

Auditors' Report

To
The Members of SKS Microfinance Private Limited

1. We have audited the attached Balance Sheet of SKS Microfinance Private Limited ('the Company') as at March 31, 2009 and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 (as amended) ('the Order') issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, ('the Act') we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:
 - i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - ii. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - iii. The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - iv. In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;
 - v. On the basis of the written representations received from the directors, as on March 31, 2009, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2009 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act;


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S.R. BATLIBOI & Co.

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- vi. In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;
- a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2009;
 - b) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
 - c) in the case of Cash Flow Statement, of the cash flows for the year ended on that date.


For S.R. BATLIBOI & Co.
Chartered Accountants


per Viren H. Mehta
Partner
Membership No.: 48749

Mumbai

Date: 6 MAY 2009

**Annexure referred to in paragraph 3 of our report of even date
SKS Microfinance Private Limited ('the Company')**

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) All fixed assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. As informed, no material discrepancies were noticed on such verification.
- (c) There was no substantial disposal of fixed assets during the year.
- (ii) The Company is a Non-Banking Financial Company ('NBFC') engaged in the business of providing loans and does not maintain any inventory. Therefore the provisions of clause 4(ii) of the Order are not applicable to the Company.
- (iii) (a) As informed, the Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
- (b) As informed, the Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
- (iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase of fixed assets and for rendering of services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas.
- (v) (a) According to the information and explanations provided by the management, we are of the opinion that the particulars of contracts or arrangements referred to in section 301 of the Act that need to be entered into the register maintained under section 301 of the Act have been so entered.
- (b) In respect of transactions made in pursuance of such contracts or arrangements exceeding value of Rupees five lakhs entered into during the financial year, because of the specialized nature of the items involved and absence of any comparable prices, we are unable to comment whether the transactions were made at prevailing market prices at the relevant time.
- (vi) The Company has not accepted any deposits from the public.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
- (viii) To the best of our knowledge and as explained, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for the products of the Company.

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- (ix)(a) 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.*
- (b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty, cess and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable.
- (c) According to the information and explanation given to us, there are no dues of income tax, sales-tax, wealth tax, service tax, customs duty, excise duty and cess which have not been deposited on account of any dispute.
- (x) The Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and immediately preceding financial year.
- (xi) Based on our audit procedures and as per the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to a financial institution, bank or debenture holders.
- (xii) According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Order are not applicable to the Company.
- (xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable to the Company.
- (xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institution.
- (xvi) Based on information and explanations given to us by the management, term loans were applied for the purpose for which the loans were obtained, though idle/surplus funds which were not required for immediate utilization have been gainfully invested in liquid investments payable on demand. The maximum amount of idle/surplus fund invested during the year was Rs.12,677,820,861 of which Rs.12,677,820,861 was outstanding at the end of the year.
- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment.
- (xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.

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- (xix) According to the information and explanations given to us, during the year covered by our audit report, the Company had issued 2,500 debentures of Rs. 100,000 each. The Company has not created any security / charge in respect of debentures issued. However, the time for such creation security / charge has not elapsed as on the date of this report.
- (xx) The Company has not made any public issues during the year.
- (xxi) 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;*
- (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) *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 arrangements 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 S.R. BATLIBOI & Co.
Chartered Accountants



per Viren H. Mehta
Partner
Membership No.: 48749

Mumbai

Date: 6 MAY 2009

SKS MICROFINANCE PRIVATE LIMITED
Balance Sheet as at March 31, 2009

	Schedules	March 31, 2009	March 31, 2008
		Rupees	Rupees
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	570,566,520	443,316,520
Stock Options Outstanding	1A	19,293,235	2,569,412
Reserves and Surplus	2	6,058,634,113	1,679,472,069
Loan Funds			
Secured Loans	3A	19,473,781,711	7,898,449,915
Unsecured Loans	3B	394,371,918	-
TOTAL		26,516,647,497	10,023,807,916
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	4A	250,994,853	123,289,326
Less: Accumulated Depreciation		126,862,689	48,355,901
Net Block		124,132,164	74,933,425
Capital Work in Progress Including Capital Advances		69,102	3,996,977
		124,201,266	78,930,402
Intangible Assets			
Gross Block	4B	121,236,871	100,003,354
Less: Accumulated Amortization		65,551,244	35,657,550
Net Block		55,685,627	64,345,804
Capital Work in Progress Including Capital Advances		9,836,800	1,675,000
		65,522,427	66,020,804
Deferred Tax Assets (Net)	5	42,403,359	9,389,663
Current Assets, Loans and Advances			
Cash and Bank Balances	6	15,470,212,491	2,752,275,237
Other Current Assets	7	317,205,395	44,302,133
Loans and Advances	8	14,369,462,869	7,936,529,420
		30,156,880,755	10,733,106,790
Less: Current Liabilities and Provisions			
Current Liabilities	9	3,721,294,681	769,438,769
Provisions	10	151,065,629	94,200,974
		3,872,360,310	863,639,743
Net Current Assets		26,284,520,445	9,869,467,047
TOTAL		26,516,647,497	10,023,807,916

Notes to Accounts

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The schedules referred to above and notes to accounts form an integral part of the Balance Sheet.

As per our report of even date

S. R. Batliboi & Co.

For S. R. Batliboi & Co.
Chartered Accountants

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

Viren H. Mehta

per Viren H. Mehta
Partner
Membership No.048749
Place:
Date: **6 MAY 2009**

Vikram Akula

Vikram Akula
Chairman

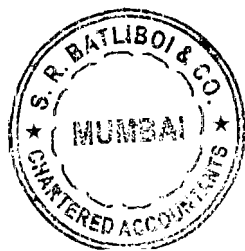
S. Dilli Raj

S.Dilli Raj
Chief Financial Officer

Manish Kumar

Manish Kumar
Managing Director

Manish Kumar
Company Secretary



SKS MICROFINANCE PRIVATE LIMITED
Profit and Loss Account for the year ended March 31, 2009

	Schedules	March 31, 2009 Rupees	March 31, 2008 Rupees
INCOME			
Income from operations	11	5,060,401,138	1,624,656,820
Other income	12	479,599,353	75,420,144
TOTAL		5,540,000,491	1,700,076,964
EXPENDITURE			
Financial expenses	13	1,944,308,792	564,647,002
Personnel expenses	14	1,376,734,410	477,553,378
Operating and other expenses	15	759,662,790	280,711,304
Depreciation and amortization	4A & 4E	108,468,322	51,110,338
Provisions and write offs	16	110,254,386	36,628,138
TOTAL		4,299,428,700	1,410,650,160
Profit before tax		1,240,571,791	289,426,804
Provision for tax			
Current tax		453,300,000	111,629,578
Deferred tax		(33,013,693)	(493,316)
Income tax for the previous year		2,684,104	2,835,200
Fringe benefit tax		15,356,836	8,991,712
Total tax expense		438,327,247	122,963,174
Profit after tax		802,244,544	166,463,630
Profit brought forward from previous year		166,525,672	33,086,598
Profit available for appropriation		968,770,216	199,550,228
APPROPRIATIONS			
Transferred to Statutory Reserve		160,448,909	33,292,726
Surplus carried to Balance Sheet		808,321,307	166,257,502
Earning per Share (Basic) (Refer Note 13 of Schedule 17)		17.95	5.53
Earning per Share (Diluted) (Refer Note 13 of Schedule 17)		17.89	5.53
Notes to accounts	17		

The schedules referred to above and notes to accounts form an integral part of the Profit and Loss Account

As per our report of even date




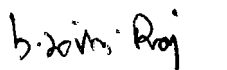
For S. R. Batliboi & Co.
Chartered Accountants




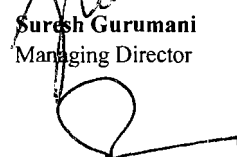
per Viren H. Mehta
Partner
Membership No.048749
Place:
Date: 5 MAY 2009

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


Vikram Akula
Chairman


S. Dilli Raj
Chief Financial Officer


Suresh Gurumani
Managing Director


Manish Kumar
Company Secretary



SKS MICROFINANCE PRIVATE LIMITED
Schedules to Balance Sheet and Profit and Loss Account

	March 31, 2009	March 31, 2008
Schedule 1: Share Capital		
Authorized Share Capital		
Equity Shares		
82,000,000 (Previous Year 52,000,000) equity shares of Rs. 10 each	820,000,000	520,000,000
Preference Shares		
13,000,000 (Previous Year 3,000,000) preference shares of Rs. 10 each	130,000,000	30,000,000
	950,000,000	550,000,000
Issued Share Capital		
Equity Share Capital		
Issued, Subscribed and Paid-up		
47,707,856 (Previous Year: 44,138,481) equity shares of Rs. 10 each fully paid up	477,078,560	441,384,810
Issued, Subscribed and Partly Paid-up		
3,863,415 (Previous Year: 3,863,415) equity shares of Rs. 10 each, Rs.0.50 paid up	1,931,710	1,931,710
Preference Share Capital		
Issued, Subscribed and Fully Paid-up		
9,155,625 (Previous Year: Nil) 0% compulsorily convertible preference shares of Rs. 10 each compulsorily convertible on December 26, 2009 with an option to the holder to convert the holding at any time before that date	91,556,250	-
Total	570,566,520	443,316,520
Schedule 1A: Stock Options Outstanding (Refer Note 8 of Schedule 17)		
Employee stock options outstanding	21,316,514	14,212,480
Less : Deferred Employee compensation outstanding	2,023,279	11,643,068
	19,293,235	2,569,412
Schedule 2: Reserves and Surplus		
A. Securities Premium Account		
As per last Balance Sheet	1,471,324,586	408,904,759
Add: Additions during the year	3,576,917,500	1,062,419,827
Sub-total	5,048,242,086	1,471,324,586
B. Statutory Reserve		
As per last Balance Sheet	41,621,811	8,329,085
Add: Transferred from Profit and Loss Account	160,448,909	33,292,726
Sub-total	202,070,720	41,621,811
C. Profit and Loss Account		
Surplus brought forward from the Profit and Loss Account	808,321,307	166,257,502
Add: Adjustment for provision for employee benefits provision (Refer Note 9 of Schedule 17)	-	268,170
Sub-total	808,321,307	166,525,672
Total	6,058,634,113	1,679,472,069



(A+B+C)

SKS MICROFINANCE PRIVATE LIMITED
Schedules to Balance Sheet and Profit and Loss Account

	March 31, 2009	March 31, 2008
Schedule 3 (A): Secured Loans		
Term Loans		
From banks (*Secured by hypothecation of portfolio loans)	14,290,741,048	5,935,104,021
From financial institutions (*Secured by hypothecation of portfolio loans and by lien marked on bank deposits)	4,933,040,663	1,963,345,894
Debentures		
2500 (Previous Year: Nil) 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 Feb 27, 2009 (**Secured by hypothecation of portfolio loans)	250,000,000	-
Total	19,473,781,711	7,898,449,915

Schedule 3 (B): Unsecured Loans

Term Loans		
From banks	150,000,000	-
Commercial paper (Short term)	250,000,000	-
Less: Unamortized interest	<u>(5,628,082)</u>	244,371,918
Maximum amount outstanding at any time during the year Rs. 244,371,918 (Previous Year: Nil)		
Total	394,371,918	-

* The total secured loans borrowing outstanding as at the Balance Sheet date includes Rs.1,900,000,000 for which the creation of charge for security has been done subsequent to the Balance Sheet date.

** The creation of charge for security is pending as at the Balance Sheet date.



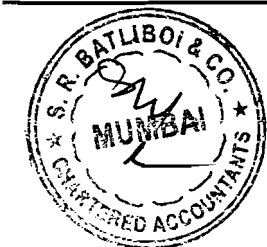
KS MICROFINANCE PRIVATE LIMITED
 schedules to Balance Sheet and Profit and Loss Account
 schedule 4 : Fixed Assets and Intangible Assets

A. Fixed Assets

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As on April 1, 2008	Additions	Deletion	As on March 31, 2009	As on April 1, 2008	For the Year	Deletion	Total March 31, 2009	As on March 31, 2009	As on March 31, 2008
I) Furniture and Fixture	35,428,584	42,070,497	101,655	77,397,426	26,733,509	32,738,706	44,117	59,428,098	17,969,328	8,695,075
II) Plant and Machinery:										
Computers	76,635,326	73,174,192	39,923	149,769,595	19,273,214	42,013,546	7,880	61,278,880	88,490,715	57,362,112
Office Equipments	10,484,266	12,703,866	101,450	23,086,682	2,000,318	3,720,812	15,843	5,705,287	17,381,395	8,483,948
III) Vehicles	741,150	-	-	741,150	348,860	101,564	-	450,424	290,726	392,290
Total	123,289,326	127,948,555	243,028	250,994,853	48,355,901	78,574,628	67,840	126,862,689	124,132,164	74,933,425
Previous Year	-	86,784,508	-	123,289,326	-	32,477,542	-	48,355,901	74,933,425	

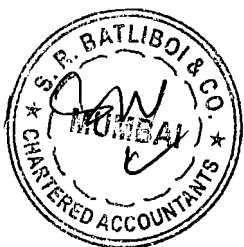
IB. Intangible Assets

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As on April 1, 2008	Additions	Deletion	As on March 31, 2009	As on April 1, 2008	For the Year	Deletion	Total March 31, 2009	As on March 31, 2009	As on March 31, 2008
I) Goodwill	39,701,135	-	-	39,701,135	20,511,454	7,940,227	-	28,451,681	11,249,454	19,189,681
II) Computer Software	60,302,219	21,233,517	-	81,535,736	15,146,096	21,953,467	-	37,099,563	44,436,173	45,156,123
Total	100,003,354	21,233,517	-	121,236,871	35,657,550	29,893,694	-	65,551,244	55,685,627	64,345,804
Previous Year	-	52,048,719	-	100,003,354	-	18,632,796	-	35,657,550	64,345,804	



SKS MICROFINANCE PRIVATE LIMITED
Schedules to Balance Sheet and Profit and Loss Account

	March 31, 2009	March 31, 2008
Schedule 5: Deferred Tax Assets / (Liabilities) (Net)		
Deferred Tax Assets		
Difference due to disallowance of expenses under section 43B of Income tax Act, 1961	16,502,644	3,919,935
Difference due to disallowance of provision for doubtful debts	23,266,153	10,927,347
Difference due to charge of tax on income on non-performing assets	2,886,556	-
Gross Deferred Tax Assets	42,655,353	14,847,282
Deferred Tax Liabilities		
Differences in depreciation and other differences in block of fixed assets and intangible assets as per tax books and financial books	251,994	5,457,619
Gross Deferred Tax Liabilities	251,994	5,457,619
Net Deferred Tax Assets	42,403,359	9,389,663
Schedule 6: Cash and Bank Balances		
Cash on hand	12,041,234	106,787,608
Balances with Scheduled Banks:		
On current accounts	1,565,288,217	1,483,111,733
On deposit accounts	13,890,916,254	1,161,538,551
(Of the total deposits placed with banks, lien has been partly made against deposit certificates of Rs.1,213,095,393 (Previous Year Rs.136,897,979) towards term loans availed from banks, financial institutions and towards cash collateral placed in connection with asset assignments)		
Balances with Unscheduled Banks (Refer Note 17 of Schedule 17) :		
On current accounts	1,966,786	837,345
Total	15,470,212,491	2,752,275,237
Schedule 7: Other Current Assets		
Interest accrued but not due		
On portfolio loans	53,523,235	35,252,129
On deposits placed with banks	26,451,991	4,790,007
Others	237,230,169	4,259,997
Total	317,205,395	44,302,133



SKS MICROFINANCE PRIVATE LIMITED
Schedules to Balance Sheet and Profit and Loss Account

		March 31, 2009	March 31, 2008
Schedule 8: Loans and Advances			
A. Portfolio Loans (Unsecured, considered good)			
Loans under joint liability group scheme		13,228,105,463	7,188,556,687
Individual loans		899,242,433	604,903,707
Sub-Total	(A)	14,127,347,896	7,793,460,394
B. Portfolio Loans (Unsecured, considered doubtful)			
Loans under joint liability group scheme		37,264,254	14,510,354
Individual loans		10,614,815	924,529
Sub-Total	(B)	47,879,069	15,434,883
C. Other Loans and Advances			
Secured, considered good			
Employee loans		3,810,013	9,255,683
Unsecured, considered good			
Loans to SKS Microfinance Employees Benefit Trust (Refer Note 18 of Schedule 17)		69,813,060	33,826,023
Advances recoverable in cash or kind or value to be received		44,014,133	68,984,234
Deposits		58,017,182	10,374,931
Interest accrued and due			
On portfolio loans		2,330,021	355,707
On deposits placed with banks		16,251,495	4,837,565
Sub-Total	(C)	194,235,904	127,634,143
Total	(A+B+C)	14,369,462,869	7,936,529,420
Schedule 9: Current Liabilities			
Sundry creditors (Refer Note 19 of Schedule 17) (Due to micro and small enterprises: Nil (Previous Year: Nil))		3,208,675,673	628,691,078
Deferred income		421,753,978	112,437,225
Interest accrued but not due		68,310,390	26,149,656
Statutory dues		22,554,640	2,160,810
Total		3,721,294,681	769,438,769
Schedule 10: Provisions			
Provision for taxation (Net of advance tax payments)		31,373,477	16,861,702
Provision for fringe benefit tax (Net of advance tax payments)		871,134	542,182
Provision for non performing assets		68,449,994	61,491,239
Provision for gratuity		1,819,557	82,118
Provision for leave encashment		48,551,467	15,223,733
Total		151,065,629	94,200,974



SKS MICROFINANCE PRIVATE LIMITED
Schedules to Balance Sheet and Profit and Loss Account

	March 31, 2009	March 31, 2008
Schedule 11: Income from Operations		
Interest income on portfolio loans	4,417,689,723	1,330,783,339
Membership fees (Net of service tax of Rs. 9,284,426 (Previous Year: Rs. 4,530,379))	75,783,484	36,653,550
Loan origination charge	86,713,512	87,989,265
Income from loan management services	-	3,610,799
Income from assignment of loans (Refer Note 3 of Schedule 17)	480,214,419	165,619,867
Total	5,060,401,138	1,624,656,820
Schedule 12: Other Income		
Interest on bank deposits (Tax deducted at source: Rs.37,848,044 (Previous Year: Rs.4,218,984))	171,371,356	20,164,961
Dividend from mutual fund investments (non-trade)	-	142,805
Insurance commission (Tax deducted at source : Rs. 27,041,408 (Previous Year : Nil))	118,843,425	-
Group insurance administrative charges	175,368,805	45,818,734
Profit on disposal of fixed assets	9,532	-
Miscellaneous income (Tax deducted at source : Rs.80,104 (Previous Year : Nil))	14,006,235	9,293,644
Total	479,599,353	75,420,144
Schedule 13: Financial Expenses		
Interest		
On term loans from banks	1,308,028,721	424,977,398
On term loans from financial institutions	400,402,340	96,522,586
On other loans	39,943,499	-
On overdraft facility	22,460,812	287,643
On debentures	2,862,186	-
Loan processing fees	137,479,689	28,184,532
Guarantee fees	1,419,187	1,725,938
Bank charges	31,712,358	12,948,905
Total	1,944,308,792	564,647,002
Schedule 14: Personnel Expenses		
Salaries and incentives	1,189,371,576	417,322,101
Staff leave encashment	56,305,907	16,898,847
Contribution to Provident Fund	37,629,387	13,154,115
Gratuity	13,330,020	3,627,458
Staff welfare expenses	80,097,520	26,550,857
Total	1,376,734,410	477,553,378



SKS MICROFINANCE PRIVATE LIMITED
Schedules to Balance Sheet and Profit and Loss Account

	March 31, 2009	March 31, 2008
Schedule 15: Operating and other expenses		
Rent	88,124,809	26,259,842
Rates and taxes	25,675,331	11,639,142
Insurance	1,054,662	858,754
Repairs and maintenance		
Plant and machinery	6,871,834	2,045,762
Others	35,499,647	15,332,605
Electricity charges	15,231,603	4,860,990
Travelling and conveyance	253,597,823	110,182,382
Communication expenses	49,483,072	16,865,291
Printing and stationery	112,188,056	51,666,988
Professional and consultancy charges	69,531,286	18,070,888
Directors' sitting fees	210,000	165,000
Auditors' remuneration		
Audit fees	3,900,000	2,500,000
Certification fees	130,000	-
Out of pocket expenses	754,108	425,768
Share issue expenses	29,390,187	899,833
Loss from assigned loans	24,746,894	5,454,863
Other balances written off	28,688,553	8,680,651
Miscellaneous expenses	14,584,925	4,802,545
Total	759,662,790	280,711,304
Schedule 16 : Provisions and Write offs		
Provision for non performing assets	6,958,755	32,148,713
Bad debts written off	103,295,631	4,479,425
Total	110,254,386	36,628,138



SKS Microfinance Private Limited
Cash Flow Statement for the year ended March 31, 2009

	March 31, 2009	March 31, 2008
	Rupees	Rupees
A. Cash flow from operating activities		
Net profit before taxation	1,240,571,791	289,426,804
Adjustments for:		
Depreciation and amortization	108,468,322	51,110,338
Provision for employee benefits	46,657,754	18,851,191
Employee stock options and share purchase scheme	22,069,598	2,569,412
Share issue expenses	29,390,187	899,833
Provision for non performing assets	6,958,755	32,148,713
Bad debts written off	103,295,631	4,479,425
Loss on asset assignment	24,746,894	5,454,863
Other balances written off	28,688,553	8,680,651
Profit on disposal of fixed assets	(9,532)	-
Operating profit before working capital changes	1,610,837,953	413,621,230
Movements in working capital:		
(Increase) / decrease in portfolio loans	(6,469,627,319)	(5,179,430,362)
(Increase) / decrease in current assets	(272,903,262)	(33,908,381)
(Increase) / decrease in loans and advances	(131,629,789)	(66,360,948)
(Decrease) / Increase in current liabilities	2,951,855,912	687,827,167
Cash generated from operations	(2,311,466,505)	(4,178,251,294)
Taxes paid	(456,500,283)	(136,742,012)
Net cash generated from operating activities	(A) (2,767,966,788)	(4,314,993,306)
B. Cash flow from investing activities		
Purchase of fixed assets (Including capital work in progress)	(124,020,680)	(90,745,779)
Sale of fixed assets	184,720	-
Purchase of intangible assets (Including capital work in progress)	(29,395,317)	(53,183,719)
Purchase of mutual funds units	-	(100,000,000)
Redemption of mutual fund units	-	100,000,000
Net cash flow in investing activities	(B) (153,231,277)	(143,929,498)
C. Cash flow from financing activities		
Proceeds from issuance of share capital (Including share premium)	3,698,821,725	1,239,305,877
Share issue expenses	(29,390,187)	(899,833)
Secured borrowings (net)	11,575,331,796	5,408,255,847
Unsecured borrowings (net)	394,371,918	-
Bank deposits not considered as cash and cash equivalent (net)	(2,146,197,347)	(108,881,915)
Net cash generated from financing activities	(C) 13,492,937,905	6,537,779,976
Net increase/ (decrease) in cash and cash equivalents	(A)+(B)+(C) 10,571,739,840	2,078,857,172



SKS Microfinance Private Limited
Cash Flow Statement for the year ended March 31, 2009

	March 31, 2009	March 31, 2008
	Rupees	Rupees
Cash and cash equivalents at the beginning of the year	2,615,377,258	536,520,086
Cash and cash equivalents at the end of the year (Refer Note 20 of Schedule 17)	13,187,117,098	2,615,377,258

As per our report of even date

For S. R. Batliboi & Co.
Chartered Accountants

per Viren H. Mehta
Partner
Membership No.048749
Place:
Date: **6 MAY 2009**

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

Vikram Akula
Chairman

S.Dilli Raj
Chief Financial Officer

Suresh Gurumani
Managing Director

Manish Kumar
Company Secretary



SKS MICROFINANCE PRIVATE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009

Schedule 17: Notes to Accounts

1. Nature of operations

SKS Microfinance Private Limited ('the Company') is engaged in micro finance lending activities for providing financial services to poor women in the rural areas of India who are organized as Joint Liability Groups ('JLGs'). The Company provides small value collateral free loans up to Rs.25,000/- for tenure of fifty weeks for income generation to poor women in groups.

All financial transactions are conducted in the group meetings organized near the habitats of these women. The operations, in the initial stages of group formation, involves efforts, on development training on financial discipline, and later constant monitoring through weekly meetings, and providing financial and support services at the doorsteps of the borrowers to ensure high rates of recovery. In case of loans given to JLGs, the Company follows weekly collection for recovery of loans and the interest accrued thereon.

The Company also provides individual loans to the existing members ranging between Rs.25,000 to Rs.50,000 for income generation activities for a tenure ranging from twelve months to twenty four months. These loans are generally given to members who have completed a minimum of one cycle of loan under JLG. In case of individual loans, the Company follows monthly collection for recovery of loans and the interest accrued thereon.

The Company has also tied up with insurance companies to acts as Group Insurance Manager and Micro-Insurance agent for providing group health and life insurance to its members. The Company collects nominal charges from its members to meet the administrative cost incurred.

2. Statement of Significant Accounting Policies

a. Basis of preparation of financial statements

The financial statements have been prepared to comply in all material respects with the Notified Accounting Standards by Companies Accounting Standards Rules, 2006, 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.



SKS MICROFINANCE PRIVATE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009

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 assets is recognized only when realized and any interest accruing on such assets is de-recognized totally by reversing the interest income already recognized.
- ii. Loan origination fees on loans being an adjustment to yield is recognized over the life of the loan on a straight line basis.
- iii. Interest income on deposits with banks is recognized on a time proportion accrual basis taking into account the amount outstanding and the rate applicable.
- iv. Membership fees are recognized on an upfront basis.
- v. 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.
- vi. Dividend income is accounted on establishment of right to receive basis by the Balance Sheet date.
- vii. All other income is recognized on an accrual basis.

d. Fixed assets

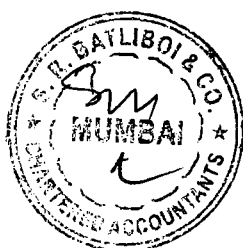
All fixed assets are stated at historical cost less accumulated depreciation and impairment loss, if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use.

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 has been provided on the written down value method at the rates prescribed under Schedule XIV of the Companies Act, 1956.
- ii. Fixed assets costing upto Rs. 5,000 individually are fully depreciated in the year of purchase.



SKS MICROFINANCE PRIVATE LIMITED

**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009
AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009**

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.

h. Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term 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 transactions.
- ii. Foreign currency monetary items are reported using the exchange rate prevailing at the close of the financial year and net gain or losses are recognized as income or expense.
- iii. Exchange differences arising on the settlement of monetary items or on reporting 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. The monthly contributions towards Provident Fund and Employee's State Insurance Scheme are charged to Profit and Loss Account for the year.
- 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 the financial year.
- iii. Short term compensated absences are provided for based on estimates. Long term compensated absences are provided for based on actuarial valuation. The actuarial valuation is done as per projected unit credit method at the end of the financial year.
- iv. Actuarial gains/losses are immediately taken to Profit and Loss Account and are not deferred.



SKS MICROFINANCE PRIVATE LIMITED

**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009
AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009**

i. 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 are 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 in the Balance Sheet comprise cash at bank and in hand and short-term investments with an original maturity of three months or less.



SKS MICROFINANCE PRIVATE LIMITED

**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009
AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009**

p. Employee 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. Such compensation expense is recognized immediately as these are granted and vested immediately.
- (b) In case of Employee Stock Option 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 stock options using the Black-Scholes Model. Compensation expense is recognized over the vesting period of the option on the straight line basis.

q. Classification of Loan Portfolio

- i. Loans are classified as follows:

Asset Classification	Loans under JLG scheme	Individual Loans
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 and 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.

r. Provision policy for Portfolio Loans

- i. 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:



SKS MICROFINANCE PRIVATE LIMITED

**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009
AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009**

JLG Loans - Provisioning and write off policy

Asset Classification	Arrear Period	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 - 25 weeks	Nil	50%
Loss Assets	More than 25 weeks	100%	Write off

ILP Loans - Provisioning and write off policy

Asset Classification	Arrear Period	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	NIL	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 (PAR)	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%

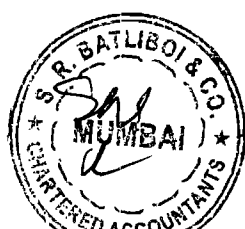
** Portfolio at Risk represent overdue as percentage at gross loans outstanding computed separately for JLG loans and ILP loans.

- 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.

3. Assignment of loans

During the year the Company has sold loans through direct assignment. The information on direct assignment activity of the Company as an originator is as shown below:

Particulars	For the year ended 31-Mar-09	For the year ended 31-Mar-08
Total book value of the loan asset assigned	13,977,404,462	4,102,683,779
Sale consideration received for the loan asset assigned	14,412,999,597	4,102,683,779
Income from asset assignment recognized in the Profit and Loss Account	480,214,419	165,619,867
Cash margin placed with banks	834,045,299	40,621,915



SKS MICROFINANCE PRIVATE LIMITED

**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009
AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009**

6. Capital commitments

Estimated amounts of contracts remaining to be executed on capital account and not provided for:

Particulars	31-Mar-2009	31-Mar-2008
For purchase / development of computer software	8,990,400	-
For purchase of fixed assets	6,391,000	4,425,000

7. Contingent liabilities not provided for

Particulars	31-Mar-2009	31-Mar-2008
Guarantees given by the Company for the loans assigned to various banks (including cash collaterals and receivable placed with banks)	1,958,157,926	276,091,810

8. Employee share purchase plan and employee stock option scheme

- a. Pursuant to the approval of shareholders at the Annual General Meeting on August 07, 2008, the Company approved an Employee Share Purchase Plan ('ESPS') for its employees.

The detail of equity shares granted and allotted to employees under this plan is as follows: -

Particulars	
Date of grant	Aug 25, 2008
Date of Board approval	July 20, 2008
Date of shareholder's approval	Aug 07, 2008
Vesting Option	Immediate
Number of shares allotted	517,500
Fair value per share	Rs. 81.00
Intrinsic value per share	Rs. 10.33
Issue price per share	Rs. 70.67
Total Employee compensation cost pertaining to share based payment	Rs 5,345,775



SKS MICROFINANCE PRIVATE LIMITED

**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009
AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009**

- b. The Company has provided various share-based payment schemes to its employees and directors. During the year ended March 31, 2009, the following schemes were in operation:

Particulars	Plan I (a)	Plan I (b)	Plan I (c)
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 vesting
Vesting conditions	***None	***None	***None

Particulars	Plan II(a)	Plan II (b)	Plan II (c)
Date of grant	Feb 1, 2008	Feb 1, 2008	Nov 10, 2008
Date of Board approval	Oct 15, 2007	Oct 15, 2007	Oct 15, 2007
Date of shareholder's approval	Jan 16, 2008	Jan 16, 2008	Jan 16, 2008
Number of options granted	30,000	15,000	6,000
Method of settlement	Equity	Equity	Equity
Vesting option	*Immediate	**Immediate	*Immediate
Exercise period	36 months from the date of vesting	36 months from the date of vesting	36 months from the date of vesting
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 SKSMF at the point of vesting.



SKS MICROFINANCE PRIVATE LIMITED

**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009
AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009**

The details of **Plan I (a)** have been summarized below:

Particulars	As at March 31, 2009		As at March 31, 2008	
	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	-	-
Granted during the year	-	-	1,852,158	49.77
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	1,852,158	49.77	1,852,158	49.77
Exercisable at the end of the year	1,852,158	-	1,852,158	-
Weighted average remaining contractual life (in years)	2.6	-	3.6	-
Weighted average fair value of options granted	-	7.28	-	7.28

The details of **Plan I (b)** have been summarized below:

Particulars	As at March 31, 2009		As at March 31, 2008	
	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	1,769,537	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	-	-
Exercisable at the end of the year	1,769,537	-	-	-
Weighted average remaining contractual life (in years)	4.6	-	-	-
Weighted average fair value of options granted	-	2.92	-	-



SKS MICROFINANCE PRIVATE LIMITED

**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009
AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009**

The details of **Plan I (c)** have been summarized below:

Particulars	As at March 31, 2009		As at March 31, 2008	
	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	900,000	300.00	-	-
Forfeited during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	900,000	300.00	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	3.6	-	-	-
Weighted average fair value of options granted	-	1.81	-	-

The details of **Plan II (a)** have been summarized below:

Particulars	As at March 31, 2009		As at March 31, 2008	
	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	-	-
Granted during the year	-	-	30,000	70.67
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	20,000	-	-	-
Weighted average remaining contractual life (in years)	1.8	-	2.8	-
Weighted average fair value of options granted	-	15.28	-	15.28



SKS MICROFINANCE PRIVATE LIMITED

**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009
AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009**

The details of **Plan II (b)** have been summarized below:

Particulars	As at March 31, 2009		As at March 31, 2008	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	15000	70.67	-	-
Granted during the year	-	-	15,000	70.67
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	7,500	-	-	-
Weighted average remaining contractual life (in years)	1.8	-	2.8	-
Weighted average fair value of options granted		17.72		17.72

The details of **Plan II (c)** have been summarized below:

Particulars	As at March 31, 2009		As at March 31, 2008	
	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	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	-	-
Exercisable at the end of the year	2,000	-	-	-
Weighted average remaining contractual life (in years)	2.5	-	-	-
Weighted average fair value of options granted	-	52.14	-	-



SKS MICROFINANCE PRIVATE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009
AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009

The details of exercise price for stock options outstanding at the end of the year March 31, 2009 are:

Series	Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life of options (in years)	Weighted average exercise price
Plan I (a)-2008	49.77	1,852,158	2.6	49.77
Plan I (b)-2009	300.00	1,769,537	4.6	300.00
Plan I (c)-2009	300.00	900,000	3.6	300.00
Plan II(a)-2008	70.67	30,000	1.8	70.67
Plan II(b)-2008	70.67	15,000	1.8	70.67
Plan II (c) -2009	70.67	6,000	2.6	70.67

Stock Options granted:

Plan I (a)

The weighted average fair value of stock options granted during the year was Rs.7.28. 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
Exercise price (Rs.)	49.77	49.77	49.77	49.77
Expected volatility (%)	20	20	20	20
Historical volatility	NA	NA	NA	NA
Life of the options granted in years	1	2	3	4
Expected dividends per annum (Rs.)	-	-	-	-
Average risk-free interest rate (%)	7.34	7.38	7.42	7.45
Expected dividend rate (%)	-	-	-	-

Plan I (b) - The weighted average fair value of stock options granted during the year was Rs.2.92. 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
Exercise price (Rs.)	300.00	300.00	300.00	300.00	300.00
Expected volatility (%)	27.3	27.3	27.3	27.3	27.3
Historical volatility	NA	NA	NA	NA	NA
Life of the options granted in years	1	2	3	4	5
Expected dividends per annum (Rs.)	-	-	-	-	-
Average risk-free interest rate (%)	5.42	6.03	6.34	8.63	6.81
Expected dividend rate (%)	-	-	-	-	-



SKS MICROFINANCE PRIVATE LIMITED**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009
AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009**

Plan I (c) - The weighted average fair value of stock options granted during the year was Rs.1.81. 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
Exercise price (Rs.)	300.00	300.00	300.00	300.00
Expected volatility (%)	27.3	27.3	27.3	27.3
Historical volatility	NA	NA	NA	NA
Life of the options granted in years	1	2	3	4
Expected dividends per annum (Rs.)	-	-	-	-
Average risk-free interest rate (%)	5.42	6.03	6.34	8.63
Expected dividend rate (%)	-	-	-	-

Plan II (a)

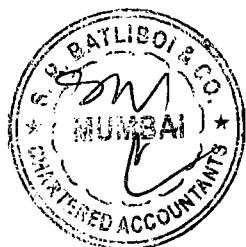
The weighted average fair value of stock options granted during the year was Rs.15.28. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

	Yr 1	Yr 2	Yr 3
Exercise price (Rs.)	70.67	70.67	70.67
Expected volatility (%)	20	20	20
Historical volatility	NA	NA	NA
Life of the options granted in years	1	2	3
Expected dividends per annum (Rs.)	-	-	-
Average risk-free interest rate (%)	7.34	7.38	7.42
Expected dividend rate (%)	-	-	-

Plan II (b)

The weighted average fair value of stock options granted during the year was Rs.17.72. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

	Yr 1	Yr 2	Yr 3
Exercise price (Rs.)	70.67	70.67	70.67
Expected volatility (%)	20	20	20
Historical volatility	NA	NA	NA
Life of the options granted in years	1	2	3
Expected dividends per annum (Rs.)	-	-	-
Average risk-free interest rate (%)	7.34	7.38	7.42
Expected dividend rate (%)	-	-	-



SKS MICROFINANCE PRIVATE LIMITED**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009
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Plan II (c) - The weighted average fair value of stock options granted during the year was Rs.52.14. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

	Yr 1	Yr 2	Yr 3
Exercise price (Rs.)	70.67	70.67	70.67
Expected volatility (%)	27.3	27.3	27.3
Historical volatility	-	-	-
Life of the options granted in years	1	2	3
Expected dividends per annum (Rs.)	-	-	-
Average risk-free interest rate (%)	5.42	6.03	6.34
Expected dividend rate (%)	-	-	-

Expected Volatility – Since SKS Microfinance Private Limited is a private company, standard deviation as shown above is assumed based on the stock market returns over the last year.

Effect of the employee share-based payment plans on the Profit and Loss Account and on its financial position:

Particulars	For the year ended 31-Mar-09	For the year ended 31-Mar-08
Total employee compensation cost pertaining to share-based payment plans	16,723,823	2,569,412
Deferred compensation cost as at the year end	2,023,279	11,643,068
Total liability for employee stock option outstanding as at year end	21,316,514	14,212,480

9. Retirement benefits

The Company has a defined benefit gratuity plan. Every employee who has completed five years or more of service is eligible for gratuity on 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 respective plans.



SKS MICROFINANCE PRIVATE LIMITED

**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009
AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009**

Profit and Loss Account

Net employees benefit expense:

Particulars	Gratuity	
	31-Mar-09	31-Mar-08
Current service cost	4,312,962	1,473,057
Interest cost on benefit obligation	832,238	270,037
Expected return on plan assets	(400,402)	(121,223)
Net actuarial (gain) / loss recognized in the year	8,585,222	2,005,587
Past service cost	-	-
Net employee benefit expense	13,330,020	3,627,458
Actual return on plan assets	8,31,726	27,629

Balance Sheet

Details of provision for gratuity:

Particulars	Gratuity	
	31-Mar-09	31-Mar-08
Defined benefit obligation	19,642,037	5,480,291
Fair value of plan assets	17,822,480	5,398,173
	(1,819,557)	(82,118)
Less: Unrecognized past service cost	-	-
Plan liability	(1,819,557)	(82,118)

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

Particulars	Gratuity	
	31-Mar-09	31-Mar-08
Opening defined benefit obligation	5,480,291	1,825,204
Interest cost	832,238	270,037
Current service cost	4,312,962	1,473,057
Benefits paid	-	-
Actuarial (gains) / losses on obligation	9,016,946	1,911,993
Closing defined benefit obligation	19,642,037	5,480,291

Changes in the fair value of plan assets are as follows:

Particulars	Gratuity	
	31-Mar-09	31-Mar-08
Opening fair value of plan assets	5,398,173	1,591,392
Expected return	400,402	121,223
Contributions by employer	11,592,581	3,779,152
Benefits paid	-	-
Actuarial gains / (losses)	431,324	(93,594)
Closing fair value of plan assets	17,822,480	5,398,173



SKS MICROFINANCE PRIVATE LIMITED

**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009
AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009**

The Company has contributed Rs.11,592,581 towards gratuity in 2008-09.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

Particulars	Gratuity	
	31-Mar-09	31-Mar-08
Insurance Managed Fund	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	
	31-Mar-09	31-Mar-08
Discount rate	7.90%	8.55%
Expected rate of return on assets	7.50%	7.50%
Salary escalation rate per annum	10% for the first four years and 7% there after	7.00%

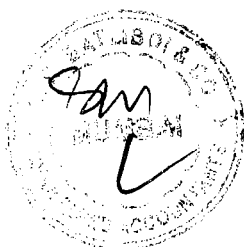
The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors.

Amounts for the current and previous two periods are as follows:

	Gratuity	
	31-Mar-09	31-Mar-08
Defined benefit obligation	19,642,037	5,480,291
Plan assets	17,822,480	5,398,173
Surplus / (deficit)	(1,819,557)	(82,118)
Experience adjustments on plan liabilities	5,137,920	2,213,180
Experience adjustments on plan assets	431,324	(93,594)

10. Managing Director's Remuneration (On accrual basis)

Particulars	For the year ended	For the year ended
	31-Mar-09	31-Mar-08
Salaries and Incentives	20,171,247	13,205,000
Perquisites	1,200,000	875,000
Contribution to provident fund	265,043	-
Employee stock option scheme	11,153,559	2,511,958
Total	32,789,849	16,591,958



SKS MICROFINANCE PRIVATE LIMITED

**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009
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Note: As the future liability for gratuity and leave encashment is provided on an actuarial basis for the Company as a whole, the amount pertaining to the directors is not ascertainable and, therefore not included above.

11. Expenditure in foreign currency (On accrual basis)

Particulars	For the year ended 31-Mar-09	For the year ended 31-Mar-08
Salaries	5,674,863	3,372,115
Professional fees	4,668,429	407,200
Training and conference	--	465,767
Guarantee fees	1,419,187	2,071,125
Travelling expenses	--	1,395,124
Membership and subscriptions	103,770	--
Total	11,866,249	7,711,331

12. Earnings in foreign currency (On accrual basis)

Particulars	For the year ended 31-Mar-09	For the year ended 31-Mar-08
Professional fees	-	1,193,400

13. Earnings Per Share

Particulars	For the year ended 31-Mar-09	For the year ended 31-Mar-08
Net Profit as per Profit and Loss Account	802,244,544	166,463,630
Weighted average number of shares used in computing basic earnings per share	44,692,320	30,114,632
Add: Equity shares for Nil consideration arising on grant of stock options under Employee stock option plan	2,715	847
Add: Compulsorily Convertible Preference Share of Rs. 10 each compulsorily convertible on December 26, 2009 with an option to the holder to convert the holding at any time before that date.	150,503	-
Weighted average number of shares in calculating Diluted Earning Per Share	44,845,538	30,115,479
Basic Earnings per Share	17.95	5.53
Diluted Earnings per Share	17.89	5.53
[Nominal value of shares Rs. 10 each (Previous Year : Rs. 10)]		



SKS MICROFINANCE PRIVATE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009
AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009

14. Loan Portfolio & Provisions for Non Performing Assets:

Asset Classification	Loan Outstanding (Gross)		Provision for Non Performing Assets				Loan Outstanding (Net)	
	As at 31-Mar-09	As at 31-Mar-08	As at 31-Mar-08	Additional Provision made during the year	Provision Write back during the year	As at 31-Mar-09	As at 31-Mar-09	As at 31-Mar-08
	Amount	Amount					Amount	Amount
Standard assets	14,127,347,896	7,793,459,632	58,376,538	-	19,297,553	39,078,985	14,088,268,911	7,735,083,094
Sub-standard assets	43,874,144	11,871,957	1,187,195	18,211,603	-	19,398,798	24,475,346	10,684,762
Doubtful assets	3,525,292	3,272,365	1,636,183	126,463	-	1,762,646	1,762,646	1,636,182
Loss assets	479,633	291,323	291,323	188,310	-	479,633	-	-
Total	14,175,226,965	7,808,895,277	61,491,239	18,526,376	19,297,553	60,720,062	14,114,506,903	7,747,404,038

Note: During the year there is a change in the estimate of provision on standard asset and non performing asset [Refer note 2 (r) above]. As a result of such change Provision for standard and non performing asset is lower by Rs. 83,091,748 and the loan write off is higher by Rs. 61,428,032, thus resulting net impact of Rs. 21,663,717 on the profit for the year.



SKS MICROFINANCE PRIVATE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009

15. Leases

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 60 months and renewable with an escalation clause at the end of three years. There are no restrictions imposed by lease arrangements. There are no subleases. Lease payments during the year are charged to Profit and Loss Account.

Description	31-Mar-09	31-Mar-08
Operating lease payments recognized during the year	88,124,809	26,259,842
Minimum Lease Obligations		
Not later than one year	40,935,845	-
Later than one year but not later than five years	145,911,053	-
Later than five years	-	-

16. Investments activity

The Company has not made any investment during the year. The details of previous year activity are as follows:

Mutual Fund	For the year ended 31-Mar-08			
	Units Purchased during the year	Amount invested	Units sold during the year	Sale proceeds
Reliance Floating Rate Fund	2,987,773	30,000,000	2,987,773	30,000,000
Reliance Liquid Fund	4,596,422	70,000,000	4,596,422	70,000,000
Total	7,584,195	100,000,000	7,584,195	100,000,000

17. Balances held with Non-scheduled banks in the current account and deposit account as at March 31, 2009 is as shown below:

Bank name	Maximum balance outstanding during the year ended 31-Mar-09	For the year ended 31-Mar-09	Maximum balance outstanding during the year ended 31-Mar-08	For the year ended 31-Mar-08
Balances held in current account				
Urban Coperative Bank	3,436,842	1,661,211	2,513,888	837,345
Buldhana Urban Credit Coperative Bank	1,804,980	305,575	-	-
Total		1,966,786		837,345

18. The Company has given Interest free collateral free loan to an employee benefit trust under the Employee Stock Purchase Scheme to provide financial assistance to its employees to purchase equity shares of the Company under such scheme. The loan is repayable by the trust under a back to back arrangement by the trust with the employees of the Company. The year end balance for the total loan granted is Rs. 69,813,060 (Previous Year Rs. 33,826,023).



SKS MICROFINANCE PRIVATE LIMITED

**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009
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19. The Company has initiated the process of identification of suppliers registered under the Micro Small and Medium Enterprise Development Act, 2006 (the 'MSMED') by obtaining confirmation from all the suppliers. Based on the information currently available with the Company no amount is payable to the Micro, Small and Medium Enterprises as per the MSMED Act, 2006 as at March 31, 2009.

20. Components of cash and cash equivalents

Particulars	31-Mar-09	31-Mar-08
Cash and bank balance (Refer schedule 6)		
Cash on hand	12,041,234	106,787,608
Balance with scheduled bank		
On Current accounts	1,565,288,217	1,483,111,733
On Deposit accounts	13,890,916,254	1,161,538,551
Balance with non scheduled bank		
On Current accounts	1,966,786	837,345
Total	15,470,212,491	2,752,275,237
Less: Bank deposits not considered as cash and cash equivalent	2,283,095,393	136,897,979
Cash and Cash Equivalent as at the year end	13,187,117,098	2,615,377,258

21. Additional disclosures required by the Reserve Bank of India:

a. Capital to risk Ratio ('CRAR')

	Item	31-Mar-09	31-Mar-08
i.	CRAR (%)	39.04%	24.77%
ii.	CRAR – Tier I Capital (%)	38.49%	24.77%
iii.	CRAR - Tier II Capital (%)	0.55%	0.00%

b. The Company has no exposures to Real Estate Sector directly or indirectly.

c. Asset Liability Management

Maturity pattern of certain items of assets and liabilities

	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
Liabilities									
Borrowings from Banks	50.76	38.39	141.02	175.12	354.33	727.51	6.39	-	1,493.53
Assets									
Advances	238.52	207.47	184.50	439.21	354.46	-	6.98	5.80	1,436.94
Investments	-	-	-	-	-	-	-	-	-




SKS MICROFINANCE PRIVATE LIMITED

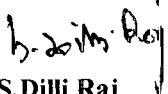
**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2009
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22. Previous year's figures have been regrouped where necessary to conform to this year's classification.

**For and on behalf of the Board of Directors of
SKS Micro Finance Private Limited**


Vikram Akula
Chairman


Suresh Gurumani
Managing Director


S. Dilli Raj
Chief Financial Officer


Manish Kumar
Company Secretary

