

Spandana Sphoorty Financial Limited

(formerly Spandana Sphoorty Innovative Financial
Services Limited)

Financials for the year
ended 31 March 2008

BSR & Company

Chartered Accountants

5, Merchant Towers, II Floor
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Hyderabad - 500 034. India

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**AUDITORS' REPORT TO THE MEMBERS OF
SPANDANA SPHOORTY FINANCIAL LIMITED**
(formerly Spandana Sphoorty Innovative Financial Services Limited)

- 1 We have audited the attached balance sheet of Spandana Sphoorty Financial Limited (formerly Spandana Sphoorty Innovative Financial Services Limited) ("the Company") as at 31 March 2008, the profit and loss account and the cash flow statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- 3 As required by the Companies (Auditor's Report) Order, 2003 ("the Order"), as amended, issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure I a statement on the matters specified in paragraphs 4 and 5 of the said Order.
- 4 Further to our comments in the Annexure I referred to in paragraph 3 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 account as required by law have been kept by the Company so far as appears from our examination of those books;
 - (c) the balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
 - (d) in our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
 - (e) on the basis of written representations received from the directors, as on 31 March 2008, and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31 March 2008 from being appointed as a 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 said accounts give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
- (i) in the case of the balance sheet, of the state of affairs of the Company as at 31 March 2008;
 - (ii) in the case of the profit and loss account, of the profit for the year ended on that date; and
 - (iii) in the case of cash flow statement, of the cash flows for the year ended on that date.

for B S R & Company
Chartered Accountants



Zubin Shekary
Partner

Membership No: 48814

Place : Hyderabad

Date : 02-07-2008

ANNEXURE I TO THE AUDITORS' REPORT

Annexure referred to in paragraph 3 of our report of even date to the members of Spandana Sphoorty Financial Limited ("the Company") (formerly Spandana Sphoorty Innovative Financial Limited):

1. The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
2. The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified every year. In our opinion, the periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. In accordance with this programme, fixed assets were verified during the year and no material discrepancies were noted on such verification.
3. Fixed assets disposed during the year were not substantial, and therefore, do not affect the going concern assumption.
4. The Company is a Non Banking Finance Company ('NBFC'), engaged in the business of providing loans. Accordingly, it does not hold any physical inventories. Thus, paragraph 4(ii) of the Order is not applicable.
5. The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
6. The Company has taken loans from companies and other parties covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount outstanding during the year was Rs 432,616,965 and the year-end balance of such loans was Rs 200,000,000.
7. In our opinion, the rate of interest and other terms and conditions on which loans have been taken from companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956 are not, prima facie, prejudicial to the interest of the company.
8. In the case of loans taken from companies and other parties listed in the register maintained under section 301, the company has been regular in repaying the principal amounts as stipulated and in the payment of interest.
9. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to the purchase of fixed assets and with regard to the sale of services. The activities of the Company do not involve purchase of inventory and the sale of goods. We have not observed any major weakness in the internal control system during the course of our audit.



ANNEXURE TO THE AUDITORS' REPORT (continued)

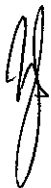
10. In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that section. In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts and arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of rupees five lakhs with any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
11. The Company has not accepted any deposits from the public.
12. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
13. The Central Government has not prescribed the maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for any of the services rendered by the Company.
14. According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company has been generally regular in depositing amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth tax, Service tax, Custom duty, Excise duty and other material statutory dues with the appropriate authorities during the year.

Further, since the Central Government has till date not prescribed the amount of cess payable under section 441A of the Companies Act, 1956, we are not in a position to comment upon the regularity or otherwise of the Company in depositing the same.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth tax, Service tax, Customs duty, Excise duty, Cess and other material statutory dues were in arrears as at 31 March 2008 for a period of more than six months from the date they became payable.

As explained to us, the Company did not have any dues on account of Investor Education and Protection Fund, Income tax, Sales tax, Wealth tax, Service tax, Customs duty, Excise duty and Cess which have not been deposited with the appropriate authorities on account of any dispute.

15. The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the immediately preceding financial year
16. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to its bankers or to any financial institutions. The Company did not have any outstanding debentures during the year.
17. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
18. In our opinion, and according to the information and explanations given to us, the Company is not a chit fund or a nidhi/ mutual benefit fund/ society.



ANNEXURE II TO THE AUDITORS' REPORT

To the members of
SPANDANA SPHOORTY FINANCIAL LIMITED
(formerly Spandana Sphoorty Innovative Financial Services Limited)

We have audited the attached balance sheet of Spandana Sphoorty Financial Limited (formerly Spandana Sphoorty Innovative Financial Services Limited) (the Comp as at 31 March 2008 and profit and loss account for the year ended on that date annexed thereto.

Further to our audit report of even date issued under section 224 the Companies Act, 1956, as required by the Non Banking Finance Companies Auditors' 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 The Company has obtained a certificate of registration from Reserve Bank of India dated 11 January 2008 as a Non Banking Finance Company without accepting public deposit. The registration number is N-09.00414.
- 2 The Board of Directors has passed a resolution in the meeting held on 23 April 2007 for not acceptance of public deposits and the Company has not accepted any public deposits during the year ended 31 March 2008.
- 3 The Company has complied with prudential norms relating to income recognition, accounting standards, asset classification and provisioning for bad and doubtful debts as applicable.

for BSR & Company
Chartered Accountants



Zubin Shekary
Partner
Membership No: 48814

Place : Hyderabad
Date : 02-07-2008


Spandana Sphoorthy Financial Limited
(formerly Spandana Sphoorthy Innovative Financial Services Limited)

Balance Sheet as at 31 March 2008
(All amounts in Indian rupees, except share data)

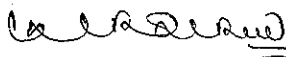
SOURCES OF FUNDS	Schedule	31 March 2008	31 March 2007
Shareholders' funds			
Share Capital	1	433,550,920	86,310,000
Reserves and Surplus	2	450,365,028	64,713,766
		883,915,948	151,023,766
Loan funds			
Secured loans	3	4,725,953,373	2,751,301,019
Unsecured loan (Subordinated debt)		200,000,000	194,500,000
		2,811,177	2,244,139
		5,812,680,498	3,099,068,925
APPLICATION OF FUNDS			
Fixed assets			
Gross Block	4	54,754,957	33,347,995
Less: Accumulated Depreciation		17,831,107	8,921,731
Net Block		36,923,850	24,426,264
Capital Work in Progress		1,021,033	-
		37,944,883	24,426,264
Investments	5	14,245,685	6,333,000
Current assets, loans and advances			
Cash and bank balances	6	1,012,615,766	448,016,094
Loans and advances, net	7	4,882,683,751	2,698,322,198
Other current assets	8	77,257,821	28,941,260
		5,972,557,338	3,175,279,551
Current liabilities and provisions			
Current liabilities	9	44,868,948	92,957,155
Provisions	10	167,298,461	14,307,889
		212,167,409	107,265,044
Net current assets		5,760,389,929	3,068,014,507
Miscellaneous expenditure (To the extent not written off or adjusted)	11	100,001	295,153
		5,812,680,498	3,099,068,925
Significant accounting policies	18		
Notes to accounts	19		

The Schedules referred to above form an integral part of the Balance Sheet

As per our report attached
for **BSR & Company**
Chartered Accountants



Zubin Shekary
Partner
Membership No.: 48814
Place: Hyderabad
Date: 2-7-2008


for **K.V.R Subba Rao & Co**
Chartered Accountants

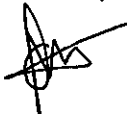

K.V.R Subba Rao
proprietor.
Membership No.: 20129



for **Spandana Sphoorthy Financial Limited**
(formerly Spandana Sphoorthy Innovative Finan


Managing Director


Director


Company Secretary

Membership No: 17905

Spandana Sphoorty Financial Limited
(formerly Spandana Sphoorty Innovative Financial Services Limited)
Profit and Loss Account for the Year Ended 31 March 2008
 (All amounts in Indian rupees, except share data)

	Schedule	31 March 2008	31 March 2007
Income			
Income from Operations	12	1,133,813,613	469,440,563
Other Income	13	140,682,884	26,540,691
		<u>1,274,496,497</u>	<u>495,981,254</u>
Expenditure			
Financial expenses	14	416,527,325	148,001,611
Personnel expenses	15	232,969,485	143,224,705
Operating and other expenses	16	81,096,698	66,923,171
Depreciation		9,196,969	6,333,598
Provisions and write offs	17	74,863,567	88,727,617
Preliminary Expenses written-off		195,152	195,152
		<u>814,849,195</u>	<u>453,405,854</u>
Profit before tax		459,647,302	42,575,401
Provision for tax		189,007,555	16,419,393
Current tax		187,531,050	13,873,405
Deferred tax expense/(benefit)		1,254,981	2,244,139
Fringe benefit tax		221,524	301,849
Profit after tax		270,639,747	26,156,008
Balance in profit and loss account brought forward		-	-
Amount available for appropriation		270,639,747	26,156,008
Appropriations			
Transfer to statutory reserve		54,127,950	5,741,981
Provision for dividends		-	(863,100)
Provision for dividend tax		-	(121,050)
Balance carried to balance sheet		<u>216,511,797</u>	<u>21,398,177</u>
Earnings per share			
Basic and diluted - Par Value Rs.10 per share		28.68	2.58
Significant accounting policies	18		
Notes to accounts	19		
The Schedules referred to above form an integral part of the Profit and Loss Account			

As per our report attached
for **B S R & Company**
Chartered Accountants



Zubin Shekary
Partner
Membership No.: 48814
Place: **Hyderabad**
Date: **2-7-2008**

for **K.V.R Subba Rao & Co**
Chartered Accountants



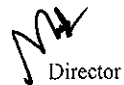
K.V.R Subba Rao
Proprietor
Membership No.: 20129



for **Spandana Sphoorty Financial Limited**
(formerly Spandana Sphoorty Innovative Finan



Managing Director



Director


Company Secretary

Membership no: **17905**

Spandana Sphoorty Financial Limited
(formerly Spandana Sphoorty Innovative Financial Services Limited)
Cash Flow Statement for the Year Ended 31 March 2008
(All amounts in Indian rupees, except share data)

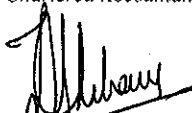
	31 March 2008	31 March 2007
Cash Flows from Operating Activities		
Profit Before Tax	459,647,302	42,575,401
Adjustments:		
Depreciation	9,196,969	6,333,598
Provisions and write offs	74,863,567	88,727,617
Interest and finance charges	416,527,325	259,740,361
Interest income	(23,397,049)	(5,058,032)
Profit on sale of assets	(143,485)	(25,473)
Preliminary expenditure written-off	195,152	195,152
Operating cash flows before working capital changes and other assets	936,889,781	392,488,624
(Increase) / decrease in current assets	(37,312,720)	74,791,971
(Increase) / decrease in loans and advances	(2,189,481,100)	(1,636,737,843)
Increase / (decrease) in current liabilities and provisions	(50,722,043)	(107,224,732)
Cash generated from operations	(1,340,626,082)	(1,276,681,980)
Income taxes paid, net	(108,987,095)	(14,175,254)
Net cash provided by operating activities	(1,449,613,177)	(1,290,857,234)
Cash flows from investing activities		
Purchase of fixed assets	(23,213,402)	(15,125,098)
Proceeds from sale of fixed assets	641,299	335,000
Purchase of investments	(7,912,685)	-
Interest received	10,937,274	4,742,180
Income from mutual funds	1,348,100	315,852
Net cash provided by / (used in) investing activities	(18,199,414)	(9,732,066)
Cash flows from financing activities		
Proceeds from issuance of share capital (net of share issue expenses)	463,588,445	-
Government grant received	-	7,000,000
Proceeds / (repayment) of unsecured loans	5,500,000	-
Proceeds from long term borrowings	1,974,652,353	1,687,788,740
Dividends paid (including dividend tax)	-	(984,150)
Interest paid	(411,328,535)	(259,740,362)
Net cash provided by / (used in) financing activities	2,032,412,263	1,434,064,228
Net increase in cash and cash equivalents	564,599,672	133,474,928
Cash and cash equivalents at the beginning of the year	448,016,094	314,541,166
Cash and cash equivalents at the end of the year (Note 1)	1,012,615,766	448,016,094

Note:

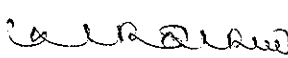
1. Cash and cash equivalents comprise:

	31 March 2008	31 March 2007
Cash on hand	49,588,479	33,684,393
Balances in		
Current accounts	205,377,996	178,531,744
Deposit accounts	757,649,291	235,799,957
	1,012,615,766	448,016,094

As per our report attached
for **BSR & Company**
Chartered Accountants





Zubin Shekary
Partner
Membership No.: 48814
Place: **Hyderabad**
Date: **2-7-2008**

for **K.V.R Subba Rao & Co**
Chartered Accountants


K.V.R Subba Rao
proprietor
Membership No.: 20129



for Spandana Sphoorty Financial Limited
(formerly Spandana Sphoorty Innovative Financial Services)

 Managing Director
 Director
 Company Secretary
Membership no: **17905**

Spandana Sphoorty Financial Limited
(formerly Spandana Sphoorty Innovative Financial Services Limited)
 (All amounts in Indian rupees, except share data)
Schedules to the Accounts

Schedule 1

Share capital

Authorised

10,000,000 equity shares of Rs. 10/- each

40,000,000 preference shares of Rs. 10/- each

Previous Year - 10,000,000 Equity Shares of Rs. 10/- each

31 March 2008

31 March 2007

100,000,000

100,000,000

400,000,000

-

Issued, Subscribed and Paid-up

3,674,051 equity shares (previous year 8,631,000) of Rs.10/- each fully paid up (includes 1,208,051 equity shares of Rs. 10/- issued during the current year 2007-08)

98,390,510

86,310,000

33,516,041 compulsorily convertible preference shares Rs. 10/- each fully paid up

335,160,410

-

433,550,920

86,310,000

Schedule 2

Reserves and Surplus

General reserve

At the commencement of the year

31 March 2008

31 March 2007

24,616,667

3,218,491

Less: Gratuity provision (Transitional liability)

1,336,011

Add: Transfer from profit and loss account

-

21,398,177

23,280,656

24,616,667

Securities Premium Reserve

Share premium

127,884,279

-

Less: Share issue expenses

11,536,754

116,347,525

-

Capital Reserve

Grant received from SIDBI

7,000,000

7,000,000

Statutory Reserve

At the commencement of the year

33,097,099

27,355,118

Add: Transfer from profit and loss account

54,127,950

5,741,981

87,225,049

33,097,099

Balance in profit and loss account

216,511,797

-

450,365,028

64,713,766

Schedule 3

Secured Loans

31 March 2008

31 March 2007

Term Loans

From banks (secured by hypothecation of portfolio loans and cash collateral)

3,992,310,936

1,976,112,264

From others (secured by hypothecation of portfolio loans)

685,361,279

775,188,755

Other loans

48,281,158

-

4,725,953,373

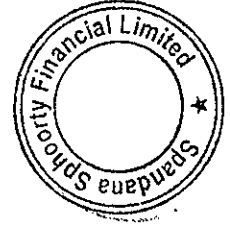
2,751,301,019



Spandana Sphoorty Financial Limited
(formerly Spandana Sphoorty Innovative Financial Services Limited)

Schedule 4
Fixed assets

Description	GROSS BLOCK				ACCUMULATED DEPRECIATION				NET BLOCK	
	As at 1 April 2007	Additions during the year	Deletions during the year	As at 31 March 2008	As at 1 April 2007	Charge for the year	On deletions	As at 31 March 2008	As at 31 March 2007	As at 31 March 2008
Furniture and Fixtures	9,367,738	5,573,424	-	14,941,162	1,403,931	1,944,223	-	3,348,154	7,963,807	11,593,008
Office Equipment	7,505,132	1,655,879	-	9,161,011	1,225,937	976,367	-	2,202,304	6,279,195	6,958,707
Vehicles	1,871,718	548,000	785,407	1,634,311	491,429	414,824	287,593	618,660	1,380,289	1,015,651
Computers and Software	14,603,407	14,415,066	-	29,018,473	5,800,434	5,861,555	-	11,661,989	8,802,973	17,356,484
Total	33,347,995	22,192,369	785,407	54,754,957	8,921,731	9,196,969	287,593	17,831,107	24,426,264	36,923,850
Previous year	18,640,556	15,125,098	417,659	33,347,995	2,696,264	6,333,599	108,132	8,921,731		24,426,264



Spandana Sphoorty Financial Limited
(formerly Spandana Sphoorty Innovative Financial Services Limited)
 (All amounts in Indian rupees, except share data)
 Schedules to the Accounts

Schedule 5

Investments in Subsidiaries (Unquoted)	31 March 2008	31 March 2007
631,449 Equity shares (Face Value Rs.10) in M G Brothers Finance Limited	7,912,685	-
503,000 Equity shares (Face Value Rs.10) (Previous years 503,000) in Spandana Sphoorty Marketing Services Private Limited	5,533,000	5,533,000
80,000 Equity shares (Face Value Rs.10) (Previous years 80,000) in Spandana Sphoorty Chit Funds Private Limited	800,000	800,000
	14,245,685	6,333,000

Schedule 6

Cash and bank balances	31 March 2008	31 March 2007
Cash on hand	49,588,479	33,684,393
Balances with Scheduled banks		
Current accounts	205,377,996	178,531,744
Deposit accounts *	757,649,291	235,799,957
*lien marked against term loans from banks and in the form of cash collateral for assigned loans		
	1,012,615,766	448,016,094

Schedule 7

Loans and advances, net	31 March 2008	31 March 2007
Loans and advances outstanding (Refer note 19 j)	5,220,816,063	2,855,525,864
Less: Additional Loan Recovery	338,132,312	157,203,666
	4,882,683,751	2,698,322,198

Schedule 8

Other current assets		
Interest accrued but not due on loans	26,111,472	6,373,254
Interest accrued on term deposits	16,611,774	5,500,099
Income tax refund receivable	5,997,410	3,741,815
Rent deposits	9,091,331	3,704,958
Staff loans	5,969,316	5,340,072
Tax deducted at source	3,345,553	970,801
Advance given to staff for expenses	550,512	407,194
Recoveries pending from Court	320,000	320,000
Commission receivable from Western Union	80,889	32,926
Remittances receivable from Western Union	1,165,758	507,682
Fringe Benefit Tax (Net)	58,912	166,746
Others	7,954,893	1,875,713
	77,257,821	28,941,260



Spandana Sphoorty Financial Limited
 (formerly Spandana Sphoorty Innovative Financial Services Limited)
 (All amounts in Indian rupees, except share data)
 Schedules to the Accounts

Schedule 9

Current Liabilities	31 March 2008	31 March 2007
Interest accrued but not due on borrowings	10,909,431	5,710,641
Amount transferable to Bajaj Allianz	9,199,627	198,395
Outstanding expenses	23,019,956	18,567,965
Other current liabilities	1,739,934	91,697
Security deposits from borrowers	-	60,989,195
Interest payable on security deposits	-	7,399,262
	44,868,948	92,957,155

Schedule 10

Provisions	31 March 2008	31 March 2007
Provision for taxation [net of advance tax Rs. 95,000,000]	92,531,050	13,873,405
Provision for standard and non-performing assets	70,178,504	434,484
Provision for gratuity	4,588,907	-
	167,298,461	14,307,889

Schedule 11

Miscellaneous expenditure (to the extent not written off or adjusted)	31 March 2008	31 March 2007
Opening balance	295,153	490,305
Additions during the year	-	-
Less: Amortised during the year	195,152	195,152
	100,001	295,153



Spandana Sphoorty Financial Limited
 (formerly Spandana Sphoorty Innovative Financial Services Limited)
 (All amounts in Indian rupees, except share data)
 Schedules to the Accounts

Schedule 12

	31 March 2008	31 March 2007
Income from operations		
Interest income from portfolio loans	1,083,797,693	444,594,143
Group registration fees	50,015,920	24,846,420
	<u>1,133,813,613</u>	<u>469,440,563</u>

Schedule 13

	31 March 2008	31 March 2007
Other Income		
Interest on bank deposits	17,039,215	4,742,180
[Tax deducted at source Rs. 3,210,350 (previous year Rs. 962,254)]		
Recovery from loans written off	40,724,694	20,406,693
Insurance facilitation charges	7,054,316	37,431
Commission on remittances	449,145	152,950
Income from asset assignment	67,646,604	-
Profit on sale of vehicles	143,485	25,473
Excess interest accrued on deposits written back	5,009,734	-
Income from mutual fund investments	1,348,100	315,852
Miscellaneous income	1,267,592	860,112
	<u>140,682,884</u>	<u>26,540,691</u>

Schedule 14

	31 March 2008	31 March 2007
Financial Expenses		
Interest		
- on Term loans from Banks	299,896,030	42,165,529
- on Term loans from Financial Institutions	77,030,893	65,910,311
- on Other loans	17,087,224	15,182,020
Loan processing fee and other charges	22,513,178	24,743,751
	<u>416,527,325</u>	<u>148,001,611</u>

Schedule 15

	31 March 2008	31 March 2007
Personnel expenses		
Salaries and Incentives	210,635,752	128,170,067
Contribution to provident and other funds	8,346,615	6,823,255
Leave encashment	220,680	229,795
Gratuity	2,564,954	-
Staff welfare expenses	11,201,484	8,001,588
	<u>232,969,485</u>	<u>143,224,705</u>



Spandana Sphoorty Financial Limited
 (formerly Spandana Sphoorty Innovative Financial Services Limited)
 (All amounts in Indian rupees, except share data)
Schedules to the Accounts

Schedule 16

	31 March 2008	31 March 2007
Operating and other expenses		
Death relief and rehabilitation assistance	24,614,674	24,217,286
Bank charges	8,285,992	6,489,443
Office rent and electricity	19,990,824	12,344,584
Printing and stationery	9,745,022	6,135,297
Franking charges	-	5,530,631
Administration and Other expenses	8,042,072	2,804,375
Postage and telephone	2,922,739	2,139,755
Staff recruitment and training	2,820,674	1,977,219
Traveling expenses	1,790,986	1,250,339
Rates and taxes	534,644	322,495
Computers and network maintenance	305,812	267,971
Professional charges	597,440	1,992,078
Sitting fees to independent directors	30,000	30,000
Audit fees	1,151,690	836,520
Others	264,129	585,179
	81,096,698	66,923,171

Schedule 17

	31 March 2008	31 March 2007
Provisions and write offs		
Provision for standard assets	69,744,020	7,910
Non-performing assets written off	5,119,547	88,719,707
	74,863,567	88,727,617



Spandana Sphoorty Financial Limited

(formerly Spandana Sphoorty Innovative Financial Services Limited)

Schedules to the Accounts (continued)

Background

Spandana Sphoorty Financial Limited (formerly Spandana Sphoorty Innovative Financial Services Limited) ("SSFL" or "the Company") was incorporated on 10 March 2003 as a limited Company. The Company is engaged in the business of micro finance lending activities, following group lending methodology and providing small value unsecured group loans to the extent of Rs 15,000 to poor people and lower income group in urban and rural areas. The tenure of these loans is generally spread over fifty weeks; other services offered to the members of the Company include facilitating remittances and insurance. The Company also provides individual loans, small business loans, diary loans and tractor loans. The Company also acts as agent to manage group loans given on behalf of the Banks.

Schedule 18: Significant accounting policies

a. Basis of preparation of financial statements

The financial statements have been prepared and presented under the historical cost convention on the accrual basis of accounting in accordance with the Generally Accepted Accounting Principles (GAAP) in India and comply with the mandatory Accounting Standards ('AS') issued by the Institute of Chartered Accountants of India ('ICAI'), the relevant provisions of the Companies Act, 1956 ('the Act') and the relevant guidelines of Reserve Bank of India ('RBI') to the extent applicable to a non banking finance company. The financial statements are presented in Indian Rupees rounded off to the nearest rupee.

b. Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities on the date of the financial statements. Actual results could differ from those estimates. Any revision to accounting estimates is recognized prospectively in current and future periods.

c. Revenue Recognition

Interest income on loan portfolio (including interest on managed portfolio) is recognized in the profit and loss account on accrual basis using effective interest method except in the case of non-performing assets ("NPA's") where it is recognized, upon realization, as per the prudential norms of RBI.

Group membership fee that are non-refundable in nature is recognized on upfront basis.

Interest on term deposits has been accrued on the time proportion basis, using the underlying interest rate.

Dividend income is accounted when the right to receive the dividend is established.



Spandana Sphoorty Financial Limited

(formerly Spandana Sphoorty Innovative Financial Services Limited)

Schedules to the Accounts (continued)

d. Assignment of certain Loan portfolio

During the year Company has entered into Assignment agreement with scheduled banks in respect of certain loan contracts, whereby underlying pool of Assets are transferred to these banks for a lump sum consideration. During the year, the company has assigned loan portfolio having book value of INR 864.3 million to Scheduled Bank. The Company has received a total consideration of INR 932.0 million arising out of such sale of loans through direct assignment. The difference between the consideration received and the book value of the loan portfolio assigned amounting to INR 67.7 millions has been accounted as a gain in the profit and loss account in the current year, as all the right to benefits specified in the contract have been unconditionally and irrevocably transferred to the Banks without any recourse obligation.

e. Classification of loan portfolio and provisioning policy

All loan exposures are classified as per RBI guidelines, into performing and non-performing assets ("NPAs"). Further, NPAs are classified into sub-standard, doubtful and loss assets in accordance with the extant Non-Banking Financial (Non-Deposit Accepting and Holding) Companies prudential Norms (Reserve Bank) Direction, 2007. The provisioning rates and classification criteria for NPAs, which are not lower than the rates prescribed in RBI guidelines, are given below:

Past Due days	Classification	General Loan	Individual Loan	Small Business Loan	Tractor Loan	Agri-Family Loan	Dairy Loan
1 to 30	Standard	1%	1%	50%	1%	1%	1%
31 to 60	Sub standard	50%	1%	100%	1%	25%	50%
61 to 90	Sub standard	50%	25%	100%	20%	50%	50%
91 to 120	Sub standard	100%	50%	100%	40%	100%	100%
> 120	Doubtful	100%	100%	100%	100%	100%	100%

In addition to the specific provision on NPAs, the Company maintains general provision of 1% on outstanding balance of standard assets. The Company has not rescheduled/ restructured any loans during the year.



Spandana Sphoorty Financial Limited

(formerly Spandana Sphoorty Innovative Financial Services Limited)

Schedules to the Accounts (continued)

f. Fixed assets and depreciation

Fixed assets are carried at cost of acquisition less accumulated depreciation. The cost of fixed assets comprises the purchase price, taxes, duties, freight (net of rebates and discounts) and any other directly attributable costs of bringing the assets to their working condition for their intended use. Borrowing costs directly attributable to acquisition of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalized.

Advances paid towards the acquisition of fixed assets outstanding at each balance sheet date and the cost of fixed assets acquired but not ready for their intended use before such date are disclosed as capital work-in-progress.

Depreciation on fixed assets is provided using the written down method as per the rates of depreciation prescribed in Schedule XIV to the Companies Act, 1956. Depreciation is calculated on a pro-rata basis from / upto the month the assets are purchased / sold.

g. Investments

Investments that are readily realizable and intended to be held to the period of not more than a year are classified as current investments. Current investments are carried at lower of cost and fair value determined on individual investment basis. All other investments are classified as long term investments. Long term investments are carried at cost. Provision is recognized for any diminution in the value of investments, other than temporary.

h. Employee benefits

Contributions to gratuity fund (a defined benefit plan), determined by independent actuary at the balance sheet date are charged to profit and loss account.

Contributions payable to the recognized provident fund which is defined contribution schemes, is charged to the profit and loss account. All actuarial gains and losses arising during the year are recognized in the profit and loss account.

The service rules of the Company do not provide for the carry forward of the accumulated leave balance.

i. Income Tax

Income tax expense comprises current tax, deferred tax and fringe benefit tax.

Current tax

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.



Spandana Sphoorty Financial Limited

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Schedules to the Accounts (continued)

Deferred tax

Deferred tax charge or benefit reflects the tax effects of timing differences between accounting income and taxable income for the year. The deferred tax charge or benefit and the corresponding deferred tax liabilities or assets are recognized using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognized only to the extent there is reasonable certainty that the assets can be realized in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognized only if there is a virtual certainty of realization of such assets. Deferred tax assets are reviewed at each balance sheet date and written-down or written-up to reflect the amount that is reasonably/virtually certain to be realised.

Fringe benefit tax

Consequent to the introduction of Fringe Benefit Tax ("FBT") effective 1 April 2005, the Company provides for and discloses the FBT in accordance with the provisions of Section 115 WC of the Income Tax Act, 1961 and guidance note on FBT issued by the ICAI.

j. Earnings per share

The basic and diluted earnings per share ('EPS') is computed by dividing the net profit after tax for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year.

k. Provisions and contingent liabilities

The Company creates a provision when there is a present obligation as a result of an obligating event that probably requires an outflow of resources and a reliable estimate can be made of the amount for the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation that the likelihood of outflow of resource is remote, no provision or disclosure is made.

l. Impairment of assets

The Company assesses at each balance sheet date whether there is any indication that any assets forming part of its cash generating units may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs to is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the profit and loss account. If at the balance sheet date, there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the reassessed recoverable amount subject to a maximum of depreciated historical cost.



Spandana Sphoorty Financial Limited

(formerly Spandana Sphoorty Innovative Financial Services Limited)

Schedules to the Accounts (continued)

Schedule 19: Notes to the accounts

- a. During the year, Company has changed its method of accounting interest income from a flat interest rate method to an effective interest rate based on the internal rate of return as the Company believes that the change results in a more appropriate presentation of the underlying terms of the arrangement with the borrowers. The change in method of accounting has been effected to bring the financial statements in compliance with the requirement of Accounting Standard 9 "Revenue Recognition". On account of such change the current year interest income has increased by Rs. 32,410,441.

b. Provisions on Non Performing Assets (NPAs):

(Amount in Rs)

Asset classification	Loan Portfolio	Provision made	Written off	Balance	Active Loans (in numbers)
Standard Portfolio	5,219,998,179	69,744,020	-	5,219,998,179	1,254,882
Sub Standard Portfolio	5,937,431	5,119,547	5,119,547	817,884	3,288
Doubtful Portfolio	-	-	-	-	-
Loss Asset	-	-	-	-	-
Total	5,225,935,610	74,812,371	5,119,547	5,220,816,062	1,258,170

c. Contingent liability not provided for:;

Guarantees given on managed and assigned portfolio

(Amount in Rs)

Sl. No.	Name of the Banks	Sanctioned limits	Portfolio outstanding	FLDG (%)	Contingent liability
1	ICICI Bank (Managed Portfolio)	2,000,000,000	323,612,260,	6 - 8%	20,112,273
2	ICICI Bank	931,952,064	864,305,460	10%	93,195,207
3	HDFC Bank	700,001,240	404,816,720	10%	77,000,136
4	Centurion Bank of Punjab	500,000,000	399,801,660	8%	40,000,000
5	Development Credit Bank	100,000,000	100,000,000	10%	10,000,000
Total		4,231,953,304	2,092,536,100		240,307,616

Other contingent liabilities not acknowledged as debt by the Company is Rs 83,620,910.



Spandana Sphoorty Financial Limited*(formerly Spandana Sphoorty Innovative Financial Services Limited)***Schedules to the Accounts (continued)****d. Deferred Tax Liability and Provision for Income Taxes:**

(Amount in Rs)

For the year ended	31 March 2008	31 March 2007
Current tax	184,287,240	13,873,405
Deferred tax Asset		-
Gratuity	687,942	
Deferred tax Liability		
Depreciation	3,499,119	2,244,139
Deferred tax Net	2,811,177	2,244,139
Fringe benefit tax	221,524	301,849

e. Segmental Reporting

The company operates in a single reportable segment i.e. lending to members, which have similar risk and returns for the purpose of AS-17 on 'segmental reporting' issued by ICAI. The Company does not have any reportable geographical segment.

f. Managerial remuneration :

(Amount in Rs)

Particulars	31 March 2008	31 March 2007
Salary and allowances	3,291,893	3,656,809
Contribution to provident and other funds	18,720	18,720
Total	3,310,513	3,675,529

g. Legal and professional charges include auditors' remuneration as given below:

(Amount in Rs)

Particulars	For the year ended 31 March 2008	For the year ended 31 March 2007
Audit fees	926,970	674,160
Tax audit fees	224,720	112,360
Reimbursement of expenses	-	50,000



Spandana Sphoorty Financial Limited

(formerly Spandana Sphoorty Innovative Financial Services Limited)

Schedules to the Accounts (continued)

h. Related party disclosures

A) Parties where control exists

Sl.No.	Name of the transacting party	Relationship	Nature of transactions	2007 - 08		2006 - 07	
				Volume of transactions during the year	Amount payable/(receivable) as at 31 March 2008	Volume of transactions during the year	Amount payable/(receivable) as at 31 March 2008
1	Spandana Rural and Urban Development Organization	Investor	Short term loan	12,575,770 (Dr)	Nil	Nil	Nil
			Subordinated loan	194,500,000 (Dr)	150,000,000	383,422,703 (Dr)	194,500,000
			Rent paid	369,503	22,500	533,600	Nil
			Interest expense	13,268,386	1,051,027	Nil	12,045,800
2	Spandana Mutual Benefit Trust	Governing Body	Short term loan	3,076,195 (Dr)	Nil	135,401,987 (Dr)	Nil
			Subordinated loan	3,076,195 (Cr)	50,000,000 (Cr)	135,401,987 (Cr)	
			Interest on loans	2,469,483	350,342		
3	Spandana Marketing Services Private Limited	Subsidiary	Short term loan	5,525,000 (Dr)	Nil	3,330,905(Dr)	Nil
			Interest on loans	145,791		60905	



Spandana Sphoorty Financial Limited

(formerly Spandana Sphoorty Innovative Financial Services Limited)

Schedules to the Accounts (continued)

Sl.No.	Name of the transacting party	Relationship	Nature of transactions	2007 - 08		2006 - 07	
				Volume of transactions during the year	Amount payable/(receivable) as at 31 March 2008	Volume of transactions during the year	Amount payable/(receivable) as at 31 March 2008
4	Spandana Sphoorty Chit Fund Private Limited	Subsidiary	Short term loan	1,800,000 (Dr)	Nil	604,392(Dr)	Nil
			Interest on loans	42,530		5560	
5	Spandana Employee Welfare Trust	Subsidiary	Short term loan	9,150,000 (Dr)	Nil	6,619,882(Dr)	Nil
			Interest on loans	258,483		61,948	
8	M G Brothers Finance Limited	Subsidiary	Short term loan	5,990,000 (Dr)	Nil	Nil	Nil
			Interest on loans	253,578			

B) Other related parties with whom transactions have taken place during the year:

Sl.No	Name of the transacting party	Relationship	Nature of transactions	2007 - 08		2006 - 07s	
				Volume of transactions during the year	Amount payable/(receivable) as at 31 March 2008	Volume of transactions during the year	Amount payable/(receivable) as at 31 March 2007
1	MV Narendra Prasad	Director	Personal Loan	49,975	Nil	69,000	49,975



Spandana Sphoorty Financial Limited

(formerly Spandana Sphoorty Innovative Financial Services Limited)

Schedules to the Accounts (continued)

i. Earnings Per Share (EPS)

(Amount in Rs)

Particulars	31 March 2008	31 March 2007
Earnings		
Profit after tax	270,639,748	22,283,988
Shares		
Weighted average number of equity shares outstanding during the year	9,435,264	8,631,000
<i>Basic EPS of par value of Rs.10</i>	28.68	2.58

The Company has during the year issued 33,516,041 Compulsorily convertible preference shares which are convertible at a conversion price to be mutually agreed between the parties. Since the conversion price of these shares has not been fixed so far, the dilutive effect of the preference shares and its effect on the earnings per share is not determined.

j. Break up of loan portfolio:

Loans and advances	31 March 2008	31 March 2007
Opening Loan outstanding	3,916,014,766	2,891,963,111
Add: Loans disbursed during the Year	11,923,068,375	6,558,118,000
	15,839,083,141	9,450,081,111
Less: Loans recovered during the year	8,571,454,990	5,344,467,365
Portfolio transferred	(50,843,560)	59,830,060
Portfolio written off	5,119,547	129,768,920
	8,525,730,977	5,534,066,345
Loans outstanding at the end of the year	7,313,352,164	3,916,014,766
Less: Assigned portfolio	2,092,536,100	1,060,488,902
Balance	5,220,816,064	2,855,525,864

k. Security Deposits and Additional loan recovery:

Security Deposits:

During the year the Company has repaid the entire balance of Security Deposit outstanding as on 31st March 2007. The details of repayment/ adjustment of Security Deposit are given below:

For the year ended	31 March 2008	31 March 2007
Opening balance	60,989,195	202,230,238
Add: Collected during the year		25,009,313
Less: Repaid during the year	60,989,195	166,250,356
Closing balance	-	60,989,195



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Schedules to the Accounts (continued)

Additional Loan Recovery (ALR):

The Company has accepted advance loan repayments over and above the installment due from borrowers and the same is accounted for. In case of instances where the borrower fails to pay or falls short of loan installment, the same is adjusted against the installment.

For the year ended	31 March 2008	31 March 2007
Opening balance	157,203,666	52,385,216
Add: Collected during the year	763,713,642	344,284,092
Less: Repaid/ Adjusted during the year	582,784,997	23,946,5642
Closing balance	338,132,312	157,203,666

1. Employee Benefit Plans

Effective 1 April 2007, the Company adopted revised Accounting Standard on Employee Benefits. Pursuant to the adoption, the transitional obligations of the Company amounts to Rs. 1,336,011 net of deferred tax Rs. 687,942. As required by the standard, the obligation has been recorded with the transfer of Rs. 1,336,011 to revenue reserves.

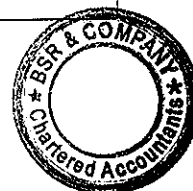
The following table set out the status of the gratuity plan as required under AS 15 (Revised)

Reconciliation of opening and closing balances of the present value of the defined benefit

Obligation

Change in Defined Benefit Obligation

Particulars	For the year ended 31 March 2008
Balance at April 1, 2007	2,023,953
Service cost	2,564,954
Interest cost	161,916
Actuarial loss/(Gain)	(161,916)
Benefits paid	-
Balance at March 31, 2008	4,588,907



Spandana Sphoorty Financial Limited*(formerly Spandana Sphoorty Innovative Financial Services Limited)***Schedules to the Accounts (continued)****Change in the fair value of plan assets**

Particulars	For the year ended 31 March 2008
Balance at April 1, 2007	-
Expected return on plan assets	-
Actuarial gains	-
Employer contributions	-
Benefits paid	-
Balance at March 31, 2008	Nil

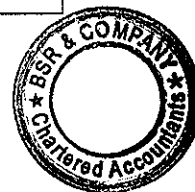
Amount recognized in Balance Sheet

Particulars	For the year ended 31 March 2008
Present value of funded obligations	4,588,907
Fair value on plan assets	-
Net liability/(asset)	4,588,907

Amounts in the balance sheet	For the year ended 31 March 2008
Provisions	4,588,907
Net liability/(asset)	4,588,907

Expense recognized in statement of profit and loss account

Particulars	For the year ended 31 March 2008
Current service cost	2,564,954
Interest on defined benefit obligation	161,916
Expected return on plan assets	-
Net actuarial loss/(gain) recognized in the year	(161,916)
Amount included in "Personnel expense"	2,564,954



Spandana Sphoorty Financial Limited*(formerly Spandana Sphoorty Innovative Financial Services Limited)***Schedules to the Accounts (continued)****Asset Information**

Category of Assets	As at 31 March 2008
Insurer managed funds	Nil
Total	Nil

Summary of Actuarial Assumptions

Particulars	For the year ended 31 March 2008
Discount Rate	8%
Expected return on plan assets	8%
Salary escalation rate	5% p.a.

Discount rate: The discount rate is based on the prevailing market yields of Indian government securities as at the balance sheet date for the estimated term of the obligations.

Expected rate of return on plan assets: This is based on the expectation of the average long term rate of return expected on investments of the fund during the estimated term of the obligations.

Salary escalation rate: The estimates of future salary increases considered takes into account the inflation, seniority, promotion and other relevant factors.

m. Unsecured loan (Subordinated debt):

The company has raised subordinated debt during the year, the breakup of which is as follows:

Name of the entity	Date	Rate	Loan Amount	Maturity
Spandana Rural & Urban Development Organisation	31-08-2007	8.25%	150,000,000	31-08-2013
Spandana Mutual Benefit Trust	31-08-2007	8.25%	50,000,000	31-08-2013
Total			200,000,000	



Spandana Sphoorty Financial Limited

(formerly Spandana Sphoorty Innovative Financial Services Limited)

Schedules to the Accounts (continued)

n. **Capital Adequacy Ratio:**

Capital Adequacy Ratio:	2008-2007
i) Capital Adequacy Ratio (CRAR)	22.69%
ii) CRAR – Tier I Capital (%)	17.46%
iii) CRAR – Tier II Capital (%)	5.23%

o. **Investments during the year**

Name of the Scheme	Purchase Units	Purchase Value	Sold Units	Sale Proceeds
Reliance Liquidity Fund	62,970,207	663,445,000	63,010,431	664,460,661
ING Liquid Fund	8,289,969	83,000,000	8,289,969	83,332,437

p. **Social Responsibilities**

The Company is in the business of offering financial services to low income households in rural and urban areas. The Company also offers training to the groups to generate income for their livelihood and to ensure a better life.

q. **Amounts payable to Micro , Small and Medium enterprises**

The management has initiated the process of identifying enterprises which have provided goods and services to the Company and which qualify under the definition of micro and small enterprises, as defined under Micro, Small and Medium Enterprises Development Act, 2006. Accordingly, the disclosure in respect of the amounts payable to such enterprises as at 31 March 2008 has been made in the financial statements based on information received and available with the Company. Further in the view of the management, the impact of interest, if any, that may be payable in accordance with the provisions of the Act is not expected to be material. The Company has not received any claim for interest from any supplier under the said Act.



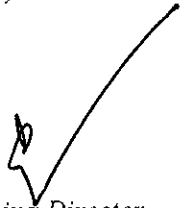
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Schedules to the Accounts (continued)

- r. Previous year's figures have been regrouped / reclassified, where necessary, to conform to current year's classification.

*for Spandana Sphoorty Financial Limited
(formerly Spandana Sphoorty Innovative Financial Services Limited)*



Managing Director



Director



Company Secretary

Membership No: 17905.

