

B S R and Company

Chartered Accountants

Reliance Humsafar, IV Floor,
Road No. 11, Banjara Hills
Hyderabad-500 034, India

Telephone : +91 40 3046 5000
Fax : +91 40 3046 5299

AUDITORS' REPORT TO THE MEMBERS OF UTKARSH MICRO FINANCE PRIVATE LIMITED

- 1 We have audited the attached Balance Sheet of Utkarsh Micro Finance Private Limited (formerly Shre Pathrakali Finance Company Private Limited) ("the Company") as at 31 March 2011, the Profit and Loss Account and the Cash Flow Statement of the Company 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 to the extent applicable;
 - (e) on the basis of written representations received from the directors, as on 31 March 2011, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 March 2011 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;



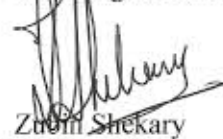
B S R and Company

- (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 2011;
 - (ii) in the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date; and
 - (iii) in the case of Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

for B S R and Company

Chartered Accountants

Firm Registration No: 128900W



Ziaul Shekary

Partner

Membership No: 48814

Place : Hyderabad

Date : 9 May 2011

ANNEXURE I TO THE AUDITORS' REPORT

Annexure referred to in paragraph 3 of our report of even date to the members of Utkarsh Micro Finance Private Limited ("the Company") for the year ended 31 March 2011. We report that:

- i. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified in a phased manner over a period of one 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. No material discrepancies were noted on such verification.
- (c) The Company has not disposed any fixed assets during the year, and therefore, do not affect the going concern assumption.
- ii. The Company is a Non Banking Finance Company ('NBFC'), engaged in the business of providing loans. Accordingly, it does not hold any physical inventories. Hence, paragraph 4(ii) of the Order is not applicable.
- iii. The Company has neither granted nor taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
- iv. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to the purchase of fixed assets and with regard to services rendered by the Company. 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.
- v. In our opinion, and according to the information and explanations given to us, there are no contracts and arrangements the particulars of which need to be entered into the register maintained under section 301 of the Companies Act, 1956.
- vi. The Company has not accepted any deposits from the public.
- vii. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
- viii. 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.
- ix. (a) 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, Service tax, and other material statutory dues with the appropriate authorities *during the year though there has been slight delays in few cases*. As explained to us, the Company did not have any dues on account of Wealth tax, Investor Education and Protection Fund, Sales-tax, Customs duty, Excise duty and Cess.
- (b) Further, there were no dues on account of Cess under Section 441A of the Act, since the date from which the aforesaid section comes into force has not yet been notified by the Central Government.

ANNEXURE I TO AUDITOR'S REPORT (continued)

- (c) According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income-tax, Service tax, and other material statutory dues were in arrears as at 31 March 2011 for a period of more than six months from the date they became payable.
- (d) As explained to us, the Company did not have any dues on account of Wealth tax, Investor Education and Protection Fund, Sales tax and Cess which have not been deposited with the appropriate authorities on account of any dispute.
- x. 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. However, it has incurred cash losses in the immediately preceding financial year.
- xi. 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.
- xii. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- xiii. 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.
- xiv. According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.
- xv. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
- xvi. In our opinion and according to the information and explanations given to us, the term loans taken by the Company have been applied for the purpose for which they were raised.
- xvii. According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we are of the opinion that the funds raised on short-term basis have not been used for long-term investment.
- xviii. The Company has not made any preferential allotment of shares to companies, firms and parties covered in the register maintained under section 301 of the Companies Act, 1956.
- xix. The Company did not have any outstanding debentures during the year.
- xx. The Company has not raised any money by way of public issue.
- xxi. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

for B S R and Company

Chartered Accountants

Firm Registration No: 128900W



Zubin Shekary

Partner

Membership No: 48814

Place: Hyderabad

Date: 9 May 2011

ANNEXURE II TO THE AUDITORS' REPORT

To the Board of Directors of
UTKARSH MICRO FINANCE PRIVATE LIMITED

In addition to the report made under section 227 of the Companies Act, 1956 on the accounts of Utkarsh Micro Finance Private Limited (formerly Shre Pathrakali Finance Company Private Limited) ('the Company') for the year ended 31 March 2011 and as required by the "Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008" dated 1 July 2010, we report as follows on the matters specified in paragraph 3 and 4 of the said directions to the extent applicable:

- The Company is engaged in the business of non-banking financial institution and it has obtained a certificate of registration from the Reserve Bank of India ('RBI') vide letter dated 19 March 2010, in pursuance of section 45-IA, of the RBI Act, 1934;
- The Company is entitled to continue to hold the Certificate of Registration in terms of its asset/income pattern as on 31 March 2011;
- Based on the criteria set forth by the RBI in Company Circular No. DNBS.PD. CC No. 85 / 03.02.089 /2006-07 dated 6 December 2006 for classification of Non-Banking Finance Companies as Asset Finance Company ('AFC'), the Company is not classified as AFC as defined in Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 with reference to the business carried on by it during the year ended 31 March 2011;
- The Board of Directors have passed a resolution not to accept deposits from the public on 05 May 2010;
- The Company has not accepted public deposits during the year ended 31 March 2011;
- The Company has complied with the prudential norms relating to income recognition, accounting standards, asset classification and provisioning for bad and doubtful debts as applicable to it in terms of Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 in the preparation of financial statements for the year ended 31 March 2011;

This report is issued to comply with the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008 vide Notification No. DNBS (PD) CC No. 179 / 03.02.001 / 2010-11 dated 1 July 2010 and may not be suitable for any other purpose.

for B S R and Company
Chartered Accountants
Firm Registration No: 128900W



Zubin Shekary
Partner
Membership No: 48814

Place: Hyderabad
Date: 9 May 2011

Utkarsh Micro Finance Private Limited
(formerly Shre Pathrakali Finance Company Private Limited)

Balance Sheet as at 31 March 2011
(All amounts in Indian rupees, except share data)

SOURCES OF FUNDS	Schedule	31 March 2011	31 March 2010
Shareholders' funds			
Share capital	2	102,107,830	65,266,240
Reserves and surplus	3	26,172,825	12,953,754
		128,280,655	78,219,994
Loan funds			
Secured loans	4	185,550,365	35,000,000
Deferred tax liability, net		-	13,346
		313,831,020	113,233,340
APPLICATION OF FUNDS			
Fixed assets			
Gross block	5	4,731,448	2,355,098
Less: Accumulated depreciation		(1,706,747)	(372,174)
Net block		3,024,701	1,982,924
Investments	6	500,000	500,000
Current assets, loans and advances			
Cash and bank balances	7	67,455,309	38,833,252
Gross Loan outstanding		318,557,242	63,436,481
Less : Managed Loans Portfolio		82,870,609	-
Loan Portfolio	8	235,686,633	63,436,481
Other loans and advances	9	16,511,972	1,132,060
Other current assets	10	2,000,759	206,809
		321,654,673	103,608,602
Current liabilities and provisions			
Current liabilities	11	10,785,056	1,820,595
Provisions	12	2,736,423	494,828
		13,521,479	2,315,424
Net current assets		308,133,194	101,293,178
Profit and loss account		2,173,125	9,457,238
		313,831,020	113,233,340

Significant accounting policies 1

Notes to accounts 19

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

As per our report attached
for B S R and Company
Chartered Accountants
Firm Registration no. 128900W


Zaun Shukla
Partner
Membership No. 48814

for Utkarsh Micro Finance Private Limited


Govind Singh
Managing Director


Trilok Nath Shukla
Director


Ajeet Kumar
Company Secretary



Place: Hyderabad
Date : 9 May, 2011

Utkarsh Micro Finance Private Limited
(formerly Shre Pathrakali Finance Company Private Limited)

Profit and Loss Account for the year ended 31 March 2011
(All amounts in Indian rupees, except share data)

	Schedule	31 March 2011	31 March 2010
Income			
Income from operations	13	80,547,393	3,850,103
Other income	14	9,562,026	1,290,362
		90,109,419	5,140,465
Expenditure			
Financial expenses	15	27,899,196	235,023
Personnel expenses	16	38,928,201	9,149,097
Operating and other expenses	17	10,331,031	4,568,761
Depreciation		1,334,573	372,174
Provisions and write offs	18	1,275,603	317,199
		79,768,604	14,642,254
Profit/ (loss) before tax		10,340,815	(9,501,789)
Provision for tax			
Current tax		2,323,000	-
Deferred tax expense/(benefit)		(13,346)	13,346
MAT Credit Entitlement		(1,073,980)	
Profit/ (loss) after tax		9,105,141	(9,515,135)
Appropriations			
Transfer to Statutory Reserves		1,821,028	-
Transfer to/from General Reserve		-	(233,000)
Amount available after appropriation		7,284,113	(9,282,135)
Balance in profit and loss account brought forward		(9,457,238)	(175,103)
Balance carried to Balance Sheet		(2,173,125)	(9,457,238)

Earnings per share (equity shares par value Rs. 10 each)

Basic -	1.14	(4.71)
Diluted -	0.94	-

Significant accounting policies


1

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 and Company
Chartered Accountants
Firm Registration no. 128900W


Zubin Shekary

Partner

Membership No. 48814

for Utkarsh Micro Finance Private Limited


Govind Singh
Managing Director


Trilok Nath Shukla
Director


Ajeet Kumar
Company Secretary



Place: Hyderabad
Date : 9 May, 2011

Utkarsh Micro Finance Private Limited
(formerly Shre Pathrakali Finance Company Private Limited)

Cash Flow Statement for the year ended 31 March 2011
(All amounts in Indian rupees, except share data)

	31 March 2011	31 March 2010
A Cash flows from operating activities		
Profit before taxation	10,340,815	(9,501,789)
Adjustments for:		
Depreciation	1,334,573	372,174
Provisions and write offs on loan portfolio	1,275,604	317,199
(Profit)/ loss on sale of investments	-	(339,485)
<i>Operating cash flows before working capital changes and other assets</i>	<u>12,950,991</u>	<u>(9,151,902)</u>
(Increase) / decrease in loan portfolio	(172,250,152)	(54,449,640)
(Increase) / decrease in other loans and advances	(14,305,929)	(731,689)
(Increase)/ decrease in other current assets	(1,793,951)	(206,809)
Increase / (decrease) in current liabilities and provisions	9,930,451	293,722
<i>Cash generated from operations</i>	<u>(165,468,590)</u>	<u>(64,246,317)</u>
Income taxes paid, net	(2,323,000)	-
Net cash provided by operating activities	<u>(167,791,590)</u>	<u>(64,246,317)</u>
B Cash flows from investing activities		
Purchase of fixed assets	(2,376,350)	(2,355,098)
Sale of investments	-	739,185
Net cash provided by / (used in) investing activities	<u>(2,376,350)</u>	<u>(1,615,913)</u>
C Cash flows from financing activities		
Proceeds from issuance of share capital	48,239,633	73,573,994
Proceeds / (repayment) of unsecured loans	-	(2,126,638)
Proceeds from long term borrowings	150,550,364	33,204,203
Net cash provided by / (used in) financing activities	<u>198,789,997</u>	<u>104,651,559</u>
Net increase in cash and cash equivalents	<u>28,622,057</u>	<u>38,789,329</u>
Cash and cash equivalents at the beginning of the year	38,833,252	43,923
Cash and cash equivalents at the end of the year	<u>67,455,309</u>	<u>38,833,252</u>

Note:

Cash and cash equivalents comprises:

	31 March 2011	31 March 2010
Cash in hand	937,784	1,943,999
Balances in		
Current accounts	13,308,934	17,484,253
Deposit accounts	53,208,592	19,405,000
	<u>67,455,309</u>	<u>38,833,252</u>

As per our report attached
for B S R and Company
Chartered Accountants
Firm Registration no. 128900W


Zubin Shekary
Partner
Membership No. 48814

for Utkarsh Micro Finance Private Limited


Govind Singh
Managing Director


Trilok Nath Shukla
Director


Ajeet Kumar
Company Secretary



Place: Hyderabad
Date: 9 May, 2011

Utkarsh Micro Finance Private Limited

(formerly Shre Pathrakali Finance Company Private Limited)

Schedules to the Accounts

(All amounts in Indian rupees, except share data)

Overview

Utkarsh Micro Finance Private Limited (formerly Shre Pathrakali Finance Company Private Limited) ("Utkarsh" or "the Company") was originally incorporated as a Public Limited Company on May 15, 1990 under the Companies Act, 1956. The Company was initially registered effective 15 June 1999 as a deposit taking Non Banking Financial Company under section 45-IA of the RBI Act, 1934. The Company repayed all its outstanding public deposits (including interest accrued and due) on 22 August 2009. Subsequently, the Company with an objective of doing micro credit lending converted into a Private Limited Company on 09 December 2009 and on 19 March 2010 also obtained a certificate of registration from Reserve Bank of India to commence/ carry on the business of Non Banking Financial institution without accepting public deposit.

The Company is engaged in the business of micro finance lending activities, following group lending methodology and providing small value unsecured group loans to lower income group of below poverty line (BPL) in urban and rural areas. The tenure of these loans is generally spread over a period of 46 weeks, accordingly effective 27 March 2011 the Company has changed the tenure of loans from weekly collections to fortnightly collections.

Schedule 1: 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 Accounting Standards ("AS") prescribed by the Companies (Accounting Standards) Rules, 2006, the relevant provisions of the Companies Act, 1956 ("the Act") and the Reserve Bank of India ("RBI") guidelines to the extent applicable to a non deposit taking 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 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. Income on loan portfolio assigned in recognised in the profit and loss accounts in the year in which all the right to benefits specified in underlying contracts are unconditionally and irrevocably transferred to the assignee.

Loan processing fees collected from the borrowers is recognized over the tenure of the loan.

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

Income from non refundable revenue grant in recognised on receipt basis on fulfillment of grant obligation.



