



REPORT OF DIRECTORS

To
The Members
Bhartiya Samruddhi Finance Limited

The Directors have pleasure in presenting their 10th Annual Report and the Audited Statement of Accounts of the Company for the period ended March 31, 2006.

1 Operating Results for the Year Ending March 31, 2006

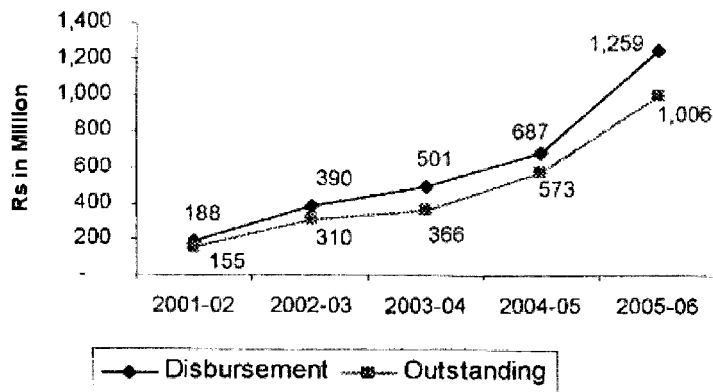
	Rs.'000	
	March 31, 2006	March 31, 2005
Income	243,873	129,741
Expenditure	215,907	120,741
Net Profit before Tax	27,966	9,000
Provision for Tax	12,924	3,478
Net Profit after Tax	15,042	5,522

In pursuit of its mission to promote a large number of sustainable livelihoods for the rural poor and women, the Company has adopted the "Livelihood Triad" strategy comprising of Livelihood Financial Services (LFS), Agricultural/Business Development Services (Ag/BDS) and Institutional Development Services (IDS) since 2003. During the year, the Company has made considerable efforts to deepen the Insurance offering, Ag/BDS and IDS thereby creating multiple streams of income for the Company. The Company's performance on all the three vertices of the Livelihood Triad is summarized below:

1.1 Livelihood Financial Services

In Livelihood Financial Services, the company during the year disbursed Rs1259.75 million in micro credit as on March 31, 2006 and had 143,332 customers. Non-farm loans accounted for 48% of the loans outstanding with Agri-Allied Loans at 33%, Crop loans at 7%, General Purpose loans and Agri long term loans making up the remaining 1%. Loans to women stood at 44% compared to 34% in previous year. The average loan size at the end of the year was Rs.9841 as compared with Rs.8765 at the end of 2005.

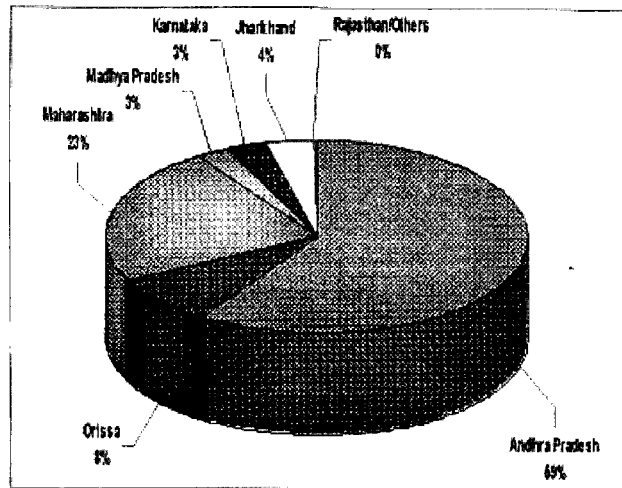
Disbursement & Outstanding Trend over the last five years



During the year, the Company crossed the milestone of achieving Rs. 100 crore in disbursements as well as outstanding.

State wise Portfolio

Nine new Units were opened during the year. At the end of the year, the operations of the Company extended to almost 5446 villages in 28 districts across seven States. The contiguous expansion of operations will continue during the next financial year when five more new Units will commence operations.



Portfolio quality improved over last year with a Portfolio at Risk (principal overdue over 90 days) of 1.3% as against 3.6%.

The Company also reported the best ever on-time repayment rate of 98.5% as on March 31, 2006. Performing assets as per Reserve Bank of India (RBI) norms were at 98.9%. The company continues to follow a more stringent accounting policy for its overdue loans than what is required by the RBI, by providing for Portfolio Risk Reserve for overdues beyond 90 days.

Recognizing that unmanaged risk was a major reason for many of the customers not being able to fully benefit from credit, the Company has steadily built a suite of insurance products to cover the various risks that customers face to their lives and livelihoods. In pursuit of this, the Company covered 178,517 lives which included borrowers and their spouse through a group insurance policy, in partnership with AVIVA. Further, 117,678 borrowers have been extended limited health insurance. 15,335 customers were covered under individual life insurance policies, encouraging long-term savings as well.

The Company developed and offered a friendly livestock insurance policy in partnership with Royal Sundaram and covered 12330 units of livestock. The company has extended rainfall insurance to farmers from this year and covered 6689 farmers. Total income from Insurance Services during the year was Rs 17.8 million.

During the year, weather insurance was extended for the first time across most of BASIX' units. The Company also designed a product covering risks related to life and health of the SHG women and their spouses on a pilot basis in Bidar in March, 2006.

Urban Microfinance

Bhartiya Samruddhi Finance Ltd (BSFL), a part of the BASIX group, and Citibank have agreed to collaborate to provide access to financial services and products to poor and 'unbanked' urban households. With support from the Citigroup Microfinance Group, Citibank brings its global capabilities in consumer banking and its experience in providing savings, credit, and money remittance facilities. BASIX brings its understanding of the needs of the poor in India with reference to microfinance, livelihoods, and other basic needs, and its experience in delivering such services to this sector.

The objective of this alliance is to design and pilot microfinance services and products for the urban poor and to scale up the pilot to reach 1 million urban customers in 10 years or earlier in multiple cities in India. The pilot was rolled out by BSFL in Hyderabad on 18th April, 2005. BSFL has offered a basic micro-credit product which is being received well by customers in Hyderabad.

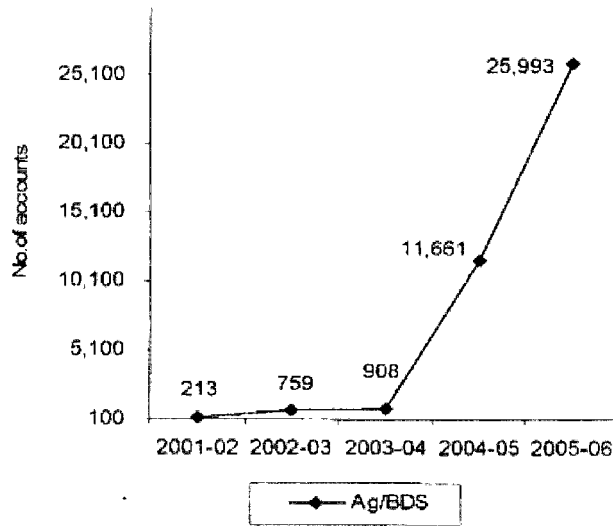
The target groups for this credit product are women especially skilled in doing some economic activity like embroidery, stitching on sarees, running kirana shops, sale of sarees, pickles, curry points, catering etc. These women are encouraged to form Joint Liability Groups (JLGs) among themselves and educated about the JLG concept and the responsibilities of being part of the group. An amount of Rs.5000/- is given as loan amount after 9 weeks of savings has been completed by the Customer. The tenor of the loan is 48 weeks and it is repaid in weekly installments of Rs. 120/- . Life insurance coverage to Customer and her Spouse and limited health insurance to Customer is extended till the end of the loan period.

As on March 31, 2006, an amount of Rs.92 lakhs was disbursed as loans to 1834 customers. In the next year, the Company is planning to offer business development services as well by providing

1.2 Agricultural Business Development Services (Ag/BDS)

Under A/BDS the Company is offering four set of services that includes productivity enhancement, risk mitigation (non-financial), local value addition and alternative market linkages. These services are being offered in sub-sectors of dairy, cotton, groundnut, vegetables, lac, pulses, soya, mushroom, handloom and bamboo crafts. These services are being provided through Livelihood Service Providers. The company recruited 93 Livelihood Service Providers (LSPs) with subject knowledge to offer technical advice to producers in above sub sectors.

Ag/BDS Trend Analysis over last five years



After adopting the Livelihood Triad strategy in 2003-04, the Company has made major strides in offering Ag/BDS Services to its customers as evident from the number of customers registered as per the adjoining graph.

During the year, 25,993 customers were registered for Ag/BDS generating a revenue of Rs. 7.5 million. In 2006, we expect to serve over 60,000 customers.

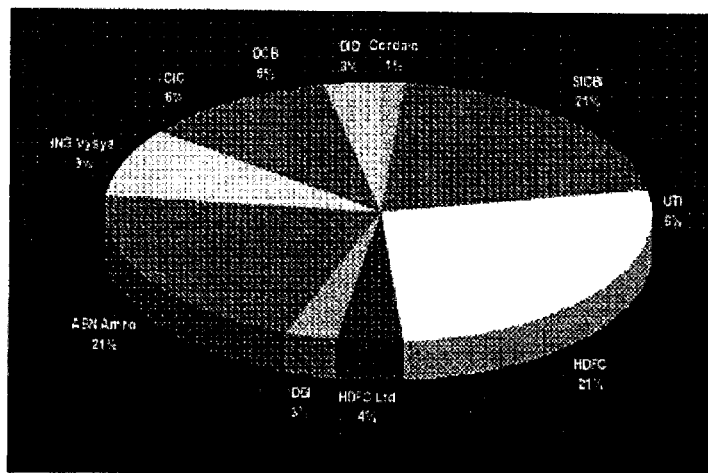
1.3 Institutional Development Services (IDS)

Since many of the livelihood promotion inputs can be given economically only in groups, the Company encouraged its customers in formation of informal groups, self-help groups, farmers' clubs, federations of groups, co-operatives and other mutual benefit associations. Once these are formed, the company offers Institutional Development Services (IDS) which includes: Capacity Building of Self Help Group (SHG). Handholding Community based MFIs / NGO-MFIs through IT and ID services. During the year, 696 Self-Help Groups, 35 Producer mutually aided cooperative societies and dairy cooperatives, 113 SHG Federations were covered under IDS.

2 Finance and Rating

The company continued to attract competitive financing from leading Institutions for its micro finance activities. During the year, new relationships were established with Indian financial institutions. Your directors are happy to report that resource mobilizing for the next financial year is in progress. An amount of Rs.310 million was sanctioned by various funding institutions and banks. The company is confident of raising the balance resource during the year.

Lenders to BSFL



During the year, CRISIL reaffirmed the investment grade rating of FA-

3 Corporate Governance

The Company is committed to the principles of Corporate Governance viz., transparency, accountability, ethical operating practices and professional management. Right from inception, the Company's Board of Directors comprised eminent individuals from the fields of finance and rural development. The role of the Board is to ensure mission compliance which involves balancing the "public purpose" goals and "financial performance". During the year ended 31st March, 2006, the Board met five times on April 23, 2005, July 2, 2005, July 23, 2005, October 21, 2005 and January 28, 2006.

3.1 Directors

The Board has the following directors:

Mr. Vijay Mahajan, Chairman of the Company, is an IIT graduate with management training from IIM-Ahmedabad. Besides being the co-founder of BASIX Group, he is also the co-founder of PRADAN, Sa-Dhan and Andhra Pradesh Mahila Abhivruddhi Society (APMAS). He has experience in working in the field of micro-finance and livelihood promotion and managing several development projects.

Mr. Joe Madiath, is the co-founder and Executive Director of Gram Vikas a non-governmental organization working with the underprivileged section of rural Orissa. He works in the field of rural development in the areas of education; health, rural energy and infrastructure, livelihood and food security, sustainable environment, governance. Mr Madiath has received several awards for his work, to name a few: Shawn Feinstein World

Hunger Award; 1998, Global Development Network Award; 2002, World Habitat Award 2003, and Tech Museum Award from Silicon Valley, California.

Mr. Anoop Seth, is an MBA (BITS Pilani) having experience in the Banking and Financial Sector. He worked with Bank of America, Bechtel Enterprises as Vice President and as Chief Financial Officer of Infrastructure Development Finance Corporation (IDFC). He is presently working as the Senior Vice President, ABN Amro Bank N.V., Mumbai.

Ms Nandini Adya has several years of experience working with IFC which is a member of the World Bank Group and is involved in several projects for supporting the Micro finance sector in developing economies.

Ms. Keya Sarkar is a post graduate in Economics with experience in corporate finance, journalism and is presently pursuing her interest as a social entrepreneur. She worked as a President of CRIS-RISC (the information company of CRISIL) and as CEO of Matrix Information, a subsidiary of Kotak Mahindra Finance Limited. She writes the only existing column on micro finance for Business Standard and is also a consultant for Sa-Dhan.

Dr. Lalitha Iyer has several years of experience in the Banking Sector having worked with State Bank of India in various capacities which would be invaluable to the Company.

Mr. Bob Assenberg is the nominee director representing Hivos-Triodos Fonds, Netherlands. He is the Deputy Director is Hivos-Triodos with several years of experience in the financial sector.

Mr. Davis F. Golding is the Nominee Director representing the ShoreCap International Limited. He is working as the Executive Vice President and Chief Investment Officer with ShoreCap International Limited and several years of banking and fiancé experience.

Dr. Sankar Datta is the Managing Director of Indian Grameen Services and also holds the charge of Dean of The Indian School of Livelihood Promotion. He was a member faculty of the Institute of Rural Management, Anand (IRMA) between 1984. Dr Datta is a management graduate, with basic education in agriculture, who has been involved in extending professional services for rural development activities, specially focusing on livelihood support/ promotion, working with micro-enterprises, for over two decades

Mr. N V Ramana, Managing Director of the company is a graduate in Dairy Technology from National Dairy Research Institute ,Karnal and management training from IIM-Ahemdabad with specialisation in – Agriculture. He worked with ITC Group for twenty years. He joined BASIX as Senior Vice President (Strategic Initiatives) in 2001 and since then has been associated with the Group in various capacities.

3.2 Audit Committee

The Audit Committee has been constituted in accordance with Section 292A of the Companies Act, 1956. The Audit committee meets twice every year to review the accounts as well as the report of the statutory auditor. It has the following four directors:

1. Mr. Davis Golding
2. Mr. Bob Assenberg
3. Ms Keya Sarkar
4. Mr. N V Ramana

4 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.

5 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.

6 Energy Conservation Measures, Technology Absorption and R & D Efforts

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. However, as a good practice, the Company would like to highlight some of its efforts in these and related fields:

- a) *Energy*: The Company has been actively studying farmers' cropping preferences and its inter-relationship with power tariffs, and encouraging farmers to adopt more energy-efficient pumpsets, through its sister company IGS.
- b) *Technology and R&D*: Apart from an intensive use of Information Technology for its transaction accounting and MIS, the Company also encourages its customers to use improved technologies such as integrated pest management in cotton cultivation and high yielding varieties and related package of practices in groundnut and vegetables. It also provides linkages to veterinary services for dairy farmers.
- c) *Environment*: The Company adheres to an Environmental Policy, which lays down the Company's commitment to financing environmentally sound activities.

7 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.

8 Directors' Responsibility Statement

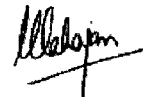
Your directors would like to inform you that the audited accounts containing the Financial Statements for the year ended March 31, 2006 are in full conformity with the requirements of the Companies Act, 1956 and the directors hereby declare that:

1. In the preparation of the annual accounts, the applicable accounting standards as referred to in Sec 211 (3C) 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 a true and fair view of the accounts of the Company as at March 31, 2006. While doing so the directors have made necessary judgments 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 the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities. More specifically, the Company has substantially revised its operating practices to ensure tighter control. They have also been reviewed by an external Internal Control specialist and a separate Operations Risk Management Department has been created
4. The annual accounts have been prepared on a "Going Concern" basis.

9 Acknowledgements

Your Directors place on record their sincere appreciation of the support of the Company has received from Indian and International financial institutions, banks, its employees at all levels, Livelihood Service Agents and all other well-wishers.

On behalf of the Board of Directors



Vijay Mahajan
Chairman

Place: Ranchi
Date: April 29, 2006

**AUDITORS' REPORT TO THE MEMBERS OF
BHARTIYA SAMRUDDHI FINANCE LIMITED**

We have audited the attached Balance Sheet of BHARTIYA SAMRUDDHI FINANCE LIMITED as at March 31, 2006, the Income and Expenditure account and annexed thereto and the Cash Flow Statement for the year ended on that. 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. On the basis of our audit we report that:

As required by The Companies (Auditors' Report) Amendment Order, 2004 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.

Further to our comments in the Annexure referred above we report that:

- a) We have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the 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, 2006 and taken on record by the Board of Directors, we

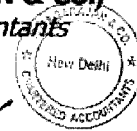


report that none of the directors is disqualified as on March 31, 2006 from being appointed as director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

- f) 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, 2006,
 - ii. In the case of Income and Expenditure account, of the profits of the Company for the year ended on that date and
 - iii. In the case of Cash Flow Statement of the cash flows for the year ending as on 31st March 2006.

Ranchi
April 29, 2006

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



(V. NAGARAJAN)
Partner

V.NAGARAJAN & CO.,

Chartered Accountants

ANNEXURE TO THE AUDITORS' REPORT REFERRED TO IN OUR REPORT
OF EVEN DATE TO THE MEMBERS OF
BHARTIYA SAMRUDDHI FINANCE LIMITED
[Pursuant to the Companies (Auditor's Report) Amendment Order, 2004]

- I. In respect of items stated in Paragraph 4 of the Order:
1. The Company has maintained proper records to show full particulars including quantitative details and situation of fixed assets.
 2. The fixed assets have been physically verified by the Management at reasonable intervals. The discrepancies noticed were not material and have been given effect in the books of account.
 3. The Company has disposed some of the fixed assets, which in our view is not substantial and does not affect its status of going concern.
 4. The Company has not either granted secured or unsecured loans to the Company, firms or other parties listed in the register required to be maintained under section 301 of the Companies Act, 1956.
 5. The Company has an exhaustive internal control system with measures to deal with large number of low value cash transactions in the rural areas where it is operating.
 6. There are no contracts and arrangements, which need to be entered in to register maintained under section 301 of the Act.
 7. The Company has not accepted any deposits from the public.
 8. The Company has an internal audit system commensurate with the size of the Company and nature of its business for the purchase of fixed Assets and the Sale of Services.
 9. The Company has generally been regular in depositing statutory dues with appropriate authorities. As on the last date of the financial year there are no dues outstanding for more than six months.
 10. The Company does not have any accumulated losses at the end of the year. The Company has not incurred any cash losses during the financial year covered by our audit and in the immediately preceding financial year.
 11. The Company has availed loans from financial institutions and banks and there has been no default in respect of repayment of principal or interest.
 12. The Company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures and other securities.
 13. The Company does not deal or trade in shares or debentures or other investments.

14. The Company has not given any guarantee for loans taken by others from bank or financial institutions.
15. The Company had applied term loans for the purpose for which it has been raised.
16. The Company was in the business of providing micro finance, which involves provision of short-term loans up to a maximum period of 18 months in all cases. In few cases term loans are provided up to a period of three years. Most of the funds raised for these purposes are medium and long term and were rotated in the business until they become due for payment. The details of payments in respect of borrowings falling due within the next one year are reported in the financial statements.
17. The Company has made preferential allotment of shares to Companies covered in the register maintained under Sec 301 of the Companies Act 1956 at a price not prejudicial to the interest of the Company at the relevant time.
18. The Company has not issued any debenture during the year.
19. The Company during the year has not raised any money through public issue of shares.
20. The Company has noticed frauds by employees and agents to the tune of Rs.3,47,960/- during the financial year 2005-06 which is mainly in the nature of misappropriation of collection from borrowers, out of which the Company has recovered Rs.2,60,100/-
21. Other clauses of the order are not applicable to the Company.

Ranchi,
April 29, 2006

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


(V. NAGARAJAN)
Partner





V. NAGARAJAN & CO.,

Chartered Accountants

AUDITORS' REPORT OF EVEN DATE TO THE MEMBERS OF BHARTIYA SAMRUDDHI FINANCE LIMITED

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

We have audited the attached Balance Sheet of BHARTIYA SAMRUDDHI FINANCE LIMITED as at March 31, 2006 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 Sec 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 state 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 Sec 45IA of the Reserve Bank of India Act, 1934 (2 of 1934).
2. IN THE CASE OF NON-BANKING FINANCIAL COMPANIES 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 29, 2006 for the non-acceptance of public deposits.
 - b) The Company has not accepted any public deposits during the period under review.
 - c) The Company has through a Board resolution identified the group and Subsidiary Companies.
 - d) The Company has complied with the prudential norms relating to income recognition; asset classification, accounting standards and provisioning for Bad & doubtful debts during the period ended March 31, 2006.

Ranchi,
April 29, 2006

for V. NAGARAJAN & Co.,
Chartered Accountants


(V. NAGARAJAN)
Partner



BHARTIYA SAMRUDDHI FINANCE LIMITED

BALANCE SHEET AS AT	Sch	Rupees in '000s	
		31-Mar-06	31-Mar-05
LIABILITIES			
SHAREHOLDERS FUNDS			
Share Capital	3	216,000	209,001
Reserves and Surplus	4	35,566	26,356
		<u>251,566</u>	<u>235,357</u>
LOAN FUNDS			
Secured Loans	5	730,613	274,581
Unsecured Loans	6	54,918	71,059
		<u>785,531</u>	<u>345,640</u>
Deferred taxation (net)		3,519	2,075
TOTAL		<u>1,040,616</u>	<u>583,072</u>
ASSETS			
FIXED ASSETS (At cost less depreciation)			
	7	28,796	21,677
INVESTMENTS			
	8	90	90
CURRENT ASSETS, LOANS & ADVANCES			
Cash and Bank Balances	9	127,565	46,099
Loans to Rural Producers	10	1,006,996	572,675
Interest Receivable on Loans		17,908	10,242
Advances Recoverable and other current assets	11	27,861	25,731
		<u>1,180,330</u>	<u>654,747</u>
LESS: CURRENT LIABILITIES AND PROVISIONS			
Current Liabilities	12	146,118	79,462
Other Provisions	13	22,482	13,980
		<u>168,600</u>	<u>93,442</u>
NET CURRENT ASSETS		<u>1,011,730</u>	<u>561,305</u>
TOTAL		<u>1,040,616</u>	<u>583,072</u>
Significant Accounting Policies	1		
Notes to Accounts	2-21		

Ranchi
April 29, 2006



As per our report of even date
for **V. NAGARAJAN & CO.,**
Chartered Accountants
(Signature)
(V. NAGARAJAN)
Partner

for **BHARTIYA SAMRUDDHI FINANCE LIMITED**

(Signature) Chairman
(Signature) Managing Director
(Signature) Company Secretary

BHARTIYA SAMRUDDHI FINANCE LIMITED

		Rupees in '000s	
INCOME AND EXPENDITURE ACCOUNT			
FOR THE YEAR ENDED			
	Sch	31-Mar-06	31-Mar-05
INCOME			
Income from Operations	14	241,259	123,744
Income from Investments	15	1,261	2,190
Other Income	16	1,353	3,634
Total		243,873	129,568
EXPENDITURE			
Interest on Borrowed Funds		51,607	22,255
Salaries, Allowances and Benefits to Staff	17	56,737	32,102
Remuneration to Managing Director		1,851	1,776
Financial Service Charges to LSAs/LPAs		25,929	16,285
Other Operating Expenses	18	61,916	37,790
Non Cash Charge			
Bad Debts Written Off		8,526	7,747
Provision for Doubtful Debts		5,706	(172)
Depredation		2,635	1,734
Amortisation of Intangible Assets & Miscellaneous Expenditure		1,000	1,051
Total		215,907	120,568
Profit Before Tax		27,966	9,000
Provision for Tax	19	12,924	3,478
Profit After Tax		15,042	5,522
APPROPRIATIONS:			
Profit brought forward from last account brought down		144	122
Add: Excess (net of) provision for taxation of prior years		1,167	-
Less: Transfer to Portfolio Risk Reserve		-	5,500
Transfer to General Reserve		16,000	-
Balance carried over		353	144
Significant Accounting Policies	1		
Notes to Accounts	2-21		

Ranchi
April 29, 2006

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

(V.NAGARAJAN)
Partner



for **BHARTIYA SAMRUDDHI FINANCE LIMITED**

(Chairman)
Chairman

(Managing Director)
Managing Director

(Company Secretary)
Company Secretary

BHARTIYA SAMRUDDHI FINANCE LIMITED

Cash Flow Statement	Rs. In '000s	
	Year Ended 31.03.2006	Year Ended 31.03.2005
Cash Flow From Operating Activities		
Net Profit before taxes	27,966	9,000
Adjustment for Non Cash Expenditure:		
Bad Debts Written Off	8,526	7,747
Provision for Doubtful Debts	5,706	(172)
Diminution in the value of investments	-	-
Depreciation On Fixed Assets	2,635	1,734
Amortisation of Intangible Assets/Miscellaneous Expenditure written off	1,000	1,051
Sundry Balances Written off	611	545
Loss on sale of assets	76	(23)
Loss on sale of Investments	-	284
Operating Profit before Working Capital Changes:	46,520	20,166
Adjustments for:		
(Increase)/Decrease in Operating Assets		
Disbursement of loans to rural producers	(1,259,752)	(687,476)
Recovery of aforesaid loans	816,294	472,848
Interest Receivable on Loans to Borrowers	(7,666)	(2,425)
Other Advances/Recoverables	1,951	(5,662)
Increase / (Decrease) in Cash Security from Rural Producers	60,827	19,217
Increase / (Decrease) in Current Liabilities	5,829	595
Cash Used in Operations:	(335,997)	(182,737)
(i) Advance Tax Paid(including FBT paid)	(12,375)	(1,462)
(ii) Income Tax Refund	780	-
Net Cash Flow from Operating Activities (A)	(347,592)	(184,199)
Cash Flows from Investment Activities		
Purchase of Fixed Assets	(10,948)	(8,289)
Amount invested in Mutual Funds	-	-
Sale proceeds of Fixed Assets	115	-
Sale proceeds of Investments	-	9,716
Net cash flows from Investments Activities (B)	(10,833)	1,427
Cash Flows from Financing Activities		
Increase/ (Decrease) in Secured Loans	456,032	176,123
Increase/ (Decrease) in Unsecured Loans	(16,141)	(30,066)
Capital Grant from SIDBI	-	-
Net Cash Flows from Financing Activities (C)	439,891	146,057
Net increase or decrease in Cash or Cash equivalents (A)+(B)+(C)	81,466	(36,715)
Add: Opening Cash and Cash equivalents	46,099	82,814
Closing Cash and Cash Equivalents as per the Books	127,565	46,099


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

Ranchi
April 29, 2006


(V. NAGARAJAN)
Partner



for **BHARTIYA SAMRUDDHI FINANCE LIMITED**


Chairman


Managing Director


Company Secretary

Schedules to the Audited Financial Statements for the Year ended March 31, 2006

All figures in Indian Rupees in '000s

Significant Accounting Policies and Notes on Accounts

1. SIGNIFICANT ACCOUNTING POLICIES:

1.1. Basis of Preparation of Financial Statements

1.1.1. 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 (ICAI) to the extent applicable, except otherwise stated and the directions issued by Reserve Bank of India for Non Banking Financial Companies form time to time, wherever applicable.

1.2. Revenue Recognition:

1.2.1. Interest on loans and income on insurance distribution is recognized on accrual basis, while the Agricultural/Business Development Service charges and Institutional Development Service Charges are recognized on cash basis as per contracts with the borrowers.

1.2.2. Income on non-performing assets is recognized only when realized and no interest, which has remained overdue for more than six months at the end of the accounting period, is treated as income.

1.2.3. 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.

1.3. Fixed Assets:

1.3.1. These are stated at cost.

1.3.2. Depreciation is provided on the straight-line method at the following rates:

Category of Asset	Rate of depreciation
Furniture & Fixtures	6.33%
Professional Equipment	16.21%
Office Equipment	7.07%
Vehicles	9.5%

1.3.3. In respect of additions the depreciation is provide prorata from the date the assets are put into use.

1.3.4. No depreciation is provided on assets amounting to Rs 18.61 Lakh acquired through grants.

1.4. Loans and Advances:

1.4.1. These are classified as standard assets, sub-standard assets, doubtful assets and loss assets it terms of the Non Banking Financial Companies Norms (Reserve Bank) Directions 1998.

1.5. Provision for Loan Losses:

1.5.1. Provisions for doubtful loans and advances have been made as per the norms stated in the Non-Banking Financial Companies Norms (Reserve Bank) Directions, 1988.

1.6. Write-Off Policy:

1.6.1. Loans are written off after the management has exhausted all reasonable options for recovery of principal and interest on the loan.

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Manoj Kumar Bajaj *Manoj Kumar Bajaj* *Manoj Kumar Bajaj*

1.7. Employee Benefits:

- 1.7.1. Provident Fund: Contribution is accounted on actual liability basis and paid to the government managed Employees' Provident Fund Organization.
- 1.7.2. 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.
- 1.7.3. Leave encashment to employees also stands fully provided for.

1.8. Accounting for Taxes on Income:

- 1.8.1. Taxes on income have been accounted in accordance with Accounting Standards-22 of the ICAI. Deferred tax liability and asset are recognized subject to consideration of prudence and timing difference.

1.9. Foreign Exchange Transactions:

- 1.9.1. 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.

1.10. Intangible Assets:

- 1.10.1. The acquisition of copyrights, technical know-how and intellectual proprietary rights in the field of Micro Finance and Livelihood Promotion has been accounted for as intangible assets. Valued at the cost of acquisition, these assets are amortized over a period of 10 years in equal installments, based on expected future economic benefits accruing to the Company.

2. NOTES ON BUSINESS OPERATIONS:

- 2.1. The Company provides livelihood promotion services mainly to low-income rural households, comprising.
 - 2.1.1. Livelihood financial services, namely micro-credit and micro-insurance distribution (for lives and livelihoods of customers) to rural customers mostly un-reached by the formal banking system and insurance Companies, with the main purpose of promoting sustainable livelihoods. The Company does not provide any savings services as it does not take any deposits.
 - 2.1.2. Agricultural and Business Development Services to enhance productivity and income or reduce cost of production and mitigate risk to its customers. Local value addition and market linkages are also sought to be provided, through collaborators.
 - 2.1.3. Institutional Development Services for rural producers' institutions to build their capacity establish information and management systems and build collaborations and undertake occasional sector and policy work.

3. SHARE CAPITAL:

3.1. Shareholding Pattern:

- 3.1.1. The Company has Authorized share capital of Rs 300 million comprising of Equity Shares 25,00,000 of Rs 10/- each and Preference Shares 50,00,000 of Rs 10/- each.



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Bhartiya Samruddhi Finance Limited

	31-Mar-06	31-Mar-05
Authorized:		
Equity Shares		
25,000,000 Equity Shares of Rs 10 each	250,000	250,000
Preference Shares		
50,00,000 Preference Shares of Rs 10 each (Previous year: 50,00,000)	50,000	50,000
<i>Total Authorized Capital</i>	300,000	300,000
Issued Subscribed and Paid up:		
21,600,000 Equity Shares of Rs 10 each	216,000	209,000
Fully paid up (Previous Year : 20,900,000 Shares)		
Share warrants		
Sweat Equity Share Warrants (Previous Year: 700 Warrants)	-	1
Total	216,000	209,001

3.1.2. As of now the Company has issued, subscribed and paid up Equity Shares 21,600,000 of Rs 10/- each.

Sl.No.	Shareholder's Name	Nos	Amount Rs 000s	% Holding	Nos	Amount Rs 000s	% Holding
	Equity Shares of Rs 10 each		March 31, 2006			March 31, 2005	
1	Bhartiya Samruddhi Investment and Consulting Services Ltd.	10,690,500	106,905	49.5%	9,990,500	99,905	47.8%
2	International Finance Corporation, Washington	4,700,000	47,000	21.8%	4,700,000	47,000	22.5%
3	Stichting Hivos - Triodos Fonds, Netherlands	2,350,000	23,500	10.9%	2,350,000	23,500	11.2%
4	Shorecap International Ltd	2,350,000	23,500	10.9%	2,350,000	23,500	11.2%
5	ICICI Bank	1,000,000	10,000	4.6%	1,000,000	10,000	4.8%
6	Housing Development Finance Corporation Ltd.	500,000	5,000	2.3%	500,000	5,000	2.4%
7	Other Individuals	9,500	95	0.0%	9,500	95	0.0%
	Total	21,600,000	216,000	100.0%	20,900,000	209,000	100.0%
	Optionally Convertible Share Warrants of Re.1 each (each warrant is equal to 1,000 Equity Shares)						
8	Bhartiya Samruddhi Investment and Consulting Services Ltd.			100.0%	700	1	100.0%
	Total Equity Funds		216,000			209,001	

3.2. Issue of Share Warrants for "Sweat Equity":

3.2.1. The owner of the warrants cumulatively has opted for conversion of 1000 warrants amounting to Rs 10 million in the form of equity shares and the same has been converted into equity.

3.2.2. Accordingly, as per the terms of allotment of warrants, the acquisition of copyrights, technical know how and intellectual proprietary rights in the field of Micro Finance and Livelihood Promotion has been accounted for as intangible assets, for appropriate amortization over a period of 10 years time as per the accounting policy followed by the Company.



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Bhartiya Samruddhi Finance Limited

3.3. Issue of Share Warrants to Employee Stock Option Trust:

3.3.1. 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 up to 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.

4. RESERVES AND SURPLUS:

In addition to the provisions for doubtful debt as required under RBI guidelines, the Company has established a Portfolio Risk Reserve (PRR) amounting to Rs 15.5 million as on March 31, 2006 (Rs 15.5 million on March 31, 2005.)

	31-Mar-06	31-Mar-05
<i>a. Capital Reserve</i>		
Opening Balance	8,925	10,925
Less: Amount transferred to Share Capital on Conversion of warrants to equity	6,999	2,000
	1,926	8,925
<i>b. General Reserve</i>		
Opening Balance	1,747	1,747
Transferred during the year	16,000	-
	17,747	1,747
<i>c. Portfolio Risk Reserve</i>		
Opening Balance	15,540	10,040
Add: Transfers	-	5,500
	15,540	15,540
<i>d. Income and Expenditure Account</i>		
	353	144
Total	35,566	26,356

Rs in '000s

Particulars	As on 31.03.06	During the year	Up to 31.03.05
(I) As per Company Policy provision required:			
Portfolio at Risk (90 days)	13,100	(7,784)	20,884
Other Advances Recoverable	3,406	-	3,406
100% Provision for five Villages of Krishna District	2,201	2,201	-
Total (I)	18,707	(5,583)	24,290
(II) Provision and Portfolio Risk Reserve (PRR):			
RBI Provision as per Note 3 Above	6,274	3,505	2,769
Other advances recoverable	3,406	-	3,406
100% Provision for five Villages of Krishna District	2,201	2,201	-
(a) Total Provision as per financial statements	11,881	5,706	6,175
Portfolio Risk Reserve > 90 days <i>(as per Company Policy Rs 13,100 less RBI norms Rs 6,274)</i>	6,826	(8,714)	15,540
Additional Provision for AP Portfolio *	8,714	8,714	-
(b) Total PRR as per financial statements	15,540	-	15,540
Total (II) (a)+(b)	27,421	5,706	21,715

* An additional amount of Rs 8.7 million is provided for in view of the prevailing situation in Andhra Pradesh with regard to MFIs.



Kapoor

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N. Vaidhyan

Rajesh Kumar

Bhartiya Samruddhi Finance Limited

5. SECURED LOANS:

Sl. No.	Name of bank/financial institution	Amount availed as on March 31, 2006		Balance outstanding as on		Due for payment by
		Date availed	Rupees	31-Mar-06	31-Mar-05	31-Mar-07
1	CORDAID-I, Netherlands	21-Mar-00	20,000	10,000	13,000	3,000
2	CORDAID-II, Netherlands	23-Dec-02	20,000	-	18,750	-
3	Small Industries Development Bank of India - III	21-Oct-02	15,000	2,142	6,428	2,142
		15-Sep-03	15,000	2,500	7,500	2,500
		8-Nov-04	10,000	2,500	7,500	2,500
4	Small Industries Development Bank of India- IV	10-Dec-04	20,000	15,715	20,000	5,714
		11-Mar-05	50,000	39,286	50,000	14,285
5	Small Industries Development Bank of India- V	22-Feb-06	50,000	50,000	-	10,714
		29-Mar-06	50,000	50,000	-	10,714
6	HDFC Bank - I	31-Jul-03	10,000	-	2,500	-
7	HDFC Bank - III	6-May-05	30,000	22,500	-	29,167
		14-Jun-05	20,000	15,000	-	
		20-Jun-05	20,000	15,000	-	
		23-Jun-05	17,500	13,125	-	
8	HDFC Bank - IV	1-Nov-05	20,000	17,500	-	10,000
		22-Nov-05	20,000	17,500	-	10,000
		24-Nov-05	20,000	17,500	-	10,000
		23-Mar-06	40,000	40,000	-	13,333
9	UTI Bank - I	20-Mar-03	5,000	167	2,167	167
		21-Aug-03	10,000	2,333	6,333	2,333
10	UTI Bank - II	30-Aug-05	35,000	34,028	-	11,667
11	IDBI Bank	24-Aug-04	10,000	6,000	10,000	4,000
		30-Aug-04	10,000	6,000	10,000	4,000
		26-Oct-04	20,000	14,000	20,000	8,000
12	Development Credit Bank	5-Jan-05	30,000	40,000	60,000	20,000
		14-Feb-05	10,000			
		25-Feb-05	10,000			
		1-Mar-05	10,000			
13	ABN Amro Bank - I	31-Aug-04	15,000	26,680	15,000	13,320
		21-Sep-04	5,000		5,000	
		13-Oct-04	5,000		5,000	
		23-Nov-04	5,000		5,000	
		2-Dec-04	5,000		5,000	
		24-Dec-04	5,000		5,000	
14	ABN Amro Bank - II	26-Jul-05	20,000	16,660	-	6,680
		17-Aug-05	20,000	16,660	-	6,680
		8-Sep-05	20,000	16,660	-	6,680
		20-Sep-05	20,000	16,660	-	6,680
		23-Sep-05	20,000	16,660	-	6,680
		27-Sep-05	20,000	16,660	-	6,680
15	ABN Amro Bank - III	29-Dec-05	20,000	18,330	-	6,680
		14-Mar-06	20,000	20,000	-	6,680
16	ING Vysya Bank Ltd	26-Jul-05	20,000	16,660	-	6,680
		8-Aug-05	20,000	16,660	-	6,680
		25-Aug-05	20,000	16,660	-	6,680
17	ICICI Bank	6-Jul-05	20,000	20,000	-	5,000
		12-Jul-05	30,000	30,000	-	7,500



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Bhartiya Samruddhi Finance Limited

Cash Credit Limits						
18	UTI Bank (CC Limit)	-	15,000	8,158	-	-
19	ING Vysya Bank Ltd (CC Limit)	-	20,000	17,027	-	-
20	HDFC Bank (CC Limit)	-	20,000	7,682	-	-
21	Overdraft Facilities from Scheduled Banks	-	-	-	403	-
Total			962,500	730,613	274,581	273,536

All loans are Rupee denominated and carry no exchange risk. No payment is overdue as on March 31, 2006

6. UNSECURED LOANS:

Sl. No.	Name of bank/financial institution	Amount availed as on March 31, 2006		Balance outstanding as on		Due for payment by
		Date availed	Rupees	31-Mar-06	31-Mar-05	31-Mar-07
1	Developpement international Desjardins, Canada (Loan 1)	3-Jan-01	12,329	12,329	12,329	-
2	Developpement international Desjardins, Canada (Loan 2)	5-Feb-02	13,739	13,739	13,739	-
3	Developpement international Desjardins, Canada (Loan 3)	13-Dec-02	15,448	-	15,448	-
4	Development International Desjardins, Canada (Loan 4)	31-Oct-03	17,129	-	17,129	-
5	Housing Development Finance Corporation Limited-II	29-Dec-03	20,000	5,597	12,414	5,597
6	Housing Development Finance Corporation Limited - III	28-Apr-05	30,000	23,253	-	9,747
Total			108,645	54,918	71,059	15,344

All loans are Rupee denominated and carry no exchange risk. No payment is overdue up to March 31, 2006

7. FIXED ASSETS:

Assets	GROSS BLOCK (AT COST)				DEPRECIATION			NET BLOCK		
	As on 01.04.2005	Additions during the year	Deletions during the year	As on 31.03.2006	Accumulated Depreciation Up to 01.04.2005	Depreciation for the year	Accumulated Depreciation on the assets deleted	Accumulated Depreciation Up to 31.03.2006	As on 31.03.2006	As on 31.03.2005
Furniture And Fixture	3,344	734	6	4,072	587	238	2	824	3,248	2,756
Professional Equipment	12,540	7,977	226	20,291	3,818	2,142	147	5,813	14,478	8,722
Office Equipment	2,646	2,236	115	4,767	450	255	5	700	4,067	2,195
Vehicles	5	-	-	5	2	-	-	2	3	3
Sub Total	18,535	10,947	347	29,135	4,857	2,635	153	7,339	21,796	13,677
Intangible Assets	10,000	-	-	10,000	2,000	1,000	-	3,000	7,000	8,000
Total	28,535	10,947	347	39,135	6,857	3,635	153	10,339	28,796	21,677
As on 31.03.2005	20,438	8,289	193	28,535	4,294	2,734	170	6,857	21,677	

Notes: Depreciation has been provided on straight line method at the rates stated in Notes to Accounts

8. INVESTMENTS:

	31-Mar-06	31-Mar-05
13.05 % Government Stock 2007	90	90
800 units of Face Value of Rs 100/- Market Value Rs 113/-		
Total	90	90



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Bhartiya Samruddhi Finance Limited

9. CASH AND BANK BALANCES:

	31-Mar-06	31-Mar-05
Cash in hand	391	188
Balances with Scheduled Banks in:		
Current Accounts (including in transit)	62,524	27,399
Fixed Deposits		
Unencumbered	50,000	5,500
Pledged	14,650	13,012
Total	127,565	46,099

10. LOANS TO RURAL PRODUCERS:

	31-Mar-06	31-Mar-05
Nonfarm-Micro Enterprises (ST)	486,720	286,483
Agri Allied	335,614	156,286
Agri Short Term	74,492	56,336
Gen. Purpose - Women JLG's	30,689	2,659
SHGs and Federation of SHGs	27,409	28,988
House Repairs & Extensions	25,487	21,340
Agri Long Term	21,257	15,566
Vehicle Loans to CSA/Employees	4,284	4,014
Nonfarm-Growth Micro Enterprises	796	755
Nonfarm-Small & Medium (Long Term)	248	248
Total*	1,006,996	572,675

* Secured to the extent of Rs 133,544 (Previous year: Rs 72,717) (Rs in '000)

In the opinion of the Board of Directors, all the other loans and advance 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.

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, 1988. The necessary provisions as per RBI norms have been made. The details are shown below:

Asset Classification	Loan Outstanding (Without provisioning)				Provision		
	As on 31.03.06		As on 31.03.05		Up to 31.03.06	During the year	Up to 31.03.05
	No of A/cs	Amount	No of A/cs	Amount	Amount	Amount	Amount
Assets							
Standard	1,41,831	994,100	81,105	555,892	-	-	-
Sub-Standard	694	4,107	2,184	15,516	402	(1,099)	1,502
Doubtful	445	6,588	8	1,267	5,872	4,604	1,267
Sub-Total	142,970	1,004,795	83,297	572,675	6,274	3,505	2,769
Loss assets *	362	2,201	-	-	2,201	2,201	-
Other Advances recoverable					3,406	-	3,406
	143,332	1,006,996	83,297	572,675	11,881	5,706	6,175

*In view of the prevailing situation in the Krishna district of Andhra Pradesh, where reportedly the loans of certain MFIs are not being repaid on time, it has been decided to provide for 100% of the loans outstanding in the five villages of Krishna district where the Company is facing similar situation. The amount involved is Rs 2.2 million.



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