

ANNUAL REPORT
2001-2002

Bhartiya Samruddhi Finance Limited



A stock of livelihood ideas





BASIX
Equity for Equity

Hot stuff...
Md. Farooq in his Tea Stall



The good sort...
Groundnut pods' grading,
Anantapur



The tasty munch...
G Md. Arif, Pan Shop



Pound wise...?
Ramnath Shetty in his Flour Mill



Beat the heat...
N Siddha Reddy, Soda Shop, Nandavaram

Cut out for better things...
S H Hussain's Chicken Centre



BOARD OF DIRECTORS

BOARD OF DIRECTORS

Bharti Gupta Ramola, Chairperson
Prof Malcolm Harper
Deep Joshi
S Loganathan
Joe Madiath
Anoop Seth
Nandini Adya
Paul Di Leo
Bastiaan J Rekveld
Vijay Mahajan, Managing Director

AUDITORS

V. NAGARAJAN & Co., Chartered Accountants, New Delhi.

BANKERS

ICICI Bank
Global Trust Bank
BNP Paribas

FINANCIAL INSTITUTIONS

SIDBI Foundation for Micro Credit
Housing Development Finance Corporation
Developpement International Desjardins
Shorebank Corporation
Cordaid

UNIT OFFICES

Adoni, Anantapur, Bellary, Berhampur, Bhadrachalam, Cudappah, Khammam,
Mehboobnagar, Nanded, Nandyal, Nirmal, Nizamabad, Raichur, Ramayampet,
Srikakulam, Suryapet, Vikarabad and Wardha.

BACKGROUND

BASIX is a group of companies involved in making financial and techno-managerial support services available to rural producers, including the poor and women, on a commercially sustainable basis.

The mission of BASIX is to promote a large number of sustainable livelihoods, including for the rural poor and women, through the provision of financial services and technical assistance in an integrated manner. BASIX will strive to yield a competitive rate of return to its investors so as to be able to access mainstream capital and human resources on a continuous basis.

In view of this BASIX design involves a holding company, Bhartiya Samruddhi Investments and Consulting Services Limited (BASICS Ltd.) and three operating companies engaged in providing credit, technical assistance and support services

- § Bhartiya Samruddhi Finance Ltd. (Samruddhi) – a non-bank micro-finance company
- § Krishna Bhima Samruddhi Local Area Bank (KBSLAB) – India's first micro-finance bank
- § Indian Grameen Services (IGS) - a non profit livelihood Research and Development Company

The financial services are delivered by Samruddhi and KBSLAB whereas IGS focuses on technical assistance and support services to the customers in the group. This report focuses particularly on Samruddhi operations

BUSINESS OPERATIONS

Samruddhi service approach is driven by principles of

- § Timely delivery of credit,
- § Service at customer's door step,
- § Cash flow based repayment schedules
- § Continuous portfolio monitoring at various levels
- § Positive incentives to customers with good credit record and
- § Facilitating necessary technical assistance.

It has developed a credit methodology involving systematic steps in originating, appraising, sanctioning, disbursement and monitoring of the loans.

To make the system more responsive Customer Service Agents (CSA) are appointed who are remunerated based on the portfolio quality. CSA is the cutting edge in our operating system over the traditional credit delivery systems prevailing in India so far.

LOAN DISBURSEMENTS

	<i>Rs. '000</i>		
	<i>2001-02 2000-01 Cumulative since 1996</i>		
Disbursements in Rs.	285,521	188,249	745,019
No. of loans disbursed	25,345	13,367	53,502
Average loan size	11.2	14	14
No. of women borrowers	7,067	4828	Not available
On time recovery rate	92.4%	91.4%	95%
Performing Assets	96.2%	94.5%	Not applicable

Purposes for which credit is extended (Loan Products): There are four generic loan categories and a total of 14 specific loan products offered. Loan products are broadly defined to suit respective category of purposes and further tailoring is done by designing cash flow based repayment schedule based on the specific context of the applicants.

OUTREACH ON MARCH 31, 2002

Samruddhi credit operations are extended to 3100 villages. There are about an aggregate of 32,000 rural customers registered for availing credit services at unit offices. There are 26,630 live loan accounts. The women customers comprise 26 percent in number and 26 percent in loan amount disbursed. The proportion of outstanding borrowers in terms of social category is, backward classes 43.2 percent, schedule caste 9.3 percent and schedule tribes 2.6 percent. On economic profile of the customers, a majority are from around the poverty line, followed by below poverty line houses holds and remaining few from other categories.

TECHNICAL ASSISTANCE AND SUPPORT SERVICES (TASS)

Samruddhi believes that appropriate non-financial services support goes a long way in supplementing the credit services for overall successful utilization and repayment of loan amount. Hence, Samruddhi facilitates for provision of necessary non-financial service, called TASS, in integration with credit services. Listed here are three specific TASS programs provided to customers.

PROGRAMS

No. of Programs conducted in Financial Year

Inter Borrower Expertise Exchange Programme (IBEX)	57
Productivity Enhancement Programme (PEP)	49
SHG Quality Improvement Programme (SHGQIP)	107

Often provision of TASS directly by Samruddhi is neither feasible nor possible and hence is facilitated through a third party, usually an economically interested collaborator, who has direct or indirect commercial or institutional interest in extending such services. Some of our collaborators include:

Sl. No.	Collaborator	Specific TASS extended
1	Andhra Pradesh Dairy Development Cooperative Federation (APDDCF), Kamareddy and Nandyal	Veterinary care of milch animals and organizing farmers.
2	Gram Abhyudaya Mandali (GRAM), Nizamabad	Capacity Building of Self Help Group/ Mutually Aided Co-operative Societies

NEW AREAS OF OPERATIONS DURING THE FINANCIAL YEAR

Samruddhi has started new units of operations in Ramayampet, Vikarabad, Nanded and Bhadrachalam. These units have done an aggregate disbursement of Rs. 416 millions and maintained 100 percent On Time Repayment Rate (OTRR) with a staff strength of 20.

PORTFOLIO QUALITY

Since April 2000, the Operational Systems have been tightened to reduce portfolio risk. New policies have been introduced, existing ones modified and incentives clearly linked to portfolio quality. Some of the significant measures taken are –

1. Focus on loans below Rs. 50,000 except for Self Help Groups (SHGs) and their federations
2. Allocating each loan account to a CSA and Field Executive

3. Linking Performance Pay of all staff directly and substantially to portfolio quality
4. Setting product caps for risk diversification

The results of these measures of the last two years have been extremely encouraging. The quality of loans disbursed, in all Units, since April 2000 has been very high with an on-time recovery rate of 96 percent. As on March 31st 2002, Samruddhi had a performing portfolio of 96.2 percent with an On Time Repayment Rate of 92.7 percent. The Principal at Risk (PAR) greater than 90 days, as a percentage of loans outstanding, stands at 7.9 percent.

The management analyses the loan portfolio across several parameters. Some of the key highlights emerging from the analysis are -

1. Significant amounts of our NPAs are recovered over time.
2. The long term loan loss in Crop, SHG and Micro-enterprise loans are reasonably low, but Agri-allied loans are a cause for concern.
3. The long-term loan loss is expected to settle around 2.5 percent – 3.0 percent. This is to be seen in the context of the credit environment in which the company operates.

A study by an independent consultant was commissioned to study the reasons for default across loan products in two Units. The key findings and conclusions of the study are –

1. Lack of experience of borrower and insufficient follow-up are significant reasons for default
2. Borrowing with the intention of defaulting is not a significant reason for default
3. Borrowers who depend on a single activity for their livelihood are more prone to default
4. Most of the causal factors of default can be identified before lending and is hence controllable by the Company.

The company will seek to continuously improve its operational practices based on experience to improve the quality of its assets.

UPTO MARCH 31, 2002

	No. of Ultimate Loans	No. of Ultimate Loans as (Disb.) portfolio (2001-02)	Loan Amount Disb. % total	Disbursements, as % total (Rs. '000) (2001-02)	Principal O/S (Rs. 000) portfolio	Principal O/S% of Total	On time Repayment %
1 Purpose-wise Classification							
Farm Loans							
1 Crop Loans	6,236	23%	67,569	24%	48,422	21%	88.6%
2 Agri Long Term (Irrg. & Land Devt.)	283	1%	5,955	2%	7,821	3%	82.6%
3 Allied Activities (Dairy, Poultry etc.)	5,761	22%	60,970	21%	49,445	22%	92.0%
Sub-Total	12,280	46%	134,494	47%	105,688	47%	89.8%
Non-Farm Loans							
Micro, Growth and Small Enterprises	12,570	47%	131,134	46%	103,579	46%	94.2%
General Purpose Loans							
1 Self-Help Groups and Community Dev. Fin. Inst.	1,608	6%	16,078	6%	11,648	5%	96.5%
2 General Purpose Loan (Individual)	59	< 1%	520	< 1%	340	< 1%	89.5%
3 House Repair & Expansion	28	< 1%	798	< 1%	998	< 1%	93.1%
4 Vehicle Loan - Employees/CSAs	83	< 1%	2,498	< 1%	3,073	1%	94.5%
Sub-Total	1,778	7%	19,894	7%	16,059	7%	96.3%
Total	26,627	100%	285,521	100%	225,327	100%	92.4%
2 Channel-wise Classification							
1 Direct Loans	18,784	71%	201,875	71%	165,257	73%	93.2%
2 Direct with Joint Liability Groups	6,236	23%	67,569	24%	48,422	21%	88.6%
3 Self Help Groups	1,608	6%	16,078	6%	11,648	5%	96.5%
Total	26,627	100%	285,521	100%	225,327	100%	92.4%

	No. of Ultimate Loans	No. of Ultimate Loans as (Disb.) portfolio (2001-02)	Loan Amount Disb. % of total	Disbursements, as % total (Rs. '000) (2001-02)	Principal O/S (Rs. 000) portfolio	Principal O/S % of total	On time Repayment %
3 Unit-wise Classification							
1 RAICHUR & MEHBOOBNAGAR ¹	815	3%	10,522	4%	17,439	8%	N.A
2 ADONI	3,535	13%	43,152	15%	35,963	16%	90%
3 KHAMMAM	2,393	9%	25,309	9%	23,371	10%	86%
4 NIRMAL	2,891	11%	32,331	11%	23,194	10%	99%
5 ANANTAPUR	2,701	10%	31,288	11%	24,794	11%	92%
6 CUDAPPAH	2,412	9%	23,456	8%	17,476	8%	92%
7 NIZAMABAD	1,340	5%	13,475	5%	8,937	4%	100%
8 SURYAPET	2,101	8%	23,678	8%	14,522	6%	95%
9 BERHAMPUR	2,287	9%	21,719	8%	17,595	8%	96%
10 WARDHA	1,831	7%	18,963	7%	13,307	6%	100%
11 RAMAYAMPET	1,274	5%	13,001	5%	10,261	5%	100%
12 VIKARABAD	1,444	5%	13,103	5%	9,130	4%	99%
13 NANDED	899	3%	9,759	3%	5,241	2%	100%
14 BHADRACHALAM	705	3%	5,766	2%	4,096	2%	100%
15 OTHERS		0%		0%		0%	
Total	26,627	100%	285,521	100%	223,327	100%	92.4%

Raichur and Mehboobnagar units are winding down operations, consequent to a group banking company commencing operations in those districts.

INSURANCE SERVICES

After establishment of successful credit methodology, BASIX took to work on provision of insurance services as envisaged in the group's strategy towards promotion of livelihoods.

A manager was assigned, in September 2001, with the responsibilities of institutionalizing the insurance services in the Company. Two senior staff members have undergone the statutory training and cleared examination to qualify company for corporate agency in life insurance business.

- § Samruddhi made significant efforts in developing a Dry Land Agriculture Risk Mitigation product called Vyavasaya Akshya Nidhi (VAN) a product featuring self-insurance, mutual insurance and re-insurance. The significant features of the product are involvement of insured farmers in product administration including the claim settlement to minimize moral hazard.
- § The company has signed a MoU with Dabur CGU Life Insurance Limited Company for distribution of rural insurance products and joint development of suitable products for the rural sector. Dabur CGU has already designed a product named CreditNet exclusively for borrowers of Samruddhi, which is awaiting regulatory approval.
- § Samruddhi has sold 302 social security insurance policies of ICICI Prudential Life Insurance Company Limited on a trial basis and efforts are in progress to further work on the business relationship.
- § We are in an advanced stage to enter into a business relationship with Royal Sundaram General Insurance Company Limited.
- § Contacts with Healing Field Foundation (HFF) are in initial stage to work on collaboration for distribution of health insurance services to rural poor. HFF is a voluntary initiative working on improving health care systems for the poor and

presently working on Third Party Administration (TPA) concept where it plays a facilitating role between insurers, health service providers and the insured.

The focus for the coming financial year would be on developing information systems, capacity building, strengthening institutional tie-ups and distribution of target insurance products in select units

HUMAN RESOURCES

Samruddhi believes that high quality human resources need to be deployed at the cutting edge to address the problem of promoting rural livelihoods, in a creative manner. It has selected people who combine practical skills and experience with analytical and conceptual abilities. Presently the company has 140 Staff and 110 Customer Service Agents, out of which 61 are Management Graduates, 41 Technical Graduates, 32 Commerce Graduates.

Samruddhi has newly recruited 58 Field Executives (FXs) from reputed educational institutions, professional streams.

INDUCTION AND TRAINING

The new recruits are put through a rigorous induction program that covers the overall concept of the Company as well as operational issues. It involves two components 1) Pillion Riding Phase and 2) Class Room training. The induction period is for six months after which the new recruits are put through a final selection process before confirmation as a Field executive. The induction of 28 FXs of Samruddhi was completed in the current year.

Samruddhi sponsored its employees for following internal as well as external training programs during the financial year.

- Training of Trainers (ToT) program for eleven senior employees was conducted in collaboration with Society for Participatory Research in Asia (PRIA). The program was designed based on organizational needs, experience of the participants, and a preliminary assessment of their learning needs

- An orientation program was conducted during the year for the Unit Heads on insurance services in group's mission context. Significant work including workshops, discussion and follow-up has been put-up in the areas of awareness building on insurance services among the staff of BASIX operating companies.
 - A program for new and prospective unit heads "Managers in Making" for fifteen experienced executives. The objective of the program was to make the executives aware of the various responsibilities and their new roles as Unit Head.
 - 17 selected executives were given training on livelihood promotion concept and methodologies.
- § Various other external training attended include
- § Two senior staff members attended a two week exposure program at Development International Desjardins, Canada on SME financing and HR systems
 - § Another senior staff member attended a weeklong seminar on New Development Finance at Frankfurt, organized by Goethe University and Ohio State University.

During the year eight Executives left the organisation to pursue other career options.

SYSTEMS

Samruddhi's operating methodology while giving substantial delegated powers to the Unit Offices also requires strong compliance. As a part of the process, to ensure compliance to operating procedures, the company has locally based independent auditors (ILAs) who audit the unit accounts and compliance with operating procedures on a monthly basis. These are reviewed at the Head Office regularly and feed back provided to the auditors and the Unit Managers. Also, as a part of the statutory audit process, V Nagarajan & Company conducts two objective rating exercise namely Internal Control Rating (ICR) and a Loan Portfolio Assessment rating (LPA).

The loan portfolio assessment involves 15 aspects to a loan transaction being assessed and rated through a sampling process across loan size and products. The internal control questionnaire has 30 aspects of internal control at the units being rated. These tools have been developed over the last two years after extensive field trial and discussions. The company's audit committee reviews the results of these along with compliance issues both at the company level and at the operating level.

CREDIT RATING

During the year the company obtained three credit ratings:

MCRIL

This is a micro finance rating of Risk assessment.

Samruddhi is rated **α** (alpha). The rating indicated that in M-CRIL's assessment, Samruddhi has good systems and can be considered high safety and recommends the same to institutions to provide loan funds. In M-CRIL's view on account of good overall performance, improvement in portfolio quality, plans for expansion and anticipated mobilisation of equity funds, Samruddhi can absorb Rs.750 million for on-lending to its borrowers over the next three years.

Category	Rating grade
Governance aspects	α+
Managerial factors	α+
Financial performance	α
Overall	α

CRISIL

Creditability First, which is a division of CRISIL, India's premium rating agency assigns ratings on an eight point international scale of mFR1 (highest rating) to mFR8 (lowest rating). The rating expresses CRISIL's opinion on the ability of the Micro finance institutions to conduct operations in a scalable and sustainable manner. Samruddhi was rated at mFR2.

The key parameters and the respective scores obtained for different parameters are :

Parameter	Grade
Management	2
Institutional Arrangement	1
Capital Adequacy and Asset Quality	3
Resources	2
Operational Effectiveness	3
Scalability and Sustainability	3

ICRA

The Company approached ICRA for a credit rating with the object of raising fixed deposits at a future date. ICRA assigned a MB+ rating, which is in the speculative grade. Samruddhi cannot raise public deposits using this rating. ICRA in its report opines that while Samruddhi's systems and procedures and their up-gradation are expected to

improve the company's prospects, the company's systems & manpower capabilities would have to be tested as the scale of its operation increases.

SOURCES OF FUNDS

During the year, many financial institutions and banks participated in Samruddhi's growth. Samruddhi expanded its capital base to Rs.206 million from the earlier Rs.40.4 million. The Company obtained additional loans from SIDBI, Cordaid, Developpement International Desjardins, Shorebank and BASICS Limited to the tune of Rs.140 million. ICICI also renewed its cash credit facility to the extent of Rs.40 million. The interest rate on these loans ranged from 6 per cent to 11 per cent. The repayment period of the loans were between 4 years to 12 years. All the loans from international lending institutions were rupee denominated as the company continues to follow the policy of not assuming any exchange rate risk on its loans.

India: Landmark Micro-finance Investment¹

Rural Finance and micro finance are challenging areas for private sector participation in India because dominant state-owned rural finance institutions undermine a strong commercial and repayment culture. As IFC's first investment of its kind in one of the few commercial private micro finance institutions, Bhartiya Samruddhi Finance helped create a model institution, demonstrating the viability of the market to potential entrants into the difficult Indian micro-finance market.

IFC committed \$1 million in equity in Samruddhi to finance its expansion program. IFC's dialogue with the government of India and subsequent investment in Samruddhi led to the opening up of the Indian micro finance sector to foreign investment. Other participants in Samruddhi's expansion project include the Shorebank Corporation of Chicago, the Dutch Hivos Triodos Fond, and a number of Indian Financial Institutions.

Our participation also included a \$ 350,000 technical assistance package from IFC's Capacity Building Facility for portfolio assessment and monitoring and technology upgrades.

¹Source: International Finance Corporation, Page 48, Annual Report 2000-01

TECHNOLOGY SOLUTIONS

MIS and Control

The Company since inception has automated its transactions at the Unit Office. The backbone of the operating system is the FAMIS software. This provides online accounting and borrower information, which is upgraded to suit the company's information and needs regularly. During the year, over 100,000 transactions of very small value were put through this software. The management believes that a successful back office and MIS is the key to managing a retail portfolio such as ours. In spite of having operations at so many different locations and with over 32,000 borrowers the company's asset quality borrower-wise is available on-line and the monthly financial results are presented to the management by the fifth of every month.

Delphix

The company continuously upgrades its technology to keep pace with its operations retaining the flexibility of its loan products and improving the quality of reporting. The company plans to shift to a more sophisticated software named Delphix, developed on a 'Oracle' platform will be implemented in the current year.

Sudama Card

Reaching poor borrowers in remote villages through traditional methods is very expensive. One effective method to reach poor households is lending through self-help groups. In search of a commercially viable alternate method, Samruddhi pilot tested 'Sudama Card,' a new channel that integrates finance and technology.

Loans are originated and disbursed by a new delivery channel named BASIXPOT (BASIX Point of Transaction). The device, consisting of a computer with smart card reader and modem, can capture financial transactions with accuracy and transfer it to the Samruddhi Unit office server securely. BASIXPOT agents are usually located in PCO booths and the operator is the authorized agent for offering these loans and putting through the transactions. Currently loans of Rs 500 and Rs 1000 are available for 14 weeks and 28 weeks.

Sudama Project was launched on February 16th, 2002. As of now Sudama is installed in three locations – Dharmavaram, Hindupur and Palasamudra village of

Anantapur Unit. As on 30th April 2002, 214 borrowers were registered and 124 of them have availed loans of Rs 120,000.

PORTFOLIO MANAGER

Portfolio Manager project will provide a sophisticated data processing and portfolio management solution for operations below the Unit Office (Village) level.

After processing the transactions at the field CSAs can send and receive borrower information through Hand Held Devices (HHD) from the villages by connecting to the Unit Office Server using a public telephone line. The data received can be directly integrated with existing software.

The key objectives of the project are: To ensure efficient portfolio management; Monitoring financial handling of the Customer Service Agents (CSAs); To reduce the workload of data entry at the district office; Faster and effective dataflow from villages to Unit Office; Prepare for the rapid expansion of operations planned in future and to reduce transaction cost.

This project has been launched at Ramayampet and Khammam Unit Offices on a pilot basis. Initial feedback is encouraging.

OUTLOOK for 2002-2003

The business plan for 2002 – 2003 estimate disbursements to the tune of Rs.433 million. The loan outstanding as on March 31, 2003 is expected to be Rs.340 million, spread over 20 Unit Offices. The annual business planning commences in February 2002 and as a bottom up process, by which the planning begins at the field level and is then reviewed through a series of workshops before being approved by the Senior Management and the Board. As part of the operation policies for 2002-2003, the Company also rationalized some of its loan products and re-introduced micro enterprise loans up to Rs.200,000. The business plan also envisages increased exposure to Agri-long term loans and housing repair and extension loans. There will also be enhanced focus on increasing lending density by restricting the area of operation of the CSA to a 15 kms radius or 15 villages.

COMPARATIVE STATEMENT OF RATIOS

Profitability	Definitions	Mar-00	Mar-01	Mar-02
1 Return on Assets	Net Operating Profit (Excludes non-operational income & expenses)/ Average Earning Assets (Total assets-fixed assets)	-0.8%	0.1%	0.5%
2 Return on Equity	Operating Profit / Net Worth (Equity + Reserves & Surplus)	-1.9%	0.5%	1.9%
3 Operational Self-Sufficiency (Excl. Cost of Funds)	Operating Income / Operational Expenses-Interest Cost-Bad debts -Loan Loss Provision	183.7%	172.2%	190.3%
4 Financial Self-Sufficiency	Operating Income/ Operating Expenses	96.1%	100.7%	104.5%
Efficiency				
5 Operational Efficiency (Excl. Cost of Funds)	Operating Expenses(Excl cost of funds)/ Net Outstanding Portfolio	16.5%	14.6%	13.9%
6 No. of active loan clients per loan officer, end of period	No of active clients / No. of loan officers (Includes CSAs)	151	129	140
7 Outstanding Portfolio per Loan Officer, end of period (in Rs. '000)	Loan Outstanding/ No. of loan officers	1,953	1,433	1,173
8 No. of clients per branch, end of period	No. of active clients/ No. of branches	1,726	1,263	1,775
9 No. of active clients at the end of period		8,630	13,889	26,630

Portfolio Analysis	Definitions	Mar-00	Mar-01	Mar-02
10 Total principal balance outstanding (Rs. in '000)	End of period	111,309	154,797	222,778
11 Average principal balance outstanding over the period (Rs. in '000)	Monthly average balance	84,978	133,053	196,575
12 Loan loss Provision / Written off over the period (Rs. in '000)		1,271	3,194	5,572
13 Cost of Fund	Interest & Fees Expenses/ Funding Liability	13.0%	11.0%	10.0%
14 Total Yield on Portfolio	Interest & Fee (LPF) from Loans/ Net Outstanding Portfolio	22.6%	23.0%	20.5%
BASIX Ratios				
15 Yield on Portfolio/ Financial Assets	Interest & Fee (LPF) from Loans / Average Principal Outstanding	20.2%	20.5%	25.0%
16 Non-fund-based income	Other Income/ Avg. Principal O/S	4.0%	4.5%	0.3%
Sub-Total		24.2%	24.9%	25.3%
17 Efficiency	Operating Expenses(Excl. cost of funds) / Average Principal Outstanding	14.3%	11.9%	13.1%
18 Cost of Fund	Interest & Fees Expenses/ Average Principal Outstanding	7.7%	8.7%	7.9%
19 Loan loss/write-off rate	Increase in Loan Loss Reserve +Write-off / Avg. Principal Outstanding	1.5%	2.4%	2.8%
20 Net Spread	15-16-17-18	0.7%	2.0%	1.4%

NOTE ON GROUP COMPANIES

BHARTIYA SAMRUDDHI INVESTMENTS CONSULTING SERVICES LTD.

BASICS Ltd. is primarily engaged in the promotion of a large number of sustainable rural livelihoods. It is the holding company of the BASIX group, which manages the other companies through initial equity investments by establishing and running various companies for the purpose of financial services and technical assistance. BASICS Ltd. also undertakes policy related consultancy assignments and provides management advice to a range of other organisations involved in livelihood promotion.

As BASIX is a pioneering institution with innovative lending methods it has had to build its “knowledge road” as it goes along. Some of this is for its own purposes, some for fellow micro-finance and livelihood promotion institutions and some for the government, both in its role as the pre-eminent development agency as well as regulatory authority.

BASICS Ltd. work on employment generation for the Government of Andhra Pradesh was sponsored by the Department for International Development – UK. This resulted in a series of papers and presentations to senior policy makers in Government of Andhra Pradesh.

At the national level, BASICS Ltd. was invited to contribute to a national level workshop on rural non-farm sector employment, sponsored by the Planning Commission, DFID and the World Bank. We were also asked to serve on the Working Group on Poverty Alleviation Program for the X Plan. In this capacity, we tried to convince the Ministry of Rural Development of the damaging influence of individual subsidies linked to loans and instead sought to divert those funds for training, infrastructure and market linkages.

The Prime Minister's Office also appointed a task force on “Enhancing Resource Flow to the Unorganised Sector” and we have been contributing to it. In addition, the Ministry of Finance established a committee to amend the Regional Rural Banks Act, and nominated a member from BASIX.

BASICS Ltd. continued to play an advocacy and policy reform work in the micro-finance sector but subsumed its efforts mainly through Sa-Dhan, the association of community development financial institutions. Over the last two years, Sa-Dhan has established itself as the pre-eminent industry association and earned the respect of apex institutions such as SIDBI and NABARD and regulators like RBI and the Ministry of Finance.

At the international level, BASICS Ltd. continued to provide inputs to thinking and discourse on, micro-finance, livelihoods and the issues of raising capital from mainstream investors for policy work through Ford Foundation supported International Development Finance Leaders Forum.

NOTE ON GROUP COMPANIES
INDIAN GRAMEEN SERVICES

Indian Grameen Services (IGS), a not-for-profit company was instrumental in providing the necessary support in the identification of livelihood opportunities in new areas, development of new product channels, human resource development for BASIX group of companies, providing technical assistance and support services to customers of BASIX as well as institutional development support to other community based organizations (CBOs).

IGS in collaboration with the New Economics Foundation undertook a year long research into identifying and developing appropriate livelihood interventions. This was done through a case study of 25 livelihood promotion agencies in the country, and consolidation of the learnings through a workshop of organization leaders. The outcome of the effort is in the form of a “Resource Book on Livelihood Promotion.”

Currently, IGS is focusing on applied research into identifying and developing appropriate livelihood interventions for rural people in large numbers who are/ can be serviced by the BASIX Group of companies in collaboration with other service providers, including large financial institutions. Also on dissemination of the learning there from to strengthen the implementation capabilities of CBOs involved in livelihood promotion.

This was achieved through a three pronged strategy:

1. Applied research in Livelihood Intervention in specific sub-sectors involving
 - Sub-sectoral study
 - Identification of possible interventions
 - Adaptation trial of various micro interventions involving various stakeholders, for scaling up in the subsequent years.
 - Future search workshop for developing a strategy in that particular sub-sector
2. Development of the Human Resources for the Group: It was also felt that the capacity of BASIX group of companies is to be enhanced in various aspects of livelihood promotion. For the same, IGS:
 - Developed a team of in-house trainers
 - Built competence of BASIX operating companies in livelihood promotion through induction process and specialized training programs.
3. Human Resource and Institutional Support to Community Based Organizations (CBOs): It was recognized that larger impact on livelihood could be achieved by working closely with CBOs and building their capacity, especially in the area of operations of BASIX. IGS therefore provides institutional development support in areas of strategic inputs, design and system implementation, livelihood promotion etc.

REPORT OF DIRECTORS

To

The Members

Bhartiya Samruddhi Finance Limited

The Directors have pleasure in presenting their 6th Annual Report and the Audited Statement of Accounts of the Company for the period ended March 31, 2002.

Operating Results for the Year Ending March 31, 2002

	Rs 000	
	March 31, 2002	March 31, 2001
Income	49,717	32,564
Expenditure	47,005	30,389
Net Profit before Tax	2,712	2,175
Provision for Tax	600	900
Net Profit after Tax	2,112	1,275

The Company during the year disbursed Rs. 2,852 million in micro credit and as on 31st March 2002, had over 26,000 rural clients. Non-farm loans continued to grow rapidly and accounted for over 45 percent of the loans outstanding. Loans to women stood at 26 percent while Loans to Self-help groups (SHGs) and Community financial Institutions (CDFIs) declined to 5 percent of the Loan Outstanding. This was mainly due to increased, and sometimes reckless, lending by banks to these institutions. Portfolio quality continues to remain healthy. The on-time repayment rate was up from 92 percent as on 31st March 2001 to 93 percent as on 31st March 2002. Performing assets as per RBI norms was over 96 percent. The company continues to follow a more stringent accounting policy for its overdue loans than what is regulatorily required.

The Company also continued its active role in facilitating Technical Assistance and Support Services (TASS) to its clients. TASS products were developed and delivered along with credit, and has been fully integrated into the company's operations.

The Company during the year continued the process of exiting from two districts, Mahabubnagar and Raichur, consequent to a group banking company, Krishna Bhima Samruddhi Local Area Bank, commencing banking operations.

FINANCE

The Company continued to attract competitive financing from leading Institutions for its micro finance activities. The company during the year signed equity investment agreements with International Finance Corporation, (IFC), Washington, Shorebank Corporation, Chicago, Stichting Hivos-Triodos Fonds, Netherlands, ICICI Limited and Housing Development Finance Corporation Ltd., thereby enhancing the company's paid-up capital to Rs. 206 million. This will enable the company to raise additional debt at competitive rates to finance its ambitious growth plans. For the financial year 2002-03, the company has set an ambitious disbursement target of Rs. 434 million. Your directors are happy to report that financing for the Business Plan disbursements as mentioned above is fully in place.

DIRECTORS

The Board of the Company comprised eminent individuals from the fields of finance and rural development. Prof. Malcolm Harper, Mr. Deep Joshi, Mr. S Loganathan, Mr. Anoop Seth, Ms. Bharti Gupta Ramola and Mr. Vijay Mahajan continued to hold office as Directors throughout the year. During the year Ms. Jayshree Vyas resigned from the board on citing other commitments. Your directors wish to thank Ms. Jayshree Vyas for her contribution during her tenure as Director of your Company. During this year Mr. Paul Di Leo, Shorebank Corporation, Chicago, USA and Mr. Baston J. Rekvelt, Hivos-Triodos Fonds, Netherlands were inducted into the Board.

CHANGE IN ACCOUNTING POLICY

During the year the company changed its Accounting Policy on overdue loans. This was done primarily to tighten the provisioning and write-off policy, based on past data available on overdue loans and their recovery.

It must be noted that the company is required to and follows the Provision for doubtful loans and advances as per the norms stated in the Non-Banking Financial Companies Norms (Reserve Bank) Directions, 1988.

REPORT OF DIRECTORS

- a) Write-off Policy: While the earlier write-off policy required that all unsecured loans that are overdue at the beginning of the financial year, and where no payment of principal or interest was forthcoming during the year, are offered for write-off. This is being changed to make write-offs more on a case-to-case basis, based on various underlying factors that affect the recoverability of the loan. As per the new policy Loans are written off if the management is satisfied that it has exhausted all options for recovery of Principal and interest on the loan. As per the new policy the amount offered for write-off is higher for the year by Rs. 545,941.
- b) The company had earlier set aside 10 per cent of the principal outstanding of all loans overdue by 90 days to a Portfolio Risk Reserve (PRR). In line with past experience, this has been enhanced to 40 percent, but is now made for loans that are overdue by 400 days. This, along with the RBI mandated requirement of 10 percent for all loans overdue by 210 days would take the total provisioning for loans overdue by 400 days to 50 per cent of the principal outstanding. This change in policy has resulted in an amount of Rs. 1.2 million to be set aside as a PRR.

AUDITOR'S REPORT AND APPOINTMENT

The report of the Statutory Auditors of the Company, M/s. V Nagarajan and Company, Chartered Accountants, is attached herewith. M/s. V Nagarajan and Company, being eligible, offer themselves for reappointment as Statutory Auditors of the Company and the Directors recommend to the members that the appointment may be approved.

NON-ACCEPTANCE OF PUBLIC DEPOSITS

As per the Non-Banking Finance Companies (RBI Directions, 1998), the Directors hereby report that the Company did not accept any public deposits during the year and did not have any public deposits at the end of the year.

**ENERGY CONSERVATION MEASURES,
TECHNOLOGY, ABSORPTION AND
R & D EFFORTS**

- a) Environment: The Company during the year adopted an Environmental Policy, which reiterates the company's commitment to financing environmentally and socially sound projects. Lending should result in borrowers complying with Indian environmental, health and safety requirements. In addition, loans will not be made to borrowers engaged in certain prohibited activities whose financing would pose a reputation or ethical dilemma to the Company or its shareholders.
- b) Technology: One of the key challenges facing cost effective and reliable delivery of financial services to the poor is the adoption of latest technologies that will be able to not only reduce transaction costs for both the company and its customers but also expand markets and increase outreach. Towards this, the company is undertaking several pilot projects, which are in various stages of implementation. Based on the success of these pilots, the company will adopt these technologies and integrate them to its operations.

REPORT OF DIRECTORS

The particulars required under Section 217 (1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 regarding Energy Conservation, Technology Absorption and R&D Efforts do not apply.

PARTICULARS OF EMPLOYEES

In accordance with the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended, we have to report that during the year there were no employees in this category.

Directors' Responsibility Statement

Your directors would like to inform members that the audited accounts containing the Financial Statements for the year ended March 31, 2002 are in full conformity with the requirements of the Companies Act, 1956 and they hereby declare that:

1. In the preparation of the annual accounts, the applicable accounting standards as referred to in Section 211 3 (C) of the Companies Act, 1956 have been followed without any material departure.
2. The accounting policies as stated in the notes forming part of accounts have been selected and applied consistently so as to give true and fair view of the accounts of the Company as at March 31, 2002. While doing so the Directors have made necessary judgements and estimates which are reasonable and prudent for this purpose.

3. Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with provisions of this Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities.
4. The annual accounts have been prepared on a "Going Concern basis" .

ACKNOWLEDGEMENTS

Your Directors place on record their sincere appreciation of the support of the Company has received from The Ford Foundation, Swiss Agency for Development and Cooperation (SDC), the Canadian International Development Agency (CIDA), Developpement International Desjardins (DID), Canada, International Finance Corporation (IFC), USA, Cordaid, Stichting Hivos Triodos Fonds Netherlands, Shorebank Corporation, USA, Sir Ratan Tata Trust, SIDBI, NABARD, Global Trust Bank, ICICI Bank Ltd, HDFC, employees at all levels, Customer Service Agents and all other well-wishers.

On behalf of the Board of Directors

Place : Hyderabad
Date : April 27, 2002

Vijay Mahajan
Managing Director

AUDIT COMMITTEE

To

The Members,

Bhartiya Samruddhi Finance Limited

Sub: Audit Committee

The following Directors are members of the Audit Committee of the Company:

1. Anoop Seth
2. Paul Di Leo
3. Bas J. Rekveld
4. Vijay Mahajan

The Audit Committee has carried out its responsibilities during the year in compliance with the terms of reference specified by the Board and has received full cooperation and information from the management in doing so. Keeping in view the said terms of reference

1. The management has presented the audited financial statements to the Audit Committee and any explanations thereon.
2. The Auditors have been satisfied with the application of generally accepted accounting principles and Reserve Bank of India guidelines while drawing up the accounts.

3. The Auditors have discussed with the Audit Committee, the health of the internal control systems and their observations.
4. The members of the Audit Committee have discussed among themselves the information disclosed to the Committee and satisfied themselves as to the quality of the financial statements, the adequacy of systems of accounting, internal audit and control, and compliance with all applicable laws and regulations.

On behalf of the Audit Committee

Place: Hyderabad

Date : 22nd April, 2002

Anoop Seth
Chairman

TO THE MEMBERS OF
BHARTIYA SAMRUDDHI FINANCE LIMITED

We have audited the attached Balance Sheet of BHARTIYA SAMRUDDHI FINANCE LIMITED as at March 31, 2002 and the Income and Expenditure account 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.

We have 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 evaluating the overall financial statement presentation. We believe that our audit provides reasonable basis for our opinion.

1. As required by the Manufacturing and other Companies (Auditors' Report) Order, 1988 issued by the Company Law Board in terms of section 227(4A) of the Companies Act, 1956 and on the basis of such checks as we considered appropriate and according to the information and explanation given to us, we state in the annexure, a statement of matters specified in paragraphs 4 and 5 of the said Order.
2. Further to our comments in the Annexure referred above:
 - a) 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;
 - b) in our opinion, proper books of accounts as required by the law have been kept by the company, so far as appears from our examination of the books maintained at the Head office and all the branches of the company visited by us;

- c) the Balance Sheet and the Income and Expenditure account dealt with by this report are in agreement with the books of account;
- d) in our opinion, the Income and Expenditure Account and the Balance Sheet comply with the accounting standards referred to in sub-section 3(C) of Section 211 of the Companies Act, 1956;
- e) on the basis of the written representations received from the directors as on March 31, 2002 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2002 from being appointed as director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
- f) during the year the Company has changed its accounting policy with respect to overdue loans. In our opinion there is no material change in the Profits of the company due to the change in accounting policy;
- g) in our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet and the Profit and Loss Account read together with the notes on accounts attached thereto, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view:
 - i. in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2002, and
 - ii. in the case of the Income and Expenditure account, of the profits of the Company for the year ended on that date.

Hyderabad,
 April 27, 2002

for V. NAGARAJAN & Co.,
Chartered Accountants

(V. NAGARAJAN)
Partner

ANNEXURE TO THE AUDITORS' REPORT REFERRED TO IN OUR REPORT OF EVEN DATE TO THE MEMBERS OF
BHARTIYA SAMRUDDHI FINANCE LIMITED
[Pursuant to the Manufacturing and Other Companies (Auditor's Report) Order, 1988]

- I. In respect of items stated in sub paragraph (A) of Paragraph 4 of the Order:
 1. The Company has maintained proper records to show full particulars including quantitative details and situation of fixed assets. The fixed assets of the company have been physically verified by the management at least once in six months. Out of the verification so done, no material discrepancy was reported to have been noticed.
 2. No fixed assets have been revalued during the period under review.
 3. The Company has taken loans, from companies required to be listed in the register required to be maintained under Section 301 of the Companies Act, 1956. The terms of the loan are not prejudicial to the interest of the Company.
 4. The Company has not given any loans, secured or unsecured, to companies, firms and other parties listed in the register required to be maintained under Section 301 of the Companies Act, 1956.
 5. The parties to whom loans or advances in the nature of loans have been given by the Company in the ordinary course of business, are repaying the principal amounts as stipulated and are also regular in payment of interest where applicable.
 6. In our opinion and according to the information and explanations given to us, the Company has adequate internal control procedures commensurate with the size of the company.
 7. The Company has an internal audit system commensurate with the size of the company.
 8. The company has not accepted any deposits from the public.
 9. The company has regularly deposited during the period under review, Provident Fund with the appropriate authorities.
 10. According to the information and explanations given to us, there were no undisputed amounts payable in respect of Income Tax, Sales Tax and Custom Duty which were outstanding as at March 31, 2002 for a period more than six months from the date they became payable.
 11. According to the information and explanations given to us and the records of the company examined by us, no personal expenses have been charged to the revenue account other than those payable under the contractual obligations or in accordance with the generally accepted business practices.
 12. In respect to the other activities covered by clause 4(D) of the Manufacturing and other Companies (Auditors' Report) order, 1988, the Company's finance activities are considered to be under the purview of the above clause. As for the items covered by this clause, we are to report that no special statute is applicable except the Non-Banking Companies Directions of the Reserve Bank of India, which the Company has been complying with. The Company does not trade in shares and securities nor provides loans and advances against the pledge of shares and securities.
 13. Other clauses of the order are not applicable to the Company.

*for V. NAGARAJAN & Co.,
Chartered Accountants*

Hyderabad,
April 27, 2002

(V. NAGARAJAN)
Partner

OF EVEN DATE TO THE MEMBERS OF
BHARTIYA SAMRUDDHI FINANCE LIMITED

[Pursuant to Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1998]

We have audited the attached Balance Sheet of BHARTIYA SAMRUDDHI FINANCE LIMITED as at March 31, 2002 and the Income and Expenditure account for the year ended on that date annexed thereto and report that:

Further to our audit report of even date issued under section 224 of the Companies Act, 1956, as required by the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1998, based on the information and explanations given to us and based on the records produced, we give below a statement of matters specified in paragraph 3 of the said directions.

1) IN THE CASE OF ALL NON-BANKING FINANCIAL COMPANIES (PARAGRAPH 3 (A) OF THE ORDER):

- a) The company has obtained a certificate of registration as a Non-Banking Financial Company vide Certificate no. 14.01502 dated August 19, 1999 pursuant to section 451A of the Reserve bank of India Act, 1934 (2 of 1934)

2) IN THE CASE OF A NON-BANKING FINANCIAL COMPANY NOT ACCEPTING PUBLIC DEPOSITS (PARAGRAPH 3(C) OF THE ORDER):

- a) The Board of Directors has passed a resolution in the meeting held on April 27, 2002 for the non-acceptance of any public deposits.
- b) The company has not accepted any public deposits during the period under review.
- c) The company has complied with the prudential norms relating to income recognition; assets classification, accounting standards and provisioning for bad and doubtful debts during the period ended March 31, 2002.
- d) The company has also followed the capital adequacy norms; the accounting policies followed by the company in respect of the same is reported in the notes forming part of accounts.

for V. NAGARAJAN & Co.,
Chartered Accountants

Hyderabad,
April 27, 2002

(V. NAGARAJAN)
Partner

Rupees in '000s

BALANCE SHEET AS AT		31-Mar-02		31-Mar-01	
	Sch				
LIABILITIES					
SHAREHOLDERS FUNDS					
Share Capital	1	206,001		40,495	
Reserves and Surplus	2	5,515	211,516	3,188	43,683
LOAN FUNDS					
Secured Loans	3	65,579		77,755	
Unsecured Loans	4	104,209	169,788	65,079	142,834
TOTAL			381,305		186,517
ASSETS					
FIXED ASSETS (at cost less depreciation)					
	5		5,286		3,802
INVESTMENTS					
	6		43,590		90
CURRENT ASSETS, LOANS & ADVANCES					
Cash and Bank Balances	7	121,958		32,331	
Unsecured loans to Rural Producers	8	222,778		153,219	
Interest Receivable on Loans		7,311		5,208	
Advances Recoverable	9	6,635	358,682	3,260	194,019
LESS: CURRENT LIABILITIES AND PROVISIONS					
Current Liabilities	10	24,906		10,697	
Provision for Taxation		1,500	26,406	900	11,597
NET CURRENT ASSETS			332,277		182,422
MISCELLANEOUS EXPENDITURE			152		202
<i>(To the extent not written off or adjusted)</i>					
TOTAL			381,305		186,517

Accounting Policies and Notes to Accounts

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As per our report of even date
for V. NAGARAJAN & Co.,
Chartered Accountants

for BHARTIYA SAMRUDDHI FINANCE LIMITED

Hyderabad
April 27, 2002

Managing Director

(V. NAGARAJAN)
Partner

Company Secretary Director

Audited Financial Statements for the year ended March 31, 2002

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Rupees in '000s

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED		31-Mar-02	31-Mar-01
	Sch		
INCOME			
Income from Operations	11	45,607	29,695
Income from Investments		3,520	631
Other Income	12	590	2,239
Total		49,717	32,565
EXPENDITURE			
Interest on Borrowed Funds		15,615	11,566
Salaries, Allowances and Benefits to Staff	13	9,491	5,923
Financial Services Charges to Customer Service Agents		5,121	1,690
Other Operating Expenses	14	10,833	7,892
Bad Debts Written-off		4,602	2,203
Provision for Doubtful Debts		970	824
Depreciation		373	291
Total		47,005	30,389
Profit Before Taxation		2,712	2,175
Provision for Taxation		600	900
Profit After Taxation		2,112	1,275
Earlier year provision written back		215	-
Total		2,327	1,275
APPROPRIATIONS:			
Profit brought forward from last account		34	40
Transferred to			
Portfolio Risk Reserve		1,293	482
General Reserve		500	800
Balance carried over		568	34

Accounting Policies and Notes to Accounts

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As per our report of even date
for V. NAGARAJAN & Co.,
Chartered Accountants

for BHARTIYA SAMRUDDHI FINANCE LIMITED

Hyderabad
April 27, 2002

Managing Director

(V. NAGARAJAN)
Partner

Company Secretary

Director

Audited Financial Statements for the year ended March 31, 2002

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Rupees in '000s

SCHEDULES TO THE ACCOUNTS AS AT	31-Mar-02	31-Mar-01
SCHEDULE 1 : SHARE CAPITAL		
Authorised:		
Equity Shares		
25,000,000 Equity Shares of Rs. 10 each (Previous year: 25,000,000)	250,000	250,000
Preference Shares		
5,000,000 Preference Shares of Rs. 10 each (Previous year: 50,00,000)	50,000	50,000
<i>Total Authorised Capital</i>	300,000	300,000
Issued Subscribed and Paid up:		
20,600,000 Equity Shares of Rs.10 each Fully paid up in cash (Previous Year : 4,049,500 Shares)	206,000	40,495
<i>Total Paid up</i>		
1,000 Sweat Equity Share Warrants (Previous Year: NIL)	1	-
Total	206,001	40,495
SCHEDULE 2 : RESERVES AND SURPLUS		
<i>a. General Reserve</i>	2,307	1,507
Add : Transfer	500	800
	2,807	2,307
<i>b. Portfolio Risk Reserve</i>	847	365
Add : Transfer	1,293	482
	2,140	847
<i>c. Income and Expenditure Account</i>	568	34
Total	5,515	3,188

As per our report of even date
for **V. NAGARAJAN & Co.,**
Chartered Accountants

for **BHARTIYA SAMRUDDHI FINANCE LIMITED**

Hyderabad
April 27, 2002

Managing Director

(V. NAGARAJAN)
Partner

Company Secretary

Director

Audited Financial Statements for the year ended March 31, 2002

SCHEDULE 3: SECURED LOANS
Rupees in '000s

Sr. no	Name of bank/financial institution	Amount availed of as on March 31, 2002		Balance outstanding as on		Due for payment by	Interest rate	Repayment period including moratorium, payable in	Type of security
		Date availed	Rupees	31-Mar-01	31-Mar-02	31-Mar-03			
1	Global Trust Bank Ltd.	1-Mar-99	16,200	6,820	1,395	1,395	10.50%	Six quarterly instalments commencing from April 17, 2000	Loans of Self Help Groups(SHG)/CDFIs
2	Small Industries Development Bank of India – I	30-Sep-99	20,000	18,750	13,393	5,357	11.00%	Five years including moratorium of one year; payable in eight half-yearly instalments falling on June 01 and Dec 01 each year, commencing from December 2000	A Charge in trust on assets created out of the said loan (viz: loans to Non Farm Sector) and pledge of fixed deposit receipts to the extent of 10% of the loan
3	CORDAID, Netherlands	21-Mar-00	20,000	20,000	18,750	1,250	10.00%	Two years moratorium and repayable in eight instalments on March 15 every year commencing from March 15, 2002	A lien of financial assets, being the loan portfolio of Agriculture Allied loans stated as first class (without any repayment problems) with initial worth of Rs 300 Lakhs (being 150% of the loan).
4	ICICI Bank Ltd Bank of India - II	13-Jun-00	40,000	12,185	2,034	-	<i>Prime Lending Rate Currently 13.5%</i>	Open ended Short term Working capital Cash Credit Facility. Margin - 35%	Direct Crop Loans, Crop loans through on-lenders and Agriculture long term loans
5	Small Industries Development	1-Jun-01	30,000	20,000	30,000	8,333	11.00%	Four years including moratorium of one year. Payable quarterly on Mar 01, June 01 Sep 01 and Dec 01 each year.	A charge in trust on assets created out of the said loan (viz: loans to Non Farm Sector).
6	Overdraft with Canara Bank, Khammam	18-Feb-02	750	-	6	-	9.75%	Open-ended.	Against Fixed deposit
Total			126,950	77,755	65,578	16,335			

All loans are Rupee denominated and carry no exchange risk. No payment is overdue upto March 31, 2002

*As per our report of even date
for V. NAGARAJAN & Co.,
Chartered Accountants*

(V. NAGARAJAN)
Partner

for BHARTIYA SAMRUDDHI FINANCE LIMITED

Company Secretary Managing Director Director

Audited Financial Statements for the year ended March 31, 2002

SCHEDULE 4: UNSECURED LOANS

Rupees in '000s

Sr. no	Name of bank/financial institution	Amount availed of as on March 31, 2002		Balance outstanding as on		Due for payment by		Interest rate	Repayment period including moratorium payable in
		Date availed	Rupees	31-Mar-01	31-Mar-02	31-Mar-03			
1	Housing Development Finance Corporation Limited	31-May-00	10,000	10,000	8,256	2,607	12.00%	One year moratorium. 48 consecutive equated monthly instalments (EMIs) of Rs 274,363	
2	Developpement International Desjardins, Canada	3-Jan-01	12,329	12,329	12,329	-	6.00%	Principal amount shall be repayable in eight semi-annual instalments beginning on Mar 31, 2009	
3	Shorebank Corporation, Chicago	10-Oct-01	23,920	-	23,920	-	8.33%	Bullet payment due on March 30, 2005	
4	Developpement International Desjardins, Canada	5-Feb-02	13,739	-	13,739	-	6.00%	Payable in eight semi-annual instalments beginning on Sep 30, 2009	
5	Bhartiya Samruddhi Investing and Consulting Services Limited	27-Feb-02	47,870	42,750	45,965	7,623	11.00%	12 equal quarterly payments of 1,905,833 commencing from March 2002, payable March 31, June 30, September 30 and December 31 and final instalment of Rs 25,000,000 on March 31, 2005	
	Total		107,858	65,079	104,209	10,230			

All loans are Rupee denominated and carry no exchange risk. No payment is overdue upto March 31, 2002

As per our report of even date
for **V. NAGARAJAN & Co.**,
Chartered Accountants

Hyderabad
April 27, 2002

(V. NAGARAJAN)
Partner

for **BHARTIYA SAMRUDDHI FINANCE LIMITED**

Company Secretary Managing Director Director

BHARTIYA SAMRUDDHI FINANCE LTD

Equity for Equity
BASIX

SCHEDULE 5: FIXED ASSETS AS AT MARCH 31, 2002

Rupees in '000s

Assets	GROSS BLOCK (AT COST)			As on 31.03.2002	Rate of Depreciation	DEPRECIATION		NET BLOCK		As on 31.03.2001
	As on 31.3.2001	Additions during the year	Deletions during the year			For the year	Deletions during the year	As on 31.03.2002	As on 31.03.2002	
Furniture And Fixtures	955	269	-	1,225	100	70	-	170	1,055	855
Professional Equipment	2,259	1,688	-	3,947	218	224	-	442	3,505	2042
Office Equipment	598	192	-	790	59	50	-	109	681	540
Vehicles	496	-	434	63	130	29	141	17	45	366
Total	4,308	2,150	434	6,025	507	373	141	739	5,287	3803
<i>As on 31.3.2001</i>	<i>3,199</i>	<i>1,110</i>	<i>-</i>	<i>4,309</i>	<i>216</i>	<i>291</i>	<i>-</i>	<i>507</i>	<i>3,802</i>	<i>2983</i>

Notes: Depreciation has been provided on straight line method at the rates prescribed by Schedule XIV of the Companies Act, 1956.

Hyderabad
April 27, 2002

*As per our report of even date
for V. NAGARAJAN & Co.,
Chartered Accountants*

(V. NAGARAJAN)
Partner

for **BHARTIYA SAMRUDDHI FINANCE LIMITED**

Company Secretary Managing Director Director

Audited Financial Statements for the year ended March 31, 2002

Rupees in '000s

SCHEDULES TO THE ACCOUNTS AS AT	31-Mar-02	31-Mar-01
SCHEDULE 6 : INVESTMENTS		
Short Term:		
Non-Trade – Quoted		
In ICICI Prudential Mutual Fund- Fixed Maturity Plan half-yearly 2,344,935 units of Face Value Rs 10/- (Market Value Rs.23,975)	23,500	-
In ICICI Prudential Mutual Fund - Gilt Plan 975,667 units of Face Value Rs 10/- (Market Value Rs.10,022)	10,000	-
In HDFC Income Fund- Dividend Plan 938,351 units of Face Value Rs 10/-(Market Value Rs.10,040)	10,000	-
13.05 % Government Stock 2007	90	90
800 units of Face value of Rs 100 (Market Value Rs.98)		
Total	43,590	90
SCHEDULE 7 : CASH AND BANK BALANCES		
Cash in hand	1,230	466
Balances with Scheduled Banks in:		
Current Accounts (including in transit)	4,887	3,662
Fixed Deposits	115,840	28,203
Total	121,958	32,331
SCHEDULE 8: UNSECURED LOANS TO PRODUCERS		
Nonfarm-Micro Enterprises (Short Term)	102,151	57,221
Agri Allied	49,462	29,353
Agri Short Term	47,020	31,549
General Purpose	11,980	21,629
Agri Long Term	7,626	6,456
House Repairs and Extensions	998	625
Crop through On Lenders	1,198	3,484
Nonfarm-Small and Medium (Long Term)	594	1,124
Nonfarm-Growth Micro Enterprises	1,259	1,645
Smart Card Micro Loans	37	-
Vehicle Loans to CSA/Employees	3,000	1,711
Sub-Total	225,327	154,797
Less: Provision for Doubtful debts	(2,548)	(1,578)
Total	222,778	153,219

As per our report of even date
for **V. NAGARAJAN & Co.,**
Chartered Accountants

for **BHARTIYA SAMRUDDHI FINANCE LIMITED**

Hyderabad
April 27, 2002

Managing Director

(V. NAGARAJAN)
Partner

Company Secretary Director

BHARTIYA SAMRUDDHI FINANCE LTD

Rupees in '000s

SCHEDULES TO THE ACCOUNTS AS AT	31-Mar-02	31-Mar-01
SCHEDULE 9 : ADVANCES RECOVERABLE		
(Unsecured - Considered Good)		
Advances and other amounts recoverable in cash or kind or value to be received		
-Advance for Expenses	911	1,084
-Due from Company under same management		
Bhartiya Samruddhi Investment and Consulting Services Ltd.	910	-
-Prepaid Insurance	307	276
-Interest receivable on Fixed Deposits	1,866	350
-Rent and Telephone Deposits	381	345
-Advance to Customer Service Agents for delivery of financial services (Net)		
Financial Services (Net)	144	729
-Due from Commercial Intermediaries	577	-
-Advance Tax	1,539	476
Total	6,635	3,260
SCHEDULE 10 : CURRENT LIABILITIES		
Cash Security from Borrowers	23,016	9,568
Sundry Creditors	530	320
Interest Accrued but not due on Loans	959	763
Statutory Liabilities	401	43
Other Liabilities	-	3
Total	24,906	10,697
SCHEDULE 11 : INCOME FROM OPERATIONS		
Income from Loans to Rural Producers		
Interest on Loans to Rural Producers (<i>net of rebates and derecognised Interest</i>):		
<i>See Note 7 Schedule 15</i>	40,607	26,642
Loan Processing Fees	4,559	2,980
Recovery of debts written off in earlier years	439	73
Total	45,607	29,695

As per our report of even date
for **V. NAGARAJAN & Co.,**
Chartered Accountants

for **BHARTIYA SAMRUDDHI FINANCE LIMITED**

Hyderabad
April 27, 2002

Managing Director

(V. NAGARAJAN)
Partner

Company Secretary

Director

Audited Financial Statements for the year ended March 31, 2002

Rupees in '000s

SCHEDULES TO THE ACCOUNTS AS AT	31-Mar-02	31-Mar-01
SCHEDULE 12 : OTHER INCOME		
Consultancy Fees	380	2,075
Other Income	210	164
Total	590	2,239
SCHEDULE 13 : SALARIES, ALLOWANCES AND BENEFITS TO STAFF		
Salaries, Allowances and other Benefits	8,166	4,784
Contributions to Provident and Other Funds	603	369
Meeting, Training and Staff Expenses	722	770
Total	9,491	5,923
SCHEDULE 14 : OTHER OPERATING EXPENSES		
Travel and Conveyance		
- Directors	116	194
- Others	2,839	2,062
	2,954	2,256
Administrative Expenses	934	364
Postage and Telecommunications	1,351	908
Printing and Stationery	1,073	730
Rent, Rates and Taxes	1,025	853
Auditors' Remuneration and Expenses	596	463
Office Maintenance	547	338
Bank Charges	511	426
Professional Charges	885	380
Repairs and Maintenance	295	629
Sundry balances adjusted(net)	309	167
Vehicle Maintenance	183	326
Loss on Sale of Assets	116	-
Statutory Payments	51	51
Total	10,833	7,892

As per our report of even date
for **V. NAGARAJAN & Co.,**
Chartered Accountants

for **BHARTIYA SAMRUDDHI FINANCE LIMITED**

Hyderabad
April 27, 2002

(V. NAGARAJAN)
Partner

Managing Director

Company Secretary Director

BHARTIYA SAMRUDDHI FINANCE LTD

Rupees in thousands

Cash Flow Statement	Year ended 31-Mar-02	Year ended 31-Mar-01
Cash flow from operating activities		
Net Profit before taxes	2,712	2,176
Adjustments for:		
Depreciation on Fixed Assets	373	291
Provision in respect of non-performing assets	970	824
Misc. Expenditure written-off during the year	50	-
(Increase) decrease in operating assets		
Interest Receivable on Loans to Borrowers	(2,103)	(338)
Other Advances/Recoverables	(3,375)	(1,397)
Other liabilities and provisions	761	(476)
Loans to Rural Producers		
Unsecured Loans to Rural Producers	(282,456)	(188,249)
Cash Security Returned	(11,246)	(10,773)
Loans Recovered	212,002	144,559
Cash Security Received	24,694	10,306
Net (Increase)/Decrease in Loans	(57,006)	(44,157)
Gross cash used in operating activities (A)	(57,618)	(43,077)
Cash flow from investing activities		
Purchase of Fixed Assets	(1,716)	(1,110)
Increase in Investments	(43,500)	-
Net cash used in investing activities (B)	(45,216)	(1,110)
Cash flow from financing activities		
Increase (decrease) in Borrowings from institutions		
- Bhartiya Samruddhi Investments and Consulting Service Ltd, Holding Co.	3,215	12,050
- SIDBI, Hyderabad	4,643	18,750
- HDFC, Hyderabad	(1,744)	10,000
- ICICI BANK LTD, Hyderabad	(10,151)	12,117
- DID, Canada	13,739	12,329
- GLOBAL TRUST BANK LTD, Hyderabad	(5,425)	3,320
- CORDAID, Netherlands	(1,250)	-
- SHORE BANK, Chicago	23,920	-
- Overdraft with Canara Bank, Khammam	6	-
Increase in Share Capital	165,506	-
Net cash from financing activities (C)	192,459	68,566
Net increase/(decrease) in cash and cash equivalents (A)+(B)+(C)	89,625	24,379
Cash and cash equivalents as at April 1, 2001 and 2000 respectively	32,332	7,953
Cash and cash equivalents as at March 31, 2002 and March 31, 2001	121,957	32,332

As per our report of even date
for **V. NAGARAJAN & Co.,**
Chartered Accountants

Hyderabad
April 27, 2002

(V. NAGARAJAN)
Partner

for **BHARTIYA SAMRUDDHI FINANCE LIMITED**

Managing Director

Company Secretary Director

Audited Financial Statements for the year ended March 31, 2002

SCHEDULE 15: NOTES ON ACCOUNTS
1) ACCOUNTING POLICIES

- a) Basis of preparation of Financial Statements:
The financial statements are prepared under historical cost convention, on accrual basis of accounting and in accordance with the provisions of Companies Act, 1956 and comply with the Accounting Standards issued by the Institute of Chartered Accountants of India to the extent applicable, except otherwise stated and the directions issued by Reserve Bank of India for Non Banking Financial Companies from time to time, wherever applicable.
- b) Revenue Recognition:
- i) Interest on loans is recognized on accrual basis, as per contracts with the borrowers.
 - ii) Income on non-performing assets is recognized only when realized and no interest, which has remained past due for more than six months at the end of the accounting Year, is treated as income.
 - iii) In respect of service contracts income is recognized on the basis of proportionate Completion of the Contract with reference to the stage of performance and corresponding income.
- c) Fixed Assets:
- i) These are stated at cost.
 - ii) Depreciation is provided on the straight line method at the rates specified in Schedule XIV of the Companies Act, 1956.
 - iii) In respect of additions the depreciation is provided prorata from the date the assets are put into use.
- d) Loans and Advances:
These are classified as standard assets, sub-standard assets, doubtful assets and loss assets in terms of the Non Banking Financial Companies Prudential Norms (Reserve Bank) Directions 1998.
- e) Provision for Loan Losses:
- i) Provision for doubtful loans and advances has been made as per the norms stated in the Non-Banking Financial Companies Norms (Reserve Bank) Directions, 1988.
 - ii) In addition the company also sets aside an amount equal to 40% (cumulative 50%) of the principal outstanding of loans overdue by 400 days to a Portfolio Risk Reserve.
- f) Write-off Policy:
Loans are written off if the management is satisfied that it has exhausted all options for recovery of Principal and interest on the loan.
- g) Employee Benefits:
- i) Provident Fund: Contribution is accounted on actual liability basis and paid into Government.
 - ii) Gratuity: is being computed as per statutory norms on actuarial valuation basis and paid into a trust created with and for this purpose, through the group schemes of Life Insurance Corporation of India.
- h) Miscellaneous Expenditure:
Written-off over five years time at equal instalments.

BHARTIYA SAMRUDDHI FINANCE LTD.

i) Foreign Exchange Transactions:

Foreign Currency Current assets and Current Liabilities outstanding at the Balance Sheet date are translated at the exchange rates prevailing on that date and the net gain or loss is recognized in the Income and Expenditure Account. All other currency gains and losses are recognized in the Income and Expenditure Account.

2) **CONTINGENT LIABILITES** Nil

3) **BUSINESS OPERATIONS**

The Company provides financial services, which is currently predominantly micro credit, and technical assistance to rural poor clients, mostly unreached by the formal banking system, with the main purpose of promoting sustainable livelihoods. The business is characterized by intense field presence, as the transactions of small value happen at the customer's home or work place. The company has developed, and well-tested, the methodology for its operations, and is planning to expand to increase outreach. The company will strive to demonstrate that these services can be provided to its customers in a profitable manner.

4) **SHARE CAPITAL**

a) Shareholding Pattern:

Sl. No	Shareholder's Name	No.s	Amount Rs. '000s	% Holding	Amount Rs. '000s	% Holding
Equity Shares of Rs 10 each			March 31,2002		March 31,2001	
1	Bhartiya Samruddhi Investments and Consulting Services Ltd.	9,690,500	96,905	47.0%	40,400	99.7%
2	International Finance Corporation, Washington	4,700,000	47,000	22.8%		
3	Stichting Hivos - Triodos Fonds, Netherlands	2,350,000	23,500	11.4%		
4	Shorebank Corporation, Chicago	2,350,000	23,500	11.4%		
5	ICICI Ltd.	1,000,000	10,000	4.9%		
6	Housing Development Finance Company Ltd.	500,000	5,000	2.4%		
7	Other Individuals	9,500	95	0.0%	95	0.3%
	Total	20,600,000	206,000	100.0%	40,495	100.0%
	Optionally Convertible Share Warrants of Re. 1/- each					
8	Bhartiya Samruddhi Investment and Consulting Services Ltd.	1000	1	100%	-	-
	Total Equity Funds		206,001			

- b) Issue of share warrants for "Sweat Equity". The company had committed (by a resolution in Extraordinary General Meeting held on Nov 2, 2000) to issue 1000 share warrants for a consideration of Rs. 1/- each, as sweat equity pursuant to Section 79 A of the Companies Act, 1956, jointly in favour of the three promoters of the holding company. This commitment was in consideration for know-how and intellectual property in the field of micro-finance and livelihood promotion.

These warrants are convertible into 1000 equity shares fully paid up for each of such share warrants within a Year of ten years from Oct 21, 2000, provided a minimum of ten warrants are converted at a time. These entitlements have been availed by the promoters and were assigned to Bhartiya Samruddhi Investments and Consulting Services Ltd. (BASICS Ltd.) Accordingly during the year the company has issued 1000 warrants to the BASICS Ltd., which shall rank *pari passu* with the existing shareholders whenever BASICS Ltd. opts for conversion into equity share. However, BASICS Ltd. has not opted for any conversion upto March 31, 2002 and is holding the same as warrants only.

- c) Issue of Share Warrants to Employee Stock Option Trust:

The Board of Directors of the Company had been authorized (by a resolution in the Annual General Meeting of the company held on May 29, 2000) to create a trust for BASIX-Employees and Agents Stock Option Plan and issue warrants carrying a right to subscribe / convert into the capital of the company upto 10,00,000 equity shares. Such shares, when converted, shall rank *pari passu* with the existing shares at the time of conversion. However the Company is yet to create such trust and hence is yet to issue the warrants.

5) RESERVE AND SURPLUS

Portfolio Risk Reserve: During the year, the company changed its policy on Portfolio Risk reserve. An amount of Rs 12,93,151 is being transferred during the year ended March 31, 2002 (Previous Year: Rs.482,000). No amount was transferable as per the earlier policy.

6) LOANS AND ADVANCES

- a) Asset Classification: The loan portfolio has been classified as per the norms prescribed for classification by the Reserve Bank of India through Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998. The necessary provisions as per RBI norms have been made. The details are shown overleaf.

Asset Classification	Loan Outstanding (without Provisioning)	Provision up to March 31, 2001	Provision during the Year	Provision as at March 31, 2002	Loan Outstanding (net of Provisioning)
Standard		214,670			214,670
Sub- standard	9,009	972	(71)	901	8,108
Doubtful	1,647	605	1042	1647	-
Total	225,326	1,577	971	2,548	222,778
Loss assets*	4,602	-	-		-
Previous year	154,796	753	824	1,577	

* Stands written-off in the books as bad debts as per Note 1 (f) above

- a) The Company has changed its policy on write-off of unrecoverable loans. During the year an amount of Rs. 46,01,828 has been written off as per the new policy. Had the company followed the earlier policy, the write-off amount would have been Rs 4,055,887. During the year an amount of Rs. 438,951 (Previous year Rs 72,604) has been recovered in respect of the loans written-off in earlier years.
- b) In the opinion of the Board of Directors, the loans and advances have a value on realization in the ordinary course of business at least equal to the amount at which they are stated in the Accounts.

7) INTEREST ON LOANS TO RURAL PRODUCERS

This is net of rebates for on time Repayment of Rs 1,406,385 (Previous Year: Rs 728,186) and Interest de-recognised of Rs 2,767,004 (Previous Year: Rs 2,580,707)

8) AUDITORS' REMUNERATION

This includes:

Rs. in thousands

Year / Year ended	March 31, 2002	March 31, 2001
a) Audit Fees	310	202
b) Fee for Certification	48	10
c) Taxation	50	50
d) Out-of-Pocket Expenses	188	202
Sub-Total	596	464
Audit Manual and systems*	105	-
Total	701	464

* included in professional charges

8) AUDITORS' REMUNERATION

This includes:

Rs. in thousands

Year / Year ended	March 31, 2002	March 31, 2001
a) Audit Fees	310	202
b) Fee for Certification	48	10
c) Taxation	50	50
d) Out of Pocket Expenses	188	202
Sub-Total	596	464
Audit Manual and systems*	105	-
Total	701	464

* included in professional charges

9) EARNINGS AND OUTGO IN FOREIGN CURRENCY

Rs. in thousands

Year ended	March 31, 2002	March 31, 2001
<i>Income:</i>		
Consultancy Fees	380	1,809
<i>Expenditure:</i>		
Interest on Loans	2,744	2,104
Travel	-	90
<i>Outgo:</i>		
Remittance on account of Principal Repayment	1,250	-

10) MISCELLANEOUS

- Additional information pursuant to paragraph 4-C and 4-D of Part B to Schedule VI of the Companies Act, 1956 – None other than stated above.
- No amount is due to any small-scale industrial undertaking by the Company.
- Amount outstanding as at March 31, 2002 from Bhartiya Samruddhi Investments and Consulting Services Ltd., a company under the same management: Rs.910,251 (Maximum amount due at any point of time of the year: Rs.1,805,326).
- Balance sheet abstract and company's general business profile, pursuant to Part III to Schedule VI is separately attached.
- Miscellaneous Expenditure (not written off) consists of statutory payments for increasing Authorized Capital.
- Previous year figures have been regrouped and rearranged wherever necessary.

As per our report of even date
for **V. NAGARAJAN & Co.,**
Chartered Accountants

for **BHARTIYA SAMRUDDHI FINANCE LIMITED**

Hyderabad
April 27, 2002

Managing Director

(V. NAGARAJAN)
Partner

Company Secretary

Director

BHARTIYA SAMRUDDHI FINANCE LTD.

Enclosure to Notes forming part of accounts for the year ended March 31, 2002

The information relating to the Balance Sheet Abstract and the Company's General Business Profile. As per Part IV of Schedule VI to the Companies Act, 1956 as under:

I. Registration Details

Registration No.			5	5	-	8	1	1	2	7
Balance Sheet Date	3	1		0	3		2	0	0	2

State Code

5	5
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II. Capital Raised During the Period (Amount in Rs. Thousands)

Public Issue										0
Bonus Issue										0

Right Issue										0
Private Placement			1	6	5	5	0	6		

III. Position of Mobilization and deployment of Funds (Amount in Rs. Thousands)

Total Liabilities			3	8	1	3	0	5		
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Total Assets			3	8	1	3	0	5		
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Sources of Funds

Paid-up Capital			2	0	6	0	0	1		
Secured Loans			6	5	5	7	9			

Unsecured Loans			1	0	4	2	0	9		
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Application of Funds

Net Fixed Assets					5	2	8	6		
Net Current Assets			3	3	2	2	7	7		
Accumulated Losses										0

Investments					4	3	5	9	0	
Accumulated Losses							1	5	2	

IV. Performance of Company (Amount in Rs. Thousands)

Total Receipts	+			4	9	7	1	7		
	+	-								
Profit/Loss before Tax					2	7	1	2		
Earning Per Share (Rs.)					0	.	1	1		

Total Expenditure	+			4	7	0	0	5		
	+	-								
Profit / Loss after Tax					2	1	1	2		
Dividend										0

V. Generic Name of three Principal Products / Services of the Company

Item Code No. (ITC Code) :		N		A						
Product Description	FINANCIAL SERVICES									

BHARTIYA SAMRUDDHI FINANCE LIMITED

A pound for profits...
G Veerabhadra, Rice Mill



Weaving an earnings pattern...
A Narayanpet weaver's house



How green are my fields?
BUA's, Mahboobnagar



The going is good...
Abdul, Popcorn and Oil seller



Joining hands and thoughts...
AGM meeting, SHG Federation, Moosapet



Looking into a sweet future...
Sweet Shop owner, K Nagaraj



BASIX
Equity for Equity



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Email: info@basixindia.com Website: www.basixindia.com



This report and other information about the BASIX group, including operational and financial information are available on our website: www.basixindia.com
The website is updated frequently, at least at the end of every quarter, with the latest operational and unaudited financial information.