loans. For the year ended March 31, 2010, we received an aggregate Rs. 43,542.16 million from these sources, and as of March 31, 2010, we had cash available for use in our operations of Rs. 7,774.80 million. We currently invest our surplus cash reserves in short term deposits. Based upon our current level of expenditures, we believe our current working capital, together with cash flows from operating activities and the proceeds from the offerings contemplated herein, will be adequate to meet our anticipated cash requirements for capital expenditures and working capital for at least the next 12 months.

We regularly monitor our funding levels to ensure we are able to satisfy the requirements for loan disbursements and maturity of our liabilities. We maintain diverse sources of funding and liquid assets to facilitate flexibility in meeting our liquidity requirements. Liquidity is provided principally by short term and long term borrowings from banks and other entities, sales of equity securities and debentures, retained earnings and proceeds from assignments of loans. All our loan agreements and debentures contain a number of covenants including financial covenants. In addition, some loans contain provisions which allow the lender, at its discretion to call for repayment of the loan at short notice and/or require us to prepay on a pari passu basis if any other loan is being repaid. Such covenants, if acted upon, may have an impact on our liquidity.

### **Cash flows**

The following table summarizes our cash flows for fiscal 2010, 2009, 2008, and 2007.

|                                                      | <i>(Rs. in million)</i>     |             |             |             |
|------------------------------------------------------|-----------------------------|-------------|-------------|-------------|
|                                                      | <b>Year ended March 31,</b> |             |             |             |
|                                                      | <b>2010</b>                 | <b>2009</b> | <b>2008</b> | <b>2007</b> |
| Net cash generated from operating activities         | (12,261.58)                 | (4,265.48)  | (4,315.13)  | (1,915.52)  |
| Net cash flow from investing activities              | 140.00                      | (2,299.44)  | (252.67)    | (39.69)     |
| Net cash from financing activities                   | 6,709.26                    | 17,136.66   | 6,646.66    | 2,330.51    |
| Net increase/(decrease) in cash and cash equivalents | (5,412.32)                  | 10,571.74   | 2,078.86    | 375.30      |

### **Operating Activities**

Our operations resulted in net cash outflow of Rs.12,261.58 million, Rs. 4,265.48 million, Rs. 4,315.13 million and Rs. 1,915.52 million in fiscal 2010, fiscal 2009, fiscal 2008 and fiscal 2007, respectively.

From fiscal 2009 to fiscal 2010, our net cash outflow from operations increased by Rs. 7,996.10 million, or 187.5%, resulting from an increase in working capital of Rs. 9,375.42 million, which was primarily the result of an Rs. 9,010.92 million increase in our loan portfolio during the same period and by an increase in direct taxes paid of Rs. 491.90 million as offset by an increase in operating profit before tax of Rs. 1,871.22 million.

From fiscal 2008 to fiscal 2009, our net cash outflow from operations decreased by Rs. 49.65 million, or 1.2%, primarily as a result of an increase in operating profit before tax of Rs. 1,197.38 million as offset by an increase in direct taxes paid of Rs. 319.76 million and by an increase in working capital of Rs. 827.97 million, which was primarily the result of an Rs. 1,290.20 million increase in our loan portfolio during the same period.

From fiscal 2007 to fiscal 2008, our net cash outflow from operations increased by Rs. 2,399.61 million, or 125.3%, primarily as a result of an increase in working capital of Rs. 2,587.00 million and an increase in direct taxes paid of Rs. 129.85 million, as offset by an increase in operating profit before tax of Rs. 317.24 million. Our net cash used in operating activities was primarily deployed in increases in portfolio loans made and for paying interest on borrowings during the respective periods.

### *Investing Activities*

Net cash outflow in investing activities was Rs. 2,299.44 million, Rs. 252.67 million and Rs. 39.69 million in fiscal 2009, fiscal 2008 and fiscal 2007, respectively. For fiscal 2010, we generated Rs. 140.00 million in net cash inflow from our investing activities.

From fiscal 2009 to 2010, net cash outflow in investing activities decreased by Rs. 2,439.44 million, or 106.1%, as a result of an decrease of Rs. 2,468.90 million in bank deposits under lien for our borrowings, and Rs. 5.88 million net decrease in expenditure relating to intangible assets, which was partially offset by a Rs. 33.34 million net increase in expenditure relating to fixed assets and Rs. 2.00 million as investment in equity share capital of Alpha Microfinance Pvt. Ltd., an industry consortium company intended to provide credit reporting on potential borrowers.

From fiscal 2008 to 2009, net cash used in investing activities increased by Rs. 2,046.77 million, or 810.1%, as a result of an increase of Rs. 2,037.32 million in bank deposits under lien for our borrowings, and Rs. 33.09 million net increase in expenditure relating to fixed assets, which was partially offset by a Rs. 23.78 million net decrease in expenditure relating to intangible assets.

From fiscal 2007 to 2008, net cash used in investing activities increased by Rs. 212.98 million, or 536.6%, as a result of an increase of Rs. 95.36 million in liens on our bank deposits for our borrowings, and an increase in expenditure of Rs. 64.53 million relating to fixed assets and Rs. 52.64 million relating to intangible assets.

### *Financing Activities*

Net cash inflow from financing activities was Rs. 17,136.66 million, Rs. 6,646.66 million and Rs. 2,330.51 million in fiscal 2009, 2008 and 2007, respectively. For fiscal 2010, we generated Rs. 6,709.26 million in net cash inflow from our financing activities.

From fiscal 2009 to 2010, net cash from financing activities decreased by Rs. 10,427.40 million, or 60.8%, as a result of an decrease in borrowings of Rs. 7,886.19 million and equity financings in aggregate amount of Rs. 2,535.92 million related to the sale of preference shares and equity shares. As of March 31, 2010, 14.5% of our loans from banks and other entities consisted of short-term indebtedness with maturities of one year or less, including drawings on existing credit lines, and 85.5% consisted of long-term indebtedness with maturities of more than one year. The section entitled “Indebtedness” on page 142 of this Red Herring Prospectus sets forth balances on our existing indebtedness with banks and other entities as of March 31, 2010.

From fiscal 2008 to 2009, net cash from financing activities increased by Rs. 10,490.00 million, or 157.8%, as a result of an increase in borrowings of Rs. 8,058.98 million and equity financings in aggregate amount of Rs. 2,459.51 million related to the sale of preference shares and equity shares.

From fiscal 2007 to 2008, net cash from financing activities increased by Rs. 4,316.15 million, or 185.2%, as a result of an increase in borrowings of Rs. 3,610.24 million and an equity issuance of Rs. 703.05 million related to the sale of equity shares.

### *Capital Expenditure*

For the fiscal 2010, 2009, 2008 and 2007, we invested Rs. 180.75 million, Rs. 153.42 million, Rs. 143.93 million and Rs. 26.76 million, respectively, in capital expenditure, including computers, furniture and fixtures and computer software. The following table sets forth our capital expenditures for the fiscal 2010, 2009, 2008 and 2007.

*Rs. in million)*

|                          | Fiscal |        |       |       |
|--------------------------|--------|--------|-------|-------|
|                          | 2010   | 2009   | 2008  | 2007  |
| Tangible Assets          | 157.23 | 123.95 | 86.75 | 26.18 |
| Intangible Assets        | 5.84   | 19.56  | 51.51 | -     |
| Capital work in progress | 17.68  | 9.90   | 5.68  | 0.58  |

|              | Fiscal        |               |               |              |
|--------------|---------------|---------------|---------------|--------------|
|              | 2010          | 2009          | 2008          | 2007         |
| <b>Total</b> | <b>180.75</b> | <b>153.42</b> | <b>143.93</b> | <b>26.76</b> |

#### ***Contractual Obligations and Commercial Commitments***

The table below sets forth information regarding our contractual obligations and commercial commitments as of March 31, 2010, 2009, 2008 and 2007:

(Rs. in million)

|                                                       | As of March 31, |        |       |      |
|-------------------------------------------------------|-----------------|--------|-------|------|
|                                                       | 2010            | 2009   | 2008  | 2007 |
| Operating lease payments recognized during the period | 140.85          | 88.12  | 26.26 | 8.78 |
| Minimum Lease Obligations                             |                 |        |       |      |
| Not later than one year                               | 41.31           | 40.94  | -     | -    |
| Later than one year but not later than five years     | 32.13           | 145.91 | -     | -    |
| Later than five years                                 | -               | -      | -     | -    |

Contractual obligations and operating lease payments decreased by Rs. 60.68 million, or 22.1%, increased by Rs. 248.71 million, or 947.1%, to Rs. 274.97 million for fiscal 2009 from Rs. 26.26 million for fiscal 2008. Our minimum lease obligations of Rs. 73.44 million represent a new lease agreement we executed for our headquarters office on December 2009.

#### ***Assignment Arrangements***

For the fiscal 2010, 2009 and 2008, we assigned loans of Rs. 17,761.48 million, Rs. 13,977.40 million and Rs. 4,102.68 million, respectively. The following table sets forth information regarding our assignment activity for the fiscal 2010, 2009, 2008 and 2007.

(Rs. in million)

|                                                         | Fiscal    |           |          |      |
|---------------------------------------------------------|-----------|-----------|----------|------|
|                                                         | 2010      | 2009      | 2008     | 2007 |
| Total book value of the loan asset assigned             | 17,761.48 | 13,977.40 | 4,102.68 | -    |
| Sale consideration received for the loan asset assigned | 18,408.84 | 14,413.00 | 4,102.68 | -    |

Under the agreement for the assignment of loans we transfer all the rights and obligations relating to the loan assets assigned as shown above to various banks. The guarantee given by us under the asset assignment has been disclosed here below under the note “Contingent Liabilities”.

#### ***Contingent Liabilities***

The following table sets forth the principal components of our contingent liabilities.

|                                              | As of March 31, |          |        |       |
|----------------------------------------------|-----------------|----------|--------|-------|
|                                              | 2010            | 2009     | 2008   | 2007  |
| Guarantees given for loans assigned          | 2,409.38        | 1,958.16 | 276.09 | -     |
| Guarantees given for portfolio management    | -               | -        | -      | 27.00 |
| Contingent liability relating to tax matters | 24.09           | -        | -      | -     |

|              | As of March 31, |                 |               |              |
|--------------|-----------------|-----------------|---------------|--------------|
|              | 2010            | 2009            | 2008          | 2007         |
| <b>Total</b> | <b>2,433.47</b> | <b>1,958.16</b> | <b>276.09</b> | <b>27.00</b> |

Contingent liabilities principally relate to guarantees for the loans assigned and liabilities of disputed tax payments and indemnities. As of March 31, 2010, our contingent liabilities were Rs. 2,433.47 million up from Rs. 1,958.16 million as of March 31, 2009, Rs. 276.09 million as of March 31, 2008 and Rs. 27.00 million as of March 31, 2007, respectively.

### Capital Risk to Asset Ratios

We are currently required by the RBI to maintain a minimum capital risk to asset ratio of 12.0%. Our capital adequacy ratios are as follows:

(Rs. in million)

|                                        | As of March 31, |             |             |             |
|----------------------------------------|-----------------|-------------|-------------|-------------|
|                                        | 2010            | 2009        | 2008        | 2007        |
| Tier I capital (1)                     | 9,311.51        | 6,420.87    | 2,043.84    | 673.56      |
| Tier II capital (2)                    | -               | 91.56       | -           | -           |
| Total Tier I and Tier II capital       | 9,311.51        | 6,512.43    | 2,043.84    | 673.56      |
| Total risk weighted assets             | 32,876.76       | 16,702.73   | 8,265.11    | 2,732.0     |
|                                        | (%)             |             |             |             |
| Tier I capital to risk assets ratio    | 28.3            | 38.4        | 24.7        | 24.7        |
| Tier II capital to risk assets ratio   | 0.0             | 0.6         | -           | -           |
| Total capital to risk assets ratio (3) | <b>28.3</b>     | <b>39.0</b> | <b>24.7</b> | <b>24.7</b> |

- (1) Tier I capital means, owned funds as reduced by investment in shares of other NBFCs and in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, 10% of the owned fund.
- (2) Tier II capital includes Preference Share Capital, Revaluation Reserves, General Provisions and Loss Reserves, Hybrid Debt Capital Instruments and Sub-ordinate Debts to the extent the aggregate does not exceed Tier I Capital.
- (3) The total capital to risk assets ratio is calculated as capital funds (Tier I capital plus Tier II capital) divided by risk-weighted assets (the weighted average of funded and non-funded items after applying the risk weights as assigned by the RBI).

As a consequence of increases in our share capital in fiscal 2010, our net worth has also increased resulting in capital risk to asset ratios of 28.3% as of March 31, 2010 and 39.0% as of March 31, 2009, above the ratio of 12.0% and 10.0% respectively prescribed by the RBI. Our loan assignment activities also strengthen our capital risk to asset ratio by reducing our risk-weighted assets.

### Interest Rate Risk

Since we have fixed rate rupee assets and a mix of floating and fixed rate liabilities, movements in domestic interest rates constitute the main source of interest rate risk. We assess and manage the interest rate risk on our balance sheet through the process of asset liability management. Our cost of borrowings will be negatively impacted by an increase in interest rates. Exposure to fluctuations in interest rates is measured primarily by way of gap analysis of the maturity profile of our assets and liabilities.

### Liquidity risk

Liquidity risk arises from the absence of liquid resources, when funding loans, and repaying borrowings. This could be due to a decline in the expected collection, or our inability to raise adequate resources at an appropriate price. This risk is minimized through a mix of strategies, including the maintenance of back up

bank credit lines and following a forward-looking borrowing program based on projected loans and maturing obligations.

### **Analysis of certain changes**

#### ***Unusual or infrequent events or transactions***

There have been no events or transactions to our knowledge, other than those described in this Red Herring Prospectus, which may be termed as “unusual” or “infrequent”.

#### ***Significant economic changes***

Other than as mentioned under “Factors Affecting Our Financial Results” beginning on page 209 of this section, there are no other significant economic changes, to our knowledge, that materially affect or are likely to affect our income from continuing operations.

#### ***Known trends or uncertainties***

Other than as identified and described elsewhere in this Red Herring Prospectus, particularly in the sections “Risk Factors” and this section beginning on pages 208 and xiii, respectively, of this Red Herring Prospectus, to our knowledge, there are no trends or uncertainties that have or are expected to have a material adverse impact on sales, revenues or income of the Company from continuing operations.

#### ***Future changes in relationship between costs and revenues***

Other than as described elsewhere in this Red Herring Prospectus, particularly as mentioned under “Factors Affecting Our Financial Results” beginning on page 209 of this section, to our knowledge there are no known factors that might affect the future relationship between costs and revenues.

#### ***Reasons for material increases in net sales or revenue***

Reasons for changes in sales or revenues are explained under “Results of Operations” beginning on page 217 of this section.

#### ***Total turnover of each major industry segment***

Our business activity primarily falls within a single business segment, which is microfinance.

#### ***New product or business segment***

Other than as described in the section titled “Business” on page 75, we do not have any new products or business segments.

#### ***Dependence on suppliers or customers***

We are not dependent on a single or few suppliers or customers.

#### ***Competitive conditions***

For details, please refer to the discussions of our Company’s competition in the sections titled “Risk Factors”, “Business” and “The Microfinance Industry” on pages xiii, 75 and 66, respectively of this Red Herring Prospectus.

#### ***Significant developments occurring after March 31, 2010***

The Board of Directors has pursuant to a resolution passed in its meeting held on May 4, 2010 approved the grant a loan of Rs. 30 million to SKS Society at the prevailing SBI PLR interest rate for a term of six months. The said loan is yet to be granted to SKS Society. Except as stated above, to our knowledge and belief, no circumstances have arisen since March 31, 2010, which is the date of the most recent financial statements included in this RHP, which materially and adversely affect or are likely to affect, the trading and profitability

of the Company, our financial condition or the value of our assets or our ability to pay material liabilities within the next 12 months.



## SELECTED STATISTICAL INFORMATION

### OPERATIONAL METRICS:

| Particulars                                                 | Fiscal 2007<br>– 2010<br>(CAGR %) | Year ended 31<br>Mar 10 | Year<br>ended 31<br>Mar 09 | Year<br>ended 31<br>Mar 08 | Year<br>ended 31<br>Mar 07 |
|-------------------------------------------------------------|-----------------------------------|-------------------------|----------------------------|----------------------------|----------------------------|
| No. of branches                                             | 94.4                              | 2,029                   | 1,353                      | 770                        | 276                        |
| No. of states                                               | -                                 | 19                      | 18                         | 16                         | 11                         |
| No. of districts                                            | 49.0%                             | 341                     | 307                        | 219                        | 103                        |
| No. of centers (Sangam)                                     | 122.6                             | 226,017                 | 129,461                    | 63,142                     | 20,479                     |
| No. of employees                                            | 107.1                             | 21,154                  | 12,814                     | 6,818                      | 2,381                      |
| - Loan officers                                             | 106.1                             | 11,878                  | 7,943                      | 3,740                      | 1,356                      |
| - Trainee Assistants                                        | 98.7                              | 3,011                   | 774                        | 1,306                      | 384                        |
| - Branch management staff                                   | 105.2                             | 3,455                   | 2,217                      | 1,035                      | 400                        |
| - Area Office Managers                                      | 76.5                              | 198                     | 139                        | 52                         | 36                         |
| - Regional office staff                                     | 159                               | 2,215                   | 1,458                      | 529                        | 128                        |
| - Head office staff                                         | 72.8                              | 397                     | 283                        | 156                        | 77                         |
| No. of members                                              | 123.9                             | 6,780,145               | 3,953,324                  | 1,879,258                  | 603,933                    |
| No. of active borrowers                                     | 124.4                             | 5,795,028               | 3,520,826                  | 1,629,474                  | 513,108                    |
| No. of loans disbursed*                                     | 124.6                             | 7,396,662               | 4,700,214                  | 2,052,157                  | 652,788                    |
| Disbursements (Rs. in million)                              | 156.4                             | 76,175.68               | 44,849.77                  | 16,802.30                  | 4,522.44                   |
| Gross loan portfolio (Rs. in million) (A+B+C)               | 150.1                             | 43,206.90               | 24,564.13                  | 10,506.02                  | 2,761.62                   |
| - Loans outstanding (A)                                     | -                                 | 29,367.20               | 14,175.23                  | 7,808.90                   | 2,641.93                   |
| - Assigned loans (B)                                        | -                                 | 13,839.70               | 10,388.90                  | 2,697.12                   | -                          |
| - Managed loans (C)                                         | -                                 | -                       | -                          | -                          | 119.69                     |
| Disbursements/No. of loans disbursed                        | -                                 | 10,299                  | 9,542                      | 8,188                      | 6,928                      |
| Gross loan portfolio / No. of active borrowers              | -                                 | 7,456                   | 6,977                      | 6,447                      | 5,382                      |
| Gross loan portfolio/ No. of loan officers (Rs. in million) | -                                 | 3.64                    | 3.09                       | 2.81                       | 2.04                       |
| Members / No. of branches                                   | -                                 | 3,342                   | 2,922                      | 2,441                      | 2,188                      |
| Members / No. of loan officers                              | -                                 | 571                     | 498                        | 502                        | 445                        |

\* Does not include life insurance

### Loans outstanding by states

The following table illustrates our loan portfolio outstanding across states as of March 31, 2010.

(Rs. in million)

| State          | As of March 31, 2010* | %     |
|----------------|-----------------------|-------|
| Andhra Pradesh | 8,461.24              | 28.8% |
| West Bengal    | 4,595.94              | 15.6% |
| Karnataka      | 3,345.85              | 11.4% |
| Orissa         | 2,660.06              | 9.1%  |
| Bihar          | 2,043.56              | 7.0%  |
| Maharashtra    | 1,671.20              | 5.7%  |
| Madhya Pradesh | 1,494.21              | 5.1%  |
| Uttar Pradesh  | 1,091.22              | 3.7%  |
| Rajasthan      | 995.40                | 3.4%  |
| Kerala         | 784.94                | 2.7%  |
| Gujarat        | 759.63                | 2.6%  |
| Jharkhand      | 512.47                | 1.7%  |
| Chhattisgarh   | 280.44                | 0.9%  |
| Haryana        | 211.33                | 0.7%  |
| Delhi          | 172.53                | 0.6%  |
| Uttaranchal    | 142.34                | 0.5%  |
| Other states** | 144.82                | 0.5   |

| State        | As of March 31, 2010* | %            |
|--------------|-----------------------|--------------|
| <b>Total</b> | <b>29,367.20</b>      | <b>100.0</b> |

\*Does not include assigned loans

\*\*Other states include Punjab, Himachal Pradesh and Tamil Nadu

#### State wise portfolio at risk (PAR)

The following table sets forth an analysis of portfolio at risk as a percentage of total loans outstanding in the respective state as of March 31, 2010

| State          | As of March 31, 2010 | Portfolio at risk | (Rs. in million)<br>% |
|----------------|----------------------|-------------------|-----------------------|
| Andhra Pradesh | 8,461.24             | 15.94             | 0.19                  |
| West Bengal    | 4,595.94             | 35.52             | 0.77                  |
| Karnataka      | 3,345.85             | 4.76              | 0.14                  |
| Orissa         | 2,660.06             | 6.89              | 0.26                  |
| Bihar          | 2,043.56             | 1.83              | 0.09                  |
| Maharashtra    | 1,671.20             | 0.79              | 0.05                  |
| Madhya Pradesh | 1,494.21             | 0.65              | 0.04                  |
| Uttar Pradesh  | 1,091.22             | 1.69              | 0.16                  |
| Rajasthan      | 995.40               | 1.69              | 0.17                  |
| Kerala         | 784.94               | 0.52              | 0.07                  |
| Gujarat        | 759.63               | 1.74              | 0.23                  |
| Jharkhand      | 512.47               | 4.26              | 0.83                  |
| Chhattisgarh   | 280.44               | 14.47             | 5.16                  |
| Haryana        | 211.33               | 1.84              | 0.87                  |
| Delhi          | 172.53               | 3.19              | 1.85                  |
| Uttaranchal    | 142.34               | 0.23              | 0.16                  |
| Other states*  | 144.82               | 0.04              | 0.03                  |
| <b>Total</b>   | <b>29,367.20</b>     | <b>96.06</b>      | <b>0.33</b>           |

\* Other states include Punjab, Himachal Pradesh and Tamil Nadu

Portfolio at risk represents overdue exceeding 8 weeks for income generating loans and 3 months for individual loans.

#### Break-up of loans outstanding by members' economic activity:

The following table sets forth an analysis of loan portfolio outstanding according to the borrowers' principal economic activity as of March 31, 2010

| Economic activity         | As of March 31, 2010* | (Rs. in million)<br>% |
|---------------------------|-----------------------|-----------------------|
| Trade                     | 8,585.85              | 29.2                  |
| Services                  | 6,973.56              | 23.8                  |
| Livestock                 | 4,955.55              | 16.9                  |
| Production                | 2,779.36              | 9.5                   |
| Agri-related              | 893.49                | 3.0                   |
| Other economic activities | 4,970.37              | 16.9                  |
| Productivity loans*       | 209.00                | 0.7                   |
| <b>Grand total</b>        | <b>29,367.20</b>      | <b>100.0</b>          |

\* Productivity loans include individual loans, loans issued (for financing life insurance products, mobile phones, water purifiers, housing loans and working capital loans for kirana stores) to our members.

#### FINANCIAL METRICS:

##### A) Yield analysis:

| Particulars                  | Definition                     | Fiscal 2010 | Fiscal 2009 | Fiscal 2008 | Fiscal 2007 |
|------------------------------|--------------------------------|-------------|-------------|-------------|-------------|
| Gross yield                  | Gross revenue / Average GLP*   | 28.30%      | 31.59%      | 25.63%      | 24.65%      |
| Portfolio yield <sup>@</sup> | Operating income / Average GLP | 25.31%      | 28.43%      | 23.94%      | 23.44%      |
| Financial cost ratio (1)**   | Financial cost / Average GLP   | 8.51%       | 11.09%      | 8.51%       | 7.48%       |

|                                       |                                   |        |        |        |        |
|---------------------------------------|-----------------------------------|--------|--------|--------|--------|
| Operating cost ratio (2) <sup>^</sup> | Operating costs / Average GLP     | 10.36% | 12.67% | 12.12% | 13.63% |
| Loan loss ratio (3)                   | Loan loss provision / Average GLP | 1.53%  | 0.77%  | 0.63%  | 1.10%  |
| Taxes (4)                             | Tax expense / Average GLP         | 2.74%  | 2.53%  | 1.86%  | 1.26%  |
| Total expense ratio [(1)+(2)+(3)+(4)] | Total expense / Average GLP       | 23.14% | 27.05% | 23.13% | 23.46% |
| Return on risk assets                 | Profit after tax / Average GLP    | 5.16%  | 4.54%  | 2.50%  | 1.19%  |

\* Average GLP is computed as an average of opening and closing balances of loans outstanding and assigned loans outstanding.

@ Operating income is the interest earned on portfolio loans and income from assignment of loans.

\*\* Includes interest expense, loan processing fees, guarantee fees and bank charges on borrowings but excludes discount charges paid on assigned loans and cost of equity. Weighted average 'cost of borrowing' as on March 31, 2010 was 10.3 %.

<sup>^</sup> Operating costs includes personnel costs, depreciation and other operating expenses.

## B) Profit & Loss and Balance Sheet ratios:

| Particulars                  | Definition                                                    | Fiscal 2010 | Fiscal 2009 | Fiscal 2008 | Fiscal 2007 |
|------------------------------|---------------------------------------------------------------|-------------|-------------|-------------|-------------|
| Non funds based income %     | Non funds based income /Total Income                          | 18.27%      | 15.59%      | 15.35%      | 8.53%       |
| Cost to income               | Operating cost** / Total Income less financial expenses       | 52.36%      | 61.77%      | 70.80%      | 79.34%      |
| Return on average equity     | Profit after tax / Average Net worth                          | 21.66%      | 18.19%      | 11.69%      | 5.07%       |
| Basic EPS                    | Profit after tax/Number of equity shares <sup>^</sup>         | 32.98       | 17.83       | 5.50        | 1.58        |
| Diluted EPS                  | Profit after tax/Number of diluted equity shares <sup>^</sup> | 27.47       | 16.08       | 5.38        | 1.58        |
| Net Asset Value per Share    | Networth / No. of equity shares as at year end                | 147.27      | 136.7       | 47.88       | 26.80       |
| Gross NPA                    | Gross NPA /Gross portfolio*                                   | 0.33%       | 0.34%       | 0.20%       | 0.12%       |
| Net NPA                      | Net NPA / Net portfolio*                                      | 0.16%       | 0.18%       | 0.16%       | 0.05%       |
| Debt to equity               | Loan funds / Net worth#                                       | 2.84        | 3.22        | 3.72        | 3.49        |
| Capital risk to assets ratio | Total capital / Total risk weighted assets                    | 28.32%      | 38.99%      | 24.73%      | 24.65%      |

# Net worth includes compulsory convertible Preference share capital

\* Excludes assigned loan portfolio

\*\* Operating costs includes personnel costs, depreciation and other operating expenses

<sup>^</sup> Weighted average number of equity shares outstanding during the year

## Asset Liability Management structure:

The following table sets forth an analysis of the maturity profile of our interest - bearing assets and interest - bearing liabilities across time buckets as of March 31, 2010

(Rs. in million)

| Days                                    | 0-30             | 31-90           | 91-180          | 181-365         | Greater than 365 | Total            |
|-----------------------------------------|------------------|-----------------|-----------------|-----------------|------------------|------------------|
| <b>ASSETS</b>                           |                  |                 |                 |                 |                  |                  |
| Cash & cash equivalents                 | 7,854.00         | 217.33          | 390.15          | 717.89          | 555.82           | 9,735.18         |
| Loans (net of provision)                | 4,564.11         | 7,928.74        | 9,043.21        | 7,699.30        | 10.59            | 29,245.96        |
| <b>Total assets</b>                     | <b>12,418.11</b> | <b>8,146.06</b> | <b>9,433.36</b> | <b>8,417.19</b> | <b>566.42</b>    | <b>38,981.14</b> |
| As of total assets                      | 31.8%            | 20.9%           | 24.2%           | 21.6%           | 1.5%             | 100.0%           |
| <b>LIABILITIES</b>                      |                  |                 |                 |                 |                  |                  |
| Borrowings                              | 2,621.34         | 2,928.79        | 3,556.69        | 8,378.96        | 9,460.94         | 26,946.72        |
| <b>Total liabilities</b>                | <b>2,621.34</b>  | <b>2,928.79</b> | <b>3,556.69</b> | <b>8,378.96</b> | <b>9,460.94</b>  | <b>26,946.72</b> |
| As of total liabilities                 | 9.7%             | 10.9%           | 13.2%           | 31.1%           | 35.1%            | 100.0%           |
| Positive/ (Negative) mismatch of assets | 9,796.77         | 5,217.27        | 5,876.67        | 38.23           | (8,894.52)       | 12,034.42        |

| Days             | 0-30 | 31-90 | 91-180 | 181-365 | Greater than 365 | Total |
|------------------|------|-------|--------|---------|------------------|-------|
| over liabilities |      |       |        |         |                  |       |

\* Includes net provision of Rs. 121.25 million

#### Analysis of seasonality of business:

The following table sets forth an analysis of our disbursements and profit after tax for the fiscal year 2009 and 2010

*(Rs. in million)*

|                           | H1- FY 08 | H2 - FY08 | Total     | H1- FY 09 | H2 - FY 09 | Total     | H1- FY 10 | H2 - FY 10 | Total     |
|---------------------------|-----------|-----------|-----------|-----------|------------|-----------|-----------|------------|-----------|
| Disbursements             | 5,584.37  | 11,217.93 | 16,802.30 | 19,964.19 | 24,885.58  | 44,849.77 | 32,318.63 | 43,857.05  | 76,175.68 |
| % of annual disbursements | 33.2      | 66.8      | 100.0     | 44.5      | 55.5       | 100.0     | 42.4      | 57.6       | 100       |
| Profit after tax          | 37.66     | 128.09    | 165.75    | 295.55    | 501.38     | 796.93    | 556.06    | 1,192.34   | 1,748.40  |
| % of PAT for the year     | 22.7      | 77.3      | 100.0     | 37.1      | 62.9       | 100.0     | 31.8      | 68.2       | 100       |

#### Deferment of Income:

We follow a income recognition policy, where by the income on the below transactions is recognized over the tenure of the loan rather than realizing it upfront. The deferred income for the fiscal year 2010, 2009 and 2008 are as follows:

*(Rs. in million)*

| Particulars                            | Fiscal 2010     | Fiscal 2009   | Fiscal 2008   |
|----------------------------------------|-----------------|---------------|---------------|
| Income on assignment                   | 495.78          | 256.45        | -             |
| Group insurance administrative charges | 316.99          | 71.49         | 25.82         |
| Unamortised interest income            | 199.77          | 93.81         | 86.62         |
| <b>Total</b>                           | <b>1,012.54</b> | <b>421.75</b> | <b>112.44</b> |
| Profit before tax                      | 2,677.01        | 1,240.57      | 289.43        |
| <b>% of PBT</b>                        | <b>37.8%</b>    | <b>34.0%</b>  | <b>38.8%</b>  |

## SECTION VI: LEGAL AND OTHER INFORMATION

### OUTSTANDING LITIGATION AND MATERIAL DEVELOPMENTS

*Save as stated below there are no outstanding litigation, suits, criminal or civil prosecutions, proceedings or tax liabilities against the Company, our Directors and our Promoters and there are no defaults, non payment of statutory dues, over-dues to banks/financial institutions/small scale undertaking(s), over dues to any other creditor to whom the Issuer owes Rs.100,000 which is outstanding for more than 30 days, except in the ordinary course of business, defaults against banks/financial institutions/small scale undertaking(s), defaults in dues payable to holders of any debentures, bonds and fixed deposits and arrears of preference shares issued by the Company, defaults in creation of full security as per terms of issue/other liabilities, proceedings initiated for economic/civil/any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraphs (a) and (b) of Part 1 of Schedule XIII of the Companies Act) other than unclaimed liabilities of the Company and no disciplinary action has been taken by SEBI or any stock exchanges against the Company, our Promoter or Directors.*

#### **Litigation involving the Company**

##### *Cases against the Company*

1. A suit (OS 13 of 2008) has been filed against the Company by Ms. Vangari Jaya in the Court of the Principal Junior Civil Judge at Warangal alleging that the Company has unlawfully retained a promissory note and other land documents which were given as security for a loan taken by her, even after the repayment of such loan. The plaintiff also alleges the use of force by the Company against her, in furtherance of repayment of the loan and also states that the agents of the Company took away her household articles. The reliefs claimed are that of permanent injunction restraining the Company and its agents from interfering with the property of the plaintiff along with costs. The Company in its reply dated February 10, 2009 has denied all allegations made by the plaintiff. The matter is currently pending and the date of the next hearing is scheduled for August 30, 2010. .
2. A petition (C.D. Case number 125 of 2009) has been filed against the Company by Ms. Laxmi Biswal and others before the District Consumer Redressal Forum, Jajpur, Orissa alleging that the Company charges a high rate of interest and also that the period of one week to make the weekly payment of installment for the repayment of a loan of Rs. 12,000 is very short. The reliefs claimed are for restoration of the rate of interest and to allow quarterly installments instead of weekly repayment of the dues. The Company in its reply dated January 21, 2010 has denied the allegations by the plaintiff. All hearings have been completed and the matter is pending judgment. .
3. A minimum wages suit (MW/10/2008/2009) has been filed against Mr. J. Venkatadri, an employee of the Company by the Assistant Labour Officer, Rajam, Srikakulam District, Andhra Pradesh before the Assistant Commissioner of Labour alleging that the Company has paid wages below minimum wages to three of its employees and that the difference in wages due to the employees, according to the minimum rate of wages be paid. The Company has filed a counter reply to the same dated April 21, 2009 submitting to the authority that it has been paying more than minimum wages to its employees. All hearings have been completed and the matter is currently pending judgment.
4. A writ petition, number 32 of 2010 has been filed before the High Court of Orissa by Mr. Jagabandhu Sahu (the "Petitioner"), a former employee of the Company against the certain employees of the Company and others alleging forced resignation of the Petitioner by certain employees of the Company based on allegations levied against him for defects in certain bills and vouchers. The Petitioner also alleged that he was illegally detained and physically abused by the police at the behest of certain employees of the Company. The petition seeks an order from the High Court seeking action against the IIC Nabarangpur Police Station and certain employees of the Company for illegal detention and assault as per the Code of Criminal Procedure, 1898.
5. An insolvency petition (No. 12 of 2010) dated March 10, 2010 has been filed by Ms. P. Varalakshmi and 13 others against the Company and others before the Additional Senior Civil Judge, Tirupati to adjudge them as insolvent. The matter is currently pending.

6. An insolvency petition (I.P. No. 11 of 2010) has been filed by Ms. Vyadya Kavitha and one other (the “Petitioners”) against 11 creditors, including the Company before the Senior Civil Judge, Jagtial to declare the Petitioners as insolvent on account of the alleged losses incurred by the Petitioners through their chit fund business. The total amount payable under the petition is Rs. 0.41 million of which a sum of Rs. 0.04 million is payable to the Company. The Petitioners have also alleged that they are being forced to repay their debts and have been threatened by the creditors. The next date of hearing is September 7, 2010.
7. An insolvency petition (I.P. No. 29 of 2009) has been filed by Mr. Sardar Basha and one other (the “Petitioners”) against 17 creditors, including the Company before the Senior Civil Judge, Madanapalle to declare the Petitioners as insolvent on account of the alleged losses incurred by the Petitioners. It has been alleged by the petitioners that the amounts were being claimed by the creditors despite all loans being repaid. The total amount payable under the petition is Rs. 0.37 million of which a sum of Rs. 0.01 million is payable to the Company. The Petitioners have also alleged that they are being forced to repay their debts and threatened by the creditors. The next date of hearing is July 21, 2010.

#### *Notices received by the Company*

1. The Company has received a reply and demand notice dated December 4, 2009 on behalf of Maruthi Infra Ventures Private Limited (“MIVPL”). The said notice has been sent to the Company by MIVPL pursuant to the termination of the lease of the erstwhile registered office of the Company situated at #2-3-578/1, Maruthi Mansion, Kachi Colony, Nallagutta, Minister Road, Secunderabad 500 003 through a notice issued by the Company dated November 20, 2009 citing non compliance with the lease deed including amongst others non-compliance with certain local enactments dealing with clearances from the Greater Hyderabad Municipal Corporation, the local fire department and the Airports Authority of India. The reply and demand notice has also been sent pursuant to the alleged refusal of the Company to pay rent for a period of four months with respect to the premises and also the payment of deposit for the premises which was withheld by the Company. The total amount demanded is Rs. 5.94 million. The Company has served a legal notice dated March 1, 2010 upon MIVPL and others (the “Noticees”) seeking recovery of the security deposit that was paid to the Noticees by the Company for use of Blocks A and B of the Company’s previous office situated at Maruthi Mansion. An amount of Rs. 23.89 million has been claimed after deduction of rents for certain months along with interest at 24% per annum from February 1, 2010 and a further Rs. 7.09 million which the Company claims were business losses caused to it pursuant to modifications made to the office, registry of the previous lease deed and transport expenses to the new office. Subsequent to these notices, the Company has filed a recovery suit for repayment of security deposit retained by MIVPL and certain other amounts. For further details, please see “*Cases by the Company*” below.
2. The Company has received a notice dated December 8, 2009 on behalf of Mr. Ajay Modi and others (“Complainants”). The said notice has been sent to the Company by the Complainants pursuant to the termination of the lease of the erstwhile registered office of the Company situated at #2-3-578/1, Maruthi Mansion, Kachi Colony, Nallagutta, Minister Road, Secunderabad 500 003 through a notice issued by the Company dated November 20, 2009 citing non compliance with the lease deed including amongst others non-compliance with certain local enactments dealing with clearances from the Greater Hyderabad Municipal Corporation, the local fire department and the Airports Authority of India. The notice has also been sent pursuant the refusal of the Company to pay rent for a period of two months with respect to its erstwhile registered office through and also the payment of caution deposit for the premises which was withheld by the Company. The total amount demanded is Rs. 0.68 million by way of rent or Rs. 14.94 million which is the balance amount of rent up to June 30, 2013. The Company has served a legal notice dated March 1, 2010 upon Mr. Ajay Modi and others seeking recovery of the security deposit that was paid to the Noticees by the Company for use of the ground floor portion of Block A and certain parking lots of the Company’s previous office situated at Maruthi Mansion. An amount of Rs. 3.00 million has been claimed after deduction of rents for the months of August 2009, November 2009, December 2009 and January 2010 along with interest at 24% per annum from February 1, 2010 and a further Rs. 0.64 million which the Company claims were business losses caused to it pursuant to modifications made to the office, registry of the previous lease deed and transport expenses to the new office. Subsequent to these notices, the Company has filed a recovery suit for repayment of certain amounts against the complainants. For further details, please see “*Cases by the Company*” below.

3. The Company has received a notice dated November 20, 2008 from Mr. Rajendra Roy. The notice was sent pursuant to the alleged non-payment of rent for the month of October 2008 and certain other dues amounting to Rs. 16,285, for the use of the property situated at 1234/1 Jaiprakashnagar, Adhartal, Jabalpur.
4. The Company has received a notice dated April 20, 2009 sent on behalf of Ms. Sonia Devi ("Complainant"), the wife of a former employee of the Company who died in a road accident claiming to be his legal heir. The notice states that pursuant to the death of Mr. Mithulal Dadi, the Company would be liable to pay Rs. 300,000 to the Complainant based on the life insurance provided to him, and not his parents, who it is claimed have forged documents in order to claim the said amount.
5. The Company has received a legal notice dated November 02, 2008 on behalf of Ms. Shyamali Chakraborty, a member of the Company ("Complainant"). The said notice has been sent pursuant to the alleged harassment and manhandling of the complainant with respect to repayment of a loan of Rs. 7,000, by the employees of the Company.
6. The Company has received a notice dated May 16, 2009 on behalf of Ms. N. Padma ("Complainant"). The said notice has been sent pursuant to the alleged non payment of monthly arrears and misuse of property, belonging to the Complainant, which was leased by the Company for the purposes of a branch office.
7. The Company has received a notice dated December 24, 2009 from Manik Guru ("Complainant"). The said notice has been sent pursuant to the alleged forcible entry of one of the Company's employees, Mr. Saroj Sahu, into the house of the Complainant subsequent misbehavior, snatching of money and gold chain and threatened assault.
8. The Company has received a legal notice dated October 7, 2009 on behalf of Ms. Shampa Roy ("Complainant"). The said notice has been sent pursuant to the alleged harassment of the Complainant by the employees of the Company with respect to repayment of a loan amount of Rs. 12,000 and refusal to an extension of time with respect to repayment.
9. The Company has received a notice dated February 4, 2010 on behalf of Arefa Bibi ("Complainant"), a member of the Company. The said notice has been sent pursuant to the alleged willful misstatement of certain facts pertaining to the marital status of the Complainant in the false pass books that were issued to her by the Company resulting in defamation. The Complainant also alleges that two pass books were issued to her and that the same were falsely prepared by the Company. The said notice has been filed after the alleged lodging of a complaint with the branch of the Company located at Soro, Orissa. The Company in its reply dated March 16, 2010 denied the allegations made in the notice and has asked the Complainant to immediately surrender the passbooks and other documents in support of her claim and not to provide wrong information or documents while dealing with the Company.
10. The Company has received a show cause notice dated March 2, 2010 from the Office of the Sub-Collector and Agency Divisional Officer, Bhadrachalam. The said notice alleges that the acts of money lending carried out by the Company in Bhadrachalam town are violative of the provisions of the A.P. Scheduled Areas Money Lenders Regulation, 1960 ("Regulations") and also the A.P. Scheduled Areas Land Transfer Regulations, 1970. The notice seeks the Company to show cause within 15 days of its receipt, as to why the deemed action under the regulations should not be initiated against the Company and the advances made not be declared to be in violation of the Regulations failing which, demand action would be initiated. The Company in its reply dated March 23, 2010 has stated that the Company is entitled to conduct its business in the Scheduled Area of Bhadrachalam Division in view of relevant provisions in the Regulations and further that the Company does not deal in any immovable properties in the Scheduled Areas of the State of Andhra Pradesh.
11. The Company has received a notice dated March 12, 2010 from the Assistant Project Manager, IKP, DRDA, Dammamet. The notice alleged that the Company is in violation of the provisions of the Regulations and states that provisions under the same need to be complied with within a week of the receipt of the notice, failing which, action would be initiated against the Company. The Company by its reply dated March 23, 2010 has stated that the Company is entitled to conduct its business in the

Scheduled Area of Dammapeta Division in view of relevant provisions in the Andhra Pradesh (Andhra Pradesh Region Schedule Areas) Money Lenders Regulation, 1960.

12. The Company has received a Letter of Demand dated March 4, 2010 from Ms. Dipti Sarkar and Mr. Himadri Sarkar (the "Complainants"), owners of a property situated at No. 27, Manmatha Nath Ganguly Road, Kolkata, which was leased to the Company for a period of 11 months from April 1, 2009. The said notice has been served alleging certain losses that accrued to the Complainants due to the Company vacating the said premises without notice, non payment of telephone and electricity charges, account of damage and breakage caused to the property and amounts illegally held by the Company pursuant to default in furnishing TDS certificates. The notice calls for the payment of Rs. 8,810 after setting off the total amount due from the Company, with the advance money received. The Company in its reply dated March 18, 2010 has denied the allegations made in the notice and demands a refund of approximately Rs. 0.27 million, being the security deposit amount made to the Complainants by the Company at the time of entering into the lease.
13. The Company has received a notice dated March 16, 2010 on behalf of Mr. Pawan Kumar Paswan (the "Complainant"), a former employee of the Company. The said notice has been sent pursuant to the alleged harassment of the Complainant by the Branch Manager of the Upwasnagar, Ghaziabad branch of the Company, threatening to file false cases against the Complainant and conspiring against the Complainant. The notice also alleges that three months wages were not paid to the Complainant. The Company has replied to the above notice and has denied the allegations made by the Complainant and has stated that the Complainant has committed fraud, cheating and criminal breach of trust upon the Company and accordingly an FIR has been registered against the Complainant under Section 406, 420 of Indian Penal Code 1860.
14. The Company has received a notice dated May 29, 2010 on behalf of Mr. Paban Maiji and six others, (the "Complainants"). The notice alleges cheating by the Company of the complainants, stating that the whilst the Company had allotted a loan of Rs. 10,000 to the borrowers, a sum of Rs. 12,000 was stated in their passbooks and the borrowers were cheated as a result thereof. The notice further states that there has been no remission of the amount or a reduction in the interest rate, despite repayment of certain amounts. The notice calls for a reply within seven days of its receipt. The Company, in its reply dated June 23, 2010, has stated that there was a bona fide mistake of the Company while making the pass book and the same was not a willful mistake. The reply further states that necessary steps have been taken to rectify the same and that stopping the payment of the said amounts would cause injury to the group of the Complainants.
15. The Company has received a notice dated June 21, 2010 on behalf of Ms. Anita Bhattacharya and three others (the "Complainants"). The notice has been sent pursuant to the alleged torture, both physical and mental upon the Complainants and their family members by the employees of the Company to ensure repayment of certain loan amounts. The notice further states that the Company is not a finance company recognized by the RBI and is therefore not allowed to lend money with excessive interest rates and threatens legal action in case the staff of the Company are not restrained from torturing the complainants or their family members.
16. The Company has received a notice dated May 27, 2010 on behalf of Ms. Bindu Devi and three others (the "Complainants"). The said notice has been sent pursuant to the alleged torture of the Complainants by the employees of the Company for repayment and the imposition of 30% interest on the amounts loaned by the Company to the Complainants. The Company in its reply dated June 21, 2010 has stated that the rate of interest charged by the Company is a flat rate of 15% and that there has been no harassment to ensure repayment by the Company and that the charges are fabricated, false and baseless and also that non payment of the loan amounts by the Complainants would result in litigation.
17. The Company has received a notice dated June 16, 2010 from the Station Incharge, Jivagunj Police Station, Ujjain. The said notice has been sent pursuant to several acts of theft of the employees of the Company while on duty owing to the alleged lack of security. The notice states that despite previous notices, there has been no action taken by the Company and asks the Company to show cause as to why the license of the Company should not be revoked as per the rules of the RBI. The Company in its reply to the above notice has stated that all necessary precautions are taken before its employees



are sent out on duty and requests that the police take all necessary security arrangements pursuant to the same failing which the number of crimes against its employees might increase.

18. On February 4, 2009, the Company received a Show Cause Notice from the office of the Assistant Medical Officer of Health, Greater Hyderabad Municipal Corporation, Secunderabad Circle, Andhra Pradesh. The said notice was sent pursuant to the alleged violation of municipal laws by the Company at its former office situated at Maruthi Mansion, including not having a valid trade license for the use of the premises, not providing required parking and unauthorized conversion of permitted usage of the building. The notice calls on the Company to show cause as to why action should not be taken against it for the above violations within one week failing which appropriate orders would be passed against it. The registered office of the Company has since been shifted to Ashoka Raghupathi Chambers, D No. 1-10-60 to 62, Opposite to Shoppers Stop, Begumpet, Hyderabad 500 016. Pursuant to the same, the Company has filed two recovery suits against the landlords of the former office alleging non-compliance of certain terms of the lease deed including non-compliances with statutory regulations and approvals by the landlords and fraud. For further details, see “*Cases by the Company*” below.

#### ***Certain other matters***

1. Yatish Trading, one of our shareholders, has sent a letter dated March 10, 2010 (“**Letter**”) to SEBI, a copy of which has been forwarded by Yatish Trading to the BRLMs on March 16, 2010. In the Letter, Yatish Trading has contended, *inter alia*, that it should be provided with an exit option in the Issue in accordance with the terms of the Restated Shareholders’ Agreement dated October 20, 2008. For further details of the Restated Shareholders’ Agreement, please see “History and Certain Corporate Matters - Shareholders Agreements” on page 106 of the Red Herring Prospectus. Subsequently, Yatish Trading has sold 300,000 of its Equity Shares to Quantum (M) Limited and has through its letter to SEBI and the Company dated May 12, 2010 withdrew its Letter.
2. The Company has filed a compounding application before the RoC on July 15, 2010 pursuant to a petition of the Company before the Company Law Board, Chennai in relation to the Company’s inability to appoint a full time Company Secretary from December 19, 2003 to February 28, 2007 as required under the provisions of the Companies Act. The Company has prayed for compounding of the offence by the Company Law Board, Chennai Bench and grant a personal hearing to the Company.

#### ***Criminal Proceedings against certain of our employees***

An FIR (Crime No. 19 of 2010) dated January 20, 2010 has been filed against certain of the employees of the Company with the police station at Bailhongal, Orissa. The said FIR has been filed pursuant to the suicide committed by Mr. U.S. Matolli, the husband of Ms. Manjula, a member of the Company. The FIR alleges that Mr. Matolli committed suicide owing to harassment by the Company’s officials for the repayment of a loan taken by Ms. Manjula. The matter is currently under investigation.

#### ***Cases by the Company***

##### ***Andhra Pradesh***

1. The Company has initiated criminal proceedings by filing 27 First Information Reports (“FIRs”) in various police stations across the state of Andhra Pradesh. Four FIRs pursuant to the theft of certain amounts from our employees while they were on duty. 20 FIRs were filed against certain employees of the Company in relation to misappropriation of certain sums of money belonging to the Company. One FIR was filed pursuant to a theft at one of our branch offices. One FIR was filed against one of our employees pursuant to an armed attack at our erstwhile registered office. One FIR was filed pursuant to a forgery committed by one of our employees. The aggregate amount in these matters is approximately Rs. 7.19 million and the matters are currently under investigation.
2. The Company has filed a suit (O.S. Number 364 of 2009) in the court of the Junior Civil Judge at Karimnagar. The said matter has been filed against the Swayam Krushi Private Employees Samkshema Sangham Society, an organization claiming to represent the workers employed by the Company at two of the Company’s branch offices situated in the Karimnagar district of Andhra Pradesh. The suit has been filed pursuant to the members of the Society obstructing and preventing

the employees of the Company from attending office at the said branches as well as obstructing the business of the Company. All hearings have been concluded and the matter is reserved for final orders.

3. The Company has filed a writ petition (No. 4363 of 2010) before the High Court of Andhra Pradesh. The said writ petition has been filed against the District Collector, Khammam District of Andhra Pradesh amongst others, pursuant to the issuance of a proceeding letter dated August 7, 2009 by the District Collector ordering the implementation of regulations to prevent private money lending within the district and restraining the Company's representatives from carrying on business. A reply to the above letter was sent by the Company on February 16, 2010 stating that there was no requirement for registration under the provisions of the Andhra Pradesh (Andhra Region Scheduled Areas) Money-Lenders Regulations, 1960 ("Regulations"). The petition seeks to set aside the order as illegal, arbitrary and violative of the provisions of the Regulations and also Articles 14, 16 and 21 of the Constitution of India. Interim suspension of the proceeding letter was granted for a period of 6 weeks from February 24, 2010 by the High Court in the W.P.M.P. No. 5461 of 2010 in W.P. No. 4363 of 2010 filed by the Company. An interim order dated May 5, 2010 extended the order dated February 24, 2010 until further orders by the Court. .
4. The Company has filed a writ petition (No. 11343 of 2010) dated May 10, 2010 before the High Court of Andhra Pradesh against the District Collector/Agent to the Government, Khammam, the Agency Divisional Officer, Bhadrachalam and the Tehsildar, Dummugudem. The petition has been filed pursuant to the alleged arbitrary seizure of the premises of the Company situated at Bhadrachalam, Andhra Pradesh without any prior notice by an order of the Tehsildar, Dummugudem Mandal on May 5, 2010, despite the High Court having extended the suspension of the proceeding letter until further orders. The petition has been filed to declare the said act of seizure as illegal, arbitrary, violative of principles of natural justice and that the provisions of the AP (Andhra Region Scheduled Areas) Money Lenders Regulations, 1960 and the Constitution of India, to direct the respondents not to interfere with the business of the Company and also to suspend the operations of the proceedings of the Tehsildar, Dummugudem Mandal pursuant to which the premises of the Company was sealed. The High Court in its show cause notice dated May 12, 2010 asked the Respondents to show cause as to why the said matter should not be admitted and also allowed interim suspension of the order dated May 5, 2010 stating that the order was passed without any jurisdiction.
5. The Company has filed a recovery suit (Suit No: O.S. No. 69 of 2010) before the First Additional Chief Judge, City Civil Court, Secunderabad against Mr. Ajay Modi, Mr. Ashwin Modi, Ms. Sangeetha Modi and Ms. Varsha Modi. The suit has been filed pursuant to the termination of the lease deed of the Company's previous registered office situated at Maruthi Mansion, Minister Road, Secunderabad following the non-compliance of certain terms of the lease deed including non-compliances with statutory regulations and approvals by the Lessors. The total amount claimed is Rs. 3.43 million including the amount due towards balance security deposit, amount spent for transformer and laying cable, shifting charges to the Company's new premises, and interest thereon. An interlocutory application was filed on June 28, 2010 pursuant to the above suit in which the Company requested that the plaint be amended to include a provision stating that fraud had been carried out against the Company by the defendants. The next date of hearing is August 18, 2010.
6. The Company has filed a recovery suit (Suit No: O.S. No 70 of 2010) before the First Additional Chief Judge, City Civil Court, Secunderabad against Maruti Infraventures Private Limited and others. The suit has been filed pursuant to the termination of the lease deed of the Company's previous registered office situated at Maruthi Mansion, Minister Road, Secunderabad following the non-compliance of certain terms of the lease deed including non-compliances with statutory regulations and approvals by the Lessors. The total amount claimed is Rs. 2.82 million including the amount due towards balance security deposit, amount spent for transformer and laying cable, shifting charges to the Company's new premises, and interest thereon. An interlocutory application was filed pursuant on June 28, 2010 to the above suit in which the Company requested that the plaint be amended to include a provision stating that fraud had been carried out against the Company by the Defendant. The next date of hearing is August 18, 2010

### ***Bihar***

The Company has initiated criminal proceedings by filing 92 FIRs in various police stations across the state of Bihar. 81 FIRs were filed pursuant to the theft of certain amounts from our employees while they were on duty. 11 FIRs were filed against certain employees of the Company in relation to misappropriation of certain sums of money belonging to the Company. The aggregate amount in these matters is approximately Rs. 11.09 million and the matters are currently under investigation.

### ***Chhatisgarh***

The Company has initiated criminal proceedings by filing 11 FIRs in various police stations across the state of Chhatisgarh. Three FIRs were filed pursuant to the theft of certain amounts from our employees while they were on duty. Four FIRs were filed against certain employees of the Company in relation to misappropriation of certain sums of money belonging to the Company. Two FIRs were filed pursuant to thefts at two of our branch offices. Two FIRs were filed against the members of the Company for embezzlement of certain sums of money. The aggregate amount in these matters is approximately Rs. 3.42 million and the matters are currently under investigation.

### ***National Capital Region***

The Company has initiated criminal proceedings by filing six FIRs in various police stations across the National Capital Region. Four FIRs were filed pursuant to the theft of certain amounts from our employees while they were on duty. Two FIRs were filed against certain employees of the Company in relation to misappropriation of certain sums of money belonging to the Company. The aggregate amount in these matters is approximately Rs. 1.19 million and the matters are currently under investigation.

### ***Gujarat***

The Company has initiated criminal proceedings by filing five FIRs in various police stations across the State of Gujarat. Two FIRs were filed pursuant to the theft of certain amounts from our employees while on duty. The Company has filed an FIR, with the police station at Kadi, Gujarat on August 20, 2009. The FIR was filed with respect to Mr. Virender Chouhan, an employee of the Company stating that since he is absconding the same cannot be recorded as fraud but as a missing persons' case. One FIR was filed against an employee of the Company in relation to misappropriation of certain sums of money belonging to the Company. One FIR was filed pursuant to a theft at one of our branch offices. The aggregate amount in these matters is approximately Rs. 1.46 million and the matters are currently under investigation.

### ***Haryana***

The Company has initiated criminal proceedings by filing one FIR in the Chand Hat Police station in the state of Haryana. The said FIR has been filed pursuant to the theft of Rs. 60,000 from an employee of the Company while on duty. The matter is currently under investigation.

### ***Jharkhand***

The Company has initiated criminal proceedings by filing 34 FIRs in various police stations across the state of Jharkhand. 30 FIRs were filed pursuant to the theft of certain amounts from our employees while they were on duty. Three FIRs were filed against certain employees of the Company in relation to misappropriation of certain sums of money belonging to the Company. One FIR was filed pursuant to the robbery at our branch office at Bokaro. The aggregate amount in these matters is approximately Rs. 2.68 million and the matters are currently under investigation.

### ***Karnataka***

1. The Company has initiated criminal proceedings by filing 32 FIRs in various police stations across the state of Karnataka. 16 FIRs were filed pursuant to the theft of certain amounts from our employees while they were on duty. One FIR was filed pursuant to the murder of one of our employees while on duty. One FIR was filed for the murder of and theft from one of our employees while on duty. 12 FIRs were filed against certain employees of the Company in relation to misappropriation of certain sums of money belonging to the Company. Two FIRs were filed pursuant

to the theft at two of our branch offices. The aggregate amount in these matters is approximately Rs. 7.66 million and the matters are currently under investigation.

2. The Company has filed an appeal (No. 307/2010) dated January 22, 2010 before the State Consumer Redressal Commission at Bangalore. The said appeal has been filed pursuant to the ex-parte order of the District Consumer Redressal Forum at Hassan, Karnataka directing the Company to pay a sum of Rs. 4,215 towards medical expenses spent by Ms. Mallamma, a member of the Company and on other grounds including deficiency of service and directing to pay the costs along with interest at the rate of 10% till the date of realization. The appeal has been filed to set aside the order of the District Consumer Redressal Forum and remanding the matter to the District forum. The next date of hearing is scheduled for July 30, 2010.

### ***Madhya Pradesh***

The Company has initiated criminal proceedings by filing 42 FIRs in various police stations across the state of Madhya Pradesh. 29 FIRs were filed pursuant to the theft of certain amounts from our employees while they were on duty. One FIR was filed pursuant to the murder of one of our employees while he was on duty. Five FIRs were filed against certain employees of the Company in relation to misappropriation of certain sums of money belonging to the Company. Five FIRs were filed pursuant to thefts at five of our branch offices. One FIR was filed pursuant to the injuries sustained by one of our employees while on official duty. One FIR was filed pursuant to the assault on one of our employees while on official duty. The aggregate amount in these matters is approximately Rs. 4.59 million and the matters are currently under investigation.

### ***Maharashtra***

The Company has initiated criminal proceedings by filing 26 FIRs in various police stations across the state of Maharashtra. 13 FIRs were filed pursuant to the theft of certain amounts from our employees while they were on duty. 12 FIRs were filed against certain employees of the Company in relation to misappropriation of certain sums of money belonging to the Company. One FIR was filed pursuant to the alleged theft of our branch office by a former employee. The aggregate amount in these matters is approximately Rs. 7.68 million and the matters are currently under investigation.

### ***Orissa***

The Company initiated criminal proceedings by filing 58 FIRs in various police stations across the state of Orissa. 47 FIRs were filed pursuant to the theft of certain amounts from our employees while they were on duty. Seven FIRs were filed against certain employees of the Company in relation to misappropriation of certain sums of money belonging to the Company. Two FIRs were filed pursuant to thefts at our branch offices. One FIR was filed pursuant to an attack on one of the employees of the Company by former employees of the Company and another FIR was filed pursuant to the attempted murder of one of our employees. The aggregate amount in these matters is approximately Rs. 13.27 million and the matters are currently under investigation.

### ***Punjab***

The Company has initiated criminal proceedings by filing one FIR in the state of Punjab. The FIR has been filed pursuant to the theft of one of our employees while on official duty. The amount in the matter is Rs. 15,050.

### ***Rajasthan***

The Company has initiated criminal proceedings by filing 13 FIRs in various police stations across the state of Rajasthan. Nine FIRs were filed pursuant to the theft of certain amounts from our employees while they were on duty. Three FIRs were filed against certain employees of the Company in relation to misappropriation of certain sums of money belonging to the Company. One FIR was filed pursuant to the theft at one of our branch offices situated at Mangroi. The aggregate amount in these matters is approximately Rs. 2.08 million and the matters are currently under investigation.

### ***Uttar Pradesh***

The Company has initiated criminal proceedings by filing 39 FIRs in various police stations across the state of Uttar Pradesh. 24 FIRs were filed pursuant to the theft of certain amounts from our employees while they were on duty. 15 FIRs were filed against certain employees of the Company in relation to misappropriation of certain sums of money belonging to the Company. The aggregate amount in these matters is approximately Rs. 8.69 million and the matters are currently under investigation.

### ***Uttarkhand***

The Company has initiated criminal proceedings by filing four FIRs in various police stations across the state of Uttarkhand. Three FIRs were filed pursuant to the theft of certain amounts from our employees while they were on duty. One FIR was filed against certain employees of the Company in relation to misappropriation of certain sums of money belonging to the Company. The aggregate amount in these matters is approximately Rs. 0.61 million and the matters are currently under investigation.

### ***West Bengal***

1. The Company has initiated criminal proceedings by filing 42 FIRs in various police stations across the state of West Bengal. 40 FIRs were filed pursuant to the theft of certain amounts from our employees while they were on duty. One FIR was filed against certain employees of the Company in relation to misappropriation of certain sums of money belonging to the Company. One FIR was filed pursuant to the robbery at our branch office at Agarpura. The aggregate amount in these matters is approximately Rs. 5.18 million and the matters are currently under investigation.
2. The Company has served a legal notice dated March 5, 2010 on Mr. Buddhadeb Choudhary, Mr. Chandan Kumar Mondal and Ms. Chandrani Mondal (the "Noticees"). The said notice has been sent pursuant to a lease deed dated October 10, 2009 for the use of the premises named 'Raima Apartment' situated at Kaikhali, Salt Lake City, Kolkata, by the Company belonging to the Noticees, at a monthly rent of Rs. 80,000 and a Cash deposit of Rs. 0.32 million. The notice has been sent pursuant to the inability of the Noticees to give peaceful possession of the property to the Company and for the refund of the cash deposit amounting to Rs. 0.32 million along with interest at a rate of 24% payable from October 10, 2009.

### ***Tax Proceedings***

1. The Company has filed an appeal (No. 0360/08-09) dated January 20, 2009 with the Commissioner of Income Tax (Appeals) (IV), Hyderabad (the "Commissioner") against the assessment order of the Deputy Commissioner of Income Tax, Circle 3 (2) dated December 22, 2008 in respect of fiscal 2006. The said appeal has been filed with respect to claim on depreciation of intangible assets, provisioning for loan losses, derecognizing interest on non-performing assets and disallowance of expenditure against exempted income. The total amount disputed by way of tax is Rs. 5.51 million and the said amount has been paid under protest. The Commissioner in its order dated January 20, 2010 partly allowed the appeal. The Company has filed an appeal before the Income-Tax Appellate Tribunal, Hyderabad on March 22, 2010 against the order of the Commissioner. The next date of hearing is August 30, 2010.
2. The Company has filed an appeal (No. 534-2009-10-5/2/2010) on February 1, 2010 before the Commissioner of Income Tax (Appeals) (IV), Hyderabad. The said appeal has been filed with respect to the Assessment Order dated December 29, 2009 for the assessment year 2007-08 wherein the overall assessed income of the Company was taken to be Rs. 104.00 million after disallowing certain deductions claimed by the Company with respect to depreciation of client creating cost, interest on interest free loan provided by the Company to the Dr. Vikram Akula and service tax on loan processing fee relating to the prior period and holding the Company liable to pay an amount of Rs. 5.11 million. The appeal has been filed on the grounds that the assessing officer erred in facts and law while passing the order and that the same should be altered or varied. The matter is currently pending.

## Litigation against the Directors

### Cases involving Dr. Vikram Akula (in India)

1. Dr. Vikram Akula filed a petition (OP No. 1167/2009) on October 12, 2009 in the Family Court, Hyderabad ("Family Court") against his former wife, Ms. Malini Byanna, under Section 25 of the Guardians and Wards Act, 1890 read with Section 7 of the Family Courts Act, 1984 praying for the title of guardian of the exclusive custody of his minor son, Tejas on October 12, 2009. He also filed an interlocutory application (IA No. 770/2009) in the said petition (OP No. 1167/2009) on October 12, 2009 seeking an injunction against Ms. Byanna from disturbing the custody of Tejas and the Family Court through its order dated October 12, 2009 granted an interim injunction to this effect. Ms. Byanna filed an interlocutory application (IA No. 805/2009) praying to vacate the interim injunction. The Family Court passed a common order on November 24, 2009 in both the interlocutory applications filed declaring the ad interim injunction granted on October 12, 2009 absolute. Ms. Byanna filed an appeal against the order passed by the Family Court on November 24, 2009 (FCA No. 324/2009) in the Andhra Pradesh High Court ("APHC") and the APHC ordered a stay of all further proceedings in the case filed by Dr. Akula pending before the Family Court on December 22, 2009. The petition (FCA No. 324 of 2009) was heard again on February 15, 2010. The matter came up for further hearing on March 18, 2010 before the APHC and the order passed dated December 22, 2009 was vacated. The matter was posted on March 30, 2010 and pursuant to further adjournments has not been posted for hearing in the last week of August 2010.

Ms. Byanna filed a transfer petition in the APHC (CMP No. 610/2009) in November 2009 requesting the transfer of the case to another Family Court in Hyderabad. The case was heard on March 8, 2009 after which it was adjourned. The next hearing in the APHC was on March 29, 2010 and pursuant to further adjournments has not been posted for hearing in the last week of August 2010.

On February 25, 2010, the Family Court adjourned the matter in the original petition (O.P.No. 1167 of 2009) because of the order of the APHC (in FCA No. 324 of 2009) dated December 22, 2009. The next date of hearing in this petition was scheduled for March 31, 2010 and pursuant to further adjournments has not been posted for hearing in the last week of August 2010.

Against the order of the Family Court dated November 24, 2009, Ms. Byanna filed a petition before the Supreme Court of India ("SC") (SLP (Civil) No. 5019-3020/2010). The SC through an interim order dated February 18, 2010 to a petition filed by Ms. Byanna (I.A. 3-4 in SLP (Civil) No. 5019-3020/2010) passed orders permitting Ms. Byanna to visit Tejas at Hyderabad and have his company for a week from February 20, 2010. Further, the SC also noted that its earlier order dated January 25, 2010 regarding video conferencing of Tejas and Ms. Byanna shall continue and if there is a technical problem in such conferencing, Tejas would be allowed to talk to Ms. Byanna on telephone. Also through an interim application she sought daily, unsupervised videoconference for one hour with Tejas. The matter is now listed on March 26, 2010. . After further adjournments, the SC heard this matter along with SLP (Crim) No. 38-40/2010 on May 14, 2010.

On October 18, 2009, Dr. Akula lodged a First Information Report ("FIR") (Case No. 463/2009) with the Jubilee Hills Police Station stating that Ms. Byanna kidnapped their son on October 18, 2009 and was proceeding to leave for the US. He further stated that as this was in violation of the orders dated October 12, 2009 of the Family Court, requisite legal action be taken against Ms. Byanna. Against the aforementioned FIR, Ms. Byanna approached the APHC on October 30, 2009 (Criminal Petition No. 8850 of 2009) and obtained a stay order against the proceedings to be initiated pursuant to the FIR. Dr. Akula filed an application to vacate the stay on November 18, 2009, which is in the process of being adjudicated.

Separately, Ms. Byanna filed a *habeas corpus* writ petition in APHC (WP No. 28420/2009) against Dr. Akula on December 23, 2009 requesting the APHC to direct Dr. Akula to produce Tejas under the direction of the Court in the Circuit Court of Cook County, USA by declaring the action of Dr. Akula in attempting to hold the custody of Tejas as illegal. The APHC directed Dr. Akula to produce Tejas before the APHC on December 29, 2009 and further directed the Station House Officer, Raidurg Police Station to serve a copy of the order to Dr. Akula. The APHC by its order dated December 29, 2009 noted that its order dated December 23, 2009 could not be implemented as the counsel to Dr. Akula came to know about such order belatedly and could not intimate Dr. Akula, also on account of

the fact Dr. Akula and his family had left India on December 23, 2009. The APHC, through the said order dated December 29, 2009 ordered Dr. Akula to hand over the custody of Tejas to Ms. Byanna at her address in the USA no later than January 3, 2010. A petition filed by Dr. Akula on December 29, 2009 before the APHC stating that the order of the APHC dated December 29, 2009 would result in Ms. Byanna not returning to India along with Tejas as she was a US national, was rejected on December 31, 2009 by the APHC. On January 4, 2010, Ms. Byanna filed a contempt case (Case No. 7/2010) in the APHC against Dr. Akula alleging that he violated the orders of the APHC dated December 29, 2009 by not handing over the custody of Tejas to her and also filed an interim application (IA No. 8/2010) seeking physical delivery of the child.

Dr. Akula filed a petition in the SC (SLP (Crim) No. 38-40/2010) on January 5, 2010 requesting that the implementation of the order of the APHC requiring him to hand over Tejas to Ms. Byanna in U.S. by January 3, 2010 be stayed and prayed for a stay of all further proceedings in the matter. The SC, through an order dated January 12, 2010, directed the listing of the petition on January 25, 2010 and ordered a stay of all further proceedings in the contempt case pending in the APHC, till then. On January 25, 2010 the matter was adjourned to February 1, 2010 on which date the SC directed the petitions to be placed before them on February 15, 2010. On February 15, 2010, the SC directed that the matters be listed after two weeks. The matter was now listed on March 26, 2010. After further adjournments, the SC heard this matter along with SLP (Civil) No. 5019-3020/2010 on May 14, 2010 where the SC directed the case to be listed on August 10, 2010 for final disposal.

2. On January 5, 2010, the APHC passed orders of issuance of notice and personal appearance of Dr. Akula on January 19, 2010, pursuant to which Dr. Akula appeared in person before the APHC and informed it about the stay order granted by the SC. The APHC adjourned the case by four weeks. It came up on February 15, 2009 and, due to the stay of contempt case granted by the Supreme Court on January 12, 2010 (in SLP CrI. 38-40 of 2010), the case (W.P.No. 28420 of 2009) was adjourned in the APHC until March 17, 2010 and pursuant to further adjournments has not been posted for hearing in the last week of August 2010.
3. A minimum wages suit (MW 1469 of 2007) has been filed against Dr. Akula by the Inspector, Minimum Wages Act and Assistant Labour Officer before the Assistant Commissioner of Labour, Anakapalli, Andhra Pradesh alleging that the Company has paid wages below the minimum wages to certain of its employees and that the difference in wages due to the employees, according to the minimum rate of wages be paid. The Company has filed a counter reply dated April 21, 2009 submitting to the authority that it has been paying more than minimum wages to its employees and that Dr. Akula is not the employer in his personal capacity in the present case and hence the present proceeding be dismissed against him for misjoinder of parties. The matter is currently pending and the next date of hearing is scheduled for July 30, 2010.
4. A notice on behalf of Mr. Narasimha Rao Deshpande dated January 17, 2010 has been served upon Dr. Vikram Akula. The notice has been sent pursuant to the alleged forced and involuntary resignation of Mr. Deshpande from the Company on the basis of certain allegations involving Mr. Deshpande's dishonest intentions made by Dr. Akula in an email dated November 28, 2007 and subsequent threats made by Mr. P. Sheshagiri, the Assistant Vice President of Internal Audit. It is also claimed that the said resignation was not accepted by the Company. The notice calls for the payment of salary and other benefits from the month of December 2007 till the date of the notice, failing which legal proceedings would be initiated against Dr. Akula. The Company in its reply dated January 28, 2010 has stated that the resignation of Mr. Deshpande was made purely for personal reasons and that there was no harassment involved and also that since the notice period of two months was not given prior to resignation, Mr. Deshpande would not be entitled to any pay.

#### ***Cases involving Dr. Vikram Akula (in U.S.)***

Dr. Vikram Akula and Ms. Malini Byanna were married on December 18, 1999 in Illinois, U.S and Tejas was born to them on February 16, 2001. In October 2001, Dr. Akula moved the Circuit Court of Cook County, Illinois ("Circuit Court") for the dissolution of his marriage and a judgement for dissolution was entered into by the Circuit Court on December 4, 2002. The said judgement incorporated a marital settlement agreement and a custody agreement pursuant to which Ms. Byanna was granted custody of Tejas and Dr. Akula was

granted visitation rights and was also required to make monthly support payments and bear certain expenses including in relation to Tejas' education.

As regards the custody of Tejas, a petition (Case number 01 D 15700) was filed on December 12, 2008 by Ms. Byanna against Dr. Akula to modify child support payment in the Cook County Trial Court, Illinois, U.S. ("Trial Court"). A child support arrangement was entered into pursuant to agreement of the parties, and the support payable by Dr. Akula was modified to USD 3,250.00 per month. Additionally, Ms. Byanna also filed a petition on December 16, 2008 against Dr. Akula for adjudication of indirect civil contempt on account of his alleged failure to produce tax information in the Trial Court. Dr. Akula has filed his reply in relation these petitions on February 23, 2009 and the matters are currently pending.

A joint petition was filed on June 18, 2009 by both Dr. Akula and Ms. Byanna in the Trial Court to travel to India together in July 2009 and an order was passed permitting Dr. Akula, Ms. Byanna and Tejas to travel to India for six weeks.

The parties decided to relocate to India and enrolled Tejas in school in Hyderabad. On October 15, 2009, Ms. Byanna filed an emergency petition in the Trial Court seeking the return of Tejas after she left Tejas in Dr. Akula's care in India. Ms. Byanna also filed a petition in the Trial Court on October 15, 2009 for adjudication of indirect civil contempt against Dr. Akula due to Dr. Akula refusing to withdraw Tejas from school upon Ms. Byanna's demands. On October 15, 2009, the Trial Court entered an order that Tejas would not be withdrawn from the International School in Hyderabad or from the city of Hyderabad itself pending further order of court. This Court further found Ms. Byanna's petition not to be an emergency, gave Dr. Akula seven days to file a response and set the matter for hearing on November 23, 2009.

An emergency petition was filed on October 20, 2009 by Dr. Akula in the Trial Court against the order passed by the Trial Court on October 15, 2009 as Ms. Byanna sought to abscond with Tejas to the U.S. from Hyderabad. Pending the ruling on its jurisdiction, the Trial Court on October 20, 2009 ordered supervised visitation for Ms. Byanna. A response to Dr. Akula's emergency petition was filed on October 23, 2009 by Ms. Byanna and remains pending. Additionally, the Trial Court sought the contact details of the judge who was hearing the case in relation to the custody of Tejas in Hyderabad. On October 21, 2009, Ms. Byanna filed her "Notice of Interlocutory Appeal." A petition for leave to appeal was filed against the October 20, 2009 order of the Trial Court on October 22, 2009 by Ms. Byanna in the Illinois Appellate Court. The appeal was stayed pending the Trial Court's final ruling on jurisdiction; subsequent status reports have been filed with the Illinois Appellate Court periodically since then. On October 22, 2009, Dr. Akula filed his "Response to Emergency Petition for Temporary Restraining Order, Preliminary Injunction Thereafter and for Further Relief, Motion for Return of Child and Petition for Adjudication of Indirect Civil Contempt of Court."

On October 15, 2009 Dr. Akula submitted a petition for Executive Clemency to the State of Illinois in relation to his conviction of April 21, 2004 pertaining to domestic battery, a misdemeanor offence, by the Circuit Court of Cook County, Illinois. The matter had been heard before the Circuit Court pursuant to a complaint made against Dr. Akula by Ms. Byanna, in relation to an incident that occurred on March 17, 2004 during the course of a post-divorce legal dispute between Dr. Akula and Ms. Byanna pertaining to the custody of their son and other matters. In connection with this matter, Dr. Akula was conditionally discharged and not subjected to a fine or an order of confinement. This petition remains pending, with a hearing scheduled for April 13, 2010. On September 25, 2009, Ms. Byanna and her parents, Mr. Narasimhaiah Byanna and Ms. Sharada Byanna, submitted letters in support of Dr. Akula's clemency petition.

An emergency petition was filed on October 28, 2009 in the Illinois Appellate Court by Ms. Byanna seeking the return of Tejas to U.S. On November 2, 2009, Dr. Akula filed his response to Ms. Byanna's petition for leave to appeal and his "Response to Emergency Motion to Return Minor Child to the United States." The Appellate Court denied Ms. Byanna's emergency motion to return the minor child to the United States on November 3, 2009.

On November 2, 2009, Dr. Akula filed his two-count "Emergency Petition for Declaratory Judgment and Motion to Dismiss Respondent's Emergency Petition." On November 17, 2009, Ms. Byanna filed her separate responses to each of the two counts of Dr. Akula's petition.

On November 10, 2009, Dr. Akula filed his "Response in Opposition to Motion for Presence of the Minor Child." On November 12, 2009, Dr. Akula filed his "Addendum to Response in Opposition to Motion for Presence of the Minor Child." On November 19, 2009, the Trial Court passed an order for Tejas' presence



before the Court for the hearing on jurisdiction. On November 23, 2009, Dr. Akula filed an emergency motion to reconsider this Court's ruling requiring Tejas' presence in Chicago. On November 23, 2009, Ms. Byanna filed her "Motion for Summary Judgment" on Dr. Akula's "Emergency Petition for Declaratory Judgment and Motion to Dismiss Respondent's Emergency Petition." On November 24, 2009, this Court denied Dr. Akula's motion to reconsider the order requiring Tejas' presence for the hearing on jurisdiction and transferred the case to Judge Pamela E. Loza. This matter remains pending before the Trial Court.

On December 2, 2009, Dr. Akula filed his "Motion for Summary Judgment or, in the Alternative, for Registration of Indian Orders, and Dismissal of Respondent's Emergency Petition." An emergency petition was filed in the Trial Court on December 9, 2009 by Ms. Byanna seeking the return of Tejas to U.S. for Christmas, which was granted by the Trial Court on December 16, 2009. Dr. Akula filed a petition for leave to appeal was filed in the Illinois Appellate Court against this order on December 22, 2009. That same day, the Appellate Court stayed the order of the Trial Court dated December 16, 2009 and ordered the Trial Court to not issue any further orders on custody or visitation rights until the issue on jurisdiction was resolved. Ms. Byanna filed a motion to dismiss the appeal as moot on December 30, 2009, which was granted. An interim application was filed on December 23, 2009 before the Trial Court seeking a judgment that Ms. Byanna and Tejas reside in Illinois, that the proceedings in the Indian courts were not in conformity of the Uniform Child-Custody Jurisdiction and Enforcement Act and the order of the Indian court would not be enforceable. This petition remains pending and undetermined before the Trial Court.

On February 8, 2010, Ms. Byanna filed a petition for Declaratory and Injunctive Relief. On February 19, 2010, Dr. Akula filed a reply to this petition and sought a Motion for Summary Judgment. On February 25, 2010, Ms. Byanna filed a Motion for Summary Judgment. Dr. Akula and Ms. Byanna filed their responses to each others' Motions for Summary Judgment on March 3, 2010. The Trial Court conducted a hearing and indicated it would rule on jurisdiction but did not specify a date. The matter remains pending.

On March 30, 2010, the Circuit Court of Cook County trial court judge, Pamela Loza, entered a written opinion and order, inter alia, finding that Illinois, USA maintained exclusive and continuing jurisdiction because Ms. Byanna and their minor child were residents of Illinois. Judge Loza further held that the Indian orders were not recognizable or enforceable in Illinois. Against the same, Dr. Akula filed an emergency motion for appeal that was granted on April 14, 2010 by the Appellate Court of Illinois, First Judicial District. On April 23, 2010, Dr. Akula filed his petition for leave to appeal and a motion for stay and on April 30, 2010, the Appellate Court entered an order staying Judge Loza's March 30, 2010 order and staying further proceedings in the trial court. On May 13, 2010, the Appellate Court granted Dr. Akula's petition for leave to appeal and placed the case on the accelerated docket. The appeal was listed for filing brief for Dr. Akula by June 7, 2010 and response to it by Ms. Byanna by June 22, 2010. The matter is currently pending.

### **Litigation involving Promoters**

#### ***Cases against Dr. Vikram Akula***

For cases involving Dr. Vikram Akula, see "Cases involving Directors" above.

### **Material Developments since the Last Balance Sheet Date**

In the opinion of the Board, other than as disclosed in this Red Herring Prospectus, there has not arisen, since the date of the last financial statements set out herein, any circumstance that materially or adversely affects our profitability taken as a whole or the value of our consolidated assets or our ability to pay our material liabilities over the next twelve months. See also, "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 208 of this Red Herring Prospectus.

## GOVERNMENT AND OTHER APPROVALS

*We have received the necessary consents, licenses, permissions and approvals from the government and various governmental agencies required for our present business and except as mentioned below, no further approvals are required for carrying on our present business.*

### **I. Approvals for the Issue**

#### *Corporate Approvals*

1. Our Board of Directors has, pursuant to resolutions passed at its meeting held on January 5, 2010 authorised the Issue, subject to the approval by the shareholders of the Company under Section 81(1A) of the Companies Act.
2. Our shareholders have, pursuant to a resolution dated January 8, 2010 under Section 81(1A) of the Companies Act, authorised the Issue.
3. The board of directors of MUC at its meetings held on March 17, 2010 approved the Offer for Sale of Equity Shares by MUC. The board of directors of SCI II at its meetings held on February 11, 2010 approved the Offer for Sale of Equity Shares by SCI II. The board of directors of Kismet Microfinance at its meetings held on March 3, 2010 approved the Offer for Sale of Equity Shares by Kismet Microfinance. The Trustees of SKS MBTs, STAPL, have authorised the Offer for Sale at their meeting held on March 12, 2010.

#### *Approval from the Stock Exchanges*

1. In-principle approval from the National Stock Exchange of India Limited dated May 26, 2010.
2. In-principle approval from the Bombay Stock Exchange Limited dated April 28, 2010.

#### *Other Approvals*

1. Approval from the RBI dated July 5, 2010 granting permission to the Selling Shareholders to transfer 9,346,258 equity shares of the Company pursuant to the Offer for Sale subject to certain conditions therein, including compliance with foreign exchange regulations.

### **II. Incorporation Details of the Company**

1. Certificate of Incorporation dated September 22, 2003 issued to the Company under the name “SKS Microfinance Private Limited” by the Registrar of Companies, Andhra Pradesh at Hyderabad.
2. Fresh Certificate of Incorporation dated May 20, 2009 issued to the Company upon change of name to “SKS Microfinance Limited” by the Registrar of Companies, Andhra Pradesh at Hyderabad.

### **III. Approvals to carry on our Business**

The Company requires various approvals for it to carry on its business in India. Certain approvals have elapsed in their normal course and the Company has either made an application to the appropriate authorities for renewal of such licences and/or approvals or is in the process of making such applications. The approvals that the Company requires include the following:

1. Certificate of Registration (No. N-09.00415) under Section 451A of RBI Act, 1934 from the Reserve Bank of India dated January 20, 2005 to commence or carry on the business of non-banking financial institution without accepting public deposits.
2. The Company has received a new Certificate of Registration under Section 451A of RBI Act, 1934 from the Reserve Bank of India dated June 3, 2009 to carry on the business of non-banking financial institution without accepting public deposits subsequent to change of name to “SKS Microfinance Limited”.

3. Approval (No. DNBS.CO.ZMD South/6662/09.19.044/2008-09) from the RBI dated May 13, 2009 for opening a liaison office in Palatine Illinois, USA.
4. Service Tax Code bearing number AAICS2940JST001, issued by the Commissioner of Customs, Central Excise and Service Tax, pursuant to the certificate of registration under the Finance Act and Service Tax Rules, 1994.
5. Permanent Account Number issued pursuant to the Income Tax Act: AAICS2940J.
6. Tax Deduction Account Number issued pursuant to the Income Tax Act: HYDS 09803D.
7. License (No. 4901533) dated December 8, 2008 issued by the IRDA pursuant to the Insurance Regulatory and Development Authority (Licensing of Corporate Agents) Regulations, 2002 to act as a corporate agent under the Insurance Act, 1938. The license is valid for a period of 3 (three) years.
8. Registration under the Employees State Insurance Corporation (52-25421-101) dated February 22, 2006.
9. Registration (No. AP/HY/52172/Enf/C-I/T-4/2005/1207) dated October 5, 2005 under the Employees Provident Fund and Miscellaneous Provisions Act, 1952.
10. The Company has made applications for the registration of its trademark and logo. Applications for trademark and logo were made in 10 languages with the Registrar of Trademarks on May 13, 2009 and two applications for registration of trademark and logo individually were made on August 31, 2009. These applications are currently pending.
11. Approval (No. DNBS (H) CMS/3811/00.50.576/2009-10) received from RBI dated January 22, 2010 permitting the Company to market and distribute mutual fund products for a period of two years.
12. Approval received from the Regional Director, Ministry of Corporate Affairs, Government of India dated February 1, 2010 for entering into an agreement with Aspiring Minds Assessments Private Limited in relation to assisting the Company on assessment and entry level recruitment decisions.
13. The Company has made an application to the Regional Director, Ministry of Corporate Affairs seeking approval under section 297 of the Companies Act for entering into an agreement with AMAPL, a company in which Mr. Tarun Khanna, a Director, is interested as a shareholder.
14. Registration under Shops and Establishment Act (as of July 15, 2010):
  - (i) The Company received registration certificates for 1,444 of our branches located across India under the respective state Shops and Establishments Acts;
  - (ii) The Company applied for registration for 211 of our branches located across India under the respective state Shops and Establishments Acts;
  - (iii) The Company is yet to apply for registration certificates for 129 of our branches located across India under the respective state Shops and Establishments Acts; and
  - (iv) The Company is not required to obtain registration certificate for 390 of our branches under certain state Shops and Establishments Acts which are located in those states.
15. The Company had applied for notification to the Revenue Departments of various states under the applicable Money Lending Acts of the respective states and the same are pending. The Revenue Department of the Government of Rajasthan has by Notification No. F.13(1)Rev.6/2000/50 dated 19th July, 2006 issued by the Revenue Department of Rajasthan states that all NBFCs registered with Reserve Bank of India under Section 45-IA of the RBI Act, 1934 are exempted from the applicability of the Rajasthan Money Lender Act, 1963. Further, it was also intimated by the Joint Secretary of Government Cooperative Department of the Government of Karnataka, that the Company is exempted from the provisions of the Karnataka Money Lenders Act, 1961 Further, a notification

dated May 25, 2007 exempts the Company from the application of the Karnataka Money-Lenders Act, 1961.

The relevant money lenders legislation in the states of Andhra Pradesh, Delhi, Haryana, Punjab, Himachal Pradesh, Uttar Pradesh, Uttaranchal, Madhya Pradesh and Chhattisgarh are not applicable to the activities undertaken by the Company. However as an abundant caution the Company has made applications for exemption from the applicability of the provisions of the Money Lenders Acts for the following states:

1. Chhattisgarh
2. Delhi
3. Haryana
4. Himachal Pradesh
5. Madhya Pradesh
6. Punjab
7. Uttar Pradesh
8. Uttaranchal

The Company has made applications for exemption from the applicability of the relevant Money Lenders Acts of the following states due to ambiguity in law and the same are pending:

1. Orissa
2. Jharkhand
3. Maharashtra
4. Kerala
5. Bihar
6. West Bengal
7. Tamil Nadu
8. Gujarat

The Joint Registrar, Co-operative Societies, State of Gujarat by a letter dated September 9, 2008 (bearing no. VHT/01/K.1/1019/08) stated that the relevant provision for exempting the Company from the applicability of the provisions of the money lenders legislation has not been implemented in the State of Gujarat. In response to the aforesaid reply, the Company has made a fresh application dated January 28, 2010 before the Joint Registrar, Co-operative Societies, Gujarat, seeking clarification for the same and for granting exemption to the Company from the applicability of the said relevant money lenders legislation. The said application is pending.

## **OTHER REGULATORY AND STATUTORY DISCLOSURES**

### **Authority for the Issue**

The Issue has been authorized by the resolution of the Board of Directors passed at their meeting held on January 5, 2010, subject to the approval of shareholders through a special resolution to be passed under to Section 81 (1A) of the Companies Act and such other regulatory authority as may be necessary.

The shareholders have authorised the Issue by a special resolution in accordance with Section 81(1A) of the Companies Act, passed at the extra-ordinary general meeting of the Company held on January 8, 2010.

Approval from the RBI dated July 5, 2010 granting permission to the Selling Shareholders to transfer 9,346,258 equity shares of the Company pursuant to the Offer for Sale subject to certain conditions therein, including compliance with foreign exchange regulations.

### **Authority from the Selling Shareholders**

The board of directors of MUC at its meetings held on March 17, 2010 approved the Offer for Sale of Equity Shares by MUC. The board of directors of SCI II at its meetings held on February 11, 2010 approved the Offer for Sale of Equity Shares by SCI II. The board of directors of Kismet Microfinance at its meetings held on March 3, 2010 approved the Offer for Sale of Equity Shares by Kismet Microfinance. The Trustees of SKS MBTs, STAPL, have authorised the Offer for Sale at their meeting held on March 12, 2010.

Based on letters provided by the Selling Shareholders, we understand that they have held the Equity Shares proposed to be offered and sold by them in the Issue for more than one year prior to the date of filing of the Draft Red Herring Prospectus and that they have not been prohibited from dealings in securities market and the Equity Shares offered and sold by them are free from any lien, encumbrance or third party rights.

### **Prohibition by SEBI, RBI or other Governmental Authorities**

We confirm that the Company, the Selling Shareholders, Promoters, Directors, Promoter Group entities and persons in control of the Company, have not been prohibited from accessing or operating in capital markets under any order or direction passed by SEBI or the RBI or any other regulatory or governmental authority.

The companies, with which any of the Promoters, Directors or persons in control of the Company or any natural person behind the Promoters are or were associated as promoters, directors or persons in control have not been prohibited from accessing or operating in capital markets under any order or direction passed by SEBI or the RBI or any other regulatory or governmental authority.

None of the Directors are associated in any manner with any entities, which are engaged in securities market related business and are registered with the SEBI for the same.

Neither the Company, its Directors, Promoters and the relatives of Promoters (as defined under the Companies Act) have been identified as wilful defaulters by the RBI or any other governmental authority. There are no violations of securities laws committed by any of them in the past or are pending against them.

### **Eligibility for the Issue**

The Company is eligible for the Issue under Regulation 26(2) of the SEBI Regulations as explained under:

- (a) (i) the issue is made through the book building process and the issuer undertakes to allot at least fifty per cent. of the net offer to public to qualified institutional buyers and to refund full subscription monies if it fails to make allotment to the qualified institutional buyers;
- or
- (ii) at least fifteen per cent. of the cost of the project is contributed by scheduled commercial banks or public financial institutions, of which not less than ten per cent. shall come from the appraisers and the issuer undertakes to allot at least ten per cent. of the net offer to public to

qualified institutional buyers and to refund full subscription monies if it fails to make the allotment to the qualified institutional buyers;

- (b) (i) the minimum post-issue face value capital of the issuer is ten crore rupees;

or

- (ii) the issuer undertakes to provide market-making for at least two years from the date of listing of the specified securities, subject to the following:

(A) the market makers offer buy and sell quotes for a minimum depth of three hundred specified securities and ensure that the bid-ask spread for their quotes does not, at any time, exceed ten per cent.;

(B) the inventory of the market makers, as on the date of allotment of the specified securities, shall be at least five per cent of the proposed issue.

Further we shall ensure that the number of prospective allottees to whom the Equity Shares will be allotted shall not be less than 1,000; otherwise the entire application money will be refunded forthwith. In case of delay, if any, in refund the Company shall pay interest on the application money at the rate of 15% per annum for the period of delay.

Further, the Issue is subject to the fulfillment of the following conditions as required by the erstwhile Rule 19(2)(b) of the SCRR (existing at the time of filing the DRHP):

- A minimum 2,000,000 Equity Shares (excluding reservations, firm Allotments and promoters contribution) are offered to the public;
- The Issue size, which is the Issue Price multiplied by the number of Equity Shares offered to the public, is a minimum of Rs. 1,000 million; and
- The Issue is made through the Book Building method with 60% of the Issue size allocated to QIBs.

#### **DISCLAIMER CLAUSE OF SEBI**

**AS REQUIRED, A COPY OF THE DRAFT RED HERRING PROSPECTUS HAS BEEN SUBMITTED TO SEBI. IT IS TO BE DISTINCTLY UNDERSTOOD THAT SUBMISSION OF THE DRAFT RED HERRING PROSPECTUS TO SEBI SHOULD NOT, IN ANY WAY, BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE ISSUE IS PROPOSED TO BE MADE OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE DRAFT RED HERRING PROSPECTUS. THE BOOK RUNNING LEAD MANAGERS, KOTAK MAHINDRA CAPITAL COMPANY LIMITED, CITIGROUP GLOBAL MARKETS INDIA PRIVATE LIMITED AND CREDIT SUISSE SECURITIES (INDIA) PRIVATE LIMITED HAVE CERTIFIED THAT THE DISCLOSURES MADE IN THE DRAFT RED HERRING PROSPECTUS ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2009 IN FORCE FOR THE TIME BEING. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING AN INVESTMENT IN THE PROPOSED ISSUE.**

**IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE COMPANY IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE DRAFT RED HERRING PROSPECTUS, THE BOOK RUNNING LEAD MANAGERS ARE EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE COMPANY DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE BOOK RUNNING LEAD MANAGERS, KOTAK MAHINDRA CAPITAL COMPANY LIMITED, CITIGROUP GLOBAL MARKETS INDIA PRIVATE LIMITED AND CREDIT SUISSE SECURITIES (INDIA) PRIVATE LIMITED HAVE FURNISHED TO SEBI, A DUE DILIGENCE CERTIFICATE DATED MARCH 25, 2010 WHICH**

**READS AS FOLLOWS:**

**WE, THE LEAD MERCHANT BANKER(S) TO THE ABOVE MENTIONED FORTHCOMING ISSUE, STATE AND CONFIRM AS FOLLOWS:**

- 1. WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, PATENT DISPUTES, DISPUTES WITH COLLABORATORS, ETC. AND OTHER MATERIAL IN CONNECTION WITH THE FINALISATION OF THE DRAFT RED HERRING PROSPECTUS PERTAINING TO THE SAID ISSUE;**
- 2. ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE ISSUER, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, AND INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE ISSUE, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS AND OTHER PAPERS FURNISHED BY THE ISSUER, WE CONFIRM THAT:**
  - (A) THE DRAFT RED HERRING PROSPECTUS FILED WITH SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE ISSUE;**
  - (B) ALL THE LEGAL REQUIREMENTS RELATING TO THE ISSUE AS ALSO THE REGULATIONS GUIDELINES, INSTRUCTIONS, ETC. FRAMED OR ISSUED BY THE BOARD, THE CENTRAL GOVERNMENT AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH; AND**
  - (C) THE DISCLOSURES MADE IN THE DRAFT RED HERRING PROSPECTUS ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL INFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED ISSUE AND SUCH DISCLOSURES ARE IN ACCORDANCE WITH THE REQUIREMENTS OF THE COMPANIES ACT, 1956, THE SECURITIES AND EXCHANGE BOARD OF INDIA (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2009 AND OTHER APPLICABLE LEGAL REQUIREMENTS.**
- 3. WE CONFIRM THAT BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE DRAFT RED HERRING PROSPECTUS ARE REGISTERED WITH THE SEBI AND THAT TILL DATE SUCH REGISTRATION IS VALID.**
- 4. WHEN UNDERWRITTEN, WE WILL SATISFY OURSELVES ABOUT THE CAPABILITY OF THE UNDERWITTERS TO FULFIL THEIR UNDERWRITING COMMITMENTS.**
- 5. WE CERTIFY THAT WRITTEN CONSENT FROM THE PROMOTERS HAS BEEN OBTAINED FOR INCLUSION OF THEIR EQUITY SHARES AS PART OF PROMOTERS' CONTRIBUTION SUBJECT TO LOCK-IN AND THE EQUITY SHARES PROPOSED TO FORM PART OF THE PROMOTERS' CONTRIBUTION SUBJECT TO LOCK-IN SHALL NOT BE DISPOSED / SOLD / TRANSFERRED BY THE PROMOTERS DURING THE PERIOD STARTING FROM THE DATE OF FILING THE DRAFT RED HERRING PROSPECTUS WITH SEBI TILL THE DATE OF COMMENCEMENT OF LOCK-IN PERIOD AS STATED IN THE DRAFT RED HERRING PROSPECTUS.**
- 6. WE CERTIFY THAT REGULATION 33 OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2009, WHICH RELATES TO SPECIFIED SECURITIES INELIGIBLE FOR COMPUTATION OF THE PROMOTERS' CONTRIBUTION, HAS BEEN DULY COMPLIED WITH AND APPROPRIATE DISCLOSURES AS TO COMPLIANCE WITH THE SAID REGULATION HAVE BEEN MADE IN THE DRAFT RED HERRING PROSPECTUS.**
- 7. WE UNDERTAKE THAT SUB-REGULATION (4) OF REGULATION 32 AND CLAUSE (C) AND (D) OF SUB-REGULATION (2) OF REGULATION 8 OF THE SECURITIES AND**

EXCHANGE BOARD OF INDIA (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2009 SHALL BE COMPLIED WITH. WE CONFIRM THAT ARRANGEMENTS HAVE BEEN MADE TO ENSURE THAT PROMOTERS' CONTRIBUTION SHALL BE RECEIVED AT LEAST ONE DAY BEFORE THE OPENING OF THE ISSUE. WE UNDERTAKE THAT AUDITORS' CERTIFICATE TO THIS EFFECT SHALL BE DULY SUBMITTED TO THE BOARD. WE FURTHER CONFIRM THAT ARRANGEMENTS HAVE BEEN MADE TO ENSURE THAT PROMOTERS' CONTRIBUTION SHALL BE KEPT IN AN ESCROW ACCOUNT WITH A SCHEDULED COMMERCIAL BANK AND SHALL BE RELEASED TO THE ISSUER ALONG WITH THE PROCEEDS OF THE PUBLIC ISSUE. NOT APPLICABLE.

8. WE CERTIFY THAT THE PROPOSED ACTIVITIES OF THE ISSUER FOR WHICH THE FUNDS ARE BEING RAISED IN THE PRESENT ISSUE FALL WITHIN THE 'MAIN OBJECTS' LISTED IN THE OBJECT CLAUSE OF THE MEMORANDUM OF ASSOCIATION OR OTHER CHARTER OF THE ISSUER AND THAT THE ACTIVITIES WHICH HAVE BEEN CARRIED OUT UNTIL NOW ARE VALID IN TERMS OF THE OBJECT CLAUSE OF ITS MEMORANDUM OF ASSOCIATION.

9. WE CONFIRM THAT NECESSARY ARRANGEMENTS HAVE BEEN MADE TO ENSURE THAT THE MONEYS RECEIVED PURSUANT TO THE ISSUE ARE KEPT IN A SEPARATE BANK ACCOUNT AS PER THE PROVISIONS OF SUB-SECTION (3) OF SECTION 73 OF THE COMPANIES ACT, 1956 AND THAT SUCH MONEYS SHALL BE RELEASED BY THE SAID BANK ONLY AFTER PERMISSION IS OBTAINED FROM ALL THE STOCK EXCHANGES MENTIONED IN THE PROSPECTUS. WE FURTHER CONFIRM THAT THE AGREEMENT ENTERED INTO BETWEEN THE BANKERS TO THE ISSUE AND THE ISSUER SPECIFICALLY CONTAINS THIS CONDITION. NOTED FOR COMPLIANCE.

10. WE CERTIFY THAT A DISCLOSURE HAS BEEN MADE IN THE DRAFT RED HERRING PROSPECTUS THAT THE INVESTORS SHALL BE GIVEN AN OPTION TO GET THE SHARES IN DEMAT OR PHYSICAL MODE. NOT APPLICABLE.

AS THE OFFER SIZE IS MORE THAN RS. 10 CRORES, HENCE UNDER SECTION 68B OF THE COMPANIES ACT, 1956, THE EQUITY SHARES ARE TO BE ISSUED IN DEMAT MODE ONLY.

11. WE CERTIFY THAT ALL THE APPLICABLE DISCLOSURES MANDATED IN THE SECURITIES AND EXCHANGE BOARD OF INDIA (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2009 HAVE BEEN MADE IN ADDITION TO DISCLOSURES WHICH, IN OUR VIEW, ARE FAIR AND ADEQUATE TO ENABLE THE INVESTOR TO MAKE A WELL INFORMED DECISION.

12. WE CERTIFY THAT THE FOLLOWING DISCLOSURES HAVE BEEN MADE IN THE DRAFT RED HERRING PROSPECTUS:

(A) AN UNDERTAKING FROM THE ISSUER THAT AT ANY GIVEN TIME, THERE SHALL BE ONLY ONE DENOMINATION FOR THE EQUITY SHARES OF THE ISSUER; AND

(B) AN UNDERTAKING FROM THE ISSUER THAT IT SHALL COMPLY WITH SUCH DISCLOSURE AND ACCOUNTING NORMS SPECIFIED BY SEBI FROM TIME TO TIME.

13. WE UNDERTAKE TO COMPLY WITH THE REGULATIONS PERTAINING TO ADVERTISEMENT IN TERMS OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2009 WHILE MAKING THE ISSUE.

14. WE ENCLOSE A NOTE EXPLAINING HOW THE PROCESS OF DUE DILIGENCE HAS BEEN EXERCISED BY US IN VIEW OF THE NATURE OF CURRENT BUSINESS



**BACKGROUND OF THE ISSUER, SITUATION AT WHICH THE PROPOSED BUSINESS STANDS, THE RISK FACTORS, PROMOTERS EXPERIENCE, ETC.**

15. **WE ENCLOSE A CHECKLIST CONFIRMING REGULATION-WISE COMPLIANCE WITH THE APPLICABLE PROVISIONS OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2009, CONTAINING DETAILS SUCH AS THE REGULATION NUMBER, ITS TEXT, THE STATUS OF COMPLIANCE, PAGE NUMBER OF THE DRAFT RED HERRING PROSPECTUS WHERE THE REGULATION HAS BEEN COMPLIED WITH AND OUR COMMENTS, IF ANY.**

The filing of the Draft Red Herring Prospectus does not, however, absolve the Company from any liabilities under Section 63 or Section 68 of the Companies Act or from the requirement of obtaining such statutory and/or other clearances as may be required for the purpose of the proposed Issue. SEBI further reserves the right to take up at any point of time, with the Book Running Lead Managers, any irregularities or lapses in the Draft Red Herring Prospectus.

All legal requirements pertaining to the Issue will be complied with at the time of filing of the Red Herring Prospectus with the Registrar of Companies, Andhra Pradesh in terms of Section 60B of the Companies Act. All legal requirements pertaining to the Issue will be complied with at the time of registration of the Prospectus with the Registrar of Companies, Andhra Pradesh in terms of Sections 56, 60 and 60B of the Companies Act.

**Caution - Disclaimer from the Company, the Selling Shareholders and the BRLMs**

The Company, the Selling Shareholders and the BRLMs accept no responsibility for statements made otherwise than in this Red Herring Prospectus or in the advertisements or any other material issued by or at the Company's instance and anyone placing reliance on any other source of information, including the Company's web site [www.sksindia.com](http://www.sksindia.com), would be doing so at his or her own risk.

The BRLMs accept no responsibility, save to the limited extent as provided in the Issue Agreement entered into between the BRLMs, the Selling Shareholders and the Company and the Underwriting Agreement to be entered into between the Underwriters, the Selling Shareholders and the Company.

All information shall be made available by the Company, the BRLMs to the public and investors at large and no selective or additional information would be available for a section of the investors in any manner whatsoever including at road show presentations, in research or sales reports, at bidding centres or elsewhere.

Neither the Company, its Directors and officers, the Selling Shareholders, their directors and officers nor any member of the Syndicate is liable for any failure in downloading the Bids due to faults in any software/hardware system or otherwise.

Each of the BRLMs and their associates and/or affiliates may engage in transactions with, and perform services for, the Company, its affiliates or associates in the ordinary course of business and have engaged, or may in future engage, in commercial banking and investment banking transactions with the Company or its affiliates or associates for which they have received, and may in future receive, compensation.

Investors that bid in the Issue will be required to confirm and will be deemed to have represented to the Company, the Underwriter and their respective directors, officers, agents, affiliates, and representatives that they are eligible under all applicable laws, rules, regulations, guidelines and approvals to acquire Equity Shares of the Company and will not Issue, sell, pledge, or transfer the Equity Shares of the Company to any person who is not eligible under any applicable laws, rules, regulations, guidelines and approvals to acquire Equity Shares of the Company. The Company, the Underwriter and their respective directors, officers, agents, affiliates, and representatives accept no responsibility or liability for advising any investor on whether such investor is eligible to acquire Equity Shares of the Company.

**Disclaimer in respect of Jurisdiction**

This Issue is being made in India to persons resident in India (including Indian nationals resident in India who are not minors, HUFs, companies, corporate bodies and societies registered under the applicable laws in India

and authorised to invest in shares, Indian Mutual Funds registered with SEBI, Indian financial institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission), or trusts under applicable trust law and who are authorised under their constitution to hold and invest in shares, permitted insurance companies and pension funds) and to FIIs, eligible NRIs and other eligible foreign investors (i.e., FVCIs, multilateral and bilateral development financial institutions). This Red Herring Prospectus does not, however, constitute an invitation to purchase shares offered hereby in any jurisdiction other than India to any person to whom it is unlawful to make an offer or invitation in such jurisdiction. Any person into whose possession this Red Herring Prospectus comes is required to inform himself or herself about, and to observe, any such restrictions. Any dispute arising out of this Issue will be subject to the jurisdiction of appropriate court(s) in Hyderabad, India only.

No action has been, or will be, taken to permit a public offering in any jurisdiction where action would be required for that purpose, except that the Draft Red Herring Prospectus has been filed with SEBI for its observations, and SEBI has given its observations. Accordingly, the Equity Shares represented thereby may not be offered or sold, directly or indirectly, and this Red Herring Prospectus may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of this Red Herring Prospectus nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is correct as of any time subsequent to this date.

**The Equity Shares have not been and will not be registered under the US Securities Act of 1933, as amended (the “Securities Act”) and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Equity Shares are only being offered and sold (i) within the United States only to persons reasonably believed to be “qualified institutional buyers”, as defined in Rule 144A under the Securities Act (as defined in Rule 144A under the Securities Act and referred to in this Red Herring Prospectus as “U.S. QIBs”, for the avoidance of doubt, the term U.S. QIBs does not refer to a category of institutional investor defined under applicable Indian regulations and referred to in the Red Herring Prospectus as “QIBs”) in transactions exempt from, or not subject to, the registration requirements of the Securities Act, and (ii) outside the United States in reliance on Regulation S under the Securities Act.**

**The Equity Shares have not been and will not be registered, listed or otherwise qualified in any other jurisdiction outside India and may not be offered or sold, and Bids may not be made by persons in any such jurisdiction, except in compliance with the applicable laws of such jurisdiction.**

Until the expiry of 40 days after the commencement of the Issue, an offer or sale of Equity Shares within the United States by a dealer (whether or not it is participating in the Issue) may violate the registration requirements of the Securities Act.

#### ***Equity Shares Offered and Sold within the United States***

Each purchaser that is acquiring the Equity Shares issued pursuant to this Issue within the United States, by its acceptance of this Red Herring Prospectus and of the Equity Shares, will be deemed to have acknowledged, represented to and agreed with the Company and the BRLMs that it has received a copy of this Red Herring Prospectus and such other information as it deems necessary to make an informed investment decision and that:

- (1) the purchaser is authorized to consummate the purchase of the Equity Shares issued pursuant to this Issue in compliance with all applicable laws and regulations;
- (2) the purchaser acknowledges that the Equity Shares issued pursuant to this Issue have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to restrictions on transfer;
- (3) the purchaser (i) is a U.S. QIB, (ii) is aware that the sale to it is being made in a transaction exempt from or not subject to the registration requirements of the Securities Act, and (iii) is acquiring such Equity Shares for its own account or for the account of a U.S. QIB with respect to which it exercises sole investment discretion;

- (4) the purchaser is not an affiliate of the Company or a person acting on behalf of an affiliate;
- (5) if, in the future, the purchaser decides to offer, resell, pledge or otherwise transfer such Equity Shares, or any economic interest therein, such Equity Shares or any economic interest therein may be offered, sold, pledged or otherwise transferred only (A) (i) to a person whom the beneficial owner and/or any person acting on its behalf reasonably believes is a U.S. QIB in a transaction meeting the requirements of Rule 144A or (ii) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S under the Securities Act and (B) in accordance with all applicable laws, including the securities laws of any State or other jurisdiction of the United States;
- (6) the Equity Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act and no representation is made as to the availability of the exemption provided by Rule 144 for resales of any such Equity Shares;
- (7) the purchaser will not deposit or cause to be deposited such Equity Shares into any depositary receipt facility established or maintained by a depositary bank other than a Rule 144A restricted depositary receipt facility, so long as such Equity Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act;
- (8) the purchaser understands that such Equity Shares (to the extent they are in certificated form), unless the Company determines otherwise in accordance with applicable law, will bear a legend substantially to the following effect:

THE EQUITY SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON WHOM THE SELLER OR ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, OR (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

- (9) the Company will not recognize any offer, sale, pledge or other transfer of such Equity Shares made other than in compliance with the above-stated restrictions; and
- (10) the purchaser acknowledges that the Company, the BRLMs, their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of such acknowledgements, representations and agreements deemed to have been made by virtue of its purchase of such Equity Shares are no longer accurate, it will promptly notify the Company, and if it is acquiring any of such Equity Shares as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of such account.

***All Other Equity Shares Offered and Sold in this Issue***

Each purchaser that is acquiring the Equity Shares issued pursuant to this Issue outside the United States, by its acceptance of this Red Herring Prospectus and of the Equity Shares issued pursuant to this Issue, will be deemed to have acknowledged, represented to and agreed with the Company and the BRLMs that it has received a copy of this Red Herring Prospectus and such other information as it deems necessary to make an informed investment decision and that:

- (1) the purchaser is authorized to consummate the purchase of the Equity Shares issued pursuant to this Issue in compliance with all applicable laws and regulations;

- (2) the purchaser acknowledges that the Equity Shares issued pursuant to this Issue have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to restrictions on transfer;
- (3) the purchaser is purchasing the Equity Shares issued pursuant to this Issue in an offshore transaction meeting the requirements of Rule 903 of Regulation S under the Securities Act;
- (4) the purchaser and the person, if any, for whose account or benefit the purchaser is acquiring the Equity Shares issued pursuant to this Issue, was located outside the United States at the time the buy order for such Equity Shares was originated and continues to be located outside the United States and has not purchased such Equity Shares for the account or benefit of any person in the United States or entered into any arrangement for the transfer of such Equity Shares or any economic interest therein to any person in the United States;
- (5) the purchaser is not an affiliate of the Company or a person acting on behalf of an affiliate of the Company;
- (6) if, in the future, the purchaser decides to offer, resell, pledge or otherwise transfer such Equity Shares, or any economic interest therein, such Equity Shares or any economic interest therein may be offered, sold, pledged or otherwise transferred only (A) (i) to a person whom the beneficial owner and/or any person acting on its behalf reasonably believes is a U.S. QIB in a transaction meeting the requirements of Rule 144A or (ii) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S under the Securities Act and (B) in accordance with all applicable laws, including the securities laws of any State or other jurisdiction of the United States;
- (7) the purchaser understands that such Equity Shares (to the extent they are in certificated form), unless the Company determines otherwise in accordance with applicable law, will bear a legend substantially to the following effect:

THE EQUITY SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON WHOM THE SELLER OR ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, OR (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

- (8) the Company will not recognize any offer, sale, pledge or other transfer of such Equity Shares made other than in compliance with the above-stated restrictions; and
- (9) the purchaser acknowledges that the Company, the BRLMs, their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of such acknowledgements, representations and agreements deemed to have been made by virtue of its purchase of such Equity Shares are no longer accurate, it will promptly notify the Company, and if it is acquiring any of such Equity Shares as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of such account.

Each person in a Member State of the EEA which has implemented the Prospectus Directive (each, a "Relevant Member State") who receives any communication in respect of, or who acquires any Equity Shares under, the offers contemplated in this Red Herring Prospectus will be deemed to have represented, warranted and agreed to and with each Underwriter and the Company that:

1. it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and

2. in the case of any Equity Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Equity Shares acquired by it in the placement have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Underwriters has been given to the offer or resale; or (ii) where Equity Shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Equity Shares to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this provision, the expression an “offer of Equity Shares to the public” in relation to any of the Equity Shares in any Relevant Member States means the communication in any form and by any means of sufficient information on the terms of the offer and the Equity Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Equity Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

#### **Disclaimer Clause of BSE**

As required, a copy of this Draft Red Herring Prospectus has been submitted to BSE. The BSE has, pursuant to its letter dated April 28, 2010, given permission to the Company to use BSE’s name in the Red Herring Prospectus as one of the stock exchange on which this Company’s securities are proposed to be listed. The BSE has scrutinized the Draft Red Herring Prospectus for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Company. BSE does not in any manner:

- i. warrant, certify or endorse the correctness or completeness of any of the contents of the Draft Red Herring Prospectus; or
- ii. warrant that the Company’s securities will be listed or will continue to be listed on the BSE; or
- iii. take any responsibility for the financial or other soundness of the Company, its Promoters, its management or any scheme or project of this Company;

and it should not for any reason be deemed or construed that the Draft Red Herring Prospectus has been cleared or approved by the BSE. Every person who desires to apply for or otherwise acquires any securities of the Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against BSE whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription / acquisition whether by reason of anything stated or omitted to be stated herein or any other reason whatsoever.

#### **Disclaimer Clause of the NSE**

As required, a copy of this Draft Red Herring Prospectus has been submitted to NSE. The NSE has, pursuant to its letter ref.: NSE/LIST/138642-9 dated May 26, 2010 permission to the Company to use NSE’s name in the Red Herring Prospectus as one of the stock exchanges on which this Company’s securities are proposed to be listed. The NSE has scrutinized the Draft Red Herring Prospectus for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the Company. It is to be distinctly understood that the aforesaid permission given by NSE should not in any way be deemed or construed that the Draft Red Herring Prospectus has been cleared or approved by NSE nor does not it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of the Draft Red Herring Prospectus; nor does it warrant that the Company’s securities will be listed or will continue to be listed on the NSE; nor does it take any responsibility for the financial or other soundness of the Company, its Promoters, its management or any scheme or project of the Company.

Every person who desires to apply for or otherwise acquire any securities of the Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the NSE whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription / acquisition whether by reason of anything stated or omitted to be stated herein or any other reason whatsoever

## **Filing**

A copy of the Draft Red Herring Prospectus dated March 25, 2010 has been filed with SEBI at Corporation Finance Department, Plot No.C4-A, 'G' Block, Bandra Kurla Complex, Bandra (East), Mumbai 400051.

A copy of this Red Herring Prospectus, along with the documents required to be filed under Section 60B of the Companies Act, would be delivered for registration to the RoC and a copy of the Prospectus to be filed under Section 60 of the Companies Act would be delivered for registration with RoC at the Office of the Registrar of Companies, 2nd Floor, CPWD Building, Kendriya Sadan, Sultan Bazar, Koti, Hyderabad 500195, Andhra Pradesh.

## **Listing**

Applications will be made to the BSE and NSE for permission deal in and for an official quotation of the Equity Shares. BSE will be the Designated Stock Exchange with which the Basis of Allotment will be finalised.

If the permissions to list, deal in and for an official quotation of the Equity Shares are not granted by any of the Stock Exchanges mentioned above, the Company and the Selling Shareholders will forthwith repay, without interest, all moneys received from the applicants in pursuance of this Red Herring Prospectus. If such money is not repaid within 8 days after the Company and the Selling Shareholders becomes liable to repay it, i.e., from the date of refusal or within 10 weeks from the Bid/Issue Closing Date, whichever is earlier, then the Company, the Selling Shareholders and every Director of the Company who is an officer in default shall, on and from such expiry of 8 days, be liable to repay the money, with interest at the rate of 15% p.a. on application money, as prescribed under Section 73 of the Companies Act.

The Company and the Selling Shareholders shall ensure that all steps for the completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges mentioned above are taken within 12 Working Days of the Bid/Issue Closing Date.

## **Consents**

Consents in writing of: (a) the Directors, the Company Secretary and Compliance Officer, the auditors, the legal advisors, the Bankers to the Issue; and (b) the Book Running Lead Manager, the Syndicate Members, the Escrow Collection Banks, legal advisors, bankers, underwriters, IPO grading agency and the Registrar to the Issue to act in their respective capacities, have been obtained and would be filed along with a copy of the Red Herring Prospectus with the RoC as required under Sections 60 and 60B of the Companies Act and such consents will not be withdrawn up to the time of delivery of the Red Herring Prospectus for registration with the RoC.

In accordance with the Companies Act and the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulation, 2009, S.R. Batliboi & Co., Chartered Accountants, the Company's Auditors have given their written consent to the inclusion of their report dated July 12, 2010 and statement of tax benefits dated July 12, 2010 in the form and context in which it appears in the Red Herring Prospectus and such consent and report will not be withdrawn up to the time of delivery of the Red Herring Prospectus for registration with the RoC.

## **Expert Opinion**

Except the report of CARE in respect of the IPO grading of this Issue annexed herewith, the Company has not obtained any expert opinions.

## **Issue Related Expenses**

The expenses of this Issue include, among others, underwriting and management fees, selling commission, printing and distribution expenses, legal fees, statutory advertisement expenses and listing fees. The estimated expenses of the Issue are as follows:

| <b>Activity</b>                                                     | <b>Expense*<br/>(Rs. in million)</b> | <b>Expense (% of total<br/>expenses)</b> | <b>Expense (% of Issue<br/>Size)</b> |
|---------------------------------------------------------------------|--------------------------------------|------------------------------------------|--------------------------------------|
| Lead Management, Underwriting and Selling Commission, Brokerage     | [●]                                  | [●]                                      | [●]                                  |
| SCSB Commission                                                     | [●]                                  | [●]                                      | [●]                                  |
| Bankers to the Issue                                                |                                      |                                          |                                      |
| Advertising and marketing expenses                                  | [●]                                  | [●]                                      | [●]                                  |
| Printing and stationery (including courier, transportation charges) | [●]                                  | [●]                                      | [●]                                  |
| Others (Registrar fees, legal fees, listing costs etc)              | [●]                                  | [●]                                      | [●]                                  |
| Fees paid to IPO Grading agency                                     | [●]                                  | [●]                                      | [●]                                  |
| <b>Total</b>                                                        | [●]                                  | [●]                                      | [●]                                  |

*\* Will be incorporated after finalisation of Issue Price*

The Issue expenses, except the listing fee, shall be shared between the Company and the Selling Shareholders in the proportion to the number of shares sold to the public as part of the Issue. The listing fees will be paid by the Company.

#### **Fees Payable to the Book Running Lead Managers and Syndicate Members**

The total fees payable to the BRLMs and the Syndicate Members (including underwriting commission and selling commission and other expenses as agreed to by the Company and the Selling Shareholders) will be as stated in the engagement letter with the BRLMs, a copy of which is available for inspection at the Registered Office of the Company.

#### **Fees Payable to the Registrar to the Issue**

The fees payable to the Registrar to the Issue for processing of application, data entry, printing of CAN/refund order, preparation of refund data on magnetic tape, printing of bulk mailing register will be as per the Memorandum of Understanding dated March 18, 2010 entered into among the Company, the Selling Shareholders and the Registrar to the Issue, a copy of which is available for inspection at the Registered Office of the Company.

The Registrar to the Issue will be reimbursed for all out-of-pocket expenses including cost of stationery, postage, stamp duty and communication expenses. Adequate funds will be provided to the Registrar to the Issue to enable it to send refund orders or allotment advice by registered post/speed post/under certificate of posting.

#### **Particulars regarding Public or Rights Issues during the Last Five Years**

We have not made any public or rights issues during the last five years.

#### **Previous issues of Equity Shares otherwise than for cash**

Except as stated in “Capital Structure” on page 28 of this Red Herring Prospectus and “History and Corporate Matters” on page 101 of this Red Herring Prospectus, the Company has not issued any Equity Shares for consideration otherwise than for cash.

#### **Commission and Brokerage paid on Previous Issues of the Equity Shares**

Since this is the initial public issue of Equity Shares, no sum has been paid or has been payable as commission or brokerage for subscribing to or procuring or agreeing to procure subscription for any of the Equity Shares since the Company’s inception.

#### **Previous capital issue during the previous three years by listed group companies, subsidiaries and associates of the Company**

None of the group companies, associates and subsidiaries of the Company is listed on any stock exchange.

**Promise vis-à-vis objects – Public/ Rights Issue of the Company and/ or listed group companies, subsidiaries and associates of the Company**

The Company has not undertaken any previous public or rights issue.

None of the group companies, associates and subsidiaries of the Company is listed on any stock exchange.

**Outstanding Debentures or Bonds**

Except as disclosed below, the Company does not have any outstanding debentures or bonds as of the date of filing this Red Herring Prospectus:

- 500 8.30% secured non convertible debentures of Rs. 1 million each aggregating to Rs. 500 million issued to Yes Bank Limited on a private placement basis which were rated as PR1+ by CARE. The said debentures have been listed on the BSE pursuant to a listing agreement dated December 28, 2009; and
- 500 9.25% secured non convertible debentures of Rs. 1 million each aggregating to Rs. 500 million issued to BALICL on a private placement basis which were rated as PR1+ by CARE.

**Outstanding Preference Shares**

The Company does not have any outstanding preference shares.

**Stock Market Data of our Equity Shares**

This being an initial public issue of the Company, the Equity Shares are not listed on any stock exchange.

**Mechanism for Redressal of Investor Grievances**

The Memorandum of Understanding between the Registrar to the Issue, the Selling Shareholders and the Company will provide for retention of records with the Registrar to the Issue for a period of at least three years from the last date of dispatch of letters of allotment, demat credit, refund orders to enable the investors to approach the Registrar to the Issue for redressal of their grievances.

All grievances relating to the Issue may be addressed to the Registrar to the Issue, giving full details such as name, address of the applicant, application number, number of Equity Shares applied for, amount paid on application, Depository Participant, and the bank branch or collection centre where the application was submitted.

All grievances relating to the ASBA process may be addressed to the SCSB, giving full details such as name, address of the applicant, application number, number of Equity Shares applied for, amount paid on application and the Designated Branch or the collection centre of the SCSB where the ASBA Bid cum Application Form was submitted by the ASBA Bidders.

**Disposal of Investor Grievances by the Company**

The Company estimates that the average time required by the Company or the Registrar to the Issue or the SCSB in case of ASBA Bidders for the redressal of routine investor grievances shall be ten working days from the date of receipt of the complaint. In case of non-routine complaints and complaints where external agencies are involved, the Company will seek to redress these complaints as expeditiously as possible.

The Company has also constituted an Investors' Grievance Committee to review and redress the shareholders and investor grievances such as transfer of shares, non-recovery of balance payments, declared dividends, approve subdivision, consolidation, transfer and issue of duplicate shares.

The Company has appointed Mr. S.K. Bansal, Company Secretary as the Compliance Officer and he may be contacted in case of any pre-Issue or post-Issue-related problems. He can be contacted at the following address:



**SKS Microfinance Limited**

Ashoka Raghupathi Chambers

D No. 1-10-60 to 62

Opposite to Shoppers' Stop

Begumpet

Hyderabad 500 016

Tel: (91 40) 4452 6000

Fax: (91 40) 4452 6001

Email: [skscomplianceofficer@sksindia.com](mailto:skscomplianceofficer@sksindia.com)

**Changes in Auditors**

There have been no changes in the Auditors in the last three years.

**Capitalisation of Reserves or Profits**

Except as disclosed in this Red Herring Prospectus, we have not capitalised our reserves or profits at any time during the last five years.

**Revaluation of Assets**

The Company has not revalued its assets in the last five years.

## **SECTION VII: ISSUE INFORMATION**

### **TERMS OF THE ISSUE**

The Equity Shares being issued/transferred are subject to the provisions of the Companies Act, our Memorandum and Articles, the terms of this Draft Red Herring Prospectus, the Red Herring Prospectus and the Prospectus, Bid cum Application Form, the Revision Form, the CAN, the ASBA form, Listing Agreements with the stock exchanges and other terms and conditions as may be incorporated in the Allotment advices and other documents/ certificates that may be executed in respect of the Issue. The Equity Shares shall also be subject to laws, guidelines, notifications and regulations relating to the issue of capital and listing of securities issued from time to time by the SEBI, the Government of India, Stock Exchanges, the RoC, the RBI and/or other authorities, as in force on the date of the Issue and to the extent applicable.

#### **Ranking of Equity Shares**

The Equity Shares being issued/transferred shall be subject to the provisions of the Companies Act, our Memorandum and Articles of Association and shall rank pari-passu with the existing Equity Shares of the Company including rights in respect of dividend. The Allottees in receipt of Allotment of Equity Shares under this Issue will be entitled to dividends and other corporate benefits, if any, declared by the Company after the date of Allotment. For further details, see “Main Provisions of the Articles of Association” on page 310 of this Red Herring Prospectus.

#### **Mode of Payment of Dividend**

We shall pay dividends to our shareholders in accordance with the provisions of the Companies Act. In respect of the Offer for Sale, all dividends, if any, declared by the Company after the date of Allotment, will be payable to the Bidders who have been issued and allotted Equity Shares in such Offer for Sale.

#### **Face Value and Issue Price**

The face value of the Equity Shares is Rs. 10 each and the Issue Price is Rs. [●] per Equity Share. The Anchor Investor Issue Price is Rs. [●] per Equity Share.

At any given point of time there shall be only one denomination for the Equity Shares.

#### **Compliance with SEBI Regulations**

We shall comply with all disclosure and accounting norms as specified by SEBI from time to time.

#### **Rights of the Equity Shareholder**

Subject to applicable laws, the equity shareholders shall have the following rights:

- Right to receive dividends, if declared;
- Right to attend general meetings and exercise voting powers, unless prohibited by law;
- Right to vote on a poll either in person or by proxy;
- Right to receive offers for rights shares and be allotted bonus shares, if announced;
- Right to receive surplus on liquidation, subject to any statutory and any preferential claims being satisfied; and
- Subject to applicable law including any RBI rules and regulations, right of free transferability; and such other rights, as may be available to a shareholder of a listed public company under the Companies Act, the terms of the listing agreement executed with the Stock Exchanges, and the Company's Memorandum and Articles of Association.

For a detailed description of the main provisions of our Articles relating to voting rights, dividend, forfeiture and lien and/or consolidation/splitting, please refer to “Main Provisions of the Articles of Association” on page

310 of this Red Herring Prospectus.

### **Market Lot and Trading Lot**

In terms of Section 68B of the Companies Act, the Equity Shares shall be allotted only in dematerialised form. As per the SEBI Regulations, the trading of our Equity Shares shall only be in dematerialised form. Since trading of our Equity Shares is in dematerialised form, the tradable lot is one Equity Share. Allotment in this Issue will be only in electronic form in multiples of one (1) Equity Share subject to a minimum Allotment of [●] Equity Shares.

### **Joint Holders**

Where two or more persons are registered as the holders of any Equity Shares, they shall be deemed to hold the same as joint-tenants with benefits of survivorship.

### **Jurisdiction**

Exclusive jurisdiction for the purpose of this Issue is with the competent courts/authorities in Hyderabad.

### **Nomination Facility to Investor**

In accordance with Section 109A of the Companies Act, the sole or first Bidder, along with other joint Bidders, may nominate any one person in whom, in the event of the death of sole Bidder or in case of joint Bidders, death of all the Bidders, as the case may be, the Equity Shares allotted, if any, shall vest. A person, being a nominee, entitled to the Equity Shares by reason of the death of the original holder(s), shall in accordance with Section 109A of the Companies Act, be entitled to the same advantages to which he or she would be entitled if he or she were the registered holder of the Equity Share(s). Where the nominee is a minor, the holder(s) may make a nomination to appoint, in the prescribed manner, any person to become entitled to Equity Share(s) in the event of his or her death during the minority. A nomination shall stand rescinded upon a sale of equity share(s) by the person nominating. A buyer will be entitled to make a fresh nomination in the manner prescribed. Fresh nomination can be made only on the prescribed form available on request at the Registered Office of the Company or to the Registrar and transfer agents of the Company.

In accordance with Section 109B of the Companies Act, any Person who becomes a nominee by virtue of Section 109A of the Companies Act, shall upon the production of such evidence as may be required by the Board, elect either:

- To register himself or herself as the holder of the Equity Shares; or
- To make such transfer of the Equity Shares, as the deceased holder could have made.

Further, the Board may at any time give notice requiring any nominee to choose either to be registered himself or herself or to transfer the Equity Shares, and if the notice is not complied with within a period of ninety days, the Board may thereafter withhold payment of all dividends, bonuses or other moneys payable in respect of the Equity Shares, until the requirements of the notice have been complied with.

Since the Allotment of Equity Shares in the Issue will be made only in dematerialised form, there is no need to make a separate nomination with the Company. Nominations registered with respective depository participant of the applicant would prevail. If the investors require changing their nomination, they are requested to inform their respective depository participant.

### **Minimum Subscription**

If the Company does not receive the minimum subscription of 90% of the Fresh Issue, including devolvement of underwriters within 60 days from the Bid/Issue Closing Date, the Company shall forthwith refund the entire subscription amount received. If there is a delay beyond eight (8) days after the Company becomes liable to pay the amount, the Company shall pay interest prescribed under Section 73 of the Companies Act.

The requirement for 90% minimum subscription is not applicable to the Offer for Sale. In case of under

subscription in the Issue, the Equity Shares in the Fresh Issue will be issued prior to the sale of Equity Shares in the Offer for Sale.

If at least 60% of the Issue cannot be allotted to QIBs, then the entire application money will be refunded forthwith.

Further, we shall ensure that the number of prospective allottees to whom Equity Shares will be allotted shall not be less than 1,000.

**The Equity Shares have not been and will not be registered under the Securities Act or any state securities laws in the United States and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Equity Shares are only being offered and sold (i) in the United States only to persons reasonably believed to be “qualified institutional buyers”, as defined in Rule 144A of the Securities Act (as defined in Rule 144A under the Securities Act and referred to in this Red Herring Prospectus as “U.S. QIBs”, for the avoidance of doubt, the term U.S. QIBs does not refer to a category of institutional investor defined under applicable Indian regulations and referred to in the Red Herring Prospectus as “QIBs”) in transactions exempt from, or not subject to, the registration requirements of the Securities Act, and (ii) outside the United States in reliance on Regulation S under the Securities Act.**

**The Equity Shares have not been and will not be registered, listed or otherwise qualified in any other jurisdiction outside India and may not be offered or sold, and Bids may not be made by persons in any such jurisdiction, except in compliance with the applicable laws of such jurisdiction.**

#### **Arrangement for disposal of Odd Lots**

There are no arrangements for disposal of odd lots.

#### **Restriction on transfer of shares**

Except for lock-in of the pre-Issue Equity Shares and Promoters’ minimum contribution in the Issue as detailed in “Capital Structure” on page 28 of this Red Herring Prospectus, and except as provided in our Articles, there are no restrictions on transfers of Equity Shares. There are no restrictions on transfers of debentures except as provided in our Articles. There are no restrictions on transmission of shares/ debentures and on their consolidation/ splitting except as provided in our Articles. Please see “Main Provisions of our Articles of Association” on page 310 of this Red Herring Prospectus.

## ISSUE STRUCTURE

The Issue of 16,791,579 Equity Shares for cash at a price of Rs. [●] per Equity Share (including share premium of Rs. [●] per Equity Share) comprising a Fresh Issue of 7,445,323 Equity Shares at the Issue Price by the Company and on Offer for Sale of 9,346,256 Equity Shares at the Issue Price by the Selling Shareholders aggregating to Rs. [●] million. The Issue will constitute 21.6% of the fully diluted post Issue paid up capital of the Company. In case of under-subscription in the Issue, the Equity Shares in the Fresh Issue will be issued prior to the sale of Equity Shares in the Offer for Sale.

The Issue is being made through the 100% Book Building Process.

|                                                                        | <b>QIBs<sup>#</sup></b>                                                                                                                                                                                                                                                     | <b>Non-Institutional Bidders</b>                                                                                                    | <b>Retail Individual Bidders</b>                                                                                                     |
|------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| No. of Equity Shares*                                                  | At least 10,074,948 Equity Shares                                                                                                                                                                                                                                           | Not less than 1,679,157 Equity Shares available for allocation or Issue size less allocation to QIBs and Retail Individual Bidders. | Not less than 5,037,474 Equity Shares available for allocation or Issue less allocation to QIBs and Non-Institutional Bidders.       |
| Percentage of Issue size available for Allotment/allocation            | At least 60% of the Issue size shall be available for allocation. However, up to 5% of the QIB Portion (excluding the Anchor Investor Portion) shall be available for allocation proportionately to Mutual Funds only.                                                      | Not less than 10% of Issue or the Issue less allocation to QIBs and Retail Individual Bidders shall be available for allocation.    | Not less than 30% of the Issue or the Issue less allocation to QIBs and Non-Institutional Bidders shall be available for allocation. |
| Basis of Allotment/Allocation if respective category is oversubscribed | Proportionate as follows:<br>(a) 503,748 Equity Shares shall be allocated on a proportionate basis to Mutual Funds; and<br>(b) 9,571,200 Equity Shares shall be allotted on a proportionate basis to all QIBs including Mutual Funds receiving allocation as per (a) above. | Proportionate                                                                                                                       | Proportionate                                                                                                                        |
| Minimum Bid                                                            | Such number of Equity Shares so that the Bid Amount exceeds Rs. 100,000 and in multiples of [●] Equity Shares thereafter.                                                                                                                                                   | Such number of Equity Shares so that the Bid Amount exceeds Rs. 100,000 and in multiples of [●] Equity Shares thereafter.           | [●] Equity Shares, net of retail discount as applicable to be adjusted, and in multiple of [●] Equity Shares thereafter.             |
| Maximum Bid                                                            | Such number of Equity Shares not exceeding the Issue size, subject to applicable limits.                                                                                                                                                                                    | Such number of Equity Shares not exceeding the Issue size subject to applicable limits.                                             | Such number of Equity Shares whereby the Bid Amount does not exceed Rs. 100,000.                                                     |
| Mode of Allotment                                                      | Compulsorily in dematerialised form.                                                                                                                                                                                                                                        | Compulsorily in dematerialised form.                                                                                                | Compulsorily in dematerialised form.                                                                                                 |
| Bid Lot                                                                | [●] Equity Shares and in multiples of [●] Equity Shares thereafter.                                                                                                                                                                                                         | [●] Equity Shares and in multiples of [●] Equity Shares thereafter.                                                                 | [●] Equity Shares and in multiples of [●] Equity Shares thereafter.                                                                  |
| Allotment Lot                                                          | [●] Equity Shares and in multiples of 1 Equity Share thereafter                                                                                                                                                                                                             | [●] Equity Shares and in multiples of 1 Equity Share thereafter                                                                     | [●] Equity Shares and in multiples of 1 Equity Share thereafter                                                                      |
| Trading Lot                                                            | One Equity Share                                                                                                                                                                                                                                                            | One Equity Share                                                                                                                    | One Equity Share                                                                                                                     |

|                  | <b>QIBs<sup>#</sup></b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <b>Non-Institutional Bidders</b>                                                                                                                                                                                                                    | <b>Retail Individual Bidders</b>                                                                                                                                |
|------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Who can Apply**  | Public financial institutions as specified in Section 4A of the Companies Act, scheduled commercial banks, multilateral and bilateral development financial institutions, Mutual Funds, FIIs and sub-accounts registered with SEBI, other than a sub-account which is a foreign corporate or foreign individual, VCFs, state industrial development corporations, FVCIs, insurance companies registered with Insurance Regulatory and Development Authority, provident funds (subject to applicable law) with minimum corpus of Rs. 250 million, pension funds with minimum corpus of Rs. 250 million in accordance with applicable law, National Investment Fund and insurance funds set up and managed by the army, navy or air force of the Union of India | Resident Indian individuals, Eligible NRIs, HUFs (in the name of Karta), companies, corporate bodies, scientific institutions societies and trusts, sub-accounts of FIIs registered with SEBI, which are foreign corporates or foreign individuals. | Resident Indian individuals, Eligible NRIs and HUFs (in the name of Karta) such that the Bid Amount per individual Bidder does not exceed Rs. 100,000 in value. |
| Terms of Payment | Bid Amount shall be payable at the time of submission of Bid cum Application Form (including Bids made by Anchor Investors <sup>##</sup> ) <sup>##</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Bid Amount shall be payable at the time of submission of Bid cum Application Form. <sup>##</sup>                                                                                                                                                    | Bid Amount shall be payable at the time of submission of Bid cum Application Form. <sup>##</sup>                                                                |
| Margin Amount    | Entire Bid Amount on Bidding.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Entire Bid Amount on Bidding.                                                                                                                                                                                                                       | Entire Bid Amount on Bidding.                                                                                                                                   |

<sup>#</sup> The Company and the Selling Shareholders may allocate up to 30% of the QIB Portion to Anchor Investors on a discretionary basis. One-third of the Anchor Investor Portion shall be reserved for domestic Mutual Funds, subject to valid Bids being received from domestic Mutual Funds at or above the price at which allocation is being done to Anchor Investors. For further details, see "Issue Procedure" on page 280 of this Red Herring Prospectus.

<sup>##</sup> In case of ASBA Bidders, the SCSBs shall be authorised to block such funds in the bank account of the ASBA Bidder that are specified in the ASBA Bid cum Application Form.

<sup>\*#</sup> Bid Amount shall be payable by the Anchor Investors at the time of submission of the Bid cum Application Forms. If the Issue Price is greater than the Anchor Investor Issue Price, the additional amount representing the difference between the Issue Price and the Anchor Investor Issue Price shall be paid by the Anchor Investors within the two Working Days of the Bid/Issue Closing Date. If the Issue Price is lower than the Anchor Investor Issue Price, the Allotment to Anchor Investors shall be at the Anchor Investor Issue Price.

<sup>\*</sup> Subject to valid Bids being received at or above the Issue Price. In accordance with Rule 19(2)(b) of the SCRR, this being an Issue for less than 25% of the post-Issue capital, the Issue is being made through the 100% Book Building Process wherein at least 60% of the Issue will be allocated on a proportionate basis to QIBs and out of the QIB Portion (excluding the Anchor Investor Portion), 5% shall be available for allocation on a proportionate basis to Mutual Funds only. The remainder shall be available for allocation on a proportionate basis to QIBs and Mutual Funds, subject to valid Bids being received from them at or above the Issue Price. If at least 60% of the Issue cannot be allotted to QIBs, then the entire application money will be refunded forthwith. However, if the aggregate demand from Mutual Funds is less than 503,747 Equity Shares, the balance Equity Shares available

*for Allotment in the Mutual Fund Portion will be added to the QIB Portion and allocated proportionately to the QIBs in proportion to their Bids. Further, not less than 10% of the Issue shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 30% of the Issue shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Issue Price.*

*Under-subscription, if any, in any category except in the QIB category would be allowed to be met with spill-over from other categories at the sole discretion of the Company in consultation with the BRLMs and the Designated Stock Exchange.*

**\*\***

*In case the Bid cum Application Form is submitted in joint names, the Bidders should ensure that the demat account is also held in the same joint names and such names are in the same sequence in which they appear in the Bid cum Application Form.*

## **Withdrawal of the Issue**

The Company and the Selling Shareholders, in consultation with the BRLMs, reserves the right not to proceed with the Issue including at any time after the Bid/Issue Opening Date but before the Board meeting for Allotment of Equity Shares. In such an event the Company shall issue a public notice in the newspapers, in which the pre-Issue advertisements were published, within two days of the Bid/ Issue Closing Date, providing reasons for not proceeding with the Issue. The Company shall also inform the same to stock exchanges on which the Equity Shares are proposed to be listed.

In the event that the Company decides not to proceed with the Issue after Bid/ Issue Closing Date and thereafter determines that it will proceed with an initial public offering of its Equity Shares, the Company shall file a fresh draft red herring prospectus with SEBI.

## **Bid/Issue Programme**

|                                           |                                                                     |
|-------------------------------------------|---------------------------------------------------------------------|
| <b>BID/ISSUE OPENS ON: JULY 28, 2010*</b> | <b>BID/ISSUE CLOSES ON (EXCEPT FOR QIB BIDDERS): AUGUST 2, 2010</b> |
|                                           | <b>BID/ISSUE CLOSES ON (FOR QIB BIDDERS): JULY 30, 2010</b>         |

*\*The Company may consider participation by Anchor Investors. The Anchor Investor Bid/ Issue Period shall be one day prior to the Bid/ Issue Opening Date.*

Bids and any revision in Bids shall be accepted only between 10.00 a.m. and 5.00 p.m. (Indian Standard Time) during the Bidding Period as mentioned above at the bidding centers mentioned on the Bid cum Application Form except that on the Bid/Issue Closing Date, Bids and any revision in Bids shall be accepted only between 10.00 a.m. and 3.00 p.m. (Indian Standard Time) during the Bidding Period (excluding the ASBA Bidders) and uploaded till (i) 4.00 p.m. in case of Bids by QIBs and Non-Institutional Bidders and (ii) until 5.00 p.m. or such extended time as permitted by the NSE and the BSE, in case of Bids by Retail Individual Bidders. It is clarified that the Bids not uploaded in the book would be rejected. Bids by the ASBA Bidders shall be uploaded by the SCSB in the electronic system to be provided by the NSE and the BSE.

In case of discrepancy in the data entered in the electronic book vis-à-vis the data contained in the physical Bid form, for a particular Bidder, the details as per the physical form of the Bidder may be taken as the final data for the purpose of allotment. In case of discrepancy in the data entered in the electronic book vis-à-vis the data contained in the physical or electronic Bid cum Application Form, for a particular ASBA Bidder, the Registrar to the Issue shall ask for rectified data from the SCSB.

Due to limitation of time available for uploading the Bids on the Bid/ Issue Closing Date, the Bidders are advised to submit their Bids one day prior to the Bid/ Issue Closing Date and, in any case, no later than the times mentioned above on the Bid/ Issue Closing Date. All times mentioned in the Red Herring Prospectus are Indian Standard Time. Bidders are cautioned that in the event a large number of Bids are received on the Bid/ Issue Closing Date, as is typically experienced in public offerings, some Bids may not get uploaded due to lack of sufficient time. Such Bids that cannot be uploaded will not be considered for allocation under the Issue. If such Bids are not uploaded, the Company, the Selling Shareholders, the BRLMs and Syndicate members will not be responsible. Bids will be accepted only on Business Days.

On the Bid/ Issue Closing Date, extension of time will be granted by the Stock Exchanges only for uploading the Bids submitted by Retail Individual Bidders after taking into account the total number of Bids received up to the closure of time period for acceptance of Bid cum Application Forms as stated herein and reported by the BRLMs to the Stock Exchanges within half an hour of such closure.

The Company and the Selling Shareholders, in consultation with the BRLMs, reserve the rights to revise the Price Band during the Bidding/ Issue Period, provided that the Cap Price shall be less than or equal to 120% of the Floor Price and the Floor Price shall not be less than the face value of the Equity Shares. The revision in Price Band shall not exceed 20% on the either side i.e. the floor price can move up or down to the extent of 20% of the floor price disclosed at least two (2) working days prior to the Bid/ Issue Opening Date and the Cap Price will be revised accordingly.

**In case of revision of the Price Band, the Issue Period will be extended for a minimum of three additional working days after revision of Price Band subject to the Bid/Issue Period not exceeding 10 working days. Any revision in the Price Band and the revised Bid/Issue Period, if applicable, will be widely disseminated by notification to the Stock Exchanges, by issuing a press release and also by indicating the changes on the websites of the BRLMs and at the terminals of the Syndicate.**



## ISSUE PROCEDURE

This section applies to all Bidders. Please note that all Bidders can participate in the Issue through the ASBA process. ASBA Bidders should note that the ASBA process involves application procedures that are different from the procedure applicable to Bidders other than the ASBA Bidders. Bidders applying through the ASBA process should carefully read the provisions applicable to such applications before making their application through the ASBA process. Please note that all the Bidders are required to make payment of the full Bid Amount along with the Bid cum Application Form.

It may be noted that pursuant to the SEBI Circular (no. CIR/CFD/DIL/2/2010) dated April 06, 2010 SEBI has decided to extend the ASBA facility to QIBs in all public issues opening on or after May 1, 2010.

### **Book Building Procedure**

This Issue is being made through the 100% Book Building Process wherein at least 60% of the Issue shall be allocated to QIBs on a proportionate basis. Out of the QIB Portion (excluding the Anchor Investor Portion), 5% will be available for allocation on a proportionate basis to Mutual Funds only. The remainder shall be available for allocation on a proportionate basis to QIBs and Mutual Funds, subject to valid Bids being received from them at or above the Issue Price. If at least 60% of the Issue cannot be allotted to QIBs, then the entire application money will be refunded forthwith. Further, not less than 10% of the Issue will be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 30% of the Issue will be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Issue Price. Allocation to Anchor Investors shall be on a discretionary basis and not on a proportionate basis.

All Bidders other than the ASBA Bidders are required to submit their Bids through the Syndicate. ASBA Bidders are required to submit their Bids to the SCSBs.

Investors should note that the Equity Shares will be Allotted to all successful Bidders only in dematerialised form. The Bid cum Application Forms which do not have the details of the Bidders' depository account shall be treated as incomplete and rejected. Bidders will not have the option of being Allotted Equity Shares in physical form. The Equity Shares on Allotment shall be traded only in the dematerialised segment of the Stock Exchanges.

### **Bid cum Application Form**

The prescribed colour of the Bid cum Application Form for the various categories is as follows:

| Category                                                                                                                                                                                           | Colour of Bid cum Application Form |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|
| Resident Indians and Eligible NRIs applying on a non-repatriation basis (ASBA as well as non ASBA Bidders)                                                                                         | [●]                                |
| Eligible NRIs, FIIs or Foreign Venture Capital Funds, registered Multilateral and Bilateral Development Financial Institutions applying on a repatriation basis (ASBA as well as non ASBA Bidders) | [●]                                |
| Anchor Investors*                                                                                                                                                                                  | [●]                                |

\*Bid cum Application forms for Anchor Investors have been made available at the offices of the BRLMs.

Bidders (other than ASBA Bidders) are required to submit their Bids through the Syndicate. Such Bidders shall only use the specified Bid cum Application Form bearing the stamp of a member of the Syndicate for the purpose of making a Bid in terms of the Red Herring Prospectus. The Bidder shall have the option to make a maximum of three Bids in the Bid cum Application Form and such options shall not be considered as multiple Bids. ASBA Bidders shall submit an ASBA Bid cum Application Form either in physical or electronic form to the SCSB or the Designated Branches of the SCSBs authorising blocking of funds that are available in the bank account specified in the ASBA Bid cum Application Form only. The ASBA Bid cum Application Form will also be available on the websites of the Stock Exchanges at least one day prior to the Bid/Issue Opening Day. The BRLMs and the SCSBs will provide the hyperlink to BSE or NSE websites on their websites. Only QIBs can participate in the Anchor Investor Portion.

Upon the filing of the Prospectus with the RoC, the Bid cum Application Form shall be considered as the

Application Form. Upon completion and submission of the Bid cum Application Form to the Syndicate/SCSBs/Designated Branches, the Bidder or the ASBA Bidder is deemed to have authorised the Company to make the necessary changes in the Red Herring Prospectus as would be required for filing the Prospectus with the RoC and as would be required by RoC after such filing, without prior or subsequent notice of such changes to the Bidder or the ASBA Bidder.

### Who can Bid?

- Indian nationals resident in India who are not minors in single or joint names (not more than three);
  - Hindu Undivided Families or HUFs, in the individual name of the *Karta*. The Bidder should specify that the Bid is being made in the name of the HUF in the Bid cum Application Form as follows: “Name of Sole or First bidder: XYZ Hindu Undivided Family applying through XYZ, where XYZ is the name of the *Karta*”. Bids by HUFs would be considered at par with those from individuals;
  - Companies, corporate bodies and societies registered under the applicable laws in India and authorised to invest in equity shares;
  - Mutual Funds registered with SEBI;
  - Eligible NRIs on a repatriation basis or on a non repatriation basis subject to applicable laws. NRIs other than eligible NRIs are not eligible to participate in this issue;
  - Indian financial institutions, commercial banks (excluding foreign banks), regional rural banks, co-operative banks (subject to RBI regulations and the SEBI Regulations and other laws, as applicable);
  - FIIs and sub-accounts registered with SEBI, other than a sub-account which is a foreign corporate or foreign individual;
  - Sub-accounts of FIIs registered with SEBI, which are foreign corporates or foreign individuals only under the Non-Institutional Bidders category.
  - Venture Capital Funds registered with SEBI;
  - Foreign Venture Capital Funds registered with SEBI;
  - Multilateral and bilateral development financial institutions;
  - State Industrial Development Corporations;
  - Trusts/societies registered under the Societies Registration Act, 1860, as amended, or under any other law relating to trusts/societies and who are authorised under their respective constitutions to hold and invest in equity shares;
  - Scientific and/or industrial research organisations authorised to invest in equity shares;
  - Insurance Companies registered with Insurance Regulatory and Development Authority;
  - Provident Funds with a minimum corpus of Rs. 250 million and who are authorised under their constitution to hold and invest in equity shares;
  - Pension Funds with a minimum corpus of Rs. 250 million and who are authorised under their constitution to hold and invest in equity shares;
  - National Investment Fund; and
  - Insurance funds set up and managed by the army, navy or air force of the Union of India.
- As per the existing regulations, OCBs cannot participate in this Issue.

## **Participation by associates and affiliates of the BRLMs and the Syndicate Members**

The BRLMs and the Syndicate Members shall not be allowed to subscribe to this Issue in any manner except towards fulfilling their underwriting obligations. However, the associates and affiliates of the BRLMs and Syndicate Members may subscribe to or purchase Equity Shares in the Issue, either in the QIB Portion or in Non-Institutional Portion as may be applicable to such Bidders, where the allocation is on a proportionate basis.

The BRLMs and any persons related to the BRLMs or the Promoters and the Promoter Group cannot apply in the Issue under the Anchor Investor Portion.

## **Bids by Mutual Funds**

An eligible Bid by a Mutual Fund shall first be considered for allocation proportionately in the Mutual Fund Portion. In the event that the demand is greater than [●] Equity Shares, allocation shall be made to Mutual Funds proportionately, to the extent of the Mutual Fund Portion. The remaining demand by the Mutual Funds shall, as part of the aggregate demand by QIBs, be available for allocation proportionately out of the remainder of the QIB Portion, after excluding the allocation in the Mutual Fund Portion.

One-third of the Anchor Investor Portion shall be reserved for domestic Mutual Funds, subject to valid Bids being received from domestic Mutual Funds at or above the price at which allocation is being done to other Anchor Investors.

**In case of a Mutual Fund, a separate Bid can be made in respect of each scheme of the Mutual Fund registered with SEBI and such Bids in respect of more than one scheme of the Mutual Fund will not be treated as multiple Bids provided that the Bids clearly indicate the scheme concerned for which the Bid has been made.**

**No Mutual Fund scheme shall invest more than 10% of its net asset value in equity shares or equity related instruments of any single company provided that the limit of 10% shall not be applicable for investments in index funds or sector or industry specific funds. No Mutual Fund under all its schemes should own more than 10% of any company's paid-up share capital carrying voting rights.**

## **Bids by Eligible NRIs**

1. Bid cum Application Forms have been made available for Eligible NRIs applying on a repatriation basis at the Registered Office, with the Syndicate and the Registrar to the Issue.
2. Eligible NRI applicants should note that only such applications as are accompanied by payment in free foreign exchange shall be considered for Allotment. Eligible NRIs who intend to make payment through Non-Resident Ordinary (NRO) accounts should use the form meant for Resident Indians.
3. Bids by Eligible NRIs for a Bid Amount of up to Rs. 100,000 would be considered under the Retail Portion for the purposes of allocation and Bids for a Bid Amount of more than Rs. 100,000 would be considered under Non-Institutional Portion for the purposes of allocation.

## **Bids by FIIs**

As per the current regulations, the following restrictions are applicable for investments by FIIs:

The issue of Equity Shares to a single FII should not exceed 10% of our total paid up capital. In respect of an FII investing in our Equity Shares on behalf of its sub-accounts, the investment on behalf of each sub-account shall not exceed 10% of our total issued capital or 5% of our total issued capital in case such sub-account is a foreign corporate or an individual. With the approval of the board and the shareholders by way of a special resolution, the aggregate FII holding can go up to 100%.

Subject to compliance with all applicable Indian laws, rules, regulations guidelines and approvals in terms of regulation 15A(1) of the Securities Exchange Board of India (Foreign Institutional Investors) Regulations 1995, as amended (the "SEBI FII Regulations"), an FII, as defined in the SEBI FII Regulations may issue, deal or hold, off shore derivative instruments (defined under the SEBI FII Regulations as any instrument, by

whatever name called, which is issued overseas by an FII against securities held by it that are listed or proposed to be listed on any recognised stock exchange in India, as its underlying) directly or indirectly, only in the event (i) such offshore derivative instruments are issued only to persons who are regulated by an appropriate regulatory authority; and (ii) such offshore derivative instruments are issued after compliance with 'know your client' norms. Sub-accounts of FIIs are not allowed to issue offshore derivative instruments. An FII is also required to ensure that no further issue or transfer of any offshore derivative instrument issued by it is made to any persons that are not regulated by an appropriate foreign regulatory authority as defined under the SEBI FII Regulations. Associates and affiliates of the underwriters including the BRLMs and the Syndicate Members that are FIIs may issue offshore derivative instruments against Equity Shares Allotted to them in the Issue. Any such offshore derivative instrument does not constitute any obligation or claim or claim on or an interest in the Company.

### **Bids by SEBI registered Venture Capital Funds and Foreign Venture Capital Funds**

The SEBI (Venture Capital Funds) Regulations, 1996 and SEBI (Foreign Venture Capital Investor) Regulations, 2000 *inter alia* prescribe investment restrictions on venture capital funds and foreign venture capital investors registered with SEBI.

Accordingly, the holding by any individual venture capital fund registered with SEBI in one company should not exceed 25% of the corpus of the venture capital fund. Further, Venture Capital Funds can invest only up to 33.33% of the investible funds by way of subscription to an initial public offer.

**The above information is given for the benefit of the Bidders. The Company, the BRLMs are not liable for any amendments or modification or changes in applicable laws or regulations, which may occur after the date of this Red Herring Prospectus. Bidders are advised to make their independent investigations and are advised to ensure that any single Bid from them does not exceed the investment limits or maximum number of Equity Shares that can be held by them under applicable law or regulation or as specified in this Red Herring Prospectus.**

#### *Maximum and Minimum Bid Size*

- (a) **For Retail Individual Bidders:** The Bid must be for a minimum of [●] Equity Shares and in multiples of [●] Equity Share thereafter, so as to ensure that the Bid Amount payable by the Bidder does not exceed Rs. 100,000, net of Retail Discount as applicable to be adjusted. In case of revision of Bids, the Retail Individual Bidders have to ensure that the Bid Amount does not exceed Rs. 100,000. In case the Bid Amount is over Rs. 100,000 due to revision of the Bid or revision of the Price Band or on exercise of Cut-off Price option, the Bid would be considered for allocation under the Non-Institutional Portion. The Cut-off Price option is an option given only to the Retail Individual Bidders indicating their agreement to Bid and purchase at the final Issue Price as determined at the end of the Book Building Process.
- (b) **For Other Bidders (Non-Institutional Bidders and QIBs):** The Bid must be for a minimum of such number of Equity Shares such that the Bid Amount exceeds Rs. 100,000 and in multiples of [●] Equity Shares thereafter. A Bid cannot be submitted for more than the Issue Size. However, the maximum Bid by a QIB investor should not exceed the investment limits prescribed for them by applicable laws. **A QIB Bidder cannot withdraw its Bid after the Bid/Issue Closing Date and is required to pay the full Bid Amount upon submission of the Bid. As the Bid/Issue Period for QIBs shall close one day prior to the Bid/Issue Closing Date, QIBs are not allowed to withdraw their Bids after July 30, 2010, i.e., one Working Day prior to the Bid/Issue Closing Date.**

In case of revision in Bids, the Non-Institutional Bidders, who are individuals, have to ensure that the Bid Amount is greater than Rs. 100,000 for being considered for allocation in the Non-Institutional Portion. In case the Bid Amount reduces to Rs. 100,000 or less due to a revision in Bids or revision of the Price Band, Bids by Non-Institutional Bidders who are eligible for allocation in the Retail Portion would be considered for allocation under the Retail Portion. Non-Institutional Bidders and QIBs are not allowed to Bid at 'Cut-off Price'.

- (c) **For Bidders in the Anchor Investor Portion:** The Bid must be for a minimum of such number of Equity Shares such that the Bid Amount exceeds Rs. 100 million and in multiples of [●] Equity Shares thereafter. Bids by Anchor Investors under the Anchor Investor Portion and the QIB Portion shall not be considered as multiple Bids. A Bid cannot be submitted for more than 30% of the QIB Portion

under the Anchor Investor Portion. **Anchor Investors cannot withdraw their Bids after the Anchor Investor Bid/ Issue Period and are required to pay the full Bid Amount at the time of submission of the Bid. In case the Anchor Investor Issue Price is lower than the Issue Price, the balance amount shall be payable as per the pay-in date mentioned in the revised CAN.**

#### **Information for the Bidders:**

- (a) The Company, the BRLMs shall declare the Bid/Issue Opening Date and Bid/Issue Closing Date in the Red Herring Prospectus to be registered with the RoC and also publish the same in two national newspapers (one each in English and Hindi) and in one Telugu newspaper with wide circulation. This advertisement shall be in the prescribed format.
- (b) The Company will file the Red Herring Prospectus with the RoC at least three days before the Bid/Issue Opening Date.
- (c) Copies of the Bid cum Application Form and copies of the Red Herring Prospectus will be available with the Syndicate. The SCSBs shall ensure that the abridged prospectus is made available on their websites.
- (d) Any Bidder (who is eligible to invest in the Equity Shares) who would like to obtain the Red Herring Prospectus and/ or the Bid cum Application Form can obtain the same from the Registered Office.
- (e) Eligible Bidders who are interested in subscribing for the Equity Shares should approach any of the BRLMs or Syndicate Members or their authorised agent(s) to register their Bids. Bidders who wish to use the ASBA process should approach the Designated Branches of the SCSBs to register their Bids.
- (f) The Bids should be submitted on the prescribed Bid cum Application Form only. Bid cum Application Forms (other than the ASBA Bid cum Application Forms) should bear the stamp of the Syndicate, otherwise they will be rejected. Bids by ASBA Bidders shall be accepted by the Designated Branches of the SCSBs in accordance with the SEBI Regulations and any circulars issued by SEBI in this regard. Bidders applying through the ASBA process also have an option to submit the ASBA Bid cum Application Form in electronic form, which will also be available on the websites of the Stock Exchanges at least one day prior to the Bid/Issue Opening Date.

**The applicants may note that in case the DP ID and Client ID and PAN mentioned in the Bid cum Application Form and entered into the electronic bidding system of the Stock Exchanges by the Syndicate do not match with the DP ID and Client ID and PAN available in the Depository database, the application is liable to be rejected.**

#### **Method and Process of Bidding**

- (a) The Company and the Selling Shareholders in consultation with the BRLMs will decide the Price Band, Retail Discount and the minimum Bid lot size for the Issue and the same shall be advertised in [●] edition of [●] in the English language, [●] edition of [●] in the Hindi language and [●] edition of [●] in the Telugu language at least two Working Days prior to the Bid/ Issue Opening Date. The Syndicate and the SCSBs shall accept Bids from the Bidders during the Bid/Issue Period.
- (b) The Bid/Issue Period shall be for a minimum of three Working Days and shall not exceed 10 Working Days. The Bid/ Issue Period maybe extended, if required, by an additional three Working Days, subject to the total Bid/Issue Period not exceeding 10 Working Days. Any revision in the Price Band and the revised Bid/ Issue Period, if applicable, will be published in two national newspapers (one each in English and Hindi) and one Telugu newspaper with wide circulation and also by indicating the change on the websites of the BRLMs and at the terminals of the Syndicate.
- (c) During the Bid/Issue Period, Bidders, other than QIBs, who are interested in subscribing for the Equity Shares should approach the Syndicate or their authorised agents to register their Bids. The Syndicate shall accept Bids from all Bidders and have the right to vet the Bids during the Bid/ Issue Period in accordance with the terms of the Red Herring Prospectus. Bidders who wish to use the ASBA process should approach the Designated Branches of the SCSBs to register their Bids.

- (d) Each Bid cum Application Form will give the Bidder the choice to Bid for up to three optional prices (for details refer to the paragraph entitled “Bids at Different Price Levels” below) within the Price Band and specify the demand (i.e., the number of Equity Shares Bid for) in each option. The price and demand options submitted by the Bidder in the Bid cum Application Form will be treated as optional demands from the Bidder and will not be cumulated. After determination of the Issue Price, the maximum number of Equity Shares Bid for by a Bidder at or above the Issue Price will be considered for allocation/Allotment and the rest of the Bid(s), irrespective of the Bid Amount, will become automatically invalid.
- (e) The Bidder cannot Bid on another Bid cum Application Form after Bids on one Bid cum Application Form have been submitted to any member of the Syndicate or the SCSBs. Submission of a second Bid cum Application Form or ASBA Bid cum Application Form to either the same or to another member of the Syndicate or SCBS will be treated as multiple Bids and is liable to be rejected either before entering the Bid into the electronic bidding system, or at any point of time prior to the allocation or Allotment of Equity Shares in this Issue. However, the Bidder can revise the Bid through the Revision Form, the procedure for which is detailed under the paragraph entitled “Build up of the Book and Revision of Bids”.
- (f) Except in relation to the Bids received from the Anchor Investors, the Syndicate/the SCSBs will enter each Bid option into the electronic bidding system as a separate Bid and generate a Transaction Registration Slip, (“TRS”), for each price and demand option and give the same to the Bidder. Therefore, a Bidder can receive up to three TRSs for each Bid cum Application Form.
- (g) The BRLMs shall accept the Bids from the Anchor Investors during the Anchor Investor Bid/ Issue Period i.e. one Working Day prior to the Bid/ Issue Opening Date. Bids by QIBs under the Anchor Investor Portion and the QIB Portion shall not be considered as multiple Bids.
- (h) Along with the Bid cum Application Form, all Bidders (other than ASBA Bidders) will make payment in the manner described in the section titled “Issue Procedure - Escrow Mechanism, terms of payment and payment into the Escrow Accounts” on page 286 of this Red Herring Prospectus.
- (i) Upon receipt of the ASBA Bid cum Application Form, submitted whether in physical or electronic mode, the Designated Branch of the SCSB shall verify if sufficient funds equal to the Bid Amount are available in the ASBA Account, as mentioned in the ASBA Bid cum Application Form, prior to uploading such Bids with the Stock Exchanges.
- (j) If sufficient funds are not available in the ASBA Account, the Designated Branch of the SCSB shall reject such Bids and shall not upload such Bids with the Stock Exchanges.
- (k) If sufficient funds are available in the ASBA Account, the SCSB shall block an amount equivalent to the Bid Amount mentioned in the ASBA Bid cum Application Form and will enter each Bid option into the electronic bidding system as a separate Bid and generate a TRS for each price and demand option. The TRS shall be furnished to the ASBA Bidder on request.
- (l) The Bid Amount shall remain blocked in the aforesaid ASBA Account until finalisation of the Basis of Allotment and consequent transfer of the Bid Amount against the Allotted Equity Shares to the Public Issue Account, or until withdrawal/failure of the Issue or until withdrawal/rejection of the ASBA Bid cum Application Form, as the case may be. Once the Basis of Allotment is finalized, the Registrar to the Issue shall send an appropriate request to the Controlling Branch of the SCSB for unblocking the relevant ASBA Accounts and for transferring the amount allocable to the successful Bidders to the Public Issue Account. In case of withdrawal/failure of the Issue, the blocked amount shall be unblocked on receipt of such information from the Registrar to the Issue.

#### **Bids at Different Price Levels and Revision of Bids**

- (a) The Company and the Selling Shareholders, in consultation with the BRLMs and without the prior approval of or intimation to the Bidder, reserves the right to revise the Price Band during the Bid/ Issue Period, provided that the Cap Price shall be less than or equal to 120% of the Floor Price and the Floor Price shall not be less than the face value of the Equity Shares. The revision in Price Band shall not exceed 20% on the either side i.e. the floor price can move up or down to the extent of 20% of the

floor price disclosed at least two Working Days prior to the Bid/ Issue Opening Date and the Cap Price will be revised accordingly.

- (b) The Company and the Selling Shareholders, in consultation with the BRLMs will finalise the Issue Price within the Price Band in accordance with this clause, without the prior approval of, or intimation, to the Bidders.
- (c) The Company and the Selling Shareholders, in consultation with the BRLMs, can finalise the Anchor Investor Issue Price within the Price Band in accordance with this clause, without the prior approval of, or intimation, to the Anchor Investors.
- (d) The Company and the Selling Shareholders, in consultation with the BRLMs, shall decide the minimum number of Equity Shares for each Bid to ensure that the minimum application value is within the range of Rs. 5,000 to Rs. 7,000.
- (d) The Bidders can Bid at any price within the Price Band. The Bidder has to Bid for the desired number of Equity Shares at a specific price. Retail Individual Bidders may Bid at the Cut-off Price. However, bidding at Cut-off Price is prohibited for QIB and Non-Institutional Bidders and such Bids from QIB and Non-Institutional Bidders shall be rejected.
- (e) Retail Individual Bidders, who Bid at Cut-off Price agree that they shall purchase the Equity Shares at any price within the Price Band. Retail Individual Bidders, shall submit the Bid cum Application Form along with a cheque/demand draft for the Bid Amount based on the Cap Price with the Syndicate. In case of ASBA Bidders (excluding Non-Institutional Bidders and QIB Bidders) bidding at Cut-off Price, the ASBA Bidders shall instruct the SCSBs to block an amount based on the Cap Price.

#### **Escrow mechanism, terms of payment and payment into the Escrow Accounts**

For details of the escrow mechanism and payment instructions, please see “Issue Procedure - Payment Instructions” on page 294 of this Red Herring Prospectus.

#### **Electronic Registration of Bids**

- (a) The members of the Syndicate and the Designated Branches of the SCSBs will register the Bids (except Bids received from Anchor Investors) using the on-line facilities of the Stock Exchanges. Details of Bids in the Anchor Investor Portion will not be registered using the on-line facilities of the Stock Exchanges.
- (b) The Syndicate and the SCSBs will undertake modification of selected fields in the Bid details already uploaded within one Working Day from the Bid/Issue Closing Date to amend some of the data fields (currently DP ID, Client ID) entered by them in the electronic bidding system. Bidders are cautioned that a high inflow of Bids typically experienced on the last Working Day of the Bidding may lead to some Bids received on the last Working Day not being uploaded due to lack of sufficient uploading time, and such Bids that could not be uploaded will not be considered for allocation. Bids will only be accepted on Working Days.
- (c) There will be at least one on-line connectivity facility in each city, where a stock exchange is located in India and where Bids are being accepted. The BRLMs, the Company and the Registrar to the Issue, are not responsible for any acts, mistakes or errors or omission and commissions in relation to, (i) the Bids accepted by the Syndicate Members and the SCSBs, (ii) the Bids uploaded by the Syndicate Members and the SCSBs, (iii) the Bids accepted but not uploaded by the Syndicate Members and the SCSBs or (iv) with respect to ASBA Bids, Bids accepted and uploaded without blocking funds in the ASBA Accounts. It shall be presumed that for Bids uploaded by the SCSBs, the Bid Amount has been blocked in the relevant ASBA Account.
- (d) The Stock Exchanges will offer an electronic facility for registering Bids for the Issue. This facility will be available with the Syndicate and their authorised agents and the SCSBs during the Bid/ Issue Period. The Syndicate Members and the Designated Branches of the SCSBs can also set up facilities for off-line electronic registration of Bids subject to the condition that they will subsequently upload

the off-line data file into the on-line facilities for Book Building on a regular basis. On the Bid/ Issue Closing Date, the Syndicate and the Designated Branches of the SCSBs shall upload the Bids till such time as may be permitted by the Stock Exchanges. This information will be available with the BRLMs on a regular basis.

- (e) Based on the aggregate demand and price for Bids registered on the electronic facilities of the Stock Exchanges, a graphical representation of consolidated demand and price as available on the websites of the Stock Exchanges would be made available at the bidding centres during the Bid/Issue Period.
- (f) At the time of registering each Bid other than ASBA Bids, the members of the Syndicate shall enter the following details of the Bidders in the electronic system:
- Name of the Bidder: Bidders should ensure that the name given in the Bid cum Application Form is exactly the same as the name in which the Depository Account is held. In case the Bid cum Application Form is submitted in joint names, Bidders should ensure that the Depository Account is also held in the same joint names and are in the same sequence in which they appear in the Bid cum Application Form.
  - Investor Category – Individual, Corporate, FII, NRI, Mutual Fund, etc.
  - Numbers of Equity Shares Bid for.
  - Price option.
  - Cheque amount.
  - Cheque number.
  - Bid cum Application Form number.
  - DP ID and client identification number of the beneficiary account of the Bidder.
  - PAN.

With respect to ASBA Bids, at the time of registering each Bid, the Designated Branches of the SCSBs shall enter the following information pertaining to the Bidder into the online system:

- Name of the Bidder(s);
- Application Number;
- PAN (of First Bidder, in case of more than one Bidder);
- Investor Category and Sub-Category:

| <b>Retail</b>     | <b>Non- Institutional</b>                                                                            | <b>QIB</b>                                                                                                                                                                                                                                                            |
|-------------------|------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (No sub category) | <ul style="list-style-type: none"> <li>• Individual</li> <li>• Corporate</li> <li>• Other</li> </ul> | <ul style="list-style-type: none"> <li>• Mutual Funds</li> <li>• Financial Institutions</li> <li>• Insurance companies</li> <li>• Foreign Institutional</li> <li>• Investors other than corporate and individual</li> <li>• Sub-accounts</li> <li>• Others</li> </ul> |

- DP ID;
  - Beneficiary Account Number or client ID;
  - Number of Equity Shares bid for;
  - Price;
  - Bank Account Number;
  - Cheque Amount;
  - Cheque number.
- (g) A system generated TRS will be given to the Bidder as a proof of the registration of each of the bidding options. It is the Bidder's responsibility to obtain the TRS from the Syndicate or the Designated Branches of the SCSBs. The registration of the Bid by the member of the Syndicate or the



Designated Branches of the SCSBs does not guarantee that the Equity Shares shall be allocated/Allotted either by the Syndicate, the Selling Shareholders or the Company.

- (h) Such TRS will be non-negotiable and by itself will not create any obligation of any kind.
- (i) In case of QIB Bidders, only the BRLMs and their affiliate Syndicate Members have the right to accept the Bid or reject it. However, such rejection shall be made at the time of receiving the Bid and only after assigning a reason for such rejection in writing. In case of Non-Institutional Bidders and Retail Individual Bidders, Bids will be rejected on technical grounds listed on page 298 of this Red Herring Prospectus. The members of the Syndicate may also reject Bids if all the information required is not provided and the Bid cum Application Form is incomplete in any respect. The SCSBs shall have no right to reject Bids, except on technical grounds.
- (j) The permission given by the Stock Exchanges to use their network and software of the online IPO system should not in any way be deemed or construed to mean that the compliance with various statutory and other requirements by the Company, the Selling Shareholders and/or the BRLMs are cleared or approved by BSE and NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the compliance with the statutory and other requirements nor does it take any responsibility for the financial or other soundness of the Company, the Promoters, the management or any scheme or project of the Company; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Red Herring Prospectus; nor does it warrant that the Equity Shares will be listed or will continue to be listed on the Stock Exchanges.
- (k) Only Bids that are uploaded on the online IPO system of the Stock Exchanges shall be considered for allocation/ Allotment. Members of the Syndicate will be given up to one day after the Bid/Issue Closing Date to verify DP ID and Client ID uploaded in the online IPO system during the Bid/Issue Period after which the Registrar to the Issue will receive this data from the Stock Exchanges and will validate the electronic bid details with depositories records.

#### **Build up of the book and revision of Bids**

- (a) Bids received from various Bidders through the Syndicate and the SCSBs shall be electronically uploaded to the Stock Exchanges' mainframe on a regular basis.
- (b) The Book gets built up at various price levels. This information will be available with the BRLMs at the end of the Bid/Issue Period.
- (c) During the Bid/Issue Period, any Bidder who has registered his or her interest in the Equity Shares at a particular price level is free to revise his or her Bid within the Price Band using the printed Revision Form, which is a part of the Bid cum Application Form.
- (d) Revisions can be made in both the desired number of Equity Shares and the Bid Amount by using the Revision Form. Apart from mentioning the revised options in the Revision Form, the Bidder must also mention the details of all the options in his or her Bid cum Application Form or earlier Revision Form. For example, if a Bidder has Bid for three options in the Bid cum Application Form and such Bidder is changing only one of the options in the Revision Form, he must still fill the details of the other two options that are not being revised, in the Revision Form. The Syndicate and the Designated Branches of the SCSBs will not accept incomplete or inaccurate Revision Forms.
- (e) The Bidder can make this revision any number of times during the Bid/Issue Period. However, for any revision(s) in the Bid, the Bidders will have to use the services of the same member of the Syndicate or the SCSB through whom such Bidder had placed the original Bid. Bidders are advised to retain copies of the blank Revision Form and the revised Bid must be made only in such Revision Form or copies thereof.
- (f) In case of an upward revision in the Price Band announced as above, Retail Individual Bidders who had Bid at Cut-off Price could either (i) revise their Bid or (ii) shall make additional payment based on the cap of the revised Price Band (such that the total amount i.e., original Bid Amount plus additional payment does not exceed Rs. 100,000 if the Bidder wants to continue to Bid at Cut-off

Price), with the members of the Syndicate to whom the original Bid was submitted. In case the total amount (i.e., original Bid Amount plus additional payment) exceeds Rs. 100,000, the Bid will be considered for allocation under the Non-Institutional Portion in terms of this Red Herring Prospectus. If, however, the Bidder does not either revise the Bid or make additional payment and the Issue Price is higher than the cap of the Price Band prior to revision, the number of Equity Shares Bid for shall be adjusted downwards for the purpose of allocation, such that no additional payment would be required from the Bidder and the Bidder is deemed to have approved such revised Bid at Cut-off Price.

- (g) In case of a downward revision in the Price Band, announced as above, Retail Individual Bidders, who have Bid at Cut-off Price could either revise their Bid or the excess amount paid at the time of bidding would be refunded from the Escrow Account.
- (h) The Company and Selling Shareholders, in consultation with the BRLMs, shall decide the minimum number of Equity Shares for each Bid to ensure that the minimum application value is within the range of Rs. 5,000 to Rs. 7,000.
- (i) Any revision of the Bid shall be accompanied by payment in the form of cheque or demand draft for the incremental amount, if any, to be paid on account of the upward revision of the Bid. With respect to the ASBA Bids, if revision of the Bids results in an incremental amount, the relevant SCSB shall block the additional Bid Amount. In case of Bids, other than ASBA Bids, the Syndicate shall collect the payment in the form of cheque or demand draft if any, to be paid on account of the upward revision of the Bid at the time of one or more revisions by the QIB Bidders. In such cases, members of the Syndicate will revise the earlier Bids details with the revised Bid and provide the cheque or demand draft number of the new payment instrument in the electronic book. The Registrar to the Issue will reconcile the Bid data and consider the revised Bid data for preparing the Basis of Allotment.
- (j) When a Bidder revises his or her Bid, he or she shall surrender the earlier TRS and may get a revised TRS from the Syndicate or the SCSB, as applicable. It is the responsibility of the Bidder to request for and obtain the revised TRS, which will act as proof of his or her having revised the previous Bid.

#### **Price Discovery and Allocation**

- (a) Based on the demand generated at various price levels, the Company and the Selling Shareholders in consultation with the BRLMs shall finalise the Issue Price.
- (b) Under-subscription, if any, in any category, except the QIB Portion, would be allowed to be met with spill-over from any other category or combination of categories at the sole discretion of the Company in consultation with the BRLMs and the Designated Stock Exchanges. If at least 60% of the Issue is not allotted to the QIBs, the entire subscription monies shall be refunded.
- (c) Allocation to Non-Residents, including Eligible NRIs and FIIs registered with SEBI, applying on repatriation basis will be subject to applicable law, rules, regulations, guidelines and approvals.
- (d) Allocation to Anchor Investors shall be at the discretion of the Company in consultation with the BRLMs, subject to the compliance with the SEBI Regulations.
- (e) QIB Bidders shall not be allowed to withdraw their Bid after their Bid/Issue Closing Date, i.e. July 30, 2010. Further the Anchor Investors shall not be allowed to withdraw their Bids after the Anchor Investor Bid/Issue Period.
- (f) The Basis of Allotment shall be put up on the website of the Registrar to the Issue.

#### **Signing of the Underwriting Agreement and the RoC Filing**

- (a) The Company, Selling Shareholders, the BRLMs and the Syndicate Members shall enter into an Underwriting Agreement on or immediately after the finalisation of the Issue Price.
- (b) After signing the Underwriting Agreement, the Company will update and file the updated Red Herring Prospectus with the RoC in accordance with the applicable law, which then would be termed

as the 'Prospectus'. The Prospectus will contain details of the Issue Price, Issue size, underwriting arrangements and will be complete in all material respects.

### **Pre-Issue Advertisement**

Subject to Section 66 of the Companies Act, the Company shall, after registering the Red Herring Prospectus with the RoC, publish a pre-Issue advertisement, in the form prescribed by the SEBI Regulations, in one English language national daily newspaper, one Hindi language national daily newspaper and one Telugu language daily newspaper, each with wide circulation.

### **Advertisement regarding Issue Price and Prospectus**

The Company will issue a statutory advertisement after the filing of the Prospectus with the RoC. This advertisement, in addition to the information that has to be set out in the statutory advertisement, shall indicate the Issue Price and the Anchor Investor Issue Price. Any material updates between the date of the Red Herring Prospectus and the date of Prospectus will be included in such statutory advertisement.

### **Issuance of Confirmation of Allotment Note ("CAN")**

Upon approval of the Basis of Allotment by the Designated Stock Exchange, the Registrar to the Issue shall send to the members of the Syndicate a list of the Bidders who have been Allotted Equity Shares in the Issue.

### **Notice to Anchor Investors: Allotment Reconciliation and Revised CANs**

A physical book will be prepared by the Registrar on the basis of the Bid cum Application Forms received from Anchor Investors. Based on the physical book and at the discretion of our Company and the BRLMs, select Anchor Investors may be sent a CAN, within two working days of the Anchor Investor Bid/ Issue Period, indicating the number of Equity Shares that may be allotted to them. The CAN shall constitute the valid, binding and irrevocable contract (subject only to the issue of a revised CAN) for the Anchor Investors to pay the entire Anchor Investor Issue Price for all our Equity Shares allotted to such Anchor Investor. This CAN and the final Allotment is subject to the physical application being valid in all respect along with receipt of stipulated documents, the Issue Price being finalised at a price not higher than the Anchor Investor Issue Price and allotment by the Board of Directors. In the event that the Issue Price is higher than the Anchor Investor Issue Price, a revised CAN will be sent to Anchor Investors. The price of Equity Shares in such revised CAN may be different from that specified in the earlier CAN. Anchor Investors should note that they may be required to pay additional amounts, if any, by the Pay-in Date specified in the revised CAN. The Pay-in Date in the revised CAN shall not be later than two working days after the Bid/ Issue Closing Date. Any revised CAN, if issued, will supersede in entirety the earlier CAN.

The final allocation is subject to the physical application being valid in all respect along with receipt of stipulated documents, the Issue Price being finalised at a price not higher than the Anchor Investor Issue Price and Allotment by the Board of Directors.

### **Designated Date and Allotment of Equity Shares**

- The Company and the Selling Shareholders will ensure that the Allotment of Equity Shares and credit to the successful Bidders' depository account is done within 15 days of the Bid/Issue Closing Date.
- (a) In accordance with the SEBI Regulations, Equity Shares will be issued or transferred and Allotment shall be made only in the dematerialised form to the Allottees.
  - (b) Allottees will have the option to re-materialise the Equity Shares so Allotted as per the provisions of the Companies Act and the Depositories Act.

**Investors are advised to instruct their Depository Participant to accept the Equity Shares that may be allocated/ Allotted to them pursuant to this Issue.**

### **GENERAL INSTRUCTIONS**

**Do's:**

- (a) Check if you are eligible to apply;
- (b) Ensure that you have Bid within the Price Band;
- (c) Read all the instructions carefully and complete the Bid cum Application Form;
- (d) Ensure that the details about the Depository Participant and the beneficiary account are correct as Allotment of Equity Shares will be in the dematerialised form only;
- (e) Ensure that the Bids are submitted at the bidding centres only on forms bearing the stamp of a member of the Syndicate or with respect to ASBA Bidders, ensure that your Bid is submitted at a Designated Branch of the SCSB where the ASBA Bidder or the person whose bank account will be utilised by the Bidder for bidding has a bank account;
- (f) With respect to ASBA Bids ensure that the ASBA Bid cum Application Form is signed by the account holder in case the applicant is not the account holder. Ensure that you have mentioned the correct bank account number in the ASBA Bid cum Application Form;
- (g) Ensure that you request for and receive a TRS for all your Bid options;
- (h) Ensure that you have funds equal to the Bid Amount in your bank account maintained with the SCSB before submitting the ASBA Bid cum Application Form to the respective Designated Branch of the SCSB;
- (i) Ensure that the full Bid Amount is paid for the Bids submitted to the Syndicate and funds equivalent to the Bid Amount are blocked in case of any Bids submitted through the SCSBs.
- (j) Instruct your respective banks to not release the funds blocked in the bank account under the ASBA process;
- (k) Submit revised Bids to the same member of the Syndicate through whom the original Bid was placed and obtain a revised TRS;
- (l) Except for Bids submitted on behalf of the Central Government or the State Government and officials appointed by a court, all Bidders should mention their PAN allotted under the I.T. Act;
- (m) Ensure that the Demographic Details (as defined herein below) are updated, true and correct in all respects;
- (n) Ensure that the name(s) given in the Bid cum Application Form is exactly the same as the name(s) in which the beneficiary account is held with the Depository Participant. In case the Bid cum Application Form is submitted in joint names, ensure that the beneficiary account is also held in same joint names and such names are in the same sequence in which they appear in the Bid cum Application Form.

**Don'ts:**

- (a) Do not Bid for lower than the minimum Bid size;
- (b) Do not Bid/ revise Bid Amount to less than the Floor Price or higher than the Cap Price;
- (c) Do not Bid on another Bid cum Application Form after you have submitted a Bid to the Syndicate or the SCSBs, as applicable;
- (d) Do not pay the Bid Amount in cash, by money order or by postal order or by stockinvest;
- (e) Do not send Bid cum Application Forms by post; instead submit the same to a member of the Syndicate or the SCSBs only;

- (f) Do not Bid at Cut-off Price (for QIB Bidders and Non-Institutional Bidders);
- (g) Do not Bid for a Bid Amount exceeding Rs. 100,000 (for Bids by Retail Individual Bidders);
- (h) Do not fill up the Bid cum Application Form such that the Equity Shares Bid for exceeds the Issue Size and/ or investment limit or maximum number of Equity Shares that can be held under the applicable laws or regulations or maximum amount permissible under the applicable regulations;
- (i) Do not submit the GIR number instead of the PAN as the Bid is liable to be rejected on this ground; and
- (j) Do not submit the Bids without the full Bid Amount.

#### **INSTRUCTIONS FOR COMPLETING THE BID CUM APPLICATION FORM**

Bids must be:

- (A) Made only in the prescribed Bid cum Application Form or Revision Form, as applicable.
- (B) Completed in full, in BLOCK LETTERS in ENGLISH and in accordance with the instructions contained herein, in the Bid cum Application Form or in the Revision Form. Incomplete Bid cum Application Forms or Revision Forms are liable to be rejected. Bidders should note that the Syndicate and / or the SCSBs, as appropriate, will not be liable for errors in data entry due to incomplete or illegible Bid cum Application Forms or Revision Forms.
- (C) Information provided by the Bidders will be uploaded in the online IPO system by the Syndicate and the SCSBs, as the case may be, and the electronic data will be used to make allocation/ Allotment. The Bidders should ensure that the details are correct and legible.
- (D) For Retail Individual Bidders, the Bid must be for a minimum of [●] Equity Shares and in multiples of [●] Equity Shares thereafter subject to a maximum Bid Amount of Rs. 100,000.
- (E) For Non-Institutional Bidders and QIB Bidders, Bids must be for a minimum of such number of Equity Shares that the Bid Amount exceeds or equal to Rs. 100,000 and in multiples of [●] Equity Shares thereafter. Bids cannot be made for more than the Issue size. Bidders are advised to ensure that a single Bid from them should not exceed the investment limits or maximum number of Equity Shares that can be held by them under the applicable laws or regulations.
- (F) For Anchor Investors, Bids must be for a minimum of such number of Equity Shares that the Bid Amount exceeds or equal to Rs. 100 million and in multiples of [●] Equity Shares thereafter.
- (G) In single name or in joint names (not more than three, and in the same order as their Depository Participant details).
- (H) Thumb impressions and signatures other than in the languages specified in the Eighth Schedule to the Constitution of India must be attested by a Magistrate or a Notary Public or a Special Executive Magistrate under official seal.

#### **Bidder's PAN, Depository Account and Bank Account Details**

**Bidders should note that on the basis of PAN of the Bidder, DP ID and beneficiary account number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository the demographic details including address, Bidders bank account details, MICR code and occupation (hereinafter referred to as "Demographic Details"). These bank account details would be used for giving refunds (including through physical refund warrants, direct credit, NECS, NEFT and RTGS) or unblocking of ASBA Account. Hence, Bidders are advised to immediately update their bank account details as appearing on the records of the Depository Participant. Please note that failure to do so could result in delays in despatch/ credit of refunds to Bidders at the Bidders or unblocking of ASBA Account sole risk and neither the BRLMs or the Registrar to the Issue or the Escrow Collection Banks**

**or the SCSBs nor the Selling Shareholder nor the Company shall have any responsibility and undertake any liability for the same. Hence, Bidders should carefully fill in their Depository Account details in the Bid cum Application Form.**

**IT IS MANDATORY FOR ALL THE BIDDERS TO GET THEIR EQUITY SHARES IN DEMATERIALISED FORM. ALL BIDDERS SHOULD MENTION THEIR DEPOSITORY PARTICIPANT'S NAME, DEPOSITORY PARTICIPANT IDENTIFICATION NUMBER AND BENEFICIARY ACCOUNT NUMBER IN THE BID CUM APPLICATION FORM. INVESTORS MUST ENSURE THAT THE NAME GIVEN IN THE BID CUM APPLICATION FORM IS EXACTLY THE SAME AS THE NAME IN WHICH THE DEPOSITORY ACCOUNT IS HELD. IN CASE THE BID CUM APPLICATION FORM IS SUBMITTED IN JOINT NAMES, IT SHOULD BE ENSURED THAT THE DEPOSITORY ACCOUNT IS ALSO HELD IN THE SAME JOINT NAMES AND ARE IN THE SAME SEQUENCE IN WHICH THEY APPEAR IN THE BID CUM APPLICATION FORM.**

These Demographic Details would be used for all correspondence with the Bidders including mailing of the CANs/allocation advice and printing of bank particulars on the refund orders or for refunds through electronic transfer of funds, as applicable. The Demographic Details given by Bidders in the Bid cum Application Form would not be used for any other purpose by the Registrar to the Issue.

By signing the Bid cum Application Form, the Bidder would be deemed to have authorised the Depositories to provide, upon request, to the Registrar to the Issue, the required Demographic Details as available on its records.

**Refund orders/ CANs would be mailed at the address of the Bidder as per the Demographic Details received from the Depositories. Bidders may note that delivery of refund orders/ CANs may get delayed if the same once sent to the address obtained from the Depositories are returned undelivered. In such an event, the address and other details given by the Bidder (other than ASBA Bidders) in the Bid cum Application Form would be used only to ensure dispatch of refund orders. Please note that any such delay shall be at such Bidder's sole risk and neither the Company, the Escrow Collection Banks, the Selling Shareholders, Registrar to the Issue, the BRLMs shall be liable to compensate the Bidder for any losses caused to the Bidder due to any such delay or liable to pay any interest for such delay.**

In case no corresponding record is available with the Depositories, which matches the three parameters, namely, PAN of the sole/First Bidder, the DP ID and the beneficiary's identity, then such Bids are liable to be rejected.

The Company and the Selling Shareholders in their absolute discretion, reserve the right to permit the holder of the power of attorney to request the Registrar to the Issue that for the purpose of printing particulars on the refund order and mailing of the refund order/CANs/allocation advice or refunds through electronic transfer of funds, the Demographic Details given on the Bid cum Application Form should be used (and not those obtained from the Depository of the Bidder). In such cases, the Registrar to the Issue shall use Demographic Details as given in the Bid cum Application Form instead of those obtained from the depositories.

**Bids by Non-Residents including Eligible NRIs, FIIs and Foreign Venture Capital Funds on a repatriation basis**

Bids and revision to Bids must be made in the following manner:

1. On the Bid cum Application Form or the Revision Form, as applicable ([●] in colour), and completed in full in BLOCK LETTERS in ENGLISH in accordance with the instructions contained therein.
2. In a single name or joint names (not more than three and in the same order as their Depository Participant Details).
3. Bids on a repatriation basis shall be in the names of individuals, or in the name of FIIs but not in the names of minors, OCBs, firms or partnerships, foreign nationals (excluding NRIs) or their nominees.

Bids by Eligible NRIs for a Bid Amount of up to Rs. 100,000 would be considered under the Retail Portion for the purposes of allocation and Bids for a Bid Amount of more than Rs. 100,000 would be considered under

Non-Institutional Portion for the purposes of allocation.

**Refunds, dividends and other distributions, if any, will be payable in Indian Rupees only and net of bank charges and / or commission. In case of Bidders who remit money through Indian Rupee drafts purchased abroad, such payments in Indian Rupees will be converted into US Dollars or any other freely convertible currency as may be permitted by the RBI at the rate of exchange prevailing at the time of remittance and will be dispatched by registered post or if the Bidders so desire, will be credited to their NRE accounts, details of which should be furnished in the space provided for this purpose in the Bid cum Application Form. The Company will not be responsible for loss, if any, incurred by the Bidder on account of conversion of foreign currency.**

**There is no reservation for Eligible NRIs and FIIs and all Bidders will be treated on the same basis with other categories for the purpose of allocation.**

#### **Bids under Power of Attorney**

In case of Bids made pursuant to a power of attorney or by limited companies, corporate bodies, registered societies, FIIs, Mutual Funds, insurance companies and provident funds with a minimum corpus of Rs. 250 million (subject to applicable law) and pension funds with a minimum corpus of Rs. 250 million, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of the memorandum of association and articles of association and/or bye laws must be lodged along with the Bid cum Application Form. Failing this, the Company and the Selling Shareholders reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason therefor.

In addition to the above, certain additional documents are required to be submitted by the following entities:

- a. With respect to Bids by FIIs and Mutual Funds, a certified copy of their SEBI registration certificate must be lodged along with the Bid cum Application Form.
- b. With respect to Bids by insurance companies registered with the Insurance Regulatory and Development Authority, in addition to the above, a certified copy of the certificate of registration issued by the Insurance Regulatory and Development Authority must be lodged along with the Bid cum Application Form.
- c. With respect to Bids made by provident funds with a minimum corpus of Rs. 250 million (subject to applicable law) and pension funds with a minimum corpus of Rs. 250 million, a certified copy of a certificate from a chartered accountant certifying the corpus of the provident fund/pension fund must be lodged along with the Bid cum Application Form.

The Company and the Selling Shareholders in their absolute discretion, reserves the right to relax the above condition of simultaneous lodging of the power of attorney along with the Bid cum Application form, subject to such terms and conditions that the Company, the BRLMs may deem fit.

#### **PAYMENT INSTRUCTIONS**

##### **Escrow Mechanism for Bidders other than ASBA Bidders**

The Company, the Selling Shareholders and the Syndicate shall open Escrow Account(s) with one or more Escrow Collection Bank(s) in whose favour the Bidders shall make out the cheque or demand draft in respect of his or her Bid and/or revision of the Bid. Cheques or demand drafts received for the full Bid Amount from Bidders would be deposited in the Escrow Account.

The Escrow Collection Banks will act in terms of the Red Herring Prospectus and the Escrow Agreement. The Escrow Collection Banks for and on behalf of the Bidders shall maintain the monies in the Escrow Account until the Designated Date. The Escrow Collection Banks shall not exercise any lien whatsoever over the monies deposited therein and shall hold the monies therein in trust for the Bidders. On the Designated Date, the Escrow Collection Banks shall transfer the funds represented by allocation of Equity Shares (other than ASBA funds with the SCSBs) from the Escrow Account, as per the terms of the Escrow Agreement, into the Public Issue Account with the Bankers to the Issue. The balance amount after transfer to the Public Issue Account shall be transferred to the Refund Account. Payments of refund to the Bidders shall also be made

from the Refund Account as per the terms of the Escrow Agreement and the Red Herring Prospectus.

The Bidders should note that the escrow mechanism is not prescribed by SEBI and has been established as an arrangement between the Company, the Selling Shareholders, the Syndicate, the Escrow Collection Banks and the Registrar to the Issue to facilitate collection from the Bidders.

### **Payment mechanism for ASBA Bidders**

The ASBA Bidders shall specify the bank account number in the ASBA Bid cum Application Form and the SCSB shall block an amount equivalent to the Bid Amount in the bank account specified in the ASBA Bid cum Application Form. The SCSB shall keep the Bid Amount in the relevant bank account blocked until withdrawal/ rejection of the ASBA Bid or receipt of instructions from the Registrar to the Issue, to unblock the Bid Amount. In the event of withdrawal or rejection of the ASBA Bid cum Application Form or for unsuccessful ASBA Bid cum Application Forms, the Registrar to the Issue shall give instructions to the SCSB to unblock the application money in the relevant bank account within one day of receipt of such instruction. The Bid Amount shall remain blocked in the ASBA Account until finalisation of the Basis of Allotment in the Issue and consequent transfer of the Bid Amount to the Public Issue Account, or until withdrawal/ failure of the Issue or until rejection of the ASBA Bid, as the case may be.

### **Payment into Escrow Account for Bidders other than ASBA Bidders**

Each Bidder shall draw a cheque or demand draft or (for Anchor Investors) remit the funds electronically through the RTGS mechanism for the amount payable on the Bid Amount and/or on allocation/Allotment as per the following terms:

1. All Bidders would be required to pay the full Bid Amount at the time of the submission of the Bid cum Application Form.
2. The Bidders shall, with the submission of the Bid cum Application Form, draw a payment instrument for the Bid Amount in favour of the Escrow Account and submit the same to the Syndicate. If the payment is not made favouring the Escrow Account along with the Bid cum Application Form, the Bid of the Bidder shall be rejected.
3. The payment instruments for payment into the Escrow Account should be drawn in favour of:
  - (a) In case of Resident QIB Bidders: “SKS Microfinance Limited Public Issue - Escrow Account - QIB - R”
  - (b) In case of Non-Resident QIB Bidders: “SKS Microfinance Limited Public Issue -Escrow Account - QIB - NR”
  - (c) In case of Resident Retail and Non-Institutional Bidders: “SKS Microfinance Limited Public Issue - Escrow Account - R”
  - (d) In case of Non-Resident Retail and Non-Institutional Bidders: “SKS Microfinance Limited Public Issue - Escrow Account - NR”
4. Anchor Investors would be required to pay the Bid Amount at the time of submission of the Bid cum Application Form. In the event of the Issue Price being higher than the price at which allocation is made to Anchor Investors, the Anchor Investors shall be required to pay such additional amount to the extent of shortfall between the price at which allocation is made to them and the Issue Price as per the pay-in date mentioned in the revised CAN. If the Issue Price is lower than the price at which allocation is made to Anchor Investors, the amount in excess of the Issue Price paid by Anchor Investors shall not be refunded to them.
5. For Anchor Investors, the payment instruments for payment into the Escrow Account should be drawn in favour of:
  - (a) In case of resident Anchor Investors: “SKS Microfinance Limited Public Issue - Escrow Account - Anchor Investor - R”



- (b) In case of non-resident Anchor Investors: “SKS Microfinance Limited Public Issue - Escrow Account - Anchor Investor - NR”

In case of Bids by NRIs applying on repatriation basis, the payments must be made through Indian Rupee drafts purchased abroad or cheques or bank drafts, for the amount payable on application remitted through normal banking channels or out of funds held in Non-Resident External (NRE) Accounts or Foreign Currency Non-Resident (FCNR) Accounts, maintained with banks authorised to deal in foreign exchange in India, along with documentary evidence in support of the remittance. Payment will not be accepted out of Non-Resident Ordinary (NRO) Account of Non-Resident Bidder bidding on a repatriation basis. Payment by drafts should be accompanied by bank certificate confirming that the draft has been issued by debiting to NRE Account or FCNR Account.

6. In case of Bids by NRIs applying on non-repatriation basis, the payments must be made through Indian Rupee Drafts purchased abroad or cheques or bank drafts, for the amount payable on application remitted through normal banking channels or out of funds held in Non-Resident External (NRE) Accounts or Foreign Currency Non-Resident (FCNR) Accounts, maintained with banks authorised to deal in foreign exchange in India, along with documentary evidence in support of the remittance or out of a Non-Resident Ordinary (NRO) Account of a Non-Resident Bidder bidding on a non-repatriation basis. Payment by drafts should be accompanied by a bank certificate confirming that the draft has been issued by debiting an NRE or FCNR or NRO Account.
7. In case of Bids by FIIs, the payment should be made out of funds held in a Special Rupee Account along with documentary evidence in support of the remittance. Payment by drafts should be accompanied by a bank certificate confirming that the draft has been issued by debiting the Special Rupee Account.
8. The monies deposited in the Escrow Account will be held for the benefit of the Bidders (other than ASBA Bidders) till the Designated Date.
9. On the Designated Date, the Escrow Collection Banks shall transfer the funds from the Escrow Account as per the terms of the Escrow Agreement into the Public Issue Account with the Bankers to the Issue.
10. On the Designated Date and no later than 10 Working Days from the Bid/Issue Closing Date, the Escrow Collection Bank shall also refund all amounts payable to unsuccessful Bidders (other than ASBA Bidders) and also the excess amount paid on Bidding, if any, after adjusting for allocation/Allotment to the Bidders.
11. Payments should be made by cheque, or a demand draft drawn on any bank (including a co-operative bank), which is situated at, and is a member of or sub-member of the bankers’ clearing house located at the centre where the Bid cum Application Form is submitted. Outstation cheques/bank drafts drawn on banks not participating in the clearing process will not be accepted and applications accompanied by such cheques or bank drafts are liable to be rejected. Cash/ stockinvest/money orders/postal orders will not be accepted.

#### **Submission of Bid cum Application Form**

All Bid cum Application Forms or Revision Forms duly completed and accompanied by account payee cheques or drafts shall be submitted to the Syndicate at the time of submission of the Bid. With respect to the ASBA Bidders, the ASBA Bid cum Application Form or the ASBA Revision Form shall be submitted to the Designated Branches of the SCSBs.

No separate receipts shall be issued for the money payable on the submission of Bid cum Application Form or Revision Form. However, the collection centre of the Syndicate will acknowledge the receipt of the Bid cum Application Forms or Revision Forms by stamping and returning to the Bidder the acknowledgement slip. This acknowledgement slip will serve as the duplicate of the Bid cum Application Form for the records of the Bidder.

#### **OTHER INSTRUCTIONS**

### **Joint Bids in the case of Individuals**

Bids may be made in single or joint names (not more than three). In the case of joint Bids, all payments will be made out in favour of the First Bidder whose name appears first in the Bid cum Application Form or Revision Form. All communications will be addressed to the First Bidder and will be dispatched to his or her address as per the Demographic Details received from the Depository.

### **Multiple Bids**

A Bidder should submit only one Bid (and not more than one) for the total number of Equity Shares required. Two or more Bids will be deemed to be multiple Bids if the sole or First Bidder is one and the same.

In case of a Mutual Fund, a separate Bid can be made in respect of each scheme of the Mutual Fund registered with SEBI and such Bids in respect of more than one scheme of the Mutual Fund will not be treated as multiple Bids provided that the Bids clearly indicate the scheme concerned for which the Bid has been made. Bids by QIBs under the Anchor Investor Portion and QIB Portion (excluding Anchor Investor Portion) will not be considered as multiple Bids.

After Bidding on an ASBA Bid cum Application Form either in physical or electronic mode, where such ASBA Bid has been submitted to the Designated Branches of SCSBs and uploaded with the Stock Exchanges, an ASBA Bidder cannot Bid, either in physical or electronic mode, on another ASBA Bid cum Application Form or a Bid cum Application Form. Submission of a second application form, whether an ASBA Bid cum Application Form, to either the same or to another Designated Branch of the SCSB, or a Bid cum Application Form to the members of the Syndicate, will be treated as multiple Bids and will be liable to be rejected either before entering the Bid into the electronic bidding system, or at any point of time prior to the allocation or Allotment of Equity Shares in this Issue. However, the ASBA Bidder can revise the Bid through the Revision Form, the procedure for which is detailed in “Build up of the Book and Revision of Bids” on page 288 above.

More than one ASBA Bidder may Bid for Equity Shares using the same ASBA Account, provided that the SCSBs shall not accept a total of more than five ASBA Bid cum Application Forms from such ASBA Bidders with respect to any single ASBA Account.

Our Company reserves the right to reject, in its absolute discretion, all or any multiple Bids in any or all categories. A check would be carried out for the same PAN, in cases where the PAN is same, such bids would be treated as multiple applications.

### **Permanent Account Number or PAN**

Except for Bids on behalf of the Central or State Government and the officials appointed by the courts and Bidders resident in the State of Sikkim who, in terms of a SEBI circular dated July 20, 2006 may be exempt from specifying their PAN, the Bidders, or in the case of a Bid in joint names, each of the Bidders, should mention his/ her PAN allotted under the I.T. Act. In accordance with the SEBI Regulations, the PAN would be the sole identification number for participants transacting in the securities market, irrespective of the amount of transaction. **Any Bid cum Application Form without the PAN is liable to be rejected. It is to be specifically noted that Bidders should not submit the GIR number instead of the PAN as the Bid is liable to be rejected on this ground.**

### **REJECTION OF BIDS**

In case of QIB Bidders, the Company and the Selling Shareholders in consultation with the BRLMs may reject Bids provided that the reasons for rejecting the same shall be provided to such Bidders in writing. In case of Non-Institutional Bidders and Retail Individual Bidders, the Company and the Selling Shareholders has a right to reject Bids based on technical grounds. Consequent refunds shall be made by RTGS/NEFT/NES/Direct Credit/cheque or pay order or draft and will be sent to the Bidder's address at the Bidder's risk. With respect to ASBA Bids, the Designated Branches of the SCSBs shall have the right to reject ASBA Bids if at the time of blocking the Bid Amount in the Bidder's bank account, the respective Designated Branch of the SCSB ascertains that sufficient funds are not available in the Bidder's bank account maintained with the SCSB. Subsequent to the acceptance of the ASBA Bid by the SCSB, the Company would have a right to reject the ASBA Bids only on technical grounds.

### ***Grounds for Technical Rejections***

Bidders should note that incomplete Bid cum Application forms and ASBA Bid cum Application Forms that are not legible will be rejected by the members of the Syndicate or the SCSBs. Bidders are also advised to note that Bids are liable to be rejected inter alia on the following technical grounds:

- Amount paid does not tally with the amount payable for the highest value of Equity Shares Bid for. With respect to ASBA Bids, the amounts mentioned in the ASBA Bid cum Application Form does not tally with the amount payable for the value of the Equity Shares Bid for;
- In case of partnership firms, Equity Shares may be registered in the names of the individual partners and no firm as such shall be entitled to apply;
- Bid by persons not competent to contract under the Indian Contract Act, 1872 including minors;
- PAN not mentioned in the Bid cum Application Form;
- GIR number furnished instead of PAN;
- Bids for lower number of Equity Shares than specified for that category of investors;
- Bids at a price less than the Floor Price;
- Bids at a price more than the Cap Price;
- Signature of sole and/or joint Bidders missing;
- Submission of more than five ASBA Bid cum Application Forms per bank account;
- Bids at Cut-off Price by Non-Institutional and QIB Bidders;
- Bids for number of Equity Shares which are not in multiples of [●];
- Category not ticked;
- Multiple Bids as defined in the Red Herring Prospectus;
- In case of Bids under power of attorney or by limited companies, corporate, trust etc., relevant documents are not submitted;
- Bids accompanied by stockinvest/money order/postal order/cash;
- Signature of sole and/or joint Bidders missing. With respect to ASBA Bids, the ASBA Bid cum Application form not being signed by the account holders, if the account holder is different from the Bidder;
- Bid cum Application Forms does not have the stamp of the BRLMs or Syndicate Members or the SCSB;
- Bid cum Application Forms does not have Bidder's depository account details;
- Bid cum Application Forms are not delivered by the Bidders within the time prescribed as per the Bid cum Application Forms, Bid/Issue Opening Date advertisement and the Red Herring Prospectus and as per the instructions in the Red Herring Prospectus and the Bid cum Application Forms;
- In case no corresponding record is available with the Depositories that matches three parameters namely, names of the Bidders (including the order of names of joint holders), the Depository Participant's identity (DP ID) and the beneficiary's account number;

- With respect to ASBA Bids, inadequate funds in the bank account to block the Bid Amount specified in the ASBA Bid cum Application Form at the time of blocking such Bid Amount in the bank account;
- Bids for amounts greater than the maximum permissible amounts prescribed by the regulations;
- Bids in respect whereof the Bid cum Application Form do not reach the Registrar to the Issue prior to the finalisation of the Basis of Allotment;
- Bids where clear funds are not available in Escrow Accounts as per final certificate from the Escrow Collection Banks;
- Bids by QIBs not submitted through the BRLMs or in case of ASBA Bids for QIBs not intimated to the BRLMs;
- Bids by persons in the United States excluding “qualified institutional buyers” as defined in Rule 144A of the Securities Act or other than in reliance of Regulation S under the Securities Act;
- Bids by any person outside India if not in compliance with applicable foreign and Indian Laws;
- Bids not uploaded on the terminals of the Stock Exchanges; and
- Bids by persons prohibited from buying, selling or dealing in the shares directly or indirectly by SEBI or any other regulatory authority.

**IN CASE THE DP ID, CLIENT ID AND PAN MENTIONED IN THE BID CUM APPLICATION FORM AND ENTERED INTO THE ELECTRONIC BIDDING SYSTEM OF THE STOCK EXCHANGES BY THE SYNDICATE/THE SCSBs DO NOT MATCH WITH THE DP ID, CLIENT ID AND PAN AVAILABLE IN THE RECORDS WITH THE DEPOSITARIES, THE APPLICATION IS LIABLE TO BE REJECTED.**

#### **EQUITY SHARES IN DEMATERIALISED FORM WITH NSDL OR CDSL**

As per the provisions of Section 68B of the Companies Act, the Allotment of Equity Shares in this Issue shall be only in a de-materialised form, (i.e., not in the form of physical certificates but be fungible and be represented by the statement issued through the electronic mode).

In this context, two agreements have been signed among the Company, the respective Depositories and the Registrar to the Issue:

- Agreement dated May 6, 2010, between NSDL, the Company and the Registrar to the Issue;
- Agreement dated April 29, 2010, between CDSL, the Company and the Registrar to the Issue.

All Bidders can seek Allotment only in dematerialised mode. Bids from any Bidder without relevant details of his or her depository account are liable to be rejected.

- (a) A Bidder applying for Equity Shares must have at least one beneficiary account with either of the Depository Participants of either NSDL or CDSL prior to making the Bid.
- (b) The Bidder must necessarily fill in the details (including the Beneficiary Account Number and Depository Participant’s identification number) appearing in the Bid cum Application Form or Revision Form.
- (c) Allotment to a successful Bidder will be credited in electronic form directly to the beneficiary account (with the Depository Participant) of the Bidder.
- (d) Names in the Bid cum Application Form or Revision Form should be identical to those appearing in

the account details in the Depository. In case of joint holders, the names should necessarily be in the same sequence as they appear in the account details in the Depository.

- (e) If incomplete or incorrect details are given under the heading 'Bidders Depository Account Details' in the Bid cum Application Form or Revision Form, it is liable to be rejected.
- (f) The Bidder is responsible for the correctness of his or her Demographic Details given in the Bid cum Application Form vis-à-vis those with his or her Depository Participant.
- (g) Equity Shares in electronic form can be traded only on the Stock Exchanges having electronic connectivity with NSDL and CDSL. All the Stock Exchanges where the Equity Shares are proposed to be listed have electronic connectivity with CDSL and NSDL.
- (h) The trading of the Equity Shares of the Company would be in dematerialised form only for all Bidders in the demat segment of the respective Stock Exchanges.

### **Communications**

All future communications in connection with Bids made in this Issue should be addressed to the Registrar to the Issue quoting the full name of the sole or First Bidder, Bid cum Application Form number, Bidders Depository Account Details, number of Equity Shares applied for, date of Bid cum Application Form, name and address of the member of the Syndicate or the Designated Branch of the SCSBs where the Bid was submitted and cheque or draft number and issuing bank thereof or with respect to ASBA Bids, bank account number in which the amount equivalent to the Bid Amount was blocked.

**Investors can contact the Compliance Officer or the Registrar to the Issue in case of any pre-Issue or post-Issue related problems such as non-receipt of letters of Allotment, credit of Allotted shares in the respective beneficiary accounts, refund orders etc. In case of ASBA Bids submitted to the Designated Branches of the SCSBs, the Bidders can contact the Designated Branches of the SCSBs.**

### **PAYMENT OF REFUND**

Bidders other than ASBA Bidders must note that on the basis of the names of the Bidders, Depository Participant's name, DP ID, beneficiary account number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain, from the Depositories, the Bidders' bank account details, including the nine digit Magnetic Ink Character Recognition ("MICR") code as appearing on a cheque leaf. Hence, Bidders are advised to immediately update their bank account details as appearing on the records of the Depository Participant. Please note that failure to do so could result in delays in despatch of refund order or refunds through electronic transfer of funds, as applicable, and any such delay shall be at the Bidders' sole risk and neither the Company, the Selling Shareholders, the Registrar to the Issue, Escrow Collection Bank(s), Bankers to the Issue, the BRLMs shall be liable to compensate the Bidders for any losses caused to the Bidder due to any such delay or liable to pay any interest for such delay.

#### *Mode of making refunds for Bidders other than ASBA Bidders*

The payment of refund, if any, for Bidders other than ASBA Bidders would be done through various modes in the following modes:

NECS – Payment of refund would be done through NECS for applicants having an account at any of the centres where such facility has been made available. This mode of payment of refunds would be subject to availability of complete bank account details including the MICR code as appearing on a cheque leaf, from the Depositories. The payment of refunds is mandatory for applicants having a bank account at any of the abovementioned centres, except where the applicant, being eligible, opts to receive refund through direct credit or RTGS.

Direct Credit – Applicants having bank accounts with the Refund Bank (s), as mentioned in the Bid cum Application Form, shall be eligible to receive refunds through direct credit. Charges, if any, levied by the Refund Bank(s) for the same would be borne by the Company.

RTGS – Applicants having a bank account at any of the abovementioned centres and whose refund amount

exceeds Rs. 5 million, have the option to receive refund through RTGS. Such eligible applicants who indicate their preference to receive refund through RTGS are required to provide the IFSC code in the Bid cum Application Form. In the event the same is not provided, refund shall be made through NECS. Charges, if any, levied by the Refund Bank(s) for the same would be borne by the Company. Charges, if any, levied by the applicant's bank receiving the credit would be borne by the applicant.

NEFT – Payment of refund shall be undertaken through NEFT wherever the applicants' bank has been assigned the Indian Financial System Code (IFSC), which can be linked to a Magnetic Ink Character Recognition (MICR), if any, available to that particular bank branch. IFSC Code will be obtained from the website of RBI as on a date immediately prior to the date of payment of refund, duly mapped with MICR numbers. Wherever the applicants have registered their nine digit MICR number and their bank account number while opening and operating the demat account, the same will be duly mapped with the IFSC Code of that particular bank branch and the payment of refund will be made to the applicants through this method. The process flow in respect of refunds by way of NEFT is at an evolving stage and hence use of NEFT is subject to operational feasibility, cost and process efficiency. The process flow in respect of refunds by way of NEFT is at an evolving stage, hence use of NEFT is subject to operational feasibility, cost and process efficiency. In the event that NEFT is not operationally feasible, the payment of refunds would be made through any one of the other modes as discussed in the sections.

For all other applicants, including those who have not updated their bank particulars with the MICR code, the refund orders will be despatched under certificate of posting for value upto Rs. 1,500 and through Speed Post/ Registered Post for refund orders of Rs. 1,500 and above. Such refunds will be made by cheques, pay orders or demand drafts drawn on the Escrow Collection Banks and payable at par at places where Bids are received. Bank charges, if any, for cashing such cheques, pay orders or demand drafts at other centres will be payable by the Bidders.

#### *Mode of making refunds for ASBA Bidders*

In case of ASBA Bidders, the Registrar to the Issue shall instruct the relevant SCSB to unblock the funds in the relevant ASBA Account to the extent of the Bid Amount specified in the ASBA Bid cum Application Forms for withdrawn, rejected or unsuccessful or partially successful ASBA Bids within 12 Working Days of the Bid/Issue Closing Date.

### **DISPOSAL OF APPLICATIONS AND APPLICATION MONEYS AND INTEREST IN CASE OF DELAY**

With respect to Bidders other than ASBA Bidders, the Company, the Selling Shareholders shall ensure dispatch of Allotment advice, refund orders (except for Bidders who receive refunds through electronic transfer of funds) and give benefit to the beneficiary account with Depository Participants and submit the documents pertaining to the Allotment to the Stock Exchanges within two Working Days from the date of Allotment of Equity Shares.

In case of applicants who receive refunds through NECS, direct credit or RTGS, the refund instructions will be given to the clearing system within 12 Working Days from the Bid/ Issue Closing Date. A suitable communication shall be sent to the Bidders receiving refunds through this mode within 12 Working Days of Bid/ Issue Closing Date, giving details of the bank where refunds shall be credited along with amount and expected date of electronic credit of refund.

The Company, the Selling Shareholders shall use best efforts to ensure that all steps for completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges where the Equity Shares are proposed to be listed, are taken within 12 Working Days of the Bid/Issue Closing Date.

In accordance with the Companies Act, the requirements of the Stock Exchanges and the SEBI Regulations, the Company and the Selling Shareholders further undertake that:

- Allotment of Equity Shares shall be made only in dematerialised form within 12 Working Days of the Bid/Issue Closing Date; and
- With respect to Bidders other than ASBA Bidders, dispatch of refund orders or in a case where the refund or portion thereof is made in electronic manner, the refund instructions are given to the

clearing system within 12 Working Days of the Bid/Issue Closing Date would be ensured. With respect to the ASBA Bidders, instructions for unblocking of the ASBA Bidder's Bank Account shall be made within 12 Working Days from the Bid/Issue Closing Date.

- The Company and the Selling Shareholders shall pay interest at 15% per annum for any delay beyond the 15 days from the Bid/Issue Closing Date as mentioned above, if Allotment is not made and refund orders are not dispatched or if, in a case where the refund or portion thereof is made in electronic manner, the refund instructions have not been given to the clearing system in the disclosed manner and/or demat credits are not made to investors within the 12 Working Days prescribed above. If such money is not repaid within eight days from the day the Company becomes liable to repay, the Company and every Director of the Company who is an officer in default shall, on and from expiry of eight days, be jointly and severally liable to repay the money with interest as prescribed under the applicable law.

## **IMPERSONATION**

**Attention of the applicants is specifically drawn to the provisions of sub-section (1) of Section 68 A of the Companies Act, which is reproduced below:**

***“Any person who:***

- (a) makes in a fictitious name, an application to a company for acquiring or subscribing for, any shares therein, or***
- (b) otherwise induces a company to allot, or register any transfer of shares, therein to him, or any other person in a fictitious name,***

***shall be punishable with imprisonment for a term which may extend to five years.”***

## **BASIS OF ALLOTMENT**

### **A. For Retail Individual Bidders**

- Bids received from the Retail Individual Bidders at or above the Issue Price shall be grouped together to determine the total demand under this category. The Allotment to all the successful Retail Individual Bidders will be made at the Issue Price.
- The Issue size less Allotment to Non-Institutional and QIB Bidders shall be available for Allotment to Retail Individual Bidders who have Bid in the Issue at a price that is equal to or greater than the Issue Price.
- If the aggregate demand in this category is less than or equal to 5,037,474 Equity Shares at or above the Issue Price, full Allotment shall be made to the Retail Individual Bidders to the extent of their valid Bids.
- If the aggregate demand in this category is greater than 5,037,474 Equity Shares at or above the Issue Price, the Allotment shall be made on a proportionate basis up to a minimum of [●] Equity Shares. For the method of proportionate Basis of Allotment, refer below.

### **B. For Non-Institutional Bidders**

- Bids received from Non-Institutional Bidders at or above the Issue Price shall be grouped together to determine the total demand under this category. The Allotment to all successful Non-Institutional Bidders will be made at the Issue Price.
- The Issue size less Allotment to QIBs and Retail Portion shall be available for Allotment to Non-Institutional Bidders who have Bid in the Issue at a price that is equal to or greater than the Issue Price.
- If the aggregate demand in this category is less than or equal to 1,679,157 Equity Shares at

or above the Issue Price, full Allotment shall be made to Non-Institutional Bidders to the extent of their demand.

- In case the aggregate demand in this category is greater than 1,679,157 Equity Shares at or above the Issue Price, Allotment shall be made on a proportionate basis up to a minimum of [●] Equity Shares. For the method of proportionate Basis of Allotment refer below.

**C. For QIBs (other than Anchor Investors)**

- Bids received from the QIB Bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The Allotment to all the successful QIB Bidders will be made at the Issue Price.
- The QIB Portion shall be available for Allotment to QIB Bidders who have Bid in the Issue at a price that is equal to or greater than the Issue Price.
- Allotment shall be undertaken in the following manner:
  - (a) In the first instance allocation to Mutual Funds for up to 5% of the QIB Portion (excluding Anchor Investor Portion) shall be determined as follows:
    - (i) In the event that Bids by Mutual Fund exceeds 5% of the QIB Portion (excluding Anchor Investor Portion), allocation to Mutual Funds shall be done on a proportionate basis for up to 5% of the QIB Portion (excluding Anchor Investor Portion).
    - (ii) In the event that the aggregate demand from Mutual Funds is less than 5% of the QIB Portion (excluding Anchor Investor Portion) then all Mutual Funds shall get full Allotment to the extent of valid Bids received above the Issue Price.
    - (iii) Equity Shares remaining unsubscribed, if any, not allotted to Mutual Funds shall be available for Allotment to all QIB Bidders as set out in (b) below;
  - (b) In the second instance Allotment to all QIBs shall be determined as follows:
    - (A) In the event that the oversubscription in the QIB Portion, all QIB Bidders (excluding Anchor Investors Portion), all QIB Bidders who have submitted Bids above the Issue Price shall be allotted Equity Shares on a proportionate basis for up to 95% of the QIB Portion.
    - (B) Mutual Funds, who have received allocation as per (a) above, for less than the number of Equity Shares Bid for by them, are eligible to receive Equity Shares on a proportionate basis along with other QIB Bidders (excluding Anchor Investors Portion).
    - (C) Under-subscription below 5% of the QIB Portion (excluding Anchor Investor Portion), if any, from Mutual Funds, would be included for allocation to the remaining QIB Bidders on a proportionate basis.
- The aggregate Allotment to QIB Bidders shall not be less than 10,074,948 Equity Shares.

**D. For Anchor Investor Portion**

- Allocation of Equity Shares to Anchor Investors at the Anchor Investor Issue Price will be at the discretion of the Company and the Selling Shareholders, in consultation with the BRLMs, subject to compliance with the following requirements:
  - (a) not more than 30% of the QIB Portion will be allotted to Anchor Investors;
  - (b) one-third of the Anchor Investor Portion shall be reserved for domestic Mutual



- Funds, subject to valid Bids being received from domestic Mutual Funds at or above the price at which allocation is being done to other Anchor Investors;
- (c) allocation to Anchor Investors shall be on a discretionary basis and subject to a minimum number of two Anchor Investors for allocation upto Rs. 2,500 million and minimum number of five Anchor Investors for allocation more than Rs. 2,500 million.
- The number of Equity Shares Allotted to Anchor Investors and the Anchor Investor Issue Price, shall be made available in the public domain by the BRLMs before the Bid/ Issue Opening Date by intimating the same to the Stock Exchanges.

### **Method of Proportionate Basis of Allotment in the Issue**

Except in relation to Anchor Investor, in the event of the Issue being over-subscribed, the Company shall finalise the Basis of Allotment in consultation with the Designated Stock Exchange. The executive director (or any other senior official nominated by them) of the Designated Stock Exchange along with the BRLMs and the Registrar to the Issue shall be responsible for ensuring that the Basis of Allotment is finalised in a fair and proper manner.

The Allotment shall be made in marketable lots, on a proportionate basis as explained below:

- Bidders will be categorised according to the number of Equity Shares applied for.
- The total number of Equity Shares to be Allotted to each category as a whole shall be arrived at on a proportionate basis, which is the total number of Equity Shares applied for in that category (number of Bidders in the category multiplied by the number of Equity Shares applied for) multiplied by the inverse of the over-subscription ratio.
- Number of Equity Shares to be Allotted to the successful Bidders will be arrived at on a proportionate basis, which is total number of Equity Shares applied for by each Bidder in that category multiplied by the inverse of the over-subscription ratio.
- In all Bids where the proportionate Allotment is less than [•] Equity Shares per Bidder, the Allotment shall be made as follows:
  - The successful Bidders out of the total Bidders for a category shall be determined by draw of lots in a manner such that the total number of Equity Shares Allotted in that category is equal to the number of Equity Shares calculated in accordance with (b) above; and
  - Each successful Bidder shall be Allotted a minimum of [•] Equity Shares.
- If the proportionate Allotment to a Bidder is a number that is more than [•] but is not a multiple of one (which is the marketable lot), the decimal would be rounded off to the higher whole number if that decimal is 0.5 or higher. If that number is lower than 0.5 it would be rounded off to the lower whole number. Allotment to all in such categories would be arrived at after such rounding off.
- If the Equity Shares allotted on a proportionate basis to any category are more than the Equity Shares Allotted to the Bidders in that category, the remaining Equity Shares available for Allotment shall be first adjusted against any other category, where the Allotted Equity Shares are not sufficient for proportionate Allotment to the successful Bidders in that category. The balance Equity Shares, if any, remaining after such adjustment will be added to the category comprising Bidders applying for minimum number of Equity Shares.
- Subject to valid Bids being received, allocation of Equity Shares to Anchor Investors shall be at the sole discretion of the Company and the Selling Shareholders, in consultation with the BRLMs.

## Illustration of Allotment to QIBs and Mutual Funds (“MF”)

### A. Issue Details

| S. No. | Particulars                                                           | Issue details              |
|--------|-----------------------------------------------------------------------|----------------------------|
| 1.     | Issue size                                                            | 200 million equity shares  |
| 2.     | Allocation to QIB (60%)                                               | 120 million equity shares  |
| 3.     | Anchor Investor Portion                                               | 36 million equity shares   |
| 4.     | Portion available to QIBs other than Anchor Investors [(2) minus (3)] | 84 million equity shares   |
|        | Of which:                                                             |                            |
|        | a. Allocation to MF (5%)                                              | 4.20 million equity shares |
|        | b. Balance for all QIBs including MFs                                 | 79.8 million equity shares |
| 3      | No. of QIB applicants                                                 | 10                         |
| 4      | No. of shares applied for                                             | 500 million equity shares  |

### B. Details of QIB Bids

| S. No. | Type of QIB bidders <sup>#</sup> | No. of shares bid for (in million) |
|--------|----------------------------------|------------------------------------|
| 1      | A1                               | 50                                 |
| 2      | A2                               | 20                                 |
| 3      | A3                               | 130                                |
| 4      | A4                               | 50                                 |
| 5      | A5                               | 50                                 |
| 6      | MF1                              | 40                                 |
| 7      | MF2                              | 40                                 |
| 8      | MF3                              | 80                                 |
| 9      | MF4                              | 20                                 |
| 10     | MF5                              | 20                                 |
|        | <b>Total</b>                     | <b>500</b>                         |

<sup>#</sup> A1-A5: ( QIB bidders other than MFs), MF1-MF5 (QIB bidders which are Mutual Funds)

### C. Details of Allotment to QIB Bidders/ Applicants

(Number of equity shares in million)

| Type of QIB bidders | Shares bid for | Allocation of 4.20 million Equity Shares to MF proportionately (please see note 2 below) | Allocation of balance 79.80 million Equity Shares to QIBs proportionately (please see note 4 below) | Aggregate allocation to MFs |
|---------------------|----------------|------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|-----------------------------|
| (I)                 | (II)           | (III)                                                                                    | (IV)                                                                                                | (V)                         |
| A1                  | 50             | 0                                                                                        | 8.05                                                                                                | 0                           |
| A2                  | 20             | 0                                                                                        | 3.22                                                                                                | 0                           |
| A3                  | 130            | 0                                                                                        | 20.92                                                                                               | 0                           |
| A4                  | 50             | 0                                                                                        | 8.05                                                                                                | 0                           |
| A5                  | 50             | 0                                                                                        | 8.05                                                                                                | 0                           |
| MF1                 | 40             | 0.84                                                                                     | 6.30                                                                                                | 7.14                        |
| MF2                 | 40             | 0.84                                                                                     | 6.30                                                                                                | 7.14                        |
| MF3                 | 80             | 1.68                                                                                     | 12.61                                                                                               | 14.29                       |
| MF4                 | 20             | 0.42                                                                                     | 3.15                                                                                                | 3.57                        |
| MF5                 | 20             | 0.42                                                                                     | 3.15                                                                                                | 3.57                        |
|                     | <b>500</b>     | <b>4.20</b>                                                                              | <b>79.80</b>                                                                                        | <b>35.71</b>                |

Please note:

1. The illustration presumes compliance with the requirements specified in this Red Herring Prospectus in the section entitled “Issue Structure” on page 276 of this Red Herring Prospectus.
2. Out of 84 million equity shares allotted to QIBs, 4.2 million (i.e. 5%) will be allotted on proportionate basis among five Mutual Fund applicants who applied for 200 million equity shares in QIB category.
3. The balance 79.80 million equity shares (i.e. 84 - 4.2 (available for MFs)) will be allotted on proportionate basis among 10 QIB applicants who applied for 500 million equity shares (including five MF applicants who applied for 200 million equity shares).
4. The figures in the fourth column entitled “Allocation of balance 79.80 million Equity Shares to QIBs proportionately” in the above illustration are arrived as under:
  - For QIBs other than Mutual Funds (A1 to A5) = No. of shares bid for (i.e. in column II) X 79.80 / 495.80.
  - For Mutual Funds (MF1 to MF5)= [(No. of shares bid for (i.e. in column II of the table above) less Equity Shares allotted ( i.e., column III of the table above)] X 79.80 / 495.80.
  - The numerator and denominator for arriving at allocation of 84 million shares to the 10 QIBs are reduced by 4.2 million shares, which have already been allotted to Mutual Funds in the manner specified in column III of the table above.

#### **Letters of Allotment or Refund Orders or instructions to the SCSBs**

The Company shall give credit to the beneficiary account with depository participants within 12 Working Days from the Bid/Issue Closing Date. Applicants residing at the centres where clearing houses are managed by the RBI, will get refunds through NECS only except where applicant is otherwise disclosed as eligible to get refunds through direct credit and RTGS. The Company shall ensure dispatch of refund orders, if any, of value up to Rs. 1,500, by “Under Certificate of Posting”, and shall dispatch refund orders above Rs. 1,500, if any, by registered post or speed post at the sole or First Bidder’s sole risk within 12 Working Days of the Bid/Issue Closing Date. Bidders to whom refunds are made through electronic transfer of funds will be sent a letter through ordinary post, intimating them about the mode of credit of refund within 12 Working Days of the Bid/Issue Closing Date. In case of ASBA Bidders, the Registrar to the Issue shall instruct the relevant SCSBs to unblock the funds in the relevant ASBA Account to the extent of the Bid Amount specified in the ASBA Bid cum Application Forms for withdrawn, rejected or unsuccessful or partially successful ASBA Bids within 12 Working Days of the Bid/Issue Closing Date.

#### **Interest in case of delay in despatch of Allotment Letters or Refund Orders/ instruction to the SCSBs by the Registrar to the Issue.**

The Company agrees that (i) Allotment of Equity Shares; and (ii) credit to the successful Bidders’ depository accounts will be completed within 12 Working Days of the Bid/ Issue Closing Date. The Company further agrees that it shall pay interest at the rate of 15% p.a. if the Allotment letters or refund orders have not been despatched to the applicants or if, in a case where the refund or portion thereof is made in electronic manner, the refund instructions have not been given in the disclosed manner within 15 days from the Bid/ Issue Closing Date.

The Company will provide adequate funds required for dispatch of refund orders or Allotment advice to the Registrar to the Issue.

Refunds will be made by cheques, pay-orders or demand drafts drawn on a bank appointed by the Company as a Refund Bank and payable at par at places where Bids are received. Bank charges, if any, for encashing such cheques, pay orders or demand drafts at other centres will be payable by the Bidders.

## UNDERTAKINGS BY THE COMPANY

The Company undertakes the following:

- That the complaints received in respect of this Issue shall be attended to by the Company expeditiously and satisfactorily;
- That all steps for completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges where the Equity Shares are proposed to be listed within 12 Working Days of the Bid/Issue Closing Date;
- That funds required for making refunds to unsuccessful applicants as per the mode(s) disclosed shall be made available to the Registrar to the Issue, by the Issuer;
- That where refunds are made through electronic transfer of funds, a suitable communication shall be sent to the applicant within 15 days of the Bid/ Issue Closing Date, as the case may be, giving details of the bank where refunds shall be credited along with amount and expected date of electronic credit of refund;
- That the Promoter's contribution in full has already been brought in;
- That the certificates of the securities/ refund orders to Eligible NRIs shall be despatched within specified time;
- That no further issue of Equity Shares shall be made till the Equity Shares offered through the Red Herring Prospectus are listed or until the Bid monies are refunded on account of non-listing, under-subscription etc.; and
- That adequate arrangements shall be made to collect all ASBA Bid cum Application Forms and to consider them similar to non-ASBA applications while finalising the Basis of Allotment.

The Selling Shareholders undertake the following:

- That the Equity Shares being sold pursuant to the Offer for Sale, have been held by them for a period of more than one year prior to the date of filing the Red Herring Prospectus and the Equity Shares are free and clear of any liens or encumbrances, and shall be transferred to the successful Bidders within the specified time;
- That the Selling Shareholders shall take steps to transfer the Equity Shares to successful Bidders within the specified time;
- That the Selling Shareholders shall inform the Company of any material developments known to them or which would have been reasonably known to them, which effects their ability to sell the Equity Shares in the Issue;
- That the funds required for despatch of refund orders or Allotment advice by registered post or speed post shall be made available to the Registrar to the Issue by the Selling Shareholders; and
- That the refund orders or Allotment advice to the successful Bidders shall be dispatched within specified time.

The Company and the Selling Shareholders shall not have recourse to the Issue Proceeds until the approval for trading of the Equity Shares from all the Stock Exchanges where listing is sought has been received.

The Company shall transfer to the Selling Shareholders, the proceeds from the Offer for Sale, on the same being permitted to be released in accordance with applicable laws.

**Withdrawal of the Issue**

The Company and the Selling Shareholders, in consultation with the BRLMs, reserves the right not to proceed with the Issue anytime after the Bid/Issue Opening Date but before the Allotment of Equity Shares. In such an event, the Company would issue a public notice in the newspapers, in which the pre-Issue advertisements were published, within two days of the Bid/ Issue Closing Date, providing reasons for not proceeding with the Issue. The Company shall also inform the same to Stock Exchanges on which the Equity Shares are proposed to be listed.

Any further issue of Equity Shares by the Company shall be in compliance with applicable laws.

**Utilisation of Issue Proceeds**

The Board of Directors certify that:

- all monies received out of the Issue shall be credited/transferred to a separate bank account other than the bank account referred to in sub-section (3) of Section 73 of the Companies Act;
- details of all monies utilised out of Issue shall be disclosed, and continue to be disclosed till the time any part of the issue proceeds remains unutilised, under an appropriate head in our balance sheet indicating the purpose for which such monies have been utilised;
- details of all unutilised monies out of the Issue, if any shall be disclosed under an appropriate separate head in the balance sheet indicating the form in which such unutilised monies have been invested;

## **RESTRICTIONS ON FOREIGN OWNERSHIP OF INDIAN SECURITIES**

Foreign investment in Indian securities is governed by the provisions of the FEMA read with the applicable FEMA Regulations and the FDI Policy issued by the Department of Industrial Policy & Promotion, Government of India (Circular 1 of 2010, with effect from April 1, 2010). Foreign investment is permitted (except in the prohibited sectors) in Indian companies either through the automatic route or the approval route, depending upon the sector in which foreign investment is sought to be made. FEMA regulates the precise manner in which such investment may be made. Unless specifically restricted, foreign investment is freely permitted in all sectors of Indian economy up to any extent and without any prior approvals, but the foreign investor is required to follow certain prescribed procedures for making such investment. Under the sector specific guidelines of the GoI, 100% FDI is allowed under the automatic route in certain NBFC activities subject to compliance with guidelines of the RBI in this regard.

FII's are permitted to subscribe to shares of an Indian company in a public offer without the prior approval of the RBI, so long as the price of the equity shares to be issued is not less than the price at which the equity shares are issued to residents.

The transfer of shares between an Indian resident and a non-resident does not require the prior approval of the FIPB or the RBI, provided that (i) the activities of the investee company are under the automatic route under the FDI Policy and transfer does not attract the provisions of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 (ii) the non-resident shareholding is within the sectoral limits under the FDI Policy, and (iii) the pricing is in accordance with the guidelines prescribed by the SEBI/RBI.

As per the existing policy of the Government of India, OCBs cannot participate in this Issue.

The Equity Shares have not been and will not be registered under the Securities Act or any state securities laws in the United States and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Equity Shares are only being offered and sold (i) in the United States only to persons reasonably believed to be "qualified institutional buyers", as defined in Rule 144A of the Securities Act (as defined in Rule 144A under the Securities Act and referred to in this Red Herring Prospectus as "U.S. QIBs", for the avoidance of doubt, the term U.S. QIBs does not refer to a category of institutional investor defined under applicable Indian regulations and referred to in the Red Herring Prospectus as "QIBs") in transactions exempt from, or not subject to, the registration requirements of the Securities Act, and (ii) outside the United States in reliance on Regulation S under the Securities Act.

The Equity Shares have not been and will not be registered, listed or otherwise qualified in any other jurisdiction outside India and may not be offered or sold, and Bids may not be made by persons in any such jurisdiction, except in compliance with the applicable laws of such jurisdiction.

The above information is given for the benefit of the Bidders. The Company and the Selling Shareholders and the BRLMs are not liable for any amendments or modification or changes in applicable laws or regulations, which may occur after the date of this Red Herring Prospectus. Bidders are advised to make their independent investigations and ensure that the number of Equity Shares Bid for do not exceed the applicable limits under laws or regulations.

## **SECTION VIII: MAIN PROVISIONS OF ARTICLES OF ASSOCIATION**

Pursuant to Schedule II of the Companies Act and the SEBI Regulations, the main provisions of the Articles of Association relating to voting rights, dividend, lien, forfeiture, restrictions on transfer and transmission of Equity Shares or debentures and/or on their consolidation/splitting are detailed below. Please note that the each provision herein below is numbered as per the corresponding article number in the Articles of Association and defined terms herein have the meaning given to them in the Articles of Association.

### **CAPITAL**

Article 1 provides that

#### *Authorised Share Capital*

The authorized share capital of the Company shall be such amount as is given in Clause V of the Memorandum of Association.

Article 2 provides that

#### *Shares at the Disposal of the Directors:*

Subject to the provisions of Section 81 of the Act and these Articles, the shares in the capital of the Company for the time being shall be under the control of the Directors who may issue, allot or otherwise dispose of the same or any of them to such persons, in such proportion and on such terms and conditions and either at a premium or at par or (subject to the compliance with the provision of Section 79 of the Act) at a discount and at such time as they may from time to time think fit and with the sanction of the Company in the General Meeting to give to any person or persons the option or right to call for any shares either at par or premium during such time and for such consideration as the Directors think fit, and may issue and allot shares in the capital of the Company on payment in full or part of any property sold and transferred or for any services rendered to the Company in the conduct of its business and any shares which may so be allotted may be issued as fully paid up shares, and if so issued, shall be deemed to be fully paid shares. Provided that option or right to call of shares shall not be given to any person or persons without the sanction of the Company in the General Meeting.

Article 3 provides that

#### *Consideration for Allotment:*

The Board of Directors may allot and issue shares of the Company as payment or part payment for any property purchased by the Company or in respect of goods sold or transferred or machinery or appliances supplied or for services rendered to the Company in or about the formation of the Company or the acquisition and/or in the conduct of its business; and any shares which may be so allotted may be issued as fully/partly paid up shares and if so issued shall be deemed as fully/partly paid up shares.

Article 5 provides that

#### *Increase of Capital*

The Company at its General Meeting may, from time to time, by an Ordinary Resolution increase the capital by the creation of new shares, such increase to be of such aggregate amount and to be divided into shares of such respective amounts as the resolution shall prescribe. The new shares shall be issued on such terms and conditions and with such rights and privileges annexed thereto as the resolution shall prescribe, and in particular, such shares may be issued with a preferential or qualified right to dividends, and in the distribution of assets of the Company and with a right of voting at General Meeting of the Company in conformity with Section 87 of the Companies Act, 1956. Whenever the capital of the Company has been increased under the provisions of the Articles, the Directors shall comply with the provisions of Section 97 of the Act.

Article 6 provides that

#### *Reduction of Capital*

The Company may, subject to the provisions of Sections 78, 80, 100 to 105 (both inclusive) and other

applicable provisions of the Act from time to time, by Special Resolution reduce its capital and any Capital Redemption Reserve Account or Share Premium Account in any manner for the time being authorized by law, and in particular, the capital may be paid off on the footing that it may be called up again or otherwise.

Article 7 provides that

*Sub-division and Consolidation of Share Certificate :*

Subject to the provisions of Section 94 of the Act, the Company in General Meeting, may by an ordinary resolution from time to time:

- (a) Divide, sub-divide or consolidate its shares, or any of them, and the resolution whereby any share is sub-divided, may determine that as between the holders of the shares resulting from such sub-division one or more of such shares have some preference of special advantage as regards dividend capital or otherwise as compared with the others
- (b) Cancel shares which at the date of such general meeting have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

Article 9 provides that

*Power to issue Shares with differential voting rights:*

The Company shall have the power to issue Shares with such differential rights as to dividend, voting or otherwise, subject to the compliance with requirements as provided for in the Companies (Issue of Share Capital with Differential Voting Rights) Rules, 2001, or any other law as may be applicable.

Article 10 provides that

*Power to issue preference shares:*

Subject to the provisions of Section 80 of the Act, the Company shall have the powers to issue preference shares which are liable to be redeemed and the resolution authorizing such issue shall prescribe the manner, terms and conditions of such redemption.

Article 11 provides that

*Further Issue of Shares:*

- (1) Where at any time after the expiry of two years from the formation of the Company or at any time after the expiry of one year from the allotment of shares in the Company made for the first time after its formation, whichever is earlier, it is proposed to increase the subscribed capital of the Company by allotment of further shares then
  - a) Such further shares shall be offered to the persons who at the date of the offer, are holders of the equity shares of the Company, in proportion, as nearly as circumstances admit, to the capital paid up on those shares at that date.
  - b) The offer aforesaid shall be made by a notice specifying the number of shares offered and limiting a time not being less than fifteen days from the date of offer within which the offer, if not accepted, will be deemed to have been declined.
  - c) The offer aforesaid shall be deemed to include a right exercisable by the person concerned to renounce the shares offered to him or any of them in favour of any other person and the notice referred to in sub clause (b) hereof shall contain a statement of this right.
  - d) After the expiry of the time specified in the aforesaid notice or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board may dispose of them in such manner as they think most beneficial to the Company



- (2) Notwithstanding anything contained in sub-clause (1) the further shares aforesaid may be offered to any persons (whether or not those persons include the persons referred to in clause (a) of sub-clause (1) hereof) in any manner whatsoever.
- (a) If a special resolution to that effect is passed by the Company in General Meeting, or
  - (b) Where no such special resolution is passed, if the votes cast (whether on a show of hands or on a poll as the case may be) in favour of the proposal contained in the resolution moved in the general meeting (including the casting vote, if any, of the Chairman) by the members who, being entitled to do so, vote in person, or where proxies are allowed, by proxy, exceed the votes, if any, cast against the proposal by members so entitled and voting and the Central Government is satisfied, on an application made by the Board of Directors in this behalf that the proposal is most beneficial to the Company.
- (3) Nothing in sub-clause (c) of (1) hereof shall be deemed:
- (a) To extend the time within which the offer should be accepted; or
  - (b) To authorize any person to exercise the right of renunciation for a second time on the ground that the person in whose favour the renunciation was first made has declined to take the shares comprised in the renunciation.
- (4) Nothing in this Article shall apply to the increase of the subscribed capital of the Company caused by the exercise of an option attached to the debentures issued or loans raised by the Company:
- (i) To convert such debentures or loans into shares in the Company; or
  - (ii) To subscribe for shares in the Company.

PROVIDED THAT the terms of issue of such debentures or the terms of such loans include a term providing for such option and such term:

- (a) Either has been approved by the Central Government before the issue of the debentures or the raising of the loans or is in conformity with Rules, if any, made by that Government in this behalf; and
- (b) In the case of debentures or loans other than debentures issued to or loans obtained from the Government or any institution specified by the Central Government in this behalf, has also been approved by a special resolution passed by the Company in General Meeting before the issue of the debentures or raising of the loans.

Article 15 provides that

*Money due on shares to be a debt to the Company:*

The money (if any) which the Board shall, on the allotment of any shares being made by them, require or direct to be paid by way of deposit, call or otherwise in respect of any shares allotted by them, shall immediately on the inscription of the name of allottee in the Register of Members as the name of the holder of such shares become a debt due to and recoverable by the Company from the allottee thereof, and shall be paid by him accordingly.

Article 16 provides that

*Members or heirs to pay unpaid amounts:*

Every Member or his heir's executors or administrators shall pay to the Company the portion of the capital represented by his share or shares which may, for the time being remain unpaid thereon, in such amounts, at such time or times and in such manner, as the Board shall from time to time, in accordance with the Company's regulations require or fix for the payment thereof.

## SHARE CERTIFICATES

Article 17 provides that

*a) Every Member entitled to certificate for his shares:*

- (i) Every member or allottee of shares shall be entitled, without payment, to receive one or more certificates specifying the name of the person in whose favour it is issued, the shares to which it relates, and the amount paid thereon. Such certificates shall be issued only in pursuance of a resolution passed by the Board and on surrender to the Company of fractional coupon of requisite value, save in case of issue of share certificates against letters of acceptance of or renunciation or in cases of issues of bonus shares. Such share certificates shall also be issued in the event of consolidation or sub-divisions of the shares of the Company.
- (ii) Every such certificate shall be issued under the seal of the Company, which shall be affixed in the presence of (1) two Directors or persons acting on behalf of the Directors under duly registered powers of attorney; and (2) the Secretary or some other persons appointed by the Board for the purpose and the two Directors or their attorneys and the secretary or other persons shall sign the Share Certificate, provided that if the composition of the Board permits, at least one of the aforesaid two Directors shall be a person other than the Managing Director.
- (iii) Particulars of every share certificate issued shall be entered in the Registrar of Members against the name of the person to whom it has been issued, indicating date of issue.

*b) Joint ownership of shares:*

Any two or more joint allottees of shares shall be treated as a single member for the purposes of this article and any share certificate, which may be the subject of joint ownership, may be delivered to any one of such joint owners on behalf of all of them. The Company shall comply with the provisions of Section 113 of the Act.

*c) Director to sign Share Certificates:*

A Director may sign a share certificate by affixing his signature thereon by means of any machine, equipment or other mechanical means, such as engraving in metal or lithography but not by means of rubber stamp, provided that the Director shall be responsible for the safe custody of such machine, equipment or other materials used for the purpose.

*d) Issue of new certificate in place of one defaced, lost or destroyed or Renewal of Certificates*

If any certificate be worn out, defaced, mutilated or torn or if there be no further space on the back thereof for endorsement of transfer, then upon production and surrender thereof to the Company, a new Certificate may be issued in lieu thereof, and if any certificate lost or destroyed then upon proof thereof to the satisfaction of the Company and on execution of such indemnity as the Company deem adequate, being given, a new Certificate in lieu thereof shall be given to the party entitled to such lost or destroyed Certificate. Every Certificate under the Article shall be issued without payment of fees if the Directors so decide, or on payment of such fees (not exceeding Rs.2/- for each certificate) as the Directors shall prescribe. Provided that no fee shall be charged for issue of new certificates in replacement of those which are old, defaced or worn out or where there is no further space on the back thereof for endorsement of transfer.

Provided that notwithstanding what is stated above the Directors shall comply with such Rules or Regulation or requirements of any Stock Exchange or the Rules made under the Act or the rules made under Securities Contracts (Regulation) Act, 1956 or any other Act or rules applicable in this behalf.

The provision of these Articles shall mutatis mutandis apply to debentures of the Company.

e) *Renewal of Share Certificate:*

When a new share certificate has been issued in pursuance of clause (d) of this article, it shall state on the face of it and against the stub or counterfoil to the effect that it is issued in lieu of share certificate No..... sub-divided/replaced on consolidation of shares.

When a new certificate has been issued in pursuance of clause (d) of this Article, it shall state on the face of it against the stub or counterfoil to the effect that it is duplicate issued in lieu of share certificate No..... The word 'Duplicate' shall be stamped or punched in bold letters across the face of the share certificate and when a new certificate has been issued in pursuance of clauses (c), (d), (e) and (f) of this Article, particulars of every such share certificate shall be entered in a Register of Renewed and Duplicate Certificates indicating against it, the names of the persons to whom the certificate is issued, the number and the necessary changes indicated in the Register of Members by suitable cross references in the "remarks" column.

f) All blank forms, share certificates shall be printed only on the authority of a resolution duly passed by the Board.

Article 20 provides that

*Rights of Joint Holders*

If any share stands in the names of two or more persons, the person first named in the Register shall, as regards receipt of dividends or bonus or service of notices and all or any other matter connected with the Company, except voting at meeting and the transfer of the shares be deemed the sole holder thereof but the joint holders of share shall be severally as well as jointly liable for payment of all installments and calls due in respect of such share and for all incidents thereof according to the Company's regulations.

**LIEN**

Article 24 provides that

*Company's lien on shares /debentures*

The Company shall have a first and paramount lien upon all the shares /debentures (other than fully paid up shares/debentures) registered in the name of each member (whether solely or jointly with others) and upon the proceeds of sale thereof for all moneys (whether presently payable or not) called or payable at fixed time in respect of such shares/debentures, and no equitable interest in any shares shall be created except upon the footing and condition that this Article will have full effect and such lien shall extend to all dividends and bonuses from time to time declared in respect of such shares/debentures. Unless otherwise agreed, the registration of a transfer of shares/debentures shall operate as a waiver of the Company's lien if any, on such shares/debentures. The Directors may at any time declare any shares/debentures wholly or in part to be exempt from provisions of this clause. The fully paid up shares shall be free from all lien and that in the case of partly paid shares the Company's lien shall be restricted to moneys called or payable at a fixed time in respect of such shares.

**CALLS ON SHARES**

Article 27 provides that

*Board to have right to make calls on shares*

The Board may, from time to time, subject to the terms on which any shares may have been issued and subject to the conditions of allotment, by a resolution passed at a meeting of the Board (and not by circular resolution), make such call as it thinks fit upon the members in respect of all moneys unpaid on the shares held by them respectively and each member shall pay the amount of every call so made on him to the person or persons and the member(s) and place(s) appointed by the Board. A call may be made payable by installments.

Provided that the Board shall not give the option or right to call on shares to any person except with the sanction of the Company in General Meeting.

Article 32 provides that

*Calls to carry Interest:*

If a member fails to pay any call due from him on the day appointed for payment thereof, or any such extension thereof as aforesaid, he shall be liable to pay interest on the same from the day appointed for the payment thereof to the time of actual payment at 5% per annum or such lower rate as shall from time to time be fixed by the Board but nothing in this Article shall render it obligatory for the Board to demand or recover any interest from any such member.

Article 36 provides that

*Payment in anticipation of call may carry interest*

- (a) The Directors may, if they think fit, subject to the provisions of Section 92 of the Act, agree to and receive from any member willing to advance the same, whole or any part of the moneys due upon the shares held by him beyond the sums actually called for and upon the amount so paid or satisfied in advance, or so much thereof as from time to time exceeds the amount of the calls then made upon the shares in respect of which such advance has been made, the Company may pay interest at such rate, as the member paying such sum in advance and the Directors agree upon, provided that money paid in advance of calls shall not confer a right to participate in profits or dividend. The Directors may at any time repay the amount so advanced.
- (b) The member shall not be entitled to any voting rights in respect of the moneys so paid by him until the same would but for such payment become presently payable.
- (c) The provisions of these Articles shall mutatis mutandis apply to the calls on debentures of the Company.

**FORFEITURE OF SHARES**

Article 37 provides that

*Board to have right to forfeit shares:*

If any member fails to pay any call or installment of a call or before the day appointed for the payment of the same or any such extension thereof as aforesaid, the Board may at any time thereafter during such time as the call or installment remains unpaid, give notice to him requiring him to pay the same together with any interest that may have accrued and all expenses that may have been incurred by the Company by reason of such non-payment.

Article 38 provides that

*Notice for forfeiture of shares:*

- (a) The notice shall name a further day (not earlier than the expiration of fourteen days from the date of notice) and place or places on which such call or installment and such interest thereon (at such rate as the Directors shall determine from the day on which such call or installment ought to have been paid) and expenses as aforesaid, are to be paid.
- (b) The notice shall also state that in the event of the non-payment at or before the time the call was made or installment is payable the shares will be liable to be forfeited.

Article 39 provides that

*Effect of forfeiture*

If the requirements of any such notice as aforesaid were not complied with, every or any share in respect of which such notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture shall include all dividends

declared or any other moneys payable in respect of the forfeited share and not actually paid before the forfeiture. There shall be no forfeiture of unclaimed dividends before the claim becomes barred by law.

Article 42 provides that

*Member to be liable even after forfeiture:*

Any member whose shares have been forfeited shall, notwithstanding the forfeiture be liable to pay and shall forthwith pay to the Company on demand all calls, installments, interest and expenses owing upon or in respect of such shares at the time of the forfeiture together with the interest thereon from time to time of the forfeiture until payment at such rates as the Board may determine and the Board may enforce the payment thereof, if it thinks fit.

**TRANSFER AND TRANSMISSION OF SHARES**

Article 48 provides that

*Register of Transfers*

The Company shall keep a "Register of Transfers" and therein shall be fairly and distinctly entered particulars of every transfer or transmission of any shares.

Article 49 provides that

*Endorsement of Transfer:*

In respect of any transfer of shares registered in accordance with the provisions of these Articles, the Board may, at their discretion, direct an endorsement of the transfer and the name of the transferee and other particulars on the existing share certificate and authorize any Director or officer of the Company to authenticate such endorsement on behalf of the Company or direct the issue of a fresh share certificate, in lieu of and in cancellation of the existing certificate in the name of the transferee.

Article 50 provides that

*Instrument of Transfer:*

The instrument of transfer of any share shall be in writing and all the provisions of Section 108 of the Act, and of any statutory modification thereof for the time being shall be duly complied with in respect of all transfer of shares and registration thereof. The Company shall use a common form of transfer in all cases.

Article 53 provides that

*Directors may refuse to register transfer:*

Subject to the provisions of Section 111A of the Act, these Articles and other applicable provisions of the Act or any other law for the time being in force, the Board may refuse whether in pursuance of any power of the Company under these Articles or otherwise to register the transfer of, or the transmission by operation of law of the right to, any shares or interest of a Member in or debentures of the Company. The Company shall within one month from the date on which the instrument of transfer, or the intimation of such transfer, as the case may be, was delivered with the Company, send notice of refusal to the transferee and transferor or to the person giving notice of such transmission, as the case may be, giving reasons for such refusal. Provided that registration of a transfer shall not be refused on the ground of the transferor being either alone or jointly with any other person or persons indebted to the Company on any account whatsoever except where the Company has a lien on shares.

Article 56 provides that

*Title to shares of deceased members:*

The executors or administrators or holders of a Succession Certificate or the legal representatives of a deceased

member (not being one or two joint holders) shall be the only person recognized by the Company as having any title to the shares registered in the name of such member, and the Company shall be bound to recognize such executors or administrators or holders of a Succession Certificate or the legal representatives shall have first obtained Probate holders or Letter of Administration or Succession Certificate as the case may be, from a duly constituted Court in the Union of India. Provided that in any case where the Board in its absolute discretion, thinks fit, the Board may dispense with the production of Probate or Letter of Administration or Succession Certificate, upon such terms as to indemnity or otherwise as the Board in its absolute discretion may think necessary and register the name of any person who claims to be absolutely entitled to the shares standing in the name of a deceased member as a member

Article 57 provides that

*Transfers not permitted:*

No share shall in any circumstances be transferred to any infant, insolvent or person of unsound mind, except fully paid shares through a legal guardian.

Article 58 provides that

58. *Transmission of shares:*

Subject to the provisions of these presents, any person becoming entitled to shares in consequence of the death, lunacy, bankruptcy or insolvency of any members, or by any lawful means other than by a transfer in accordance with these Articles may, with the consent of the Board (which it shall not be under any obligation to give), upon producing such evidence as the Board thinks sufficient, that he sustains the character in respect of which he proposes to act under this Articles, or of his title, either be registering himself as the holder of the shares or elect to have some person nominated by him and approved by the Board, registered as such holder, provided, nevertheless, if such person shall elect to have his nominee registered, he shall testify that election by executing in favour of his nominee an instrument of transfer in accordance with the provision herein contained and until he does so he shall not be freed from any liability in respect of the shares.

Article 60 provides that

*Instrument of transfer to be stamped:*

Every instrument of transfer shall be presented to the Company duly stamped for registration, accompanied by such evidence as the Board may require to prove the title of the transferor his right to transfer the shares and every registered instrument of transfer shall remain in the custody of the Company until destroyed by order of the Board.

Article 62 provides that

*No fee on Transfer or Transmission:*

No fee shall be charged for registration of transfers, transmission, probate, succession certificate and Letters of administration, Certificate of Death or Marriage, Power of Attorney or similar other document.

Article 64 provides that

*Dematerialisation of Securities*

(i) Definitions: For the purpose of this Article:

“Beneficial Owner” means a person whose name is recorded as such with a depository.

“Bye-Laws” means Bye-laws made by a Depository under Section 26 of the Depositories Act, 1996.

“Depositories Act” means the Depository Act, 1996, including any statutory modifications or re-enactment for the time being in force.

“*Depository*” means a Company formed and registered under the Act and which has been granted a Certificate of Registration under the Securities and Exchange Board of India Act 1992.

“*Member*” means the duly registered holder from time to time of the shares of the Company and includes every person whose name is entered as beneficial owner in the records of the depository.

“*Participant*” means a person registered as such under Section 12 (1A) of the Securities and Exchange Board of India Act, 1992.

“*Record*” includes the records maintained in form of books or stored in a computer or in such other form as may be determined by the Regulations issued by the Securities and Exchange Board of India in relation to the Depository Act, 1996.

“*Registered Owner*” means a depository whose name is entered as such in the records of the Company.

“*SEBI*” means the Securities and Exchange Board of India

“*Security*” means such security as may be specified by the Securities and Exchange Board of India from time to time.

Words imparting the singular number only includes the plural number and vice versa.

Words imparting persons include corporations.

Words and expressions used and not defined in the Act but defined in the Depositories Act, 1996 shall have the same meaning respectively assigned to them in that Act.

(ii) *Company to Recognize interest in Dematerialized Securities under the Depositories Act, 1996.*

Either the Company or the investor may exercise an option to issue, de-link, hold the securities (including shares) with a depository in Electronic form and the certificates in respect thereof shall be dematerialized, in which event the rights and obligations of the parties concerned and matters connected therewith or incidental thereto shall be governed by the provisions of the Depositories Act, 1996 as amended from time to time or any statutory modification(s) thereto or re-enactment thereof.

(iii) *Dematerialisation / Re-Materialisation of Securities:*

Notwithstanding anything to the contrary or inconsistent contained in these Articles, the Company shall be entitled to dematerialize its existing securities, re-materialize its securities held in Depositories and/or offer its fresh securities in the de-materialized form pursuant to the Depositories Act, 1996 and the rules framed there under, if any.

(iv) *Option to Receive Security Certificate or hold Securities with Depository:*

Every person subscribing to or holding securities of the Company shall have the option to receive the security certificate or hold securities with a Depository. Where a person opts to hold a security with the Depository, the Company shall intimate such Depository of the details of allotment of the security and on receipt of such information, the Depository shall enter in its record, the name of the allottees as the beneficial owner of that security.

(v) *Securities in Electronic Form:*

All securities held by a Depository shall be dematerialized and held in electronic form. No certificate shall be issued for the securities held by the Depository. Nothing contained in Section 153, 153A, 153B, 187 B, 187 C and 372 of the Act, shall apply to a Depository in respect of the securities held by it on behalf of the beneficial owners.

(vi) *Beneficial Owner Deemed as Absolute Owner:*

Except as ordered by the Court of competent jurisdiction or by law required, the Company shall be entitled to treat the person whose name appears on the register of members as the holders of any share or whose name appears as the beneficial owner of the shares in the records of the Depository as the absolute owner thereof and accordingly shall not be bound to recognize any benami, Trust Equity, equitable contingent, future, partial interest, other claim to or interest in respect of such shares or (except only as by these Articles otherwise expressly provided) any right in respect of a share other than an absolute right thereto in accordance with these Articles, on the part of any other person whether or not it has expressed or implied notice thereof but the Board shall at their sole discretion register any share in the joint names of any two or more persons or the survivor or survivors of them.

(vii) *Rights of Depositories and Beneficial Owners:*

Notwithstanding anything to the contrary contained in the Act, or these Articles, a Depository shall be deemed to be the registered owner for the purpose of effecting transfer of ownership of security on behalf of the beneficial owner.

Save as otherwise provided above, the Depository is the registered owner of the securities, and shall not have any voting rights or any other rights in respect of the securities held by it.

Every person holding securities of the Company and whose name is entered as a beneficial owner in the records of the Depository shall be deemed to be a member of the Company. The beneficial owner of securities shall be entitled to all the rights and benefits and be subject to all the liabilities in respect of his securities which are held by a Depository.

(viii) *Register and Index Of Beneficial Owners:*

The Company shall cause to be kept a Register and Index of members with details of shares and debentures held in materialized and dematerialized forms in any media as may be permitted by law including any form of electronic media.

The Register and Index of beneficial owners maintained by a Depository under the Depositories Act, 1996 shall be deemed to be a Register and Index of members for the purposes of this Act. The Company shall have the power to keep in any state or country outside India a Branch register of Members resident in that State or Country.

(ix) *Cancellation of Certificates upon Surrender By Person:*

Upon receipt of certificate of securities on surrender by a person who has entered into an agreement with the Depository through a participant, the Company shall cancel such certificates and shall substitute in its record, the name of the depository as the Registered Owner in respect of the said securities and shall also inform the Depository accordingly.

(x) *Service of Documents:*

Notwithstanding anything contained in the Act, or these Articles, to the contrary, where securities are held in a depository, the record of the beneficial ownership may be served by such depository on the Company by means of hard copies or through electronic mode or by delivery of floppies or discs.

(xi) *Allotment Of Securities:*

Where the securities are dealt within a Depository, the Company shall intimate the details of allotment of relevant securities to the Depository on allotment of such securities.

(xii) *Transfer Of Securities:*

The Company shall keep a Register of Transfers and shall have recorded therein fairly and distinctly, particulars of every transfer or transmission of any share held in material form. Nothing contained in these Articles shall apply to transfer of securities held in depository.



(xiii) *Distinctive Number Of Securities Held In A Depository*

The shares in the capital shall be numbered progressively according to their several denominations, provided, however that the provisions relating to progressive numbering shall not apply to the share of the Company which are in dematerialized form. Except in the manner provided under these Articles, no share shall be sub-divided. Every forfeited or surrendered share be held in material form shall continue to bear the number by which the same was originally distinguished.

(xiv) *Provisions Of Articles To Apply To Shares Held In Depository:*

Except as specifically provided in these Articles, the provisions relating to joint holders of shares, calls, lien on shares, forfeiture of shares and transfer and transmission of shares shall be applicable to shares held in Depository so far as they apply to shares held in physical form subject to the provisions of the Depository Act, 1996.

(xv) *Depository To Furnish Information:*

Every Depository shall furnish to the Company information about the transfer of securities in the name of the beneficial owner at such intervals and in such manner as may be specified by laws and the Company in that behalf.

(xvi) *Option To Opt Out In Respect Of Any Such Security:*

If a beneficial owner seeks to opt out of a Depository in respect of any security, he shall inform the Depository accordingly. The Depository shall on receipt of such information make appropriate entries in its records and shall inform the Company. The Company shall within 30 (thirty) days of the receipt of intimation from a Depository and on fulfillment of such conditions and on payment of such fees as may be specified by the regulations, issue the certificate of securities to the beneficial owner or the transferee as the case may be.

(xvii) *Overriding Effect Of This Article:*

Provisions of the Articles will have full effect and force notwithstanding anything to the contrary or inconsistent contained in any other Articles of these presents.

Article 66 provides that

*Buy Back of Shares:*

The Company shall be entitled to purchase its own shares or other securities, subject to such limits, upon such terms and conditions and subject to such approvals as required under Section 77 A and other applicable provisions of the Act, The Securities and Exchange Board of India Act, 1992 and the Securities and Exchange Board of India (Buy Back of Securities) Regulations 1998 and any amendments, modification(s), repromulgation (s) or re- enactment(s) thereof.

Article 67 provides that

*Copies of Memorandum and Articles to be sent to members*

Copies of the Memorandum and Articles of Association of the Company and other documents referred to in Section 39 of the Act shall be sent by the Company to every member at his request within seven days of the request on payment of such sum as may be prescribed.

## **SHARE WARRANTS**

Article 68 provides that

*Rights to issue share warrants:*

- (a) The Company may issue share warrants subject to, and in accordance with provisions of Section 114 and 115 of the Act.
- (b) The Board may, in its discretion, with respect to any share which is fully paid up on application in writing signed by the person registered as holder of the share, and authenticated by such evidence (if any) as the Board may from time to time require as to the identity of the person signing the application, and the amount of the stamp duty on the warrant and such fee as the Board may from time to time require having been paid, issue a warrant.

## **CONVERSION OF SHARES INTO STOCK AND RECONVERSION**

Article 72 provides that

*Rights to convert shares into stock & vice-versa:*

The Company in General Meeting may, by an Ordinary Resolution, convert any fully paid-up shares into stock and when any shares shall have been converted into stock the several holders of such stock, may henceforth transfer their respective interest therein, or any part of such interest in the same manner and subject to the same Regulations as, and subject to which shares from which the stock arise might have been transferred, if no such conversion had taken place. The Company may, by an Ordinary Resolution reconvert any stock into fully paid up shares of any denomination. Provided that the Board may, from time to time, fix the minimum amount of stock transferable, so however such minimum shall not exceed the nominal amount of shares from which the stock arose.

## **GENERAL MEETINGS**

Article 74 provides that

*Annual General Meetings:*

The Company shall, in addition to any other meetings hold a General Meeting which shall be called as its Annual General Meeting, at the intervals and in accordance with the provisions of the Act.

Article 75 provides that

*Extraordinary General Meetings:*

The Board may, whenever it thinks fit, convene an Extraordinary General Meeting at such date, time and at such place as it deems fit, subject to such directions if any, given by the Board.

Article 76 provides that

*Extraordinary Meetings on requisition:*

The Board shall on, the requisition of members convene an Extraordinary General Meeting of the Company in the circumstances and in the manner provided under Section 169 of the Act.

Article 77 provides that

*Notice for General Meetings:*

All General Meetings shall be convened by giving not less than twenty- one days notice excluding the day on which the notice is served or deemed to be served (i.e. on expiry of 48 hours after the letter containing the same is posted) and the date of the meeting, specifying the place and hour of the meeting and in case of any

special business proposed to be transacted, the nature of that business shall be given in the manner mentioned in Section 173 of the Act. Notice shall be given to all the share-holders and to such persons as are under Act and/or these Articles entitled to receive such notice from the Company but any accidental omission to give notice to or non-receipt of the notice by any member shall not invalidate the proceedings of any General Meeting.

Article 79 provides that

*Special and Ordinary Business:*

- (a) All business shall be deemed special that is transacted at an Extraordinary General Meeting and also that is transacted at an Annual General Meeting with the exception of sanctioning of dividend, the consideration of the accounts, balance sheet and the reports of the Directors and Auditors, the election of Directors in place of those retiring by rotation and the appointment of and the fixing up of the remuneration of the auditors.
- (b) In case of special business as aforesaid, an explanatory statement as required under Section 173 of the Act shall be annexed to the notice of the meeting.

Article 85 provides that

*Voting at Meeting:*

At any General Meeting, a resolution put to the vote at the meeting shall be decided on a show of hands, unless a poll is (before or on the declaration of the result of the show of hands) is demanded in accordance with the provisions of Section 179 of the Act. Unless a poll is so demanded, a declaration by the Chairman that the resolution had, on a show of hands been carried unanimously or by a particular majority or lost and an entry to that effect in the book of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against that resolution.

Article 86 provides that

*Decision by poll:*

If a poll is duly demanded, it shall be taken in such manner as the Chairman directs and the results of the poll shall be deemed to be the decision of the meeting on the resolution in respect of which the poll was demanded.

**VOTE OF MEMBERS**

Article 90 provides that

*Voting rights of Members:*

- a) On a show of hands every member holding equity shares and present in person shall have one vote.
- b) On a poll, every member holding equity shares therein shall have voting rights in proportion to his shares of the paid up equity share capital.
- c) On a poll, a member having more than one vote, or his proxy or other persons entitled to vote for him need not use all his votes in the same way.

Article 93 provides that

*Proxy:*

On a poll, votes may be given either personally or by proxy.

## **DIRECTOR**

Article 98 provides that

### *Number of Directors:*

Unless otherwise determined by General Meeting, the number of Directors shall not be less than three and not more than twelve, including all kinds of Directors.

Article 101 provides that

### *Additional Directors:*

The Board of Directors shall have power at any time and from time to time to appoint one or more persons as Additional Directors provided that the number of Directors and Additional Directors together shall not exceed the maximum number fixed. An additional Director so appointed shall hold office up to the date of the next Annual general Meeting of the Company and shall be eligible for re-election by the Company at that Meeting.

Article 102 provides that

### *Alternate Directors:*

The Board of Directors may appoint an Alternate Director to act for a Director (hereinafter called the original Director) during the absence of the original Director for a period of not less than 3 months from the state in which the meetings of the Board are ordinarily held. An Alternate Director so appointed shall vacate office if and when the original Director return to the state in which the meetings of the Board are ordinarily held. If the terms of the office of the original Director is determined before he so returns to the state aforesaid any provision for the automatic reappointment of retiring Director in default of another appointment shall apply to the original and not to the Alternate Director.

Article 103 provides that

### *Remuneration of Directors:*

Every Director other than the Managing Director and the Whole-time Director shall be paid a sitting fee not exceeding such sum as may be prescribed by the Act or the Central Government from time to time for each meeting of the Board of Directors or any Committee thereof attended by him and shall be paid in addition thereto all traveling, hotel and other expenses properly incurred by him in attending and returning from the meetings of the Board of Directors or any committee thereof or General Meeting of the Company or in connection with business of the Company to and from any place.

Article 104 provides that

### *Remuneration for extra services:*

If any Director, being willing, shall be called upon to perform extra services or to make any special exertions in going or residing away from the town in which the Registered Office of the Company may be situated for any purposes of the Company or in giving any special attention to the business of the Company or as member of the Board, then subject to the provisions of the Act the Board may remunerate the Director so doing either by a fixed sum, or by a percentage of profits or otherwise and such remuneration, may be either in addition to or in substitution for any other remuneration to which he may be entitled.

Article 113 provides that

### *Power to remove Director by ordinary resolution:*

Subject to the provisions of the Act, the Company may by an ordinary resolution in General Meeting remove any Director before the expiration of his period of office and may, by an ordinary resolution, appoint another person instead; the person so appointed shall be subject to retirement at the same time as if he had become a Director on the day on which the Director in whose place he is appointed was last elected as Director.

Article 118 provides that

*Meetings of the Board:*

- a) The Board of Directors shall meet at least once in every three calendar months for the dispatch of business, adjourn and otherwise regulate its meetings and proceedings as it thinks fit provided that at least four such meetings shall be held in every year.
- b) The Managing Director may, at any time summon a meeting of the Board and the Managing Director or a Secretary or a person authorised in this behalf on the requisition of Director shall at any time summon a meeting of the Board. Notice in writing of every meeting of the Board shall be given to every Director for the time being in India, and at his usual address in India to every other Director.

Article 131 provides that

*Debenture Directors:*

Any Trust Deed for securing debentures or debenture stock may if so arranged provide for the appointment from time to time by the trustee thereof or by the holders of debentures or debenture stock of some person to be a Director of the Company and may empower such trustee or holders of debentures or debenture stock from time to time to remove any Directors so appointed. A Director appointed under this Article is herein referred to as a “Debenture Director” and the Debenture Director means a Director for the time being in office under this Article. A Debenture Director shall not be bound to hold any qualification shares, not be liable to retire by rotation or be removed by the Company. The Trust Deed may contain such ancillary provisions as may be arranged between the Company and the Trustees and all such provision shall have effect notwithstanding any of the other provisions herein contained.

Article 132 provides that

*Nominee Directors:*

- a) So long as any moneys remain owing by the Company to any All India Financial Institutions, State Financial Corporation or any financial institution owned or controlled by the Central Government or State Government or any Non Banking Financial Company controlled by the Reserve Bank of India or any such Company from whom the Company has borrowed for the purpose of carrying on its objects or each of the above has granted any loans / or subscribes to the Debentures of the Company or so long as any of the aforementioned companies of financial institutions holds or continues to hold debentures /shares in the Company as a result of underwriting or by direct subscription or private placement or so long as any liability of the Company arising out of any guarantee furnished on behalf of the Company remains outstanding, and if the loan or other agreement with such corporation so provides, the corporation shall have a right to appoint from time to time any person or persons as a Director or Directors whole- time or non whole- time (which Director or Director/s is/are hereinafter referred to as “Nominee Directors/s) on the Board of the Company and to remove from such office any person or person so appointed and to appoint any person or persons in his /their place(s).
- b) The Board of Directors of the Company shall have no power to remove from office the Nominee Director/s. At the option of the Corporation such Nominee Director/s shall not be liable to retirement by rotation of Directors. Subject as aforesaid, the Nominee Director/s shall be entitled to the same rights and privileges and be subject to the same obligations as any other Director of the Company.

The Nominee Director/s so appointed shall hold the said office only so long as any moneys remain owing by the Company to the Corporation or so long as they holds or continues to hold Debentures/shares in the Company as result of underwriting or by direct subscription or private placement or the liability of the Company arising out of the Guarantee is outstanding and the Nominee Director/s so appointed in exercise of the said power shall vacate such office immediately on the moneys owing by the Company to the Corporation are paid off or they ceasing to hold Debentures/Shares in the Company or on the satisfaction of the liability of the Company arising out of the guarantee furnished.

- c) The Nominee Director/s appointed under this Article shall be entitled to receive all notices of and attend all General Meetings, Board Meetings and of the Meetings of the Committee of which Nominee Director/s is/are member/s as also the minutes of such Meetings. The Corporation shall also be entitled to receive all such notices and minutes.
- d) The Company shall pay the Nominee Director/s sitting fees and expenses to which the other Directors of the Company are entitled, but if any other fees commission, monies or remuneration in any form is payable to the Directors of the Company the fees, commission, monies and remuneration in relation to such Nominee Director/s shall accrue to the nominee appointer and same shall accordingly be paid by the Company directly to the Corporation.
- e) Provided that the sitting fees, in relation to such Nominee Director/s shall also accrue to the appointer and same shall accordingly be paid by the Company directly to the appointer.

Article 133 provides that

*Register of Charges:*

The Directors shall cause a proper register to be kept, in accordance with the Act, of all mortgages and charges specifically affecting the property of the Company and shall duly comply with the requirements of the Act in regard to the registration of mortgages and charges therein specified.

Article 136 provides that

*Powers to be exercised by Board only by Meeting:*

- a) The Board of Directors shall exercise the following powers on behalf of the Company and the said powers shall be exercised only by resolution passed at the meeting of the Board:
  - (i) Power to make calls on shareholders in respect of moneys unpaid on their shares;
  - (ii) Power to issue debentures;
  - (iii) Power to borrow money otherwise than on debentures;
  - (iv) Power to invest the funds of the Company;
  - (v) Power to make loans.
- b) The Board of Directors may by a meeting delegate to any committee or the Directors or to the Managing Director the powers specified in sub clauses (iii), (iv) and (v) above.
- c) Every resolution delegating the power set out in sub clause (iii) above shall specify the total amount up to which moneys may be borrowed by the said delegate.
- d) Every resolution delegating the power referred to in sub-clause (iv) above shall specify the total amount, up to which the fund may invested and the nature of the investments which may be made by the delegate.
- e) Every resolution delegating the power referred to in sub-clause (v) above shall specify the total amount up to which the loans may be made by the delegate, the purposes for which the loans may be made and the maximum amount of loans which may be made for each such purpose in individual cases.

**MANAGING DIRECTOR(S)/ WHOLE-TIME DIRECTOR(S)**

Article 137 provides that

- a) The Board may from time to time and with such sanction of the Central Government as may be required by the Act, appoint one or more of the Directors to the office of the Managing Director or

whole-time Directors.

- b) The Directors may from time to time resolve that there shall be either one or more Managing Directors or Whole time Directors.
- c) In the event of any vacancy arising in the office of a Managing Director or Whole-time Director, the vacancy shall be filled by the Board of Directors subject to the approval of the members.
- d) If a Managing Director or whole time Director ceases to hold office as Director, he shall ipso facto and immediately cease to be Managing Director/whole time Director.
- e) The Managing Director or whole time Director shall not be liable to retirement by rotation as long as he holds office as Managing Director or whole-time Director.

Article 138 provides that

*Powers and duties of Managing Director or whole-time Director:*

The Managing Director/Whole-time Director shall subject to the supervision, control and direction of the Board and subject to the provisions of the Act, exercise such powers as are exercisable under these presents by the Board of Directors, as they may think fit and confer such power for such time and to be exercised as they may think expedient and they may confer such power either collaterally with or to the exclusion of any such substitution for all or any of the powers of the Board of Directors in that behalf and may from time to time revoke, withdraw, alter or vary all or any such powers. The Managing Directors/ whole time Directors may exercise all the powers entrusted to them by the Board of Directors in accordance with the Board's direction.

Article 139 provides that

*Remuneration of Managing Directors/whole time Directors:*

Subject to the provisions of the Act and subject to such sanction of Central Government\Financial Institutions as may be required for the purpose, the Managing Directors\whole-time Directors shall receive such remuneration (whether by way of salary commission or participation in profits or partly in one way and partly in another) as the Company in General Meeting may from time to time determine.

Article 140 provides that

*Reimbursement of expenses:*

The Managing Directors\whole-time Directors shall be entitled to charge and be paid for all actual expenses, if any, which they may incur for or in connection with the business of the Company. They shall be entitled to appoint part time employees in connection with the management of the affairs of the Company and shall be entitled to be paid by the Company any remuneration that they may pay to such part time employees.

Article 141 provides that

*Business to be carried on by Managing Directors/ Whole time Directors:*

- a. The Managing Directors\whole-time shall have subject to the supervision, control and discretion of the board, the management of the whole of the business of the Company and of all its affairs and shall exercise all powers and perform all duties in relation to the Management of the affairs and transactions of Company, except such powers and such duties as are required by law or by these presents to be exercised or done by the Company in General Meeting or by Board of Directors and also subject to such conditions or restriction imposed by the Act or by these presents.
- b. Without prejudice to the generally of the foregoing and subject to the supervision and control of the Board of Directors, the business of the Company shall be carried on by the Managing Director/ Whole time Director and he shall have all the powers except those which are by law or by these presents or by any resolution of the Board required to be done by the Company in General Meeting or by the Board.

- c. The Board may, from time to time delegate to the Managing Director or Whole time Director such powers and duties and subject to such limitations and conditions as they may deem fit. The Board may from time to time revoke, withdraw, alter or vary all or any of the powers conferred on the Managing Director or Whole time Director by the Board or by these presents.

Article 144 provides that

*Right to dividend:*

- a) The profits of the Company, subject to any special rights, relating thereto created or authorized to be created by these presents and subject to the provisions of the presents as to the Reserve Fund, shall be divisible among the members in proportion to the amount of capital paid up on the shares held by them respectively and the last day of the year of account in respect of which such dividend is declared and in the case of interim dividends on the close of the last day of the period in respect of which such interim dividend is paid.
- b) Where capital is paid in advance of calls, such capital shall not, confer a right to participate in the profits.

Article 145 provides that

*Declaration of Dividends:*

The Company in General Meeting may declare dividends but no dividend shall exceed the amount recommended by the Board.

Article 146 provides that

*Interim Dividends:*

The Board may from time to time pay to the members such interim dividends as appear to them to be justified by the profits of the Company.

Article 147 provides that

*Dividends to be paid out of profits:*

No dividend shall be payable except out of the profits of the year or any other undistributed profits except as provided by Section 205 of the Act.

Article 150 provides that

*Adjustment of dividends against calls:*

Any General Meeting declaring a dividend may make a call on the members as such amount as the meeting fixed, but so that the call on each member shall not exceed the dividend payable to him and so that the call be made payable at the same time as the dividend and the dividend may, if so arranged between the Company and the members be set off against the call.

Article 155 provides that

*Unpaid or Unclaimed Dividend:*

- (a) Where the Company has declared a dividend but which has not been paid or claimed within 30 days from the date of declaration, the Company shall transfer the total amount of dividend which remains unpaid or unclaimed within the said period of 30 days, to a special account to be opened by the Company in that behalf in any scheduled bank called "SKS Unpaid Dividend Account".
- (b) Any money transferred to the unpaid dividend account of the Company which remains unpaid or



unclaimed for a period of seven years from the date of such transfer, shall be transferred by the Company to the fund known as Investors Education And Protection Fund established under section 205C of the Act.

- (c) No unclaimed or unpaid dividend shall be forfeited by the Board before the claim becomes barred by law.

## **CAPITALISATION OF PROFITS**

Article 156 provides that

*Capitalisation of Profits:*

- a) The Company in General Meeting, may, on recommendation of the Board resolve:
  - (i) That it is desirable to capitalise any part of the amount for the time being standing to the credit of the Company's reserve accounts or to the credit of the profit and loss account or otherwise available for distribution; and
  - (ii) That such sum be accordingly set free for distribution in the manner specified in the sub-clause (b) amongst the members who would have been entitled thereto if distributed by way of dividend and in the same proportion.
- b) The sum aforesaid shall not be paid in cash but shall be applied, either in or towards:
  - (i) Paying up any amounts for the time being unpaid on shares held by such members respectively
  - (ii) Paying up in full, unissued share of the Company to be allotted and distributed, credited as fully paid up, to and amongst such members in the proportions aforesaid; or
  - (iii) Partly in the way specified in sub-clause (i) and partly that specified in sub clause (ii).
- c) The Board shall give effect to the resolution passed by the Company in pursuance of this regulation.
- d) A share premium account and a capital redemption reserve account may, only be applied in the paying up of unissued shares to be issued to members of the Company as fully paid bonus shares.

Article 157 provides that

*Power of Directors for declaration of bonus issue:*

- a) Whenever such a resolution as aforesaid shall have been passed, the Board shall:
  - (i) make all appropriations and applications of the undivided profits resolved to be capitalized thereby and all allotments and issues of fully paid shares, if any, and
  - (ii) generally do all acts and things required to give effect thereto.
- b) The Board shall have full power:
  - (i) to make such provisions, by the issue of fractional certificates or by payments in cash or otherwise as it thinks fit, in the case of shares or debentures becoming distributable in fraction; and also
  - (ii) to authorize any person, on behalf of all the members entitled thereto, to enter into an agreement with the Company providing for the allotment to such members, credited as fully paid up, of any further shares or debentures to which they may be entitled upon such capitalization or (as the case may require) for the payment of by the Company on their behalf, by the application thereto of their respective proportions of the profits resolved to the

capitalised of the amounts or any parts of the amounts remaining unpaid on the shares.

- c) Any agreement made under such authority shall be effective and binding on all such members.

## **ACCOUNTS**

Article 158 provides that

*Books of Account to be kept:*

- a) The Board of Directors shall cause true accounts to be kept of all sums of money received and expended by the Company and the matters in respect of which such receipts and expenditure takes place, of all sales and purchases of goods by the Company, and of the assets, credits and liabilities of the Company.
- b) If the Company shall have a Branch Office, whether in or outside India, proper books of account relating to the transactions effected at the office shall be kept at that office, and proper summarized returns made upto date at intervals of not more than three months, shall be sent by Branch Office to the Company at its registered office or to such other place in India, as the Board thinks fit where the main books of the Company are kept.
- c) All the aforesaid books shall give a fair and true view of the affairs of the Company or of its Branch Office, as the case may be with respect to the matters aforesaid, and explain its transactions.

## **AUDIT**

Article 162 provides that

*Accounts to be audited:*

Every Balance Sheet and Profit & Loss Account shall be audited by one or more Auditors to be appointed as hereinafter set out.

- a. The Company at the Annual General Meeting in each year shall appoint an Auditor or Auditors to hold office from the conclusion of that meeting until conclusion of the next Annual General Meeting and every Auditor so appointed shall be intimated of his appointment within seven days.
- b. Where at an Annual General Meeting, no Auditors are appointed, the Central Government may appoint a person to fill the vacancy.
- c. The Company shall within seven days of the Central Government's power under sub clause (c.) becoming exercisable, give notice of that fact to the Government.
- d. The Directors may fill any casual vacancy in the office of an Auditor but while any such vacancy continues, the remaining auditors (if any) may act. Where such a vacancy is caused by the resignation of an Auditor, the vacancy shall only be filled by the Company in General Meeting.
- e. A person, other than a retiring Auditor, shall not be capable of being appointed at an Annual General Meeting unless special notice of a resolution of appointment of that person to the office of Auditor has been given by a member to the Company not less than fourteen days before the meeting in accordance with Sec. 190 and the Company shall send a copy of any such notice to the retiring Auditor and shall give notice thereof to the members in accordance with provisions of Sec. 190 and all the other provision of Section 225 shall apply in the matter. The provisions of this sub-clause shall also apply to a resolution that a retiring auditor shall not be re-appointed.
- f. The persons qualified for appointment as Auditors shall be only those referred to in Section 226 of the Act.

- g. None of the persons mentioned in Sec. 226 of the Act as are not qualified for appointment as auditors shall be appointed as Auditors of the Company.

## **SERVICE OF DOCUMENTS AND NOTICE**

Article 166 provides that

*How -Document is to be served on members :*

- a) A document (which expression for this purpose shall be deemed to have included and include any summons, notice requisition, process order, judgment or any other document in relation to or in winding up of the Company) may be served or sent to the Company on or to any member either personally or by sending it by post to his registered address or (if he has no registered address in India) to the address, if any, within India supplied by him to the Company for the service of notice to him.
- b) All notices shall, with respect to any registered share to which persons are entitled jointly, be given to whichever of such persons is named first in the Register and the notice so given shall be sufficient notice to all the holders of such share.
- c) *Where a document is sent by post:*
  - (i) Service thereof shall be deemed to be effected by properly addressing, paying and posting a letter containing the notice provided that where a member has intimated to the Company in advance that documents should be sent to him under a certificate of posting or by registered post without acknowledgement due and has deposited with the Company a sum sufficient to defray expenses of doing so, service of the documents shall not be deemed to be effected unless it is sent in the manner intimated by the member, and
  - (ii) Unless the contrary is provided, such service shall be deemed to have been effected
    - a. In the case of a notice of a meeting, at the expiration of forty-eight hours the letter containing the notice is posted; and
    - b. In any other case, at the time at which the letter would be delivered in ordinary course of post.

Article 170 provides that

*Persons entitled to notice of General Meetings:*

Subject to the provisions of the Act and these Articles, notice of General Meeting shall be given:

- (i) To the members of the Company as provided by these presents
- (ii) To the persons entitled to a share in consequence of the death or insolvency of a member.
- (iii) To the Auditors for the time being of the Company; in the manner authorized by as in the case of any member or members of the Company.

## **WINDING UP**

Article 175 provides that

*Application of assets:*

Subject to the provisions of the Act as to preferential payment the assets of the Company shall, on its winding up, be applied in satisfaction of its liabilities *pari passu* and, subject to such application shall be distributed among the members according to their rights and interests in the Company.

Article 176 provides that

*Division of assets of the Company in specie among members:*

If the Company shall be wound up whether voluntarily or otherwise, the liquidators may with sanction of a special resolution divide among the contributories in specie or kind any part of the assets of the Company and any with like sanction vest any part of the assets of the Company in trustees upon such trusts for the benefit of the contributories of any of them, as the liquidators with the like sanction shall think fit, in case any share to be divided as aforesaid involve as liability to calls or otherwise any persons entitled under such division to any of the said shares may within ten days after the passing of the special resolution by notice in writing, direct the liquidators to sell his proportion and pay them the net proceeds, and the liquidators shall, if practicable, act accordingly.

**INDEMNITY AND RESPONSIBILITY**

Article 177 provides that

*Director's and others' right to indemnity:*

- a) Subject to the provisions of the Act, the Managing Director and every Director, Manager, Secretary and other Officer or Employee of the Company shall be indemnified by the Company against any liability and it shall be the duty of Directors, out of the funds of the Company to pay, all costs and losses and expenses (including traveling expenses) which any such Director, Officer or Employee may incur or become liable to by reason of any contract entered into or act or deed done by him as such Managing Director, Director, Officer or Employee or in any way in the discharge of his duties.
- b) Subject as aforesaid the Managing Director and every Director, Manager, Secretary or other Officer or Employee of the Company shall be indemnified against any liability incurred by them or in defending any proceeding whether civil or criminal in which judgment is given in their or his favour or in which he is acquitted or discharged or in connection with any application under Sec. 633 of the Act in which relief is given to him by the Court.

Article 178 provides that

*Not responsible for acts of others:*

- a) Subject to the provisions of Sec. 201 of the Act no Director or other Officer of the Company shall be liable for the acts, receipt, neglects or defaults of any other Director or Officer, or for joining in any receipt or other act for conformity or for any loss or expenses happening to the Company through insufficiency or deficiency of title to any property acquired by order of the Director for or on behalf of the Company, or for the insufficiency or deficiency of any security in or upon which any of the moneys of the Company shall be invested, or for any loss or damage arising from the bankruptcy, insolvency, or tortuous act of any person, Company or Corporation, with whom any moneys, securities or effects shall be entrusted or deposited or for any loss occasioned by any error of judgment or over sight in his part or for any other loss or damage or misfortune whatever which shall happen in the execution of the duties of his office of in relation thereto, unless the same happens through his own willful act or default.
- b) Without prejudice to the generality foregoing it is hereby expressly declared that any filing fee payable or any document required to be filed with Register of Companies in respect of any act done or required to be done by any Director or other Officer by reason of his holding the said office, shall be paid and borne by the Company.

## SECTION IX: OTHER INFORMATION

### MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

*Copies of the following contracts which have been entered or are to be entered into by the Company (not being contracts entered into in the ordinary course of business carried on by the Company or contracts entered into more than two years before the date of this Red Herring Prospectus) which are or may be deemed material have been attached to the copy of this Red Herring Prospectus delivered to the Registrar of Companies, Andhra Pradesh at Hyderabad for registration. Copies of the abovementioned contracts and also the documents for inspection referred to hereunder, may be inspected at the Registered and Corporate Office of the Company located Ashoka Raghupathi Chambers, D No. 1-10-60 to 62, Opposite to Shoppers Stop, Begumpet, Hyderabad 500 016 from 10 a.m. to 4 p.m. on working days from the date of the Red Herring Prospectus until the Bid/Issue Closing Date.*

#### A. Material Contracts for the Company

1. MoU for transfer of business from SKS Society to the Company dated September 1, 2005;
2. Subscription-cum-shareholders agreement dated January 31, 2006 executed between the Company, Mr. Sitaram Rao, Dr. Vikram Akula and SIDBI;
3. Share subscription agreement entered into between the Company and Dr. Vikram Akula, MUC, Mr. Vinod Khosla, and Ravi & Pratibha Foundation Inc. dated March 27, 2006;
4. Amended and restated shareholders agreement entered into between the Company and Dr. Vikram Akula, SIDBI, SKS Mutual Benefit Trusts, MUC, Mr. Vinod Khosla and Ravi & Pratibha Reddy Foundation Inc. dated March 27, 2006;
5. Amended and restated shareholders agreement entered into between the Company and Dr. Vikram Akula, SIDBI, SKS Mutual Benefit Trusts, MUC, Mr. Vinod Khosla, Kismet Microfinance (formerly known as SKS Capital), Odyssey Capital Private Limited, and SCI II, dated March 29, 2007;
6. Share subscription agreement entered into between the Company and Dr. Vikram Akula, MUC, Mr. Vinod Khosla, Kismet Microfinance, Odyssey Capital Private Limited, and SCI II dated March 29, 2007;
7. Amended and restated shareholders agreement entered into between the Company and Dr. Vikram Akula, SIDBI, SKS Mutual Benefit Trusts, MUC, Mr. Vinod Khosla, Kismet Microfinance, SCI II, SCIGI I, Tejas Ventures, Yatish Trading, Infocom Ventures, SVB India Capital Partners I L.P., and Columbia Pacific Opportunity dated December 27, 2007;
8. Share subscription agreement entered into between the Company and Dr. Vikram Akula, SIDBI, SKS Mutual Benefit Trusts, MUC, Mr. Vinod Khosla, Kismet Microfinance, SCI II, SCIGI I, Tejas Ventures, Yatish Trading, Infocom Ventures, SVB India Capital Partners I L.P., and Columbia Pacific Opportunity dated December 27, 2007;
9. Amended and Restated shareholders agreement entered into between the Company and Dr. Vikram Akula, SIP I, SKS Mutual Benefit Trusts, SIDBI, MUC, Mr. Vinod Khosla, Kismet Microfinance, Kismet SKS II, SCI II, SCIGI I, Tejas Ventures, Yatish Trading, Infocom Ventures, ICP Holdings and Columbia Pacific Opportunity dated October 20, 2008;
10. Deed of Addendum to the Amended and restated shareholders agreement entered into between the Company and Dr. Vikram Akula, SIP I, SKS Mutual Benefit Trusts, SIDBI, MUC, Mr. Vinod Khosla, Kismet Microfinance, Kismet SKS II, SCI II, SCIGI I, Tejas Ventures, Yatish Trading, Infocom Ventures, ICP Holdings and Columbia Pacific opportunities dated March 24, 2009;
11. Share Transfer Agreement dated March 26, 2009 by and between the Investors;
12. Put/Call agreement dated July 25, 2007 between the Company, Dr. Vikram Akula, Kismet Microfinance, and SCI II;

13. Share subscription agreement entered into between the Company and Dr. Vikram Akula, SIP I, Kismet SKS II and ICP Holdings I dated October 20, 2008;
14. Deed of Addendum to the Share Subscription Agreement entered into between the Company and Dr. Vikram Akula, SIP I, Kismet SKS II and ICP Holdings I dated March 24, 2009;
15. Share Subscription Agreement entered into by the Company and BALICL dated May 21, 2009;
16. Deed of Amendment to Share Subscription Agreement entered into by the Company and BALICL dated August 18, 2009;
17. Share Purchase Agreement dated December 10, 2009 between Dr. Vikram Akula, Tree Line and the Company;
18. Share Subscription Agreement for subscription of shares by Catamaran (represented by their trustees Catamaran Management Services Private Limited) dated January 16, 2010;
19. Share Purchase Agreements dated January 27, 2010 between Mr. Suresh Gurumani, Mr. M.R. Rao and certain employees, Tree Line and the Company;
20. Share Purchase Agreement dated January 27, 2010 between Tree Line, Ms. V.L. Santha Kumari and the Company;
21. Share Purchase Agreement dated May 12, 2010 and Amendment Agreement dated July 9, 2010 between Quantum (M) Limited, Yatish Trading and the Company;
22. Composition Agreement and Deed of Assignment between Dr. Palash Sen (representing 'Euphoria') and the Company;
23. Share Purchase Agreement dated April 27, 2010 entered into between Tree Line, SIDBI and the Company.
24. Service Agreement dated January 2, 2010 between the Company and Aspiring Minds Assessment Private Limited; and
25. Lease Deeds for the Registered Office of the Company.

**B. Material Contracts to the Issue**

1. Letter of Engagement dated March 22, 2010 issued by the Company for the appointment of the BRLMs;
2. Issue Agreement dated March 22, 2010 between the Company, the Selling Shareholders and the BRLMs;
3. Memorandum of Understanding dated March 18, 2010 between the Company, the Selling Shareholders and the Registrar to the Issue;
4. Escrow Agreement dated [●] between the Company, the BRLMs, the Selling Shareholders, Escrow Collection Bank and the Registrar to the Issue;
5. Syndicate Agreement dated [●] between the Company, the Selling Shareholders, the BRLMs and the Syndicate Members; and
6. Underwriting Agreement dated [●] between the Company, the Selling Shareholders, the BRLMs and the Syndicate Members.
7. Letter dated July 15, 2010 by the Monitoring Agent accepting the appointment as the Monitoring Agency.

**C. Documents for Inspection**

1. Certified copies of the updated Memorandum and Articles of Association of the Company as amended from time to time;
2. Certificate of Incorporation of the Company dated September 22, 2003. Fresh Certificate of Incorporation of the Company dated May 20, 2009;
3. Resolutions of the Board of Directors of the Company dated January 5, 2010 in relation to the Issue and other related matters;
4. Shareholders' Resolution dated January 8, 2010 in relation to this Issue and other related matters;
5. Resolutions of the board of directors of MUC dated March 17, 2010, SCI II dated February 11, 2010, Kismet Microfinance dated March 3, 2010 and the Trustees of SKS MBTs, STAPL dated March 12, 2010 authorizing the Offer for Sale;
6. The examination report of S.R. Batliboi & Co., Chartered Accountants, dated July 12, 2010 prepared as per paragraph B(1) of Part II of Schedule II to the Companies Act, 1956 and the SEBI Regulations and mentioned in this Red Herring Prospectus;
7. Consent from the Auditors for inclusion of their names as the auditors and of their reports on restated summary statements in the form and context in which they appear in this Red Herring Prospectus;
8. The report of S.R. Batliboi & Co., Chartered Accountants, dated July 12, 2010 on the Statement of Tax Benefits;
9. Consent of Directors, BRLMs, the Syndicate Members, Legal Advisors to the Issue, Registrars to the Issue, Escrow Collection Banker, Banker to the Issue, Bankers to the Company, Company Secretary and Compliance Officer as referred to in their specific capacities;
10. Resolution of the shareholders passed at the Annual General Meeting held on July 16, 2010 re-appointing S.R. Batliboi & Co., Chartered Accountant as statutory auditors for fiscal 2010-2011;
11. Board resolution dated September 30, 2008, and Shareholder Resolution dated September 30, 2009, in relation to the appointment and remuneration of Mr. Suresh Gurumani, Managing Director;
12. Due Diligence Certificate dated March 25, 2010 addressed to SEBI from the BRLMs;
13. In principle listing approvals dated May 26, 2010 and April 28, 2010 issued by NSE and BSE respectively;
14. Tripartite Agreement dated May 6, 2010 the Company, NSDL and the Registrar to the Issue;
15. Tripartite Agreement dated April 29, 2010 between the Company, CDSL and the Registrar to the Issue; and
16. IPO Grading Report dated June 23, 2010 by CARE.

Any of the contracts or documents mentioned in this Red Herring Prospectus may be amended or modified at any time if so required in the interest of the Company or if required by the other parties, without reference to the shareholders subject to compliance of the provisions contained in the Companies Act and other relevant statutes.

## DECLARATION

All relevant provisions of the Companies Act, 1956, and the guidelines issued by the Government of India or the regulations issued by Securities and Exchange Board of India, established under Section 3 of the Securities and Exchange Board of India Act, 1992, as the case may be, have been complied with and no statement made in this Red Herring Prospectus is contrary to the provisions of the Companies Act, 1956, the Securities and Exchange Board of India Act, 1992 or rules or regulations made thereunder or guidelines issued, as the case may be. We further certify that all the statements in this Red Herring Prospectus are true and correct.

### SIGNED BY ALL THE DIRECTORS OF THE COMPANY

Sd/-

\_\_\_\_\_  
Dr. Vikram Akula  
(Chairman)

Sd/-

\_\_\_\_\_  
Mr. Suresh Gurumani  
(Managing Director and Chief Executive Officer)

Sd/-

\_\_\_\_\_  
Mr. P.H. Ravi Kumar

Sd/-

\_\_\_\_\_  
Dr. Tarun Khanna

Sd/-

\_\_\_\_\_  
Mr. V. Chandrasekaran

Sd/-

\_\_\_\_\_  
Mr. Geoffrey Tanner Woolley

Sd/-

\_\_\_\_\_  
Mr. Sumir Chadha

Sd/-

\_\_\_\_\_  
Mr. Ashish Lakhanpal

Sd/-

\_\_\_\_\_  
Mr. Paresh D. Patel

Sd/-

\_\_\_\_\_  
Mr. Pramod Bhasin

### SIGNED BY THE CHIEF FINANCIAL OFFICER OF THE COMPANY

Sd/-

\_\_\_\_\_  
Mr. S. Dilli Raj

Date: July 16, 2010

Place: Hyderabad



## DECLARATION OF THE SELLING SHAREHOLDERS

Each Selling Shareholder certifies that all the statements in this Red Herring Prospectus about or in relation to such Selling Shareholder are true and correct. Each Selling Shareholder assumes responsibility only for statements about or in relation to such Selling Shareholder.

### SIGNED BY ALL THE SELLING SHAREHOLDERS

Sd/-

\_\_\_\_\_  
For and on behalf of Sequoia Capital India II LLC

Sd/-

\_\_\_\_\_  
For and on behalf of SKS Mutual Benefit Trust –  
Narayankhed

Sd/-

\_\_\_\_\_  
For and on behalf of SKS Mutual Benefit Trust –  
Jogipet

Sd/-

\_\_\_\_\_  
For and on behalf of SKS Mutual Benefit Trust –  
Medak

Sd/-

\_\_\_\_\_  
For and on behalf of SKS Mutual Benefit Trust –  
Sadasivapet

Sd/-

\_\_\_\_\_  
For and on behalf of SKS Mutual Benefit Trust –  
Sangareddy

Sd/-

\_\_\_\_\_  
For and on behalf of Kismet Microfinance

Sd/-

\_\_\_\_\_  
For and on behalf of Mauritius Unitus Corporation

Date: July 16, 2010

Mr. Dilliraj S  
Chief Financial Officer  
SKS Microfinance Ltd.  
Ashoka Raghupathi Chamber,  
D No 1-1-60 to 62  
Opp Shoppers Stop  
Begumpet, Hyderabad-500019  
Andhra Pradesh

4<sup>th</sup> Floor, Godrej Colliseum,  
Somaiya Hospital Road,  
Off Eastern Express Highway,  
Sion (East), Mumbai - 400 022, INDIA.  
☎ : 67543456 Fax : (022) 67543457  
E-mail : care@careratings.com  
www.careratings.com

July 12, 2010

Dear Sir,

**IPO Grading**

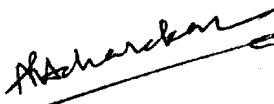
Please refer to our letter dated June 24, 2010 on the above subject.

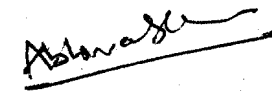
2. The rationale for the IPO Grading is given as **Annexure I**. The rationale is proposed to be included in our quarterly journal 'CAREVIEW'.
3. We request you to peruse the Rationale and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by July 15, 2010 we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

  
[Aditya Acharekar]  
Manager

  
[Abhinav Sharma]  
Manager

Encl: As above

**CARE assigns 'CARE IPO Grade 4' to the proposed IPO of  
SKS Microfinance Ltd.**

**Grading**

| Particulars | No of equity shares (in lakh) | Grading            |
|-------------|-------------------------------|--------------------|
| IPO Grading | 167.92* of Rs.10 each         | 'CARE IPO Grade 4' |

\*including an offer for sale by selling shareholders of 93.46 lakh

*CARE has assigned a 'CARE IPO Grade 4' to the proposed IPO of SKS Microfinance Ltd (SKSML). 'CARE IPO Grade 4' indicates Above Average Fundamentals. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer.*

**Grading Rationale**

The grading reflects SKSML's position as one of the largest players in the Indian micro finance industry having pan India operations with a well diversified portfolio. The grading takes into account track record of the promoters, experienced board of directors and strong management profile. The grading also takes into account good corporate governance practices adopted by the company including presence of various committees and independence of the board. The grading considers the strong financial position with healthy margins including good asset quality, comfortable capital adequacy ratio, comfortable liquidity position and access to diverse sources of institutional funding. The grading also considers the strong industry growth in recent period with good prospects for future growth on account of large unmet potential demand.

The grading is however moderated by company's sensitivity to operational risk on account of large volume of cash transactions & decentralized operations spread across the country. Further, the grading also factors in the industry risks on account of any adverse change in government policies, low seasoning of the industry portfolio and asset quality risks on account of political/religious interventions. However some of these risks are mitigated due to the high diversification of SKSML's asset portfolio.

**Company Profile**

SKSML is one of the largest players in the Indian micro finance industry, lending to women borrowers organised as joint liability groups. It was founded by Dr. Vikram Akula, who has more than 10 years of experience in the field of microfinance. SKSML was incorporated on September 22, 2003 under the Companies Act, 1956 and was registered as a non deposit

taking non banking financial company (NBFC-ND) with the Reserve Bank of India (RBI) in 2005. It converted from a Private Limited to a Public Limited Company, with effect from May 20, 2009. As on March 31, 2010, major shareholders of the company include Sequoia Capital India II LLC, Sandstone Investment Partners I, Kismet Microfinance and SKS MBTs (mutual benefit trusts).

### Management

*SKSML is run by a professional management team with relevant industry experience. Substantially all of senior managers have over 17 years of experience with well reputed national and multinational companies, particularly in the retail and commercial banking industries. Additionally the company management has gained substantial experienced in the specific retail asset class of microfinance loans during the last 4-5 years while running its pan India scale of operations.* In addition to founder and Chairman, Dr. Vikram Akula, senior management team comprises of Mr.Suresh Gurumani (Chief Executive Officer and Managing Director) who has 22 years of experience in the banking sector and was with Barclays Bank Plc as Retail Banking head before joining SKSML; Mr.M.R. Rao (Chief Operating Officer) who has 22 years of experience in retail financial services and was with ING Vysya as head Alternate Channels before joining; and Mr.S.Dilli Raj (Chief Financial Officer) who has 18 years of experience in funding, finance, taxation & accounting and was with First Leasing Company of India Limited as the Chief Financial Officer before joining.

### Corporate Governance

*Along with strong management the grading is supported by the good corporate governance practices adopted by the company including presence of various committees and independence of the board.* SKSML has constituted various committees including audit committee, shareholders/investors grievance committee, finance committee, asset liability management, risk management committee, remuneration & compensation committee and nomination committee. It has five independent directors which constitute 50% of board of directors. Board of SKSML comprises of experienced investor, industry and management professionals. SKSML board comprises of experienced professionals including Dr.Vikram Akula, Mr.Suresh Gurumani, Mr.P.H.Ravi Kumar, Dr.Tarun Khanna, Mr.V.Chandrasekaran, Mr.Geoffrey Tanner Wooley, Mr.Pramod Bhasin, Mr.Sumir Chadha, Mr.Ashish Lakhanpal, Mr.Paresh D. Patel.

### Operations

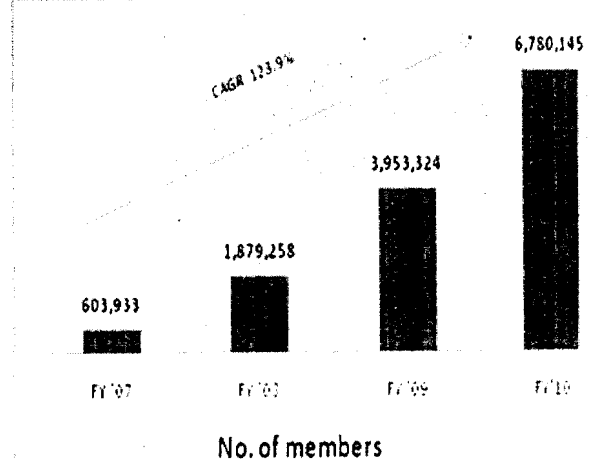
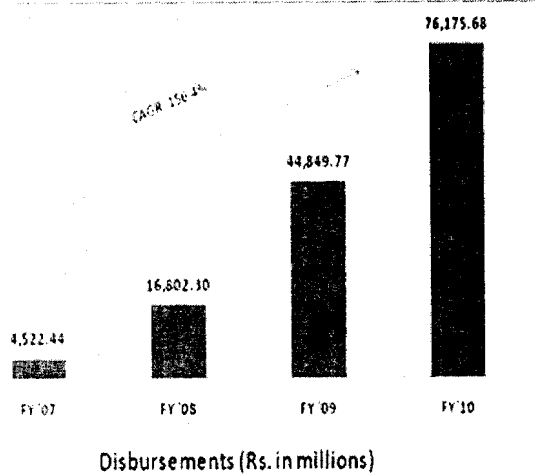
*Microfinance lending is the core area of operations for SKSML and the company has grown to a pan India scale with increasing geographical diversification in its portfolio.*

*Microfinance loans are a unique retail loan asset class whose asset quality, in addition to conventional factors like earning capacity of borrowers & collection model of the lender, is based on peer pressure coming from the joint liability of these loans.* SKSML provides loans to individual members (women) in a group (JLG - Joint Liability Group) with each group consisting of five members. The loans provided to individuals are based on the mutual guarantee from members. The JLGs in turn are part of a 'Centre' which comprises around 4-10 JLGs and the staff of SKSML interacts with the group members in centre meetings. There is also a second level of mutual guarantee wherein JLGs mutually guarantee other JLGs in a Centre. While these loans are given without collateral, mutual guarantee and the co-borrower / member pressure act as risk mitigants. The loans are repaid on a weekly basis. SKSML lends to JLGs at interest rates of around 12.5% to 15% [flat - equivalent to 23.6% to 28.1% on Internal Rate of Return (IRR) basis] with around 50 weeks repayment tenure. The ticket size of these loans is very small and ranges from Rs. 2,000 to Rs. 50,000 for SKSML. Collections are cash based.

*Lending operations of SKSML are decentralised and its branches are responsible for appraisal, disbursement, collection and delinquency management.* The Head Office (HO) keeps track of operations of the branches through regular reporting done by the branch managers and other supervisory staff (area managers and unit managers). SKSML has strengthened its internal controls and systems to reduce operational risks of the company. One of the primary operational risks is managing large volumes of cash movement that is exposed to theft and fraud. SKSML's operational risk control / mitigation measures include tying up with leading banks for cash management, taking insurance coverage (for fidelity, cash in transit, cash in safe and fixed assets), formation of a crisis management team to handle frauds and strengthening of the internal audit team. The Management Information System (MIS) has been further strengthened for better monitoring of its business and also the portfolio asset quality. Additionally increasing diversification and size also provides comfort as impact of any single operational risk event becomes smaller for the company on a proportionate basis.

*The scale of operations of SKSML has grown rapidly and it has achieved a substantial level of geographical diversification. Its current scale of operations in terms of portfolio size is comparable to some of the established NBFCs which have been in operation for a much longer period of time. While the microfinance industry has large portfolio concentration in southern states of India, SKSMLs has good geographical diversification with a large coverage in eastern and western states along with southern states. Also the vast, rural level loan distribution and collection network of the company provides an opportunity to diversify into other products by leveraging this network.*

| Particulars         | FY07   | FY08     | FY09     | FY10     |
|---------------------|--------|----------|----------|----------|
| Number of Branches  | 276    | 770      | 1,353    | 2,029    |
| Number of States    | 11     | 16       | 18       | 19       |
| Number of District  | 103    | 219      | 307      | 341      |
| Number of Employees | 2,381  | 6,818    | 12,814   | 21,154   |
| Total AUM (Rs cr)   | 276.16 | 1,050.60 | 2,456.41 | 4,320.69 |



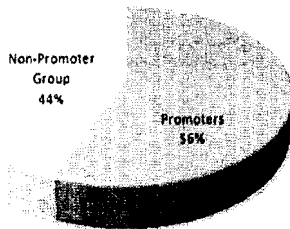
As on March 31, 2010, the company operated in 19 states with 2,029 branches covering 57 lakh active borrowers with total AUM of Rs.4,321 crore including assigned portfolio of Rs.1,384 crore. As on March 31, 2010 the state-wise contribution of total AUM stood at 29.1% (Andhra Pradesh), 14.6% (West Bengal), 11.2% (Karnataka), 9.7% (Orissa), 6.9% (Bihar) and 6.1% (Maharashtra).

While the core business for SKSML is microfinance lending, it is planning to leverage the large distribution network to diversify its revenue streams in future. It has had strategic alliances with Nokia, Bajaj Allianz, HDFC Ltd, METRO Cash & Carry, Future Agroviet Ltd and others to provide various offerings.

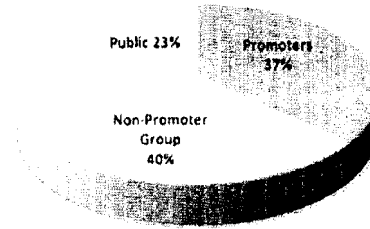
## IPO issue details

|                |                      |
|----------------|----------------------|
| Public Issue   | 16.79 million shares |
| Fresh Issue    | 7.44 million shares  |
| Offer for Sale | 9.35 million shares  |

Pre-Issue Shareholding



Post-Issue Shareholding



The company is proposing to issue 1,67,91,579 equity shares including an Offer for Sale by selling 93,46,256 equity shares and the balance constituting fresh equity. SKSML will not receive any proceeds from the Offer for Sale. The activities for which funds are being raised by SKSML through the fresh issue are to augment capital base to meet future capital requirements arising out of growth in business.

## Financial Results

*The grading considers the strong financial position with healthy margins including good asset quality, comfortable capital adequacy ratio, comfortable liquidity position and access to diverse sources of institutional funding.*

|                                             | (Rs Cr)      |               |               |               |
|---------------------------------------------|--------------|---------------|---------------|---------------|
| Year ended / As on March 31                 | 2007         | 2008          | 2009          | 2010          |
| Interest income on portfolio loans          | 39.64        | 133.08        | 450.47        | 756.54        |
| <b>Total income</b>                         | <b>45.67</b> | <b>170.01</b> | <b>554.00</b> | <b>958.93</b> |
| Operating expenses                          | 25.24        | 80.39         | 222.10        | 351.10        |
| Provisions and write off                    | 2.03         | 4.21          | 13.42         | 51.72         |
| <b>PBIT</b>                                 | <b>18.39</b> | <b>85.41</b>  | <b>318.49</b> | <b>556.11</b> |
| Financial expenses                          | 13.85        | 56.47         | 194.43        | 288.41        |
| <b>PAT</b>                                  | <b>2.21</b>  | <b>16.66</b>  | <b>80.22</b>  | <b>173.95</b> |
| Net worth                                   | 67           | 205           | 654           | 935           |
| Secured loans                               | 249          | 790           | 2097          | 2580          |
| Unsecured loans                             | 0            | 0             | 39            | 115           |
| Loans and advances                          | 264          | 781           | 1418          | 2937          |
| <b>Total assets</b>                         | <b>331</b>   | <b>1086</b>   | <b>3028</b>   | <b>4033</b>   |
| Debt / Equity (gearing) (times)             | 3.70         | 3.86          | 3.27          | 2.88          |
| Reported Capital Adequacy Ratio (%)         | NA           | 24.77         | 39.04         | 28.55         |
| Interest coverage before provisions (times) | 1.47         | 1.59          | 1.71          | 2.11          |
| Operating expenses/average capital employed | 12.71        | 12.26         | 11.74         | 10.94         |
| NIM                                         | 12.36        | 11.46         | 13.48         | 13.76         |
| ROCE                                        | 9.26         | 13.03         | 16.83         | 17.32         |
| Cost of Capital                             | 6.62         | 7.96          | 9.16          | 8.43          |
| Net Spread                                  | 2.64         | 5.07          | 7.66          | 8.89          |
| ROTA                                        | 1.03         | 2.36          | 3.90          | 4.93          |
| Gross NPA / Gross Advances (%)              | 0.12         | 0.20          | 0.34          | 0.33          |

*SKSML's financial results reflect the strong growth witnessed by the company along with health margins. Income of SKSML has grown at a rapid pace in last couple of years with exponential increase in scale of business. On account of high yield on advances, NIM has been maintained around 12% to 13% in the past few years. Operating expenses formed around 10.94% of average total capital employed due to higher transaction costs and rapid branch expansion. It reported income of Rs.958 crore and net profit of Rs.174 crore for FY10.*

*SKSML has been able to manage asset quality at comfortable levels that is comparable to the microfinance industry. While the seasoning of industry loan portfolio (including SKSML) is relatively less compared to conventional retail loans, these loans observe faster loan cycles due to their shorter (<1 year) tenure. Gross NPA ratio for SKSML stood at*



0.33% as on Mar.31, 2010 (based on SKSML classification which is more conservative than regulatory requirements).

*The company has achieved fairly high level of diversification in terms of sources of (institutional) borrowing and has borrowing from 48 banks & financial institutions thereby reducing its dependence on any single lender. In terms of type of financial instruments, while bank loans remain the primary source of funding, it is gradually diversifying into other sources of funding.* During FY09, SKSML for the first time approached capital market for raising funds and successfully issued various short term debt instrument including Commercial Paper and Non Convertible Debentures. It has also explored assignment route for raising funds which forms around 32% of the total asset under management (AUM) as on March 31, 2010. It has plans of mobilizing funds through initial public offering (IPO) in the current financial year which will make it the first MFI to be listed in India and the third pure MFI in the world<sup>1</sup> to mobilize funds through IPO. Reported capital adequacy ratio was comfortable at 28.5% as on March 31, 2010. SKSML has been able to raise funds (both equity and debt) at regular intervals during the last few years.

*SKSML also benefits from the strong balance sheet liquidity due to the structural nature of its loan portfolio (with maturity < 1 year) and active liquidity management by the company.* ALM profile for the company has substantial cumulative positive mismatch upto 1 year. In addition the company also manages liquidity very actively and keeps contingency buffer for new disbursements and for loan repayments (to mitigate risks of a market wide liquidity crunch).

#### **Industry Outlook & Prospects**

According to the 2008, 'Inverting the Pyramid' Report by 'Intellicap', an independent industry research firm, the total estimated demand for micro-credit in India was approximately \$51.4 billion (Rs. 2,399.35 billion). This demand is currently being addressed by the two largest microfinance models in India, MFIs and SHGs. The same report estimated the 2008 total loan disbursements for these two models at approximately \$4.30 billion (Rs. 200.72 billion). As per Bharat Microfinance Report, for-profit MFIs (NBFCs) have obtained a majority of the market share both in terms of clients (62%) and in terms of total outstanding loan portfolio (75%).

<sup>1</sup> "...with only two pure microfinance IPOs to date (Compartamos Banco and Equity Bank) and another expected in India in 2010 (SKS)" source : CGAP and JP Morgan report "All eyes of asset quality: microfinance global valuation survey 2010" dated March 2010

Banks are a major source of funding for MFIs since loans to MFIs qualify for mandatory priority sector lending that banks in India are subject to. Larger MFIs have also started accessing traditional capital markets with listed bonds, debentures and similar instruments. More recently, MFIs have securitized assets and sold their loans to banks. These transactions also often meet mandatory bank priority sector lending requirements. The policy of the Government of India has long favoured the continued development of the microfinance industry in India. The RBI, SIDBI and NABARD are the largest and most active government affiliated entities regulating and supporting the industry.

Indian microfinance sector reached out to 86.2 million clients and had a portfolio outstanding of Rs.351 billion (including MFI channel and SHG Bank Linkage). The micro finance industry is estimated to show high growth in coming years and SKSML has emerged as a leading microfinance institution in India with rapid growth in the business during last few years and this growth is expected to continue in the near future. With a professional management, SKSML has been successful in raising resources in order to fund the exponential growth in the past and has maintained strong asset quality and high collection efficiency.

However, given the increase in competition there are concerns of microfinance clients being overleveraged by borrowing from multiple lenders. The sector also faces risk of political intervention and the risk that any slowdown in disbursements may affect borrowers' incentive to repay as they may not get additional loans for growth in future. While these risks have not significantly affected the sector yet and there is no clear evidence corroborating or negating these risks, their impact is yet to be seen on the large portfolio growth in the last few years. SKSML has managed these risks by gradually reducing geographical concentration.

SKSML's continued ability to manage these risks, retain management professionals, maintain high corporate governance standards, attract capital and maintain collection efficiency and asset quality on the back of a fast growing portfolio would remain the key grading sensitivities.

#### **DISCLAIMER:**

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