

SPANDANA SPHOORTY FINANCIAL LIMITED

Committed to low-income households since 1998

ANNUAL REPORT

2013-14



Fostering the spirit of entrepreneurship, Partnering in their growth and success

Message from Managing Director



Dear Stakeholders,

We started this year with hope and we are happy to end the year with ever more resilient hope. Last year, we anticipated that FY-14 will be a critical year as the company was seeking fresh funding after a hiatus of three years. This is, after tiding over a debilitating crisis of Oct-2010 and re-establishing the operations and its viability. We are very pleased to share with you that we closed the year FY14 on a high –

- In Dec-2013, Lender's forum approved fresh funding of Rs. 1150 crores to the company under the aegis of the CDR-EG. This was after evaluating the business performance by all the lenders and their mandates via the CDR forum.
- Strong portfolio quality and controlled cost structure, despite inflationary pressure, helped the company report operating surplus.
- The company was able to get substantive recoveries from the Andhra Pradesh from the overdue portfolio for which loan loss provisioning was done in previous years, boosting the bottom-line.
- We have been able to start cleaning up the balance sheet by doing write-off of irrecoverable part of AP book.
- Our size of good-book for the year has not undergone much change in the opening and closing numbers, however, we have been able to improve our geographical diversification by growing the smaller states and containing the larger states.

The above highlights are just the re-enforcements of the business. This doesn't mean that all the problems are resolved, but this means that we have clearly embarked upon the path to coming out of them.

The trough of this business cycle of 2010-2013 is behind us. The initial results towards the return to crest (FY14) have been very encouraging. If we stay the course, we shall be out of it within reasonable time. The detailed numbers are presented in this Annual Report.

The icing on the cake has been the regulatory support that we received from Reserve Bank of India (RBI). RBI considered our request and decided to provide exemption from meeting the regulatory requirement on NOF and CRAR till 31-March, 2016. As part of the exemption, the company was also able to bring in Rs. 5 crore equity upfront from some of the existing institutional shareholders within a month of the stipulation. This also shows the confidence reposed by the existing institutional shareholders in the company and underpins the recovery prospects.

At the industry / sector level also, things have stabilized further. The leading Micro-Finance Institution (MFI), Bandhan was approved for the banking license by RBI thereby showing the path to institutional growth for the MFIs. This is clearly a sunrise move. It will help the MFIs bring the liability proposition to this customer segment within the strict regulatory framework of a Bank. The discourse on differential banking licenses – and payments Bank will also go a long way in pathing the MFI sector in general.

At the brick and mortar level, the operative business is much more matured now than ever before. Most of the MFIs are doing credit bureau checks and the customers and MFI staff have started appreciating it as an integral part and parcel of the lending practice. There is also a note of caution here: as the lenders and investors return to the sector, I hope that the MFIs do not again embark on the rapid and rabid growth since it is very difficult to resist the flow of funds with very large unmet demand availability at the customer level and easy replicability of delivery / distribution channel. There is no doubting that the demand for micro-credit stays robust. In fact many customers, who have graduated above

the microfinance segment and who are still to access formal banking services are demanding higher credit since they have the ability to economically deploy it for generating better income. While microfinance regulation restricts 85% of net assets of MFIs to be in the income segment defined for microfinance, the customers marginally coming out of the same will also need to be supported. The market would need to find a way to address that demand so that the clients who benefitted from microfinance do not fall back into informal lender's clutches.

Your company has continued to be and would remain one of the largest financial inclusion engines in India. As per MFIN-Micrometer March 2014, Spandana continues to be the MFI with third largest outreach among the MFIN member MFIs accounting for 8.0% of the aggregate client outreach. In terms of volume of loans disbursed also, your company has been among the top-5 with its disbursements accounting for 4.8% of industry aggregates.

For your company, with approvals from the lenders in place, the direction for next year is well defined. We need to start utilizing the approvals, get draw-downs from the lenders and start growing the good book again but in a calibrated manner. This will help us utilize the distribution bandwidth better and also improve our size of financial surplus. That in turn will give the strength to be able to absorb the past business losses.

FY15 will therefore be the year for consolidated growth. This shall also prepare us well to improve our capitalization levels next year and thus pass the hump of networth positive business.

I am happy to repeat what I said in the last year's address, the resilience of this institution will be a showcase for the rest of the industry to watch. We draw our inspiration from the Ants that just keep at it, despite the down-fall; they get up and get back to rebuilding.

Padmaja G Reddy,
Managing Director

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Corporate Philosophy

NAME

Spandana stands for 'responsiveness'. Spandana started as a response to a need and an opportunity and continues to operate with the same philosophy.

After transformation into an NBFC, Spandana added the following phrases to its name - Sphoorty Financial Services. Sphoorty stands for 'inspiration' - this exemplifies the growth of Spandana in provision of larger bouquet of financial services to larger client base.

MISSION

We want to be one of the most significant microfinance service provider by offering a range of financial and non financial products and services to low income households and individuals to improve the quality of life. We constantly endeavor to deliver quality services to our clients and remunerative returns to our Investors by maintaining highest levels of transparency and integrity. We strive to be the most preferred Employer in the Industry.



LOGO

Spandana's logo depicts a sunflower's open petals. This highlights the responsiveness of Spandana towards its client needs. The disjoint petals highlight that Spandana is an open and innovative organization which promotes its employees to challenge the conventional methods and conventional wisdom and bring about innovation in their actions such that the theme of Operational Efficiency is sustained.

CORPORATE COLOR

Corporate Color - The sunrise yellow – as corporate color of Spandana comes from the Sunflower and denotes a sense of celebration associated with the opening of sunflower and starting of economic activities in our client households.

CORE VALUES

TRICS exemplifies our core values -
Transparency - Maintaining simplicity and clarity in all activities and operations, so that high standards of fairness can be established in all the dealings.
Responsiveness - Constantly working to identify the changing needs of clients and potential clients, and developing suitable products and services to address these needs thus keeping Spandana ahead of its competitors.
Integrity - Maintaining high standards of conduct, truthfulness and honesty in all dealings, in order to honour the commitment made to our clients and organization.
Commitment - Performing all activities and tasks with professionalism and enthusiasm in order to give the highest level of client satisfaction and optimal efficiency.
Team Spirit- Working together as to create synergy that results in growth.

Background

Spandana Sphoorty Financial Limited (SSFL) operates as a Non Banking Finance Company (NBFC) incorporated under the Companies Act, 1956 and licensed by the Reserve Bank of India under the Reserve Bank of India Act, 1934 to carry on the business of a Non Banking Financial Institution. With release of NBFC- Micro Finance Institution (NBFC-MFI) as a new category of NBFCs, the company has applied with RBI for reclassification as an NBFC-MFI. The reclassification approval is awaited from RBI though the company is already following all the norms laid down for the NBFC-MFIs.

The micro-credit program of Spandana started in 1998 when Spandana operated as a Society (Spandana Rural and Urban development Organisation – SRUDO). Later, it formalized itself into an NBFC (SSFL). Spandana's lending programme is committed to strengthening the socio-economic status of low-income households – particularly women – in rural and urban areas by providing financial services on a continual basis in order to improve livelihoods, establish identity and enhance self-image.

Spandana follows both the group based and the individual micro-credit lending model wherein both the models, the loans are given to individuals based on their household economics. Besides micro-credit, it has other products - like - micro-

Spandana has been one of the largest and most seasoned MFI in India. Through its history, it has seen two very large and debilitating crises on its operations and has emerged back with resilience.

Both these crisis put a fundamental question mark on its lending model and belief that the low-income community is credit worthy and lending to them can be a good business proposition. In both the crisis, the common thread has been that these were in form of mass-scale defaults and both were triggered by the administration, part of which could not resound with the market linked approach to lending to the low-income community.

Those inherent risks are now largely addressed with higher level of regulatory supervision on this sector by the Reserve bank of India, addressing some of the potential vulnerabilities – charging/ pricing, soft recovery practices, prevention of over-indebtedness of borrowers etc.

enterprise loans, Small Mortgages, loans against Gold jewellery etc. At peak, SSFL had an Asset Under Management of Rs. 4,500 crore (USD 1 Bn) largely funded by debt/ loan-book assignments from over 40 Banks / FIs.

Through its 16 years' history, Spandana had been funded by different Financial Institutions – like Public Sector Banks, Private Sector Banks, Foreign Banks, Development Financial Institutions and other Financial Institutions.

In Oct-2010, with restrictions imposed by the AP-MFI (prevention of moneylending) legislation, the collections from the state of Andhra Pradesh had reduced. The company was not able to continue lending due to requirements of taking prior approval against each loan under the said legislation. Since the crisis, microfinance sector got support from the regulators in various forms directly benefitting the company. Adoption of Malegam Committee recommendations, greater regulatory oversight upon MFIs by RBI including the creation of separate MFI-NBFC category has helped the company in clearing the grey areas in the business environment.

With the Corporate Debt Restructuring in FY12, the company has been successful in 'holding-on' of non-AP operations and across 10 non-AP states, it has a strong workforce and franchise with Rs. 1,000 crore Good



Milestones

- 2013-2014** Recorded Profit After Tax of Rs. 64 crore. Receives approval for resumed lending from CDR forum. Stable outreach and the size of good book maintained, improves geographical diversification with largest state now accounting for < 30% Good Book. Interim relief from Supreme Court on AP-MFI Act helps the company resume lending in AP, leading to improved overdue recoveries.
- 2012-2013** Recorded a return to growth where the Standard book started growing from the Q-3:FY13 onwards. Operating profits helped the company pass the acid test of viability again. Spandana is 3rd largest MFI by volume of disbursements in FY13. Cumulative disbursements cross Rs. 20,000 Cr. since inception of the program.
- 2011-2012** CDR agreements signed with restructuring of debt for 7 years. With liquidity relief, the drop in the good book could be controlled and with cost rationalisation, the operating break-even restored by the end of the year (Q-4:FY12).
- 2010-2011** H-2: AP-MFI (regulation of money lending) Act puts onerous curbs leading to large scale defaults in the State of Andhra Pradesh which constitutes 51% of the Portfolio. Spandana opts for Corporate Debt Restructuring (CDR) with its lenders.
- 2010-2011** H-1: Highest rating grade of mFR1 from CRISIL; AUM crosses Rs. 4,500 crore (USD1Bn), 14,000 on roll staff prepares for further Equity raise to fuel the next round of growth.
- 2009-2010** Stable growth of ~ 100% in outreach and retained surplus for the year crosses Rs. 200 crore mark.
- 2008-2009** Second round of PE investments, Rollout into Jharkhand, Reached 2.5 mn households
- 2007-2008** Investment of USD 10 mn by two private equity funds, Name changed to Spandana Sphoorty Financial Limited (SSFL) [January 3, 2008], Rollout into Rajasthan, Madhya Pradesh, Chhattisgarh
- 2005-2006** Cumulative disbursements cross Rs. 1,000 crore CRISIL grading upgraded to mFR2, Rollout into Tamil Nadu, Pilot launch of Farm-equipment loan product
- 2004-2005** Fresh loan disbursements and client servicing out of the NBFC structure. Society operations scaled down, Rollout into Karnataka State.
- 2003-2004** Asset Under Management crosses Rs. 50 crore SSIFL receives business commencement certificate [November 11, 2003], Receives CRISIL grading of mFR3
- 2002-2003** Number of staff members cross 100, servicing over 40,000 customers, Spandana becomes the largest MFI in India (Asset Under Management, borrower base), With critical mass achieved, need felt to transform into a more regulated legal structure, Spandana Sphoorty Innovative Financial Services limited (SSIFL) incorporated [March 10, 2003]
- 2001-2002** M-CRIL* rating benchmarks Spandana as one of the most cost-efficient MFIs in the world
- 2000-2001** Microfinance programme grows to over 5,000 customers Commercial loans from Small Industries Development Bank of India (SIDBI) and ICICI Bank supports growth
- 1999-2000** First commercial loan from Rashtriya Mahila Kosh (RMK) Microfinance programme scales up to cumulative disbursement of Rs. 1 crore
- 1998-1999** Spandana achieves financial break-even in the first full financial year of its operation
- 1997-1998** Spandana started its operations as a Non-Government Organisation (NGO) at Guntur Andhra Pradesh Spandana works on a range of community welfare programs while keeping microfinance at the core. Some of these interventions include - clean drinking water, sanitation and health

Glimpse into our clients

Mrs. Sarubai Vithal Uche is a hardworking person. She helps her husband Mr. Vithal Uche, run a Kumkum and Pooja Samagri (religious goods) shop and also cultivate silkworms in a small town of Tuljapur in Maharashtra. They want their son Vinod, 12, to get good education and have a life better than theirs. They used Spandana's loan to buy another buffalo besides the two they already had. This helped her increase her income and send her son to a better school for his education. She could take this loan only because Spandana staff is ready to service her at her shop itself instead of asking her to keep coming to their branch. She appreciates our staff for being hardworking and cooperative. Therefore, she has not stretched herself to find out if she can avail any loan from a Bank but feels that Bank's process is cumbersome. *(contributed by Piyush Singi, Management Trainee)*



Mrs. Ayesha Muhammed's husband Mr. K P Muhammed (50yrs) was an unskilled labor in Jeddah Saudi Arabia. Due to the recent changes in the labor laws in Saudi Arabia Mr. Muhammed had to return back to his village Ambaythod in Kerala. With main source of income of the family completely stopped, the

family was struggling to meet the ends. They had some savings but not sufficient to start a business. Since they didn't have enough assets to mortgage, they didn't approach a Bank/ Financier to get a loan. She came to know about Spandana from a neighbor decided to sit for the introductory meeting, followed by financial education sessions by Spandana staff. She found it very interesting. Within two weeks she got the loan and she was able to start her business – a small grocery store right behind her house. She operates it along with her husband and the Husband now doesn't need to find another job overseas. She attributes Spandana's loan to have helped her keep her husband alongside her. *(contributed by Steffin Thanakulam, Management Trainee)*

Prior to loan from Spandana, Mrs. Kalavati Bai and her husband Shankar Karpe ran an eatery (hotel) in Kundalwadi in Biloli town of Maharashtra. But there were not making enough profits to meet their household expenses. They needed to close it down and take up something more lucrative. After taking a loan from Spandana, she invested some of the money in opening a grocery outlet & some money was invested in running breakfast joint "nasta centre" that is run by her husband. Now after 3 years, they are happy with the work they are doing. She utilized all the subsequent loans for purchasing the material for her shop and the "nasta centre". Her two children can now afford getting good education and their grandmother is happy with it.



Kalavati says that the loan from Spandana has helped her in standing up again and starting her own shop. Smaller installments make it easier for her to put some money away regularly and service the loan. She took her fourth cycle loan recently with us and also took a loan from another MFI. *(contributed by Umesh Salvani, Management Trainee)*

Management Discussion and Analysis

i. The chronicle

From the start of operations till FY10, the company recorded a very healthy growth rate (CAGR of 100%) and good profitability and return on equity. As it closed the FY10, it had gradually expanded its financial inclusion footprint from its origins in Guntur dist. of Andhra Pradesh (AP) to over 11 states across the country with over 1,500 branches reaching out to 41 lac clients. It had an Asset Under Management (AUM) of over Rs. 3,500 crore, out of this, 36.6% was off balance sheet (assigned to Banks/ FI) and the rest was on the balance sheet funded by paid up equity share capital of Rs. 13.5 crore and debt of about Rs. 2,200 crore besides the reserves and surplus. With a high leverage, PAT of over Rs. 200 crore gave a return on equity of over 50%.

It had sufficient cash in hand besides approved lending limits available from many of its 40 plus lenders. With this, the growth continued unabated till Sep-2010 when it reached out to over 50 lakh clients with an AUM of Rs. 4,500 crore (=USD 1Bn, by that times' USD rates). That was the crest of the business cycle. The company was in the midst of raising equity to the tune of over Rs. 2,000 crore to improve its capitalization and reduce leverage. Before the plans could fructify, from there onwards, the slide towards trough began.

Though the company operated in 11 states, 51% of its AUM was in the State of AP where it had the vintage. This was mainly because the company was following both the geographical as well as product diversification at the same time. In the process, most of the new products were getting rolled out in the AP market before they mature and they can be rolled out into other geographies, thereby proportionately increasing exposure to the state.

For various reasons, following a slew of events, the AP state govt. put legislative curbs on the MFI activities in the state. This was a debilitating blow to the company. The recoveries from AP market dwindled and the company went in for various measures to repair

the situation. However, the situation persisted. In the mean time, fearing large scale defaults, lead lenders of the company prompted it to get into Corporate Debt restructuring (CDR). RBI was also supportive and allowed restructuring of MFI loans by Banks though the loans on-lent by MFIs were unsecured.

With CDR sign-up in Sep-2011, almost an year after the crisis had hit, the company got an assurance of business continuity and survival. Its debt, originally repayable at an avg of 2.25 years was now restructured for 7 years besides part of debt having got converted into Optionally Convertible Cumulatively Redeemable Preference Shares (OCCRPS), thereby notionally marking out the AP-irrecoverable dues into a deferred payment instrument with ballooning maturity (70% of it is redeemable in FY18). Also factoring-in the risk (equity instrument from pure debt) in case the AP market doesn't open up soon and if overdues stay irrecovered for a longer period of time.

While there has not been a major breakthrough in AP, there have been glimmer of hopes. Meanwhile, the company has done better than all other MFIs wrt AP overdue recoveries and this has been the critical differentiator in helping the company overcome the crisis. The company has not deserted the AP market, instead, diversified into newer products (mainly secured) to hold ground. At the same time, with the AP-overdues hitting the 720 days bucket in H2-FY12 and H1-FY13, loan loss provision was booked on this exposure making the company network negative.

In non-AP, the company was able to reduce its downslide gradually. From Good Book of Rs. 4,500 crore on 15-Oct-2010, the Good Book tapered to Rs. 684crore in Sep-2012. Therefore Sep-12 was the trough of the business cycle. From there onwards, the cashflows available from deferment of repayments under CDR were redeployed into the non-AP market and the Good book grew to Rs. 928 crore by FY13 end. Backed by performance in H2 of the year, the company returned to generate operating surplus in Fy13.



Management Discussion and Analysis

ii. Overview

In spite of the crisis, and initial sharp run down of good book, we have been able to maintain the outreach. We continue to operate in a total of 182 districts covering 77,000 towns/ villages/ settlements. This large distribution network continues to have the latent value.

The growth in good book and return to viability gave the company visibility of sustenance and also the hope for revival. The performance in FY14 clearly establishes that the company has now turned the slide back towards the crest. FY15 should reinforce that trend.

iii. Reduction in debt exposure

Since the CDR cut-off date of 1-April, 2011, the company has been able to reduce lender's exposure substantially. Illustration-1 depicts the reduction in exposure for lenders:

Illustration-1

Lender's exposure	31-Mar-11	31-Mar-14	Change
Term Debt / NCDs / Cps	2,372	703	1,669
Less: FDs against these facilities	71	-	71
OCCRPS*	-	894	(894)
Net Exposure	2,300	1,597	703

* OCCRPS stands for Optionally Convertible Cumulatively Redeemable Preference Shares issued to lenders as part of Corporate Debt Restructuring upon conversion of part of debt.

iv. FY14 performance

The performance of FY14 can be seen with the following bullet points –

iv. a. AP Business

In the past, the company had been made efforts at resolving the AP problem. Ranging from a possible negotiated settlement, either bilaterally or through industry associations, to a legal recourse. Its efforts had not made much headway. But in April-2013, the company has approached the honorable Supreme Court (SC) and received an interim relief from there. The case is still being pursued in the SC. After this interim relief, the company intensified its overdue recovery efforts in AP. It recovered Rs. 34 crore of overdue in FY14. To demonstrate that it has been able to resume operations, the company also made small loan disbursements to good borrowers in AP who had made loan repayments. This is besides the secured loan book of loans against Gold Jewellery which stood at Rs. 50 crore.

iv. b. Non-AP Business

The business has been largely stable in other than the State of Andhra Pradesh (including the now Telangana state). The portfolio quality and cost structure has been stable. This year, the company laid thrust on fortnightly repayment product. This is bound to reduce operating cost compared to the weekly collection product with reduced staff and branches and also help the company absorb increased cost due to inflationary pressures. Most of this cost reduction impact will be visible in FY15 though.

In FY14, the size of good book did not undergo much change between the opening and closing of the year, but the company did well to improve the portfolio diversification across various states. Illustration-2 is the table demonstrating the same:

Illustration - 2

	States	Mar-12	Mar-13	Mar-14	Remarks
1	Karnataka	40%	33%	28%	Reduced substantially
2	Madhya Pradesh	19%	25%	23%	Increased, but needs curtailment
3	Orissa	13%	13%	15%	Good proportion to be maintained
4	Maharashtra	14%	15%	14%	Good proportion to be maintained
5	Andhra Pradesh*	7%	5%	8%	Large growth potential
6	Chhattisgarh	2%	4%	5%	Will stay as a focus state
7-11	Other states**	5%	6%	7%	Should be grown substantively

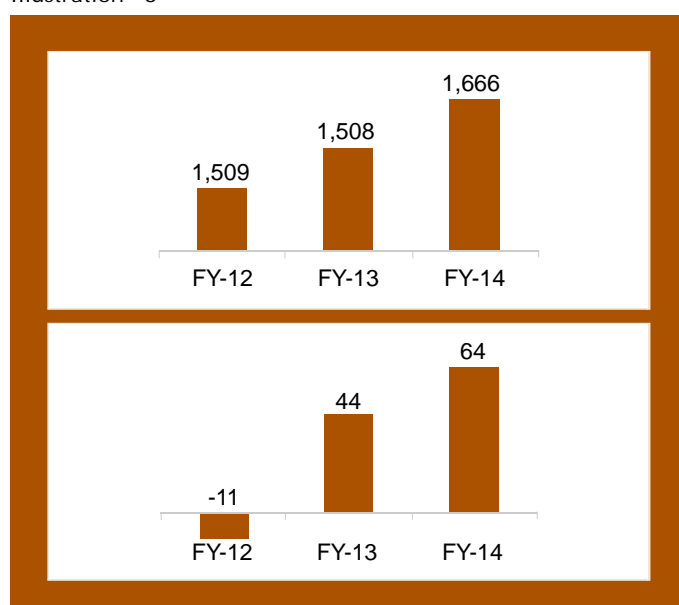
* Andhra Pradesh includes the current state of Telangana and residuary Andhra Pradesh together

** Other States consist of Uttar Pradesh, Jharkhand, Gujarat, Goa, Kerala

High concentration risk in AP had played out in the past and the company decided to cap the state level exposure to a maximum of 30%. The company has thus been able to reduce the concentration in Karnataka from 40% in 2012 to 28% in 2014. As we now receive fresh funding and grow the good book, we need to ensure that at each state level, we do not breach the internal exposure limit of 30%. Though, over a period of time, we should be able to bring them down to 15% level each. It may not be sensible to cede already covered ground, therefore, in states like MP, we would not need to reduce the exposure, instead proportionately grow less there. The thrust would thus be to grow in non-top-4 states listed in the table above.

iv. c. Loan disbursements and operating surplus generated
The company has been able to maintain an upward trend in loan disbursements in the last year as well as depicted in illustration-3. This clearly helps the company improve on its ability to generate revenue and margin as depicted in Illustration-3:

Illustration - 3



Management Discussion and Analysis

iv. d. Financial Highlights : Illustration-4 is the P&L of the business with adjustments made to make the numbers comparable between different years, and before write-offs for this year (FY14).

Illustration-4

	FY-10	FY-11	FY-12	FY-13	FY-14
Revenue	724	782	357	273	280
Opex	153	215	191	112	107
Depreciation	3	5	4	3	3
Financial cost	221	308	173	114	100
Operating Surplus	347	255	(11)	44	70
Provision + Writeoffs	36	254	150	1,315	5
PBT	311	0	(161)	(1,271)	64

This shows that since the crisis, about Rs. 1,700 cr of credit losses have been booked in P&L though the impact on balance sheet has been to the tune of Rs. 1,350 cr. Credit losses got muted by Rs. 350 cr due to H1-FY11 surplus plus the surplus generated post CDR signup. However, it is significant to see that the operating surplus generated in the last two years together has been to the tune of over Rs. 100 crore. This is besides the AP overdue recoveries which are helping in boosting the bottom line since these are already loan-loss-provision covered loans.

iv. e. Cost rationalization

Since microfinance costs are largely dynamic and operating metrics work on per unit basis, the company has been focused at managing the per unit productivity carefully. This has helped in gradual reduction of cost.

Illustration-5

	Mar-11	Mar-14	Change
No. of Staff	11,696	4,386	(7,310)
No. of Credit Assistants	8,154	2,995	(5,159)
Proportion	69.7%	68.3%	1.4%
Opex for the year (Rs. cr)	220	108	102

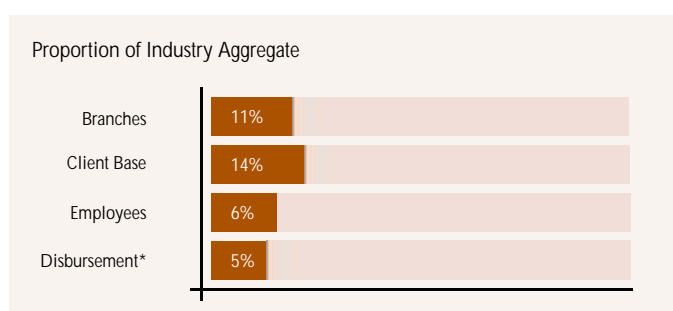
Illustration-5 shows the reduction in manpower trending in consistency with the reduction in the opex booked for that year. This is also because most of the costs in our business is personnel cost associated with the distributed branch network staff.

It is also noteworthy that the slight reduction in proportion of Credit Assistants to the total staff strength (1.4%) is on account of strengthened supervision and control structure, including Internal Auditors. The above numbers mean that the Opex on per unit staff has not changed much and therefore, the cost structure of the business stays intact. The inflationary increase is getting absorbed. Now with company fortnightly product, the cost will come down.

v. Comparison with industry aggregates

Spandana continues to be one of the most significant financial inclusion engines in the country. This is evident from the aggregates reported for MFIN members. MicroFinance Institutions Network (MFIN) is an association of 46 NBFC-MFIs, representing most of the formal MFIs. Comparing Spandana's numbers with the aggregates, illustration-6 shows the summary -

Illustration-6



* both by number of loans and volume of loans disbursed

The company continues to be committed to working for this segment and improve financial inclusion footprint. As fresh funding starts, we would be able to improve the utilization levels of the existing branch network.



We Care :



Our clients are vulnerable to vagaries of nature. They have great resilience but we do get opportunity to support them in case of difficulties and we take it as a Corporate Social Responsibility to participate in their efforts. In this financial year, one such opportunity came in the state of Madhya Pradesh (MP). Spandana, being one of the largest MFIs in MP, has always accorded high priority to disaster response. Hence we always feel profound responsibility to facilitate timely and effective relief measures to the affected families.

While the Monsoons are lifeline for our farmers, excessive rains often cause problems. In Aug-2013, all the rivers of MP (Narmada, Parbati, Kalisindh & Kshipra) were flowing above the danger line. It affected 14 districts of MP. Incessant rainfall lead to floods. It also threatened to wash away the economic development impact of Spandana's micro finance interventions with low-income families in some areas. With active involvement of the State Head, team Spandana implemented an emergency response for affected borrowers and used our physical proximity to conduct a survey to assess immediate need of the customers. Many families had their

existing livelihoods affected and living systems required support – first as reaction and then as restoration. The survey was led by our State Head and branch teams and 915 affected borrowers were identified based on loss of their livelihood and urgent needs.

The identified needs were addressed – viz. drinking water, food, medicines and polythene sheets and tarpaulins which were required on urgent basis. Afterwards, we prepared a relief pack of food, utensils, blanket and grocery items for all the affected families to meet needs for a few subsequent days. After due process, we additionally offered a 1 month moratorium period to the flood-affected families who were having difficulties in continuing their income generating activities.

With this timely response and empathetic approach, our borrowers confidently say that Spandana was the first to reach us and provided the best possible assistance. They further say that initiatives taken by Spandana minimized their sufferings and helped their families to become more resilient and less vulnerable to such crisis.



Director's Report

Dear Members,

Your Directors are pleased to present their 11th Annual Report on the business and operations of the Company and audited accounts for the financial year ended 31-Mar-2014.

Financial performance

Financial performance of your Company for the financial year ended 31-Mar-2014 is summarized below:

Particulars	Financial year ended	
	31-Mar-14	31-Mar-13
Income from Operations	275.04	226.87
Other Income	05.42	045.94
Profit before Depreciation, Interest and Tax (PBDIT)	280.47	(1154.15)
Depreciation	03.12	2.95
Financial charge	99.95	5.52
Profit Before Tax	64.38	(1162.62)
Provision for Tax-Current year	0.700	-
Profit/(Loss) After Tax	64.31	(1162.62)
Transfer to Statutory Reserves	12.86	-
Balance carried to Balance sheet	51.45	(1162.62)

This year, after a gap of 3 years, company recorded profits for the full financial year. With this, we would like to believe that the worst of the AP-microfinance crisis is behind us and we are now ready for the next leg of corporate journey.

Operational Highlights

The operational performance of the company re-inforced that it is emerging as a turn-around story, standing out among the AP-crisis affected Microfinance Institutions (MFIs). It has received support of lenders and regulators in the last three years and sustained its operation. Your Company has been able to maintain the franchise in terms of customer outreach across different territories as below. SSFL continues to operate in 11 states of Kerala, Karnataka, Andhra Pradesh, Maharashtra, Chattisgarh, Orissa, Madhya Pradesh, Gujarat, Goa, Jharkand and UP. The highlights are as follows:

Details	Mar-11	Mar-12	Mar-13	Mar-14
No. of States	10	11	11	11
No. of districts	182	185	179	182
No. of Villages	99,488	96,945	77,541	77,541
No. of borrowers (lakh)	41.8	34.4	24.7	22.4
Portfolio o/s (Rs. cr)	2,851	2,233	2,233	2,107

The Company has disbursed Rs.1,667 crores value of loans in FY14. With this, at overall level, company has been able to maintain its size of portfolio. In the last few years, the company had deployed the collections from the AP market in non-AP states while collections from non-AP were being used to service the lender's dues post CDR signup. In this year, company has

deployed the collections from AP into AP state itself with Rs. 172 crores disbursed in AP including unsecured loans of Rs. 30.7 crore in tandem with the Supreme Court relief on AP-MFI Act.

Allotment of Optionally Convertible Cumulative Redeemable Preference Shares (OCCRPS)

In accordance with Master Restructuring Agreement (MRA), the term loan of Rs. 9,406,000,000 existing as on April 1, 2011 are converted into OCCRPS at face value of Rs.10 each carrying dividend of 0.001% p.a. and shall be redeemed in a manner providing a yield of 12% per annum to the holder of OCCRPS. As on 30-Jun-2014 outstanding OCCRPS is Rs. 8,967,350,000.

The Company further issued 34,600,000 (Three Crore and Forty Six Lakhs) unlisted Optionally Convertible Cumulative Redeemable Preference Shares (OCCRPS) of face value Rs. 10/- (Rupees Ten) each at par aggregating to 346,000,000 (Rupees Thirty Four Crores and Sixty Lakhs Only) to Standard Chartered Bank who agreed to accede to the restructuring terms and join the CDR mechanism. Two lenders who are not part of CDR forum are BNP Paribas and Citi Bank. BNP is in process of accession to CDR while negotiations with Citi are in progress for a potential One Time Settlement.

Dividends

As per the Master Restructuring Agreement (MRA) signed under Corporate Debt Restructuring (CDR) package, the Company is required to pay a dividend of 0.001% per annum on Optionally Convertible Cumulative Redeemable Preference Shares (OCCRPS) every financial year. Accordingly the Company has paid dividend amounting to Rs.1,05,919, including the dividend distribution tax during the financial year under review pending receipt of approval from Ministry of Corporate Affairs (MCA). (The Company has applied to MCA, Govt of India for approval of payment of Dividend on OCCRPS vide its application SRN No. B76433820 dated 5-June-2013).

Borrowings

On 7-Mar-2011 the Company applied for admittance to the CDR process. On 24-Sep-2011, CDR documentation was done along with signing of the Master Restructuring Agreement (MRA). Those lenders who are not part of the CDR forum will be opting for either joining the forum and signing the accession agreement to MRA, or mirroring the MRA or exploring One Time Settlements (OTS). The unpaid loan balances for the two lenders of the Company who have not entered into the CDR package as at 31-Mar-2014 (excluding interest accrued thereon) Rs. 664,300,282 (previous year Rs. 664,283,333). MRA had a provision under which our principal lenders assessed our performance post CDR and a priority debt facility to the tune of Rs. 1,150 crore was approved for the company by the CDR Empowered Group (EG) on 24-Dec-2013.

Director's Report

Employee Stock Option

During the year ended 31-Mar-2011, the Company has established Employees and Directors Stock Option Plan 2010 (ESOP Plan 2010) pursuant to the approval by the Board of Directors in their meeting held on 26-Aug-2010 and that of the shareholders in their extra-ordinary general meeting held on 31-Aug-2010. As at 31-Mar-2014: 40,870 (previous year 87,380) options are outstanding (net of employees who have left the services of the Company till 31-Mar-2014).

Securitisation

The Company has not booked any new securitisation deals during FY-14.

Public Deposits

Your Company has not accepted any public deposits during the year and as such no amount of principal and interest was outstanding during the year.

RBI Guidelines

Your Company is registered with Reserve Bank of India (RBI), as a non-deposit accepting NBFC under Section 45-1A of the RBI Act, 1934. Your Directors hereby report that the Company did not accept any public deposits during the year under review and did not have any outstanding at the end of the year. RBI has introduced a new category of NBFCs - 'Non Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs) - vide circular DNBS.CC.PD.No. 250/03.10.01/2011-12 dated 2-Dec-2011. Existing NBFCs that satisfy the conditions laid down in the Guidelines were advised to apply for change in their classification as NBFC-MFIs. The Board of Directors had approved the re-registration and the Company has submitted the required documents prescribed - vide circular DNBS.CC.PD.No. 312 /03.10.01/2012-13 for registration as NBFC to RBI Regional Office for change in classification on 20-Jul-2013.

Further, your Company's CAR is as follows.

Capital Adequacy Ratio	2013-14	2012-13
i) CAR-Tier I Capital (%)	3%	14%
ii) CAR-Tier II Capital (%)	3%	14%
Capital Adequacy Ratio	6%	28%

(Note:- As per RBI/2013-14/49 DNBS.(PD)CC.No. 347 /03.10.38/2013-14 Master Circular dated 1-Jul- 2013 the CRAR for NBFC- MFIs which have more than 25% loan portfolio in the state of Andhra Pradesh will be at 12% for the year 2011-2012 only. Thereafter they have to maintain CRAR at 15%. For the calculation of CRAR, the provisioning made towards AP portfolio shall be notionally reckoned as part of NOF and there shall be progressive reduction in such recognition of the provisions for AP portfolio equally over a period of 5 years. Accordingly 100 per cent of the provision made for the AP portfolio as on 31-Mar-2013 would be added back notionally to NOF for CRAR purposes as on that date. This add-back would be progressively reduced by 20 % each year i.e. up to March 2017.)

Post AP crisis, company had made a loan loss provision on 100% of the impacted portfolio in FY-12 as the book had hit the > 720 days ageing - this is in line with the RBI stipulated provisioning policy. With this provision, the net worth of the company turned negative. However, the company is still making recoveries from the loss provisioned portfolio. These recoveries and the operating profits together are helping the company improve on the net worth position. Nonetheless, the NOF/ CRAR is still below the min capitalisation levels. Therefore, one of the conditions put forth by the lenders for this approval of fresh debt as mentioned in the "Borrowings" para - was to obtain forbearance from RBI on NOF/ CRAR compliances.

The company sought and received RBI forbearance from RBI for a period of two years till 31-Mar-2016 vide letter dated 16-April-2014, subject to company bringing in fresh capital of Rs. 5 crores upfront. Following the approval from CDR-EG, and forbearance from RBI, on 29-Apr-2014, the company has signed Facility Agreement with lenders.

Equity Infusion

Equity raise of Rs. 5 crore was a condition precedent to draws under the above said Facility Agreement. Hence, the company allotted equity raise as a condition precedent.

The company had vide shareholders approval dated 6-May-2014, allotted 10,00,000 equity shares of Rs. 10 each at a premium of Rs. 40, on private placement basis and infused Rs. 5 crores. The details of the allotment are as follows:

Name	Amount (Rs. Cr)	No. of shares
JM Financial Trustee Co. Pvt. Ltd.	2.72	5,44,000
Valiant Mauritius Partners FDI Ltd.	1.65	3,30,000
Helion Venture Partners II LLC	0.45	90,000
Helion Venture Partners LLC	0.18	36,000
TOTAL	5.00	10,00,000

Auction of Gold jewelry for recovery of overdues of loans against them

The following is the information related to auction of Gold jewelry conducted by the company pertaining to over dues of loans secured against gold jewelry during the financial year 2013-14:

Particulars	
No. of Loan Accounts	1,739
Outstanding Amounts (Rs. Crore)	8.95
Value fetched (Rs. Crore)	8.46
Sister concern participated	None

Auditors

Pursuant to Sub-section (1) of Section 139 of the Companies Act, 2013, every company shall appoint an individual or a firm as an auditor who shall hold office from the conclusion of that meeting till the conclusion of its sixth AGM. As per the Section the company shall place the matter relating to such appointment for ratification by members at every AGM.

M/s. S R Batliboi & Co, LLP have completed one year as statutory auditors, as such they have to be re-appointed for a term of further four years. The members may note that in pursuance of the above, M/s. S R Batliboi & Co, LLP the Statutory Auditors of the company who retires at the ensuing Annual General Meeting and are eligible for re-appointment, offer themselves for re-appointment as the statutory auditors of the company for a term of four years starting from the financial year 2014-15, subject to approval of shareholders.

The statutory auditors have provided the company with a certificate u/sec 139(1) of the Act, specifying that if re-appointed their appointment will be within the prescribed limits as specified in Sec. 139 of the Companies Act, 2013.

Director's Report

Your Board recommends for approval of the M/s. S R Batliboi & Co, LLP (Firm No 301003E), Chartered Accountants Firm, Hyderabad as Statutory Auditors to audit the books of the company for a period of four years starting from the financial year 2014-15 till the conclusion of the AGM held for the FY 2018-2019 as the Statutory Auditors of the Company.

Board Comments on Auditors Report

Auditor's Remark	Comments of the Board
None	None

Personnel

Employee relations continued to be cordial throughout the year at all locations. Your Directors wish to place on record their deep sense of appreciation for the commitment displayed by all executives, officers and staff, resulting in the successful performance of the Company during the year. Particular of Employee pursuant to Section 134 of the Companies Act, 2013 is given hereunder -

Employed throughout the year and in receipt of remuneration of Rs. 5,00,000/- per month and above:

Name of the Employee & Age	: Mrs. Padmaja Gangireddy & 46Yrs.
Designation & Nature of Duties	: Managing Director
Nature of Employment	: Contractual
Qualification & Experience	: BCI, MBA, > 20 years
Remuneration p.m.	: Rs. 22,50,000
Date of Commencement of employment	: April 19, 2003
Last Employment	: Director of Spandana Rural and Urban Development Organization

Mrs. G Padmaja Reddy was reappointed as Managing Director for tenure of five years i.e. from 19-Apr-13 to 18-Apr-18, vide Extra- ordinary General Meeting held on 22-Mar-13.

Directors

Affairs of your Company are being managed by a professional Board comprising of eminent personalities having experience and expertise suited to guide the Company in right direction. Present Directors of your Company are:

Name of Director	Category
Mrs. Padmaja Gangireddy	: Managing Director
Mr. Lakshmi Narasaiah Gunturu	: Independent Non Executive Director
Ms. Abanti Mitra	: Independent Non Executive Director
Mr. Khazan Singh Singhwan	: SIDBI Nominee Director

Mr. Avinash Umapathy, Nominee Directors of ICICI Bank rendered his resignation from the Board of Directors of the Company on 13-Feb-2014.

Mr. Kamal Kishore Jiwanlal Taori, Nominee Directors of lenders rendered his resignation from the Board of Directors of the Company on 14-Mar-2014.

Rotation of Directors

As per Section 152 (6) (a) of Companies Act, 2013, not less than two-third of the total number of directors should retire by rotation, at every AGM.

For the purpose of this section, it is been explained that the total number of directors to retire by rotation shall not include "Independent Directors" and "Nominee Directors".

Therefore, the company consists of four directors out of which two are Independent directors and one is a nominee director and one is non rotational whole time director. Hence, this year no director retires by rotation. Further the company is in the process to expand the Board's strength.

Board of Directors Meetings

During the Financial year 2013-2014 your Board met four times i.e. 28-Jun-2013, 26-July-2013, 15-Nov-2013 and 26-Mar-2014 to discuss strategic and operational issues. Your Board approved various agenda items through circular resolution as well, based on the availability of time and urgency of the matter.

Corporate Governance

Your Company has been putting earnest efforts to adopt best Corporate Governance Practices. In accordance with corporate governance norms prescribed by Reserve Bank of India from time to time as mentioned in the Companies Act, 1956, Secretarial Standards and industry trends, the Company has constituted the following Committees of the Board. The meeting of these Committees has been happening with regular intervals as and when desired.

Name of the Committee & their Members

Audit, Compliance & Corporate Governance Committee
Mr. Lakshmi Narsaih
Mr. K. S. Singhwan
Ms. Abanti Mitra

Remuneration & Nomination Committee
Mrs. Padmaja Gangireddy
Ms. Abanti Mitra
Mr. K. S. Singhwan

Risk & Fraud Control and Monitoring Committee
Mrs. Padmaja Gangireddy
Ms. Abanti Mitra
Mr. K. S. Singhwan

Asset Liability Management & Credit Policy Committee
Mrs. Padmaja Gangireddy
Ms. Abanti Mitra
Mr. K. S. Singhwan

Product, Process & Grievance redressal Committee
Mrs. Padmaja Gangireddy
Ms. Abanti Mitra
Mr. K. S. Singhwan

Asset Sale Committee
Mrs. Padmaja Gangireddy
Mr. K. S. Singhwan
Ms. Abanti Mitra

Executive Committee
Mrs. Padmaja Gangireddy
Ms. Abanti Mitra
Mr. K. S. Singhwan

Corporate Social Responsibility Committee
Mrs. Padmaja Gangireddy
Ms. Abanti Mitra
Mr. K S Singhwan

Director's Report

Demat of Shares

75% of your Company's shares i.e., 1,45,91,074 equity shares have been made available for de-materialisation through the National Securities Depository Limited (NSDL) and its ISIN Number is INE572J01011.

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo

The particulars required to be furnished under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are as under:

a) Conservation of Energy

Our operations are not energy-intensive. However, significant measures are taken to reduce energy consumption by using energy efficient computers and electrical equipments. Our field staff use motor bikes for reaching to customer locations for client servicing. We are planning in such a way that road travel can be reduced and fuel consumption is minimized. We are also promoting use of renewable energy sources among clients at their household levels.

b) Research and Development (R&D)

Social research and development of new products and methodologies continue to be an ongoing process for the Company. This helps us to enhance quality of service and customer satisfaction through continuous innovation. The Company has been adapting various lending models within the limited scope of MFI norms.

c) Technology absorption, adaptation and innovation

Technology is being used as a business enabler at Spandana. We are improving our processes and controls with higher technology development and adoption to get better operational efficiencies. Our in-house software development capability gives us flexibility to innovate on product features and service our customers better.

d) Foreign exchange earnings and outgo

During the year, there was no foreign exchange earnings and outgo. Whereas the company had made Equity raise of Rs. 5 crore which was a condition precedent to availing forbearance on NOF/CRAR from RBI. Hence, the company allotted equity shares of 10lakhs through preferential basis vide EGM held on 6-May-2014.

Future Outlook

SSFL continues to be one of the largest MFIs making substantive impact in the financial inclusion space across India. Your Company had been growing the smaller states more than the larger states due to which the non-AP portfolio composition has become better diversified. Performance across all states had been good. In AP, the portfolio is predominantly secured (loan against Gold/ Farm Equipment/ Micro Mortgages etc). The company has demonstrated its ability in terms of promoter commitment, management stability, significant technology adoption, process strengthening, internal controls and compliance with emergent industry and RBI norms for NBFCs MFI. Non-AP Operations are sustainable (over 99% recovery rates) and profitable (costs under control) on a standalone basis (high operational efficiencies). With renewed support from lenders and RBI in the financial year-2014-15, your Company is confident that it will soon improve its corporate performance further.

Directors' Responsibility Statement

In accordance with Section 217(2AA) of the Companies Act, 1956 the Directors of your Company hereby state that:

- In the preparation of the Annual Accounts, the applicable accounting standards have been followed;
- Your Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of your Company at the end of the financial year and of the profit or loss of your Company for that period;
- Your Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities; and
- Your Directors have prepared the annual accounts on a going concern basis.

Gratitude and Acknowledgement

Your Directors would like to express their sincere appreciation of the co-operation and assistance received from shareholders, bankers, regulatory bodies like Reserve Bank of India, Ministry of Corporate Affairs etc. and other business constituents during the year under review.

Date : 06-Aug-2014 For & on behalf of the Board of Directors
Place: Hyderabad

Sd/-
Padmaja Gangireddy
Managing Director

Sd/-
Lakshmi Narasaiah
Director



Independent Auditor's Report

To the Members of Spandana Sphoorty Financial Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Spandana Sphoorty Financial Limited ("the Company"), which comprise the Balance Sheet as at March 31, 2014, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with accounting principles generally accepted in India, including the Accounting Standards notified under the Companies Act, 1956 ('the Act'), read with General Circular 8/2014 dated April 4, 2014 issued by the Ministry of Corporate Affairs. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) In the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2014;

(b) In the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and

(c) In the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.

2. As required by section 227(3) of the Act, 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 purpose 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, Statement of Profit and Loss, and Cash Flow Statement dealt with by this Report are in agreement with the books of account;

(d) In our opinion, the Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement comply with the Accounting Standards notified under the Act, read with General Circular 8/2014 dated April 4, 2014 issued by the Ministry of Corporate Affairs; and

(e) On the basis of written representations received from the directors as on March 31, 2014, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2014, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act.

For S.R. BATLIBOI & CO. LLP
Chartered Accountants
ICAI Firm's Registration Number: 301003E

sd/-
Viren H. Mehta
Partner
Membership Number: 048749

Place : Hyderabad
Date : 06-Aug-14

Annexure to the Independent Auditor's Report

Annexure referred to in paragraph (1) under the heading 'Report on Other Legal and Regulatory Requirements' of our report of even date

Re: Spandana Sphoorty Financial Limited ('the Company')

(I) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

(b) All fixed assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.

(c) There was no disposal of a substantial part of fixed assets during the year.

(ii) The Company's business does not involve inventories and, accordingly, the requirements under paragraph 4(ii) of the Order are not applicable to the Company.

(iii) (a) According to the information and explanations given to us, 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 Act. Accordingly, the provisions of clause 4(iii)(a) to (d) of the Order are not applicable to the Company and hence not commented upon.

(b) According to information and explanations given to us, the Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under section 301 of the Act. Accordingly, the provisions of clause 4(iii)(e) to (g) of the Order are not applicable to the Company and hence not commented upon.

(iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase of fixed assets and for rendering of services. The activities of the Company do not involve purchase of inventory and the sale of goods. *However, the internal control system for rendering of services is inadequate as certain deficiencies have been noted in appropriating collections / recoveries in respect of loan balances to the respective customer accounts. In our opinion, this is a continuing failure to correct a weakness in the internal control system and prevailed at the balance sheet date.* However, according to the information given to us, the Company has taken steps to rectify this weakness subsequent to the balance sheet date.

(v) (a) According to the information and explanations provided by the management, we are of the opinion that the particulars of contracts or arrangements referred to in section 301 of the Act that need to be entered into the register maintained under section 301 have been so entered.

(b) In respect of transactions made in pursuance of such contracts or arrangements and exceeding the value of Rupees five lakhs entered into during the financial year, because of the unique and specialized nature of the items involved and absence of any comparable prices, *we are unable to comment whether the transactions were made at prevailing market prices at the relevant time.*

(vi) The Company has not accepted any deposits from the public.

(vii) The Company has an internal audit system, the scope and coverage of which, in our opinion, *requires to be enlarged to be commensurate with the size and nature of its business.*

(viii) To the best of our knowledge and as explained, the Company is not in the business of sale of any goods. Therefore, in our opinion, the provisions of clause 4(viii) of the Order are not applicable to the Company.

(ix) (a) Undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service tax, customs duty, excise duty cess and other material statutory dues have not *generally been regularly deposited with the appropriate authorities though the delays in deposit have not been serious.*

(b) According to the information and explanations given to us, undisputed dues in respect of provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty cess and other material statutory dues which were outstanding, at the year end, for a period of more than six months from the date they became payable, are as follows:

Name of the Statute	Nature of the Dues	Amount (Rs.)	Period to which the amount relates
The Jharkhand Tax on Professions, Trades, Callings and Employments Act, 2011	Professional Tax	9,213	March 2013 to September 2013
The Maharashtra State Tax on Professions, Trades, Callings and Employments Act, 1975		8,741	
The Orissa Tax on Professions, Trades, Callings and Employments Act, 1975		16,158	
The Karnataka Tax on Professions, Trades, Callings And Employments Act, 1976		1,717	
The Employees' State Insurance Act, 1948	Employee State Insurance contributions	4,233	April 2013 to September 2013
The Employees' State Insurance contributions Insurance Act, 1948	Damages towards delayed remittance of Employee State Insurance contributions	2,604,324	May 2005 to June 2008
Income Tax Act, 1961	Tax deductible at source (TDS) on foreign remittances	2,217,469	Financial year 2011-12

(c) According to the information and explanations given to us, the dues outstanding of income tax, sales-tax, wealth tax, service tax, customs duty, excise duty and cess on account of dispute, are as follows:

Name of the Statute	Nature of the Dues	Amount under dispute (Rs.)	Amount Paid* (Rs.)	Period to which it relates	Forum where dispute is pending
Chapter V of the Finance Act, 1994	Service tax	95,257,094	9,200,000	Financial years 2004-05 to 2011-12	Customs Excise & Service Tax Appellate Tribunal
	Interest on service tax dues mentioned above	88,896,262			
	Penalty on service tax dues	107,226,555			
Income Tax Act, 1961	Income Tax	93,373,981	69,448,891	Assessment Year 2009-10	Income Tax Appellate Tribunal (ITAT)
Income Tax Act, 1961	Income Tax	72,390,097	48,628,660	Assessment Years 2010-11 and 2011-12	The Commissioner of Income Tax (Appeals)

*The Company has paid these amounts under protest.

(x) *The Company's accumulated losses at the end of the financial year are more than fifty percent of its net worth.* The Company has not incurred cash losses in the current and immediately preceding financial year.

(xi) Based on our audit procedures and as per the information and explanations given by the management, *the Company has delayed in repayment of dues to financial institutions and banks during the year to the extent of Rs. 2,514,230,161 (the delay in such repayments being for less than 138 days in each individual case) and Rs. 873,204,178 of such dues were in arrears as on the balance sheet date. Further, no repayments have been made by the Company during the year in case of a few lenders pending the finalization of the terms of restructuring/settlement with the respective lenders, the overdue principal and interest remaining unpaid as at March 31, 2014 is Rs. 664,300,282 and Rs. 174,673,166 respectively.* The Company did not have any outstanding dues in respect of debenture holders during the year.

(xii) According to the information and explanations given to us and based on the documents and records produced before us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Order are not applicable to the Company.

(xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable to the Company.

(xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.

(xvi) Based on information and explanations given to us by the management, term loans were applied for the purpose for which the loans were obtained, though idle/surplus funds which were not required for immediate utilization have been gainfully invested in liquid investments payable on demand.

(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment.

(xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Act.

(xix) The Company has not issued any debentures in the current year. In respect of debentures issued in earlier years, security/charge has been created by the Company.

(xx) The Company has not raised money by public issue of shares during the current year.

(xxi) We have been informed that during the year there were instances of *cash embezzlements by the employees of the Company aggregating Rs. 1,480,336; and loans given to non-existent borrowers on the basis of fictitious documentation created by the employees of the Company aggregating Rs. 3,406,780.* As informed, services of employees involved have been terminated and the Company is in the process of taking legal action against the employees and the borrowers. The outstanding balance (net of recovery) aggregating Rs. 4,376,573 has been written off.

For S.R. BATLIBOI & CO. LLP
Chartered Accountants
ICAI Firm's Registration Number: 301003E

Sd/-
Viren H. Mehta
Partner
Membership Number: 048749

Place : Hyderabad
Date : August 6, 2014

Balance sheet as at 31 March 2014

(All amounts in Indian rupees, except share data and where otherwise stated)

SOURCES OF FUNDS	NOTE	31-MAR-14	31-MAR-13
EQUITY AND LIABILITIES			
Shareholder's funds			
Share capital	4.1	9,129,507,670	9,599,807,670
Reserves and surplus	4.2	(9,236,616,636)	(9,704,656,501)
		(107,108,966)	(104,848,831)
Non-current liabilities			
Long-term borrowings	4.3	3,410,071,486	6,318,315,818
Other long term liabilities	4.4	680,417,742	687,697,188
Long-term provisions	4.5	12,065,473,949	12,997,136,457
		16,155,963,177	20,003,149,463
Current liabilities			
Short-term borrowings	4.6	-	450,000,000
Trade payables	4.7	5,601,372,628	4,349,716,892
Short-term provisions	4.5	84,536,406	33,687,722
		5,685,909,034	4,833,404,614
TOTAL		21,734,763,245	24,731,705,246
ASSETS			
Non-current assets			
Fixed assets			
(i) Tangible fixed assets	4.8.1	38,265,149	55,411,160
(ii) Intangible fixed assets	4.8.2	6,182,073	10,784,850
(iii) Capital work-in-progress		-	1,236,972
Non-current investments	4.9	1,000,000	1,000,000
Loan portfolio	4.10	12,754,256,890	13,469,734,531
Other Long-term loans and advances	4.11	191,547,393	444,504,884
Other non-current assets	4.12	43,399,490	54,270,534
		13,034,650,995	14,036,942,932
Current assets			
Trade receivables	4.13	1,613,180	-
Cash and bank balances	4.14	257,753,808	1,726,537,071
Loan portfolio	4.10	8,317,830,152	8,842,036,117
Short-term loans and advances	4.11	21,882,523	57,859,991
Other current assets	4.12	101,032,587	68,329,136
		8,700,112,250	10,694,762,315
TOTAL		21,734,763,245	24,731,705,246
Summary of Significant accounting policies	3.1		
The accompanying notes are an integral part of the financial statements			

As per our report of even date attached

For S. R. BATLIBOI & CO. LLP

ICAI Firm registration number: 301003E
Chartered AccountantsSd/-
Viren H. Mehta
Partner
Membership No. 048749Place: Hyderabad
Date: 06-Aug-14For and on behalf of the Board of the Directors of
Spandana Sphoorty Financial LimitedSd/-
Padmaja Gangireddy
Managing DirectorSd/-
Tasneem Shariff
Company SecretarySd/-
Lakshmi Narasaiah G
DirectorPlace: Hyderabad
Date: 06-Aug-14

Profit and loss account for the year ended 31 March 2014

(All amounts in Indian rupees, except share data and where otherwise stated)

	NOTE	31-MAR-14	31-MAR-13
Revenue			
Revenue from operations	4.15	2,750,442,098	2,275,648,797
Other income	4.16	54,291,281	452,524,966
Total revenue (I)		2,804,733,379	2,728,173,763
Expenses			
Employee benefits expense	4.17	677,108,315	776,317,546
Finance costs	4.18	999,588,493	55,180,940
Other expenses	4.19	399,733,011	340,123,633
Depreciation and amortisation expense	4.8	31,273,655	29,523,574
Provision and write offs	4.20	53,190,166	13,153,227,912
Total expenses (II)		2,160,893,640	14,354,373,605
(Loss)/ Profit before tax (III) = (I) - (II)		643,839,739	(11,626,199,842)
Tax expenses:			
- Current tax		-	-
- Deferred tax		-	-
- Adjustment of tax relating to earlier periods		700,566	-
Profit / (Loss) for the year		643,139,173	(11,626,199,842)
Earnings per equity share (Nominal value of Rs. 10 per share)			
Basic (Computed on the basis of total profit/(loss) for the year)	4.22	33.18	(599.88)
Diluted (Computed on the basis of total profit/(loss) for the year)	4.22	0.68	(599.88)
Summary of Significant accounting policies The accompanying notes are an integral part of the financial statements	3.1		

As per our report of even date attached

For S. R. BATLIBOI & CO. LLP

ICAI Firm registration number: 301003E
Chartered Accountants

Sd/-
Viren H. Mehta
Partner
Membership No. 048749

Place: Hyderabad
Date: 06-Aug-14

For and on behalf of the Board of the Directors of
Spandana Sphoorty Financial Limited

Sd/-
Padmaja Gangireddy
Managing Director

Sd/-
Lakshmi Narasaiah G
Director

Sd/-
Tasneem Shariff
Company Secretary

Place: Hyderabad
Date: 06-Aug-14

Cash flow statement for the year ended 31 March 2014

(All amounts in Indian rupees, except share data and where otherwise stated)

PARTICULARS	31-MAR-14	31-MAR-13
I. Cash flow from operating activities		
Profit / (loss) before tax	643,839,739	(11,626,199,842)
Adjustments to reconcile profit / (loss) before tax to net cash flows:		
Depreciation and amortisation	31,273,655	29,523,574
Amortisation of ancillary borrowing cost	4,070,424	4,070,424
(Profit) / loss on sale of fixed assets	(2,139,878)	1,556,991
Contingent provision against standard assets	67,125,238	3,001,016
Excess provision for non-performing assets	(936,158,073)	-
Provision for non-performing assets	-	11,566,023,607
Portfolio loans written off	775,604,522	1,544,780,325
Loss on assigned loans	146,618,479	39,422,964
Dividend from mutual funds	(10,133,281)	(77,902,156)
Excess provisions no longer required	(5,724,158)	-
Other provisions and write offs	132,730,905	-
Unrealised foreign exchange loss	3,874,849	-
Operating profit / (loss) before working capital changes	850,982,420	1,484,276,903
Movements in working capital :		
Increase/ (decrease) in other current liabilities	212,757,308	11,193,662,457
Increase/ (decrease) in other long term liabilities	(7,279,446)	(1,079,107,220)
Decrease / (increase) in trade receivables	(1,613,180)	-
Decrease / (increase) in loans and advances	472,876,972	(13,043,851,555)
Decrease / (increase) in other current assets	(32,703,451)	33,900,726
Decrease / (increase) in other non-current assets	6,800,620	136,411,351
Cash generated from / (used in) operations	1,501,821,244	(1,274,707,338)
Direct taxes paid (net of refunds)	232,813,904	(18,446,963)
Net cash flow from / (used in) operating activities (A)	1,734,635,148	(1,293,154,301)
II. Cash flows from investing activities		
Purchase of fixed assets (including capital work in progress and capital advances)	(11,584,810)	(7,251,644)
Proceeds from sale of fixed assets	3,022,920	14,357,500
Purchase of current investments	(4,783,400,000)	-
Sale of current investments	4,783,400,000	-
Dividend from mutual funds	10,133,281	77,902,156
Margin money deposits (net)	500,000,000	(500,000,000)
Net cash flow (used in) / from investing activities (B)	501,571,391	(414,991,988)
III. Cash flows from financing activities		
Redemption of OCCRPS (including premium on redemption)	(480,214,898)	-
Long-term borrowings (net)	(2,274,774,903)	(2,521,393,961)
Short-term borrowings (net)	(450,000,000)	449,745,734
Net cash flow used in financing activities (C)	(3,204,989,801)	(2,071,648,227)
Net decrease in cash and cash equivalents (A + B + C)	(968,783,263)	(3,779,794,516)
Cash and cash equivalents at the beginning of the year	1,226,537,071	5,006,331,587
Cash and cash equivalents at the end of the year (refer note 4.14)	257,753,808	1,226,537,071
Summary of significant accounting policies	3.1	
The accompanying notes are an integral part of the financial statements		

As per our report of even date attached

For S. R. BATLIBOI & CO. LLP

ICAI Firm registration number: 301003E
Chartered AccountantsSd/-
Viren H. Mehta
Partner
Membership No. 048749For and on behalf of the Board of the Directors of
Spandana Sphoorty Financial LimitedSd/-
Padmaja Gangireddy
Managing DirectorSd/-
Lakshmi Narasaiah G
DirectorSd/-
Tasneem Shariff
Company SecretaryPlace: Hyderabad
Date: 06-Aug-14Place: Hyderabad
Date: 06-Aug-14

Notes to financial statements for the year ended 31 March 2014

(All amounts in Indian rupees, except share data and where otherwise stated)

1. Corporate information

Spandana Sphoorty Financial Limited ('SSFL' or 'the Company') is a public company domiciled in India and incorporated under the provision of the Companies Act, 1956 ('the Act') on March 10, 2003. The Company is registered as a non-deposit accepting Non-Banking Financial Company ('NBFC-ND') with the Reserve Bank of India ('RBI') holding Certificate of Registration (COR) No. 09.00414 dated October 16, 2004.

The Company is engaged in the business of micro finance providing small value unsecured loans to low-income clientele in urban and rural areas. The tenure of these loans is generally spread over one to two years. The Company provides individual loans, small business loans, tractor loans and loans against gold as collateral.

2. Regulatory and Company updates

a) The Government of Andhra Pradesh promulgated "The Andhra Pradesh Micro Finance Institution (Regulation of Money Lending) Ordinance 2010" on October 15, 2010, subsequently enacted the same as "The Andhra Pradesh Micro Finance Institution (Regulation of Money Lending) Act, 2011 (Act 1 of 2011)" on December 31, 2010 and notified by Gazette on January 1, 2011 ('AP MFI Act'). In compliance with the said Ordinance/Act, the frequency of the JLG loan repayments in the state of Andhra Pradesh changed from a 'weekly' to a 'monthly' basis.

AP MFI Act made it mandatory for all Micro Finance Institutions (MFIs) to register with the District Rural Development Authority ('DRDA') and directed them to follow certain regulations which require significant changes in the operating procedures for MFIs including:

- Identification of the customer (within the database created by AP Government),
- Restrictions on the loan amount and eligibility of the customer to borrow,
- Disbursements with prior approval of DRDA and
- Recovery mechanism, including the place of recovery (only at specified places notified).

These directions continue to be enforced in the state of Andhra Pradesh, consequent to which the recoveries have fallen significantly for all MFIs, including the Company, which has a serious impact of the Company's ability to continue its operations in Andhra Pradesh. As a result, the Company's operations have been restricted and collection rates in the state of Andhra Pradesh have significantly reduced.

Though the AP MFI Act has not affected the operations in other states, the additional funding from the financial institutions has been severely restricted.

b) Pursuant to a notification DNBS.CC.PD.No.250/03.10.01/2011-12 dated December 2, 2011, the RBI issued the Non-Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) Directions ('the NBFC-MFI Directions'), wherein a new category of NBFC viz. NBFC-MFI was created. These directions, in addition to defining an NBFC-MFI, provided the regulatory framework and the prudential norms for NBFC-MFIs. Further, it required the existing NBFCs engaged in micro finance activities to apply for a change of classification and seek a fresh registration. Accordingly, the Company had, on June 18, 2012, submitted the application to the RBI for change in classification to NBFC-MFI. As at March 31, 2014,

the response from the RBI is awaited for the classification of the Company as NBFC-MFI.

However, subsequent to the above circular, the RBI (vide its circular dated March 20, 2012) deferred the implementation of the asset classification and provisioning norms, laid down in the NBFC-MFI Directions, to April 1, 2013.

Subsequently, RBI issued certain modifications to the NBFC-MFI Directions on August 3, 2012. The modifications clarified that provisioning made towards portfolio in the state of Andhra Pradesh should be in accordance with extant 'Non-banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007' as amended from time to time ('the NBFC Prudential Norms') and such provision should be added back notionally to the net owned funds for the purpose of calculation of the capital to risk assets ratio ('CRAR') and would be progressively reduced by 20% each year, over 5 years i.e. from March 31, 2013 to March 31, 2017.

c) The Micro Finance Institutions (Development and Regulation) Bill, 2011 was introduced in the month of June 2011. This bill lays the foundation for a central regulation of the microfinance industry and consequently leads to the repeal of the AP MFI Act. It also ensures that no other state legislation would be empowered to enact its own law to regulate the industry. Currently the bill is pending with the Parliament for its approval.

d) The Company had entered into a Master restructuring Agreement (MRA) under the Corporate Debt Restructuring (CDR) arrangement with the lenders on September 24, 2011 (refer to notes 4.1 and 4.3 for details of the CDR package).

e) Pursuant to the approval granted by the CDR committee vide its letter dated December 30, 2013 to the Company's proposal for sanction of fresh line of credit, it has been agreed that the CDR lenders shall make available, to the Company, a term loan facility for an aggregate amount of Rs.1,150.25 crores.

3. Basis of preparation

a) The financial statements of the Company have been prepared in accordance with the generally accepted accounting principles in India (Indian GAAP). The Company has prepared these financial statements to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended), the relevant provisions of the Act read with general circular 8/2014 dated April 4, 2014 issued by the Ministry of Corporate Affairs and the provisions of the RBI as applicable to a non-banking financial company. The financial statements have been prepared on an accrual basis and under the historical cost convention except interest on loans which have been classified as non-performing assets and are accounted for on realisation basis.

b) The Company had incurred substantial losses during the previous financial year as a result of which, its net owned funds, as defined under section 45-IA of the Reserve Bank of India Act, 1934, as amended ('NOF') as at March 31, 2014 continues to be lower than the minimum amount prescribed by the RBI to carry on the business of a non-banking financial institution ('NBFI'). Also, the Capital to Risk Assets Ratio ('CRAR') of the Company as at March 31, 2014 continues to be lower than the minimum percentage prescribed by the RBI. The losses incurred were mainly attributable to the provisioning for the loan portfolio outstanding in the state of Andhra Pradesh.

Notes to financial statements for the year ended 31 March 2014

(All amounts in Indian rupees, except share data and where otherwise stated)

In view of the challenges being faced by the Company in maintaining the minimum NOF and CRAR as stipulated by RBI, the Company vide letter dated March 18, 2014 requested the RBI to provide an exemption from complying with the minimum NOF criteria and also for regulatory forbearance for not maintaining minimum CRAR.

In response of the Company's request, the RBI vide its letter dated April 16, 2014 has provided an exemption from maintaining minimum CRAR and NOF for a period of two years till March 31, 2016, subject to the Company bringing in fresh capital of Rs.5 crores upfront. The Company has therefore issued and allotted 1,000,000 equity shares of face value of Rs.10 each at a premium of Rs.40 per share to its existing shareholders on May 16, 2014.

As mentioned in paragraph 2(d) above, the Company has implemented the debt restructuring package. Further, as mentioned in paragraph 2(e) above, the CDR lenders have agreed to make available additional loan facilities aggregating Rs. 1,150.25 crores to the Company.

Considering the grant of regulatory forbearance by RBI and sanction of the fresh line of credit by the CDR lenders, which would further enhance the availability of resources to sustain operations for atleast 12 months following March 31, 2014, the accompanying financial statements have been prepared on a going concern basis.

c) The accounting policies adopted in the preparation of financial statements are consistent with those of previous year, except for the change in accounting policy explained below.

3.1 Summary of significant accounting policies

a) Change in accounting policy

For the year ended March 31, 2014, the Company has adopted the asset classification and provisioning policy, for its unsecured loan portfolio, as prescribed by the RBI in the NBFC-MFI Directions, amended vide circular dated March 20, 2012. These Directions require the provision to be higher of (i) 1% of the outstanding loan portfolio or (ii) 50% of the aggregate loan installments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan installments which are overdue for 180 days or more. Accordingly, the provision towards standard and non-performing assets during the year ended March 31, 2014 is higher by Rs. 77,916,708.

b) Use of estimates

The preparation of financial statements in conformity with the generally accepted accounting principles requires the management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting period. Although these estimates are based on the management's best knowledge of current events and actions, uncertainty about these assumptions and estimates could result in the outcomes requiring a material adjustment to the carrying amounts of assets or liabilities in future periods.

c) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and revenue can be reliably measured.

i. Interest income on loans given is recognized under the internal rate of return method. Income or any other charges on non-performing asset is recognized only when realized and any such income recognized before the asset became non-performing and remaining unrealized is reversed.

ii. Interest income on deposits with banks is recognized on a time proportion accrual basis taking into account the amount outstanding and rate applicable.

iii. Loan processing fees collected from borrowers are recognised over the tenure of the loan on straight-line basis.

iv. Amounts received against loans written-off are recognized on receipt basis.

v. All other income is recognized on an accrual basis.

d) Tangible fixed assets

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

e) Intangible assets

Software expenditure is capitalized in accordance with AS-26 "Intangible Assets" notified by the Companies (Accounting Standards) Rules, 2006 (as amended). It amortised using the written down value method at a rate of 40% per annum.

f) Depreciation

i. Depreciation on fixed assets is provided on a written down value method at the rates prescribed under Schedule XIV of the Act, which also represents the estimate of the useful life of the assets by the management.

ii. Fixed assets costing up to Rs. 5,000 individually are fully depreciated in the year of purchase.

g) Impairment

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's net selling price and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining net selling price, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.

Notes to financial statements for the year ended 31 March 2014

(All amounts in Indian rupees, except share data and where otherwise stated)

h) Leases (where the Company is the lessee)

Leases where the lessor effectively retains, substantially all the risks and benefits of ownership of the leased item, are classified as operating leases. Operating lease payments are recognised as an expense in the statement of profit and loss on a straight-line basis over the lease term.

i) Foreign currency transactions

i. All foreign currency transactions are recorded at the exchange rate prevailing on the date of the transaction.

ii. Foreign currency monetary items are reported using the exchange rate prevailing at the close of the financial year.

iii. Exchange differences arising on the settlement of monetary items or on the restatement of Company's monetary items at rates different from those at which they were initially recorded during the year, or reported in the previous financial statements, are recognized as income or expenses in the year in which they arise.

j) Retirement and other employee benefits

i. Retirement benefit in the form of provident fund is a defined contribution scheme. The Company has no obligation, other than the contribution payable to the provident fund. The Company recognizes contribution payable to the provident fund scheme as an expenditure, when an employee renders the related service.

ii. Gratuity liability is a defined benefit obligation and is provided for on the basis of an actuarial valuation on projected unit credit method made at the end of each financial year. Actuarial gains and losses for defined benefit plans are recognized in full in the period in which they occur in the statement of profit and loss.

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

k) Income taxes

i. Tax expense comprises of current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Income Tax Act, 1961, enacted in India. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

ii. Deferred income taxes reflect the impact of timing differences between taxable income and accounting income originating during the current year and reversal of timing differences for earlier years. Deferred tax is measured using the tax rates and the tax laws enacted or substantively enacted at the reporting date. Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of profit and loss.

iii. Deferred tax assets are recognized for deductible timing differences only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. In situations where the Company has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that they can be realized against future taxable profits.

iv. The carrying amount of deferred tax assets are reviewed at each reporting date. The Company writes-down the carrying amount of deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable

income will be available against which the deferred tax asset can be realized. Any such write-down is reversed to the extent that it becomes reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available.

l) Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for the year attributable to equity shareholders (after deducting preference dividend and attributable taxes) by the weighted average number of equity shares outstanding during the year.

For the purpose of calculating diluted earnings per share, the net profit or loss for the year attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. Dilutive potential equity shares are deemed converted as of the beginning of the period, unless they have been issued at a later date. In computing the diluted earnings per share, only potential equity shares that are dilutive and that either reduces the earnings per share or increases loss per share are included.

m) Provisions

A provision is recognized when the Company has a present obligation as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not discounted to their present value and are determined based on the best estimate required to settle the obligation at the reporting date. These estimates are reviewed at each reporting date and adjusted to reflect the current best estimates.

n) Contingent liabilities

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognized because it cannot be measured reliably. The Company does not recognize a contingent liability but discloses its existence in the financial statements.

o) Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement comprise cash at bank and cash in hand, and short-term investments with an original maturity of three months or less.

p) Investments

Investments, which are readily realizable and intended to be held for not more than a year from the date on which such investments are made, are classified as current investments. All other investments are classified as long-term investments. Current investments are carried in the financial statements at lower of cost and fair value determined on an individual investment basis except for investments in the units of mutual funds in the nature of current investments that have been valued at the net asset value declared by the mutual fund in respect of each particular scheme, in accordance with the NBFC Prudential Norms. Long-term investments are carried at cost. However, provision for diminution in value is made to recognize a decline other than temporary in the value of the investments. On disposal of an investment, the difference between the carrying amount and disposal proceeds are charged or credited to the statement of profit and loss.

Notes to financial statements for the year ended 31 March 2014

(All amounts in Indian rupees, except share data and where otherwise stated)

q) Borrowing costs

All borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds. Ancillary borrowing costs are amortized over the tenure of the loan on a straight line basis.

r) Classification of loan portfolio

i. Unsecured loan portfolio is classified as standard and non-performing assets in accordance with the NBFC-MFI Directions as amended vide circular DNBS.PD/ CC.No.263 / 03.10.038 /2011-12 dated March 20, 2012.

ii. All other loans and advances are classified as standard, sub-standard, doubtful and loss assets in accordance with the NBFC Prudential Norms.

s) Provisioning policy for loan portfolio

i. Unsecured loan portfolio is provided for in accordance with the NBFC-MFI Directions as amended vide circular DNBS.PD/ CC.No.263 / 03.10.038 /2011-12 dated March 20, 2012. These Directions require the total provision to be higher of:

(a) 1% of the outstanding loan portfolio or

(b) 50% of the aggregate loan installments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan installments which are overdue for 180 days or more.

ii. All other loans and advances are provided for in accordance with the NBFC Prudential Norms. The provisioning under the NBFC Prudential Norms is summarized below:

Asset classification:	Rate of provision
Standard asset	0.25%
Sub-standard (NPA up to 18 months) - Sub-standard asset	10%
Doubtful (Sub-standard after 18 months) - (Secured)	
Doubtful asset up to 1 year	20%
Doubtful asset over 1 year to 3 years	30%
Doubtful asset over 3 years	50%
Doubtful asset not covered by realizable security - (Unsecured)	100%
Loss assets	Written off

Notes to financial statements for the year ended 31 March 2014

(All amounts in Indian rupees, except share data and where otherwise stated)

4.1 Share capital

	AS AT 31 MARCH 2014	AS AT 31 MARCH 2013
<i>Authorised</i> Equity shares 900,000,000 (Previous year: 900,000,000) equity shares of Rs. 10 each	9,000,000,000	9,000,000,000
Preference shares 1,100,000,000 (Previous year: 1,100,000,000) preference shares of Rs. 10 each	11,000,000,000	11,000,000,000
	20,000,000,000	20,000,000,000
Issued, subscribed and paid-up Equity shares 19,380,767 (Previous year 19,380,767) equity shares of Rs. 10 each fully paid up	193,807,670	193,807,670
Optionally convertible cumulative redeemable preference shares (OCCRPS) 893,570,000 (Previous year : 940,600,000) 0.001% OCCRPS of Rs. 10 each fully paid up	8,935,700,000	9,406,000,000
	9,129,507,670	9,599,807,670

4.1 Share Capital (continued)

(a) Terms / rights attached to equity shares

The Company has only one class of equity shares of par value of Rs. 10 per share. Each holder of equity shares is entitled to one vote per share. As per the Master Restructuring Agreement ('MRA'), the Company, without prior written approval of CDR - Empowered Group, shall not declare / pay any dividend on any shares. Pursuant to MRA, the shares held by promoters are pledged against CDR lenders. Any dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting. The Company declares and pays dividends in Indian rupees.

(b) Terms / rights attached to OCCRPS

"As per the Master Restructuring Agreement ('MRA') dated September 24, 2011 entered into with the lenders of the Company for restructuring of the total debt (net of fixed deposits) aggregating to Rs. 2,163.90 crores, an amount of Rs. 906 crores was converted into Optionally Convertible Cumulative Redeemable Preference Shares ('OCCRPS') on pro-rata basis to the lenders. Accordingly, the Company issued 906,000,000 0.001% OCCRPS of Rs.10 each as fully paid-up to the lenders. OCCRPS carry a dividend of 0.001% p.a. and a redemption premium of 12% p.a., as specified in the MRA.

Further, during the previous year 34,600,000 OCCRPS were issued to Non-CDR lenders on terms and conditions similar to those as specified in the MRA dated September 24, 2011 with the CDR lenders.

The Company had filed Form 2 for allotment of OCCRPS with Registrar of Companies for an amount of Rs. 1,000,000,000. However, OCCRPS amounting to Rs. 31,000,000 and Rs. 563,000,000 were not accepted by two Non-CDR lenders and accordingly OCCRPS allotted are lower by Rs. 594,000,000.

OCCRPS are redeemable starting from financial year 2013-14, the amount of redemption being 5%, 10%, 15%, 15% and 55% in five years, in a manner as to yield a return of 12% p.a. to the holders of OCCRPS. The total premium payable, as per the agreed redemption schedule, amounts to Rs. 8,687,424,881 of which Rs. 175,099,308 has been paid / provided till the year ended March 31, 2014. The premium payable on redemption shall be provided out of the securities premium account (to the extent of the balance available) and thereafter from the profits.

The holders of OCCRPS have an unqualified right to convert the entire / part of the outstanding amount of OCCRPS along with cumulative dividend and redemption premium into equity shares of the Company in case of occurrence of an event of default as defined in the MRA. Also, the lenders, based upon a written request from the Company may, at their sole discretion, convert the entire / part outstanding amount of OCCRPS along with cumulative dividend, redemption premium into equity shares of the Company to enable the Company to comply with the regulatory norms regarding capital adequacy. The conversion price shall be based on the reports of two independent valuation firms appointed by the Monitoring Institution ('MI') as identified in the MRA.

Each holder of OCCRPS is entitled to one vote per share on resolutions placed before the Company, which directly affects the rights attached to the OCCRPS. Any dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting. The Company declares and pays dividends in Indian rupees.

In the event of liquidation of the Company before conversion / redemption of OCCRPS, the holders of OCCRPS will have priority over equity shares in the payment of dividend and repayment of capital.

Notes to financial statements for the year ended 31 March 2014

(All amounts in Indian rupees, except share data and where otherwise stated)

c. Reconciliation of the number of equity shares outstanding at the beginning and at the end of the reporting year:

Particulars	31-Mar-14		31-Mar-13	
	Number of Shares	Amount	Number of Shares	Amount
Outstanding at the beginning of the year	19,380,767	193,807,670	19,380,767	193,807,670
Issued during the year	-	-	-	-
Shares bought back during the year	-	-	-	-
Outstanding at the end of the year	19,380,767	193,807,670	19,380,767	193,807,670

d. Reconciliation of the number of OCCRPS at the beginning and at the end of the reporting year:

Particulars	31-Mar-14		31-Mar-13	
	Number of Shares	Amount	Number of Shares	Amount
Outstanding at the beginning of the year	940,600,000	9,406,000,000	906,000,000	9,060,000,000
Issued during the year	-	-	34,600,000	346,000,000
Redeemed during the year [refer note (i) and (ii) below]	47,030,000	470,300,000	-	-
Outstanding at the end of the year	893,570,000	8,935,700,000	940,600,000	9,406,000,000

Note on Redemption of OCCRPS

i) During the current year, the Company has redeemed OCCRPS with delays which were due for redemption for the quarters ended September 2013 and December 2013. Further, the Company has not redeemed the OCCRPS with nominal value of Rs.117,575,000 which were due for the quarter ended March 2014 and the total redemption premium involved being Rs.47,609,410. Despite of the default in redemption, the holders of OCCRPS have not exercised their right for conversion of any OCCRPS into equity shares.

ii) The redemption amount, as shown in the table above, includes an amount of Rs.117,575,000 representing the nominal value of OCCRPS due for redemption but not redeemed as at March 31, 2014.

e. Details of shareholders holding more than 5% equity shares in the Company:

Name of the Shareholder	31-Mar-14		31-Mar-13	
	Number of Shares	% of holding	Number of Shares	% of holding
Equity Shares				
JM Financial Trustee Company Pvt. Ltd.	6,038,276	31.16%	6,038,276	31.16%
Padmaja Gangireddy	5,798,388	29.92%	5,798,388	29.92%
Valiant Mauritius Partners FDI Ltd.	3,651,780	18.84%	3,651,780	18.84%
Vijaya Sivarami Reddy Vendidandi	1,479,983	7.64%	1,479,983	7.64%

f. Details of shareholder holding more than 5% of OCCRPS is set below:

Particulars	31-Mar-14		31-Mar-13	
	Number of Shares	Amount	Number of Shares	Amount
ICICI Bank Limited	116,173,750	12.83%	120,700,000	12.83%
Small Industries Development Bank of India	115,692,500	12.78%	120,200,000	12.78%
Syndicate Bank	77,192,500	8.53%	80,200,000	8.53%
Industrial Development Bank of India	48,991,250	5.41%	50,900,000	5.41%

As per the records of the Company, including register of shareholders/members and other declaration received from shareholders regarding beneficial interest, the above shareholding represents both legal and beneficial ownership of shares.

Notes to financial statements for the year ended 31 March 2014

(All amounts in Indian rupees, except share data and where otherwise stated)

	31-Mar-14	31-Mar-13
4.2 Reserves and Surplus		
Capital reserve (Grant received from SIDBI)	7,000,000	7,000,000
Securities premium account		
Balance as per the last financial statements	1,440,061,308	1,440,061,308
Less: Utilisation towards premium on OCCRPS [refer note 4.2 (a)]	(175,099,308)	-
Closing balance	1,264,962,000	1,440,061,308
General reserve	23,280,656	23,280,656
Capital redemption reserve		
Balance as per the last financial statements	-	-
"Add: Amount transferred from surplus in the statement of profit and loss [refer note 4.2 (b)]"	470,300,000	-
Closing balance	470,300,000	-
Statutory reserve		
Balance as per the last financial statements	674,881,714	674,881,714
Add: Amount transferred from surplus in the statement of profit and loss	128,627,835	-
Closing balance	803,509,549	674,881,714
Surplus/(deficit) in the statement of profit and loss		
Balance as per the last financial statements	(11,849,880,179)	(223,680,337)
Add: Profit for the year after tax	643,139,173	(11,626,199,842)
Less: Transfer to Statutory Reserve [@ 20% of profit after tax as required by Section 45-IC of Reserve Bank of India Act, 1934]	(128,627,835)	-
Less: Transfer to Capital redemption reserve	(470,300,000)	-
Net deficit in the statement of profit and loss	(11,805,668,841)	(11,849,880,179)
Total reserves and surplus	(9,236,616,636)	(9,704,656,501)

(a) Amount of premium on redemption, adjusted from the securities premium account, is attributable to the OCCRPS redeemed during the current year and includes an amount of Rs.47,609,410 representing premium due on redemption but not paid as at March 31, 2014. The adjustment made from the securities premium account is in accordance with section 80 of the Companies Act, 1956.

(b) During current financial year, the Company redeemed 47,030,000 OCCRPS in accordance with the terms of the MRA as explained in note 4.1. Accordingly, the Company has transferred an amount equal to the nominal value of the OCCRPS redeemed to the Capital Redemption Reserve account from the current year profits, in compliance with the requirements of Section 80 of the Companies Act, 1956.

(c) Since the opening reserves of the Company are negative, the Company is not eligible to declare any dividend in terms of section 123 of Companies Act, 2013 read with the rules framed thereunder which become applicable with regards to any payment of dividend subsequent to March 31, 2014. Hence, no appropriation has been made towards the dividend payable on the OCCRPS for the current financial year. The Company has sought an approval from the Ministry of Corporate Affairs ('MCA') for payment of dividend on the OCCRPS which is awaited as at March 31, 2014. The Company has paid the previous year dividend to the holders of OCCRPS, subject to such approval from the MCA. Such payment has been treated as an advance in the books of account.

Notes to financial statements for the year ended 31 March 2014

(All amounts in Indian rupees, except share data and where otherwise stated)

	NON-CURRENT PORTION		CURRENT PORTION	
	31-Mar-14 (Rs.)	31-Mar-13 (Rs.)	31-Mar-14 (Rs.)	31-Mar-13 (Rs.)
4.3 Long-term borrowings				
Term loans				
Indian rupee loan from banks (secured)	2,991,204,125	5,333,260,018	2,908,268,365	2,416,401,129
Indian rupee loan from financial institutions (secured)	316,454,002	705,995,688	486,797,100	389,437,680
Indian rupee loan from non-banking financial companies (secured)	102,413,359	279,060,112	221,262,188	177,019,414
	3,410,071,486	6,318,315,818	3,616,327,652	2,982,858,223
Above amount includes				
Secured borrowings	3,410,071,486	6,318,315,818	3,616,327,652	2,982,858,223
Amount disclosed under the head "Other current liabilities" (refer note 4.7)	-	-	(3,616,327,652)	(2,982,858,223)
Net amount	3,410,071,486	6,318,315,818	-	-

(a) Information on CDR package

The Company has received an approval for the Corporate Debt Restructuring ('CDR') package with the lenders under the Master Restructuring Agreement ('MRA') dated September 24, 2011. The key features of the CDR are as follows:

Of the total debts outstanding as at April 1, 2011, an amount of Rs.2,163.90 crores (net of fixed deposits available with individual lenders), was restructured under the MRA. Of the total debt outstanding, Rs.940.60 crores has been reconstituted as Optionally Convertible Cumulative Redeemable Preference Shares ('OCCRPS') and the balance amount of Rs.1,223.30 crores has been reconstituted as rupee term loans.

The rupee term loans carry a fixed rate of interest of 12% p.a., payable on a monthly basis, with effect from April 1, 2011. Principal amount on the said rupee term loans would be repayable starting from financial year 2012-13, the amount of repayment being 20%, 25%, 25%, 15%, 10% and 5% over six years respectively. Details of security available to the CDR lenders in respect of the rupee term loans outstanding are as follows:

i. As part of the MRA, security interest created by the Company is available to all the lenders to secure the restructured term debt, working capital term loans and all amounts payable under the restructuring documents and the security interests so created, rank pari passu among the lenders.

ii. Additional security is made available to the CDR lenders by pledging of entire unencumbered shares held by the promoters. The promoters shall also pledge any additional shares allotted to the promoters as rights/ bonus shares/ preferential allotment, in future during the currency of the package.

iii. The additional security mentioned above shall also be made available to each lender who accedes to the MRA to secure the loan or facility advanced by such lender to the Company.

iv. If at any time during the subsistence of MRA, the lenders are of the opinion that the security provided by the Company has become inadequate to cover the balance of the loans then outstanding, then, on CDR Empowered Group advising the Company to that effect, the Company shall provide such additional collateral or security to secure the loan, as may be required by the CDR Empowered Group in its sole discretion.

(b) Reconciliation of closing balances (CDR lenders)

There are certain differences in the closing balance of borrowings from CDR lenders as per books of account and the balances as per the confirmations / statement of account received from these lenders. The Company has accounted for all the adjustments to the borrowings in accordance with the terms of the CDR package and is in the process of identifying the reasons for this difference. Subsequent to the balance sheet date, the unreconciled amount, in respect of which reasons are yet to be identified up to the date of the finalisation of the financial statements, is Rs. 456,234 (net).

(c) Repayment to lenders

During the current year, there has been a delay in repayment of principal and interest to the CDR lenders and the overdue principal and interest remaining unpaid as at March 31, 2014 is Rs. 683,104,180 (March 31, 2013: Rs. Nil), Rs. 190,099,998 (includes Rs. 5,449,317 towards penal interest) (March 31, 2013:Rs.Nil) respectively.

As at March 31, 2014, the Company is in the process of restructuring/settlement of loans from two lenders who had not participated in the CDR package earlier. Pending the finalization of terms for restructuring or settlement no amounts have been paid by the Company to these lenders during the year ended March 31, 2014. The loan outstanding and overdue in respect of such lenders as at March 31, 2014 is Rs. 664,300,282 (March 31, 2013: Rs. 664,300,282) and the unpaid interest thereon is Rs. 174,673,166 (March 31, 2013:Rs. 89,848,537).

Notes to financial statements for the year ended 31 March 2014

(All amounts in Indian rupees, except share data and where otherwise stated)

	LONG TERM		SHORT TERM	
4.4 Other long term liabilities	31-Mar-14 (Rs.)	31-Mar-13 (Rs.)	31-Mar-14 (Rs.)	31-Mar-13 (Rs.)
Unamortised loan processing fees	3,612,810	10,892,256	-	-
Other payables	676,804,932	676,804,932	-	-
	680,417,742	687,697,188	-	-

4.5 Provisions	31-Mar-14	31-Mar-13	31-Mar-14	31-Mar-13
Provision for taxation (Net of advance tax)	-	-	-	11,780,989
Contingent provision against standard assets (refer note 4.28)	5,680,022	1,184,456	84,536,406	21,906,733
Provision for non-performing assets (refer note 4.28)	12,059,793,927	12,995,952,001	-	-
	12,065,473,949	12,997,136,457	84,536,406	33,687,722

4.6 Short-term borrowings			31-Mar-14	31-Mar-13
Indian rupee loan from banks (secured)				450,000,000
			-	450,000,000
Above amount includes Secured borrowings			-	450,000,000
Indian rupee loan from banks are term loans secured by hypothecation of portfolio loans				

4.7 Other current liabilities			31-Mar-14	31-Mar-13
Employee benefits payable			75,946,597	103,533,481
Payable towards asset assignment transactions			1,008,146,555	851,287,356
Amounts pending adjustment to borrower accounts			79,342,828	79,342,828
Expenses payable			30,069,556	41,075,883
Other payables			24,051,672	38,703,109
Other liabilities				
Current maturities of long-term borrowings (refer note 4.3)			3,616,327,652	2,982,858,224
Guarantee fee payable			26,309,208	24,651,828
Unfructified service tax liability (net of amount paid under protest Rs. 9,200,000)			86,275,420	-
Amounts payable on redemption of OCCRP (refer notes 4.1 (d) and 4.2 (a))			165,184,410	-
Interest accrued but not due on borrowings			37,964,066	51,801,142
Interest accrued and due on borrowings			358,165,564	89,848,537
Statutory dues payable (including penal damages levied by ESIC)			11,945,035	6,582,853
Unamortized income				
Unamortized loan processing fees			81,644,065	80,031,651
			5,601,372,628	4,349,716,892

Notes to financial statements for the year ended 31 March 2014

(All amounts in Indian rupees, except share data and where otherwise stated)

4.8.1 Tangible Assets

Particulars	Furniture & Fixtures	Office Equipment	Vehicles	Computers & Printers	Total
Gross block					
At April 1, 2012	91,017,525	42,113,478	4,492,541	129,024,067	266,647,611
Addition	5,342,978	1,502,795	-	1,859,566	8,705,339
Disposals	11,142,856	6,050,727	90,000	10,313,282	27,596,865
At March 31, 2013	85,217,647	37,565,546	4,402,541	120,570,351	247,756,085
Addition	5,484,867	3,029,082	-	4,307,833	12,821,781
Disposals	5,883,229	4,988,190	-	277,884	11,149,302
Other adjustments	198,230	336,490	-	67,775	602,494
At March 31, 2014	84,621,055	35,269,948	4,402,541	124,532,525	248,826,069
Depreciation					
At April 1, 2012	57,131,464	21,443,820	2,888,597	93,109,525	174,573,406
Charge for the year	6,850,630	3,179,343	415,260	19,008,660	29,453,893
Disposals	5,352,237	2,366,362	74,709	3,889,066	11,682,374
At March 31, 2013	58,629,857	22,256,801	3,229,148	108,229,119	192,344,925
Charge for the year	13,384,891	5,842,757	357,273	7,085,955	26,670,877
Disposals	4,686,656	2,997,738	-	237,357	7,921,751
Other adjustments	169,853	299,669	-	63,609	533,131
At March 31, 2014	67,158,240	24,802,151	3,586,421	115,014,108	210,560,920
Net Block					
At March 31, 2013	26,587,790	15,308,745	1,173,393	12,341,232	55,411,160
At March 31, 2014	17,462,815	10,467,797	816,120	9,518,417	38,265,149

All assets have been recognized at cost

4.8.2 Intangible Assets

Particulars	Software	Total
Gross block		
At April 1, 2012	31,833,071	31,833,071
Purchase	180,495	180,495
Disposals	-	-
At March 31, 2013	32,013,566	32,013,566
Purchase	-	-
Disposals	-	-
At March 31, 2014	32,013,566	32,013,566
Amortisation		
At April 1, 2012	21,159,034	21,159,034
Charge for the year	69,681	69,681
Deductions	-	-
At March 31, 2013	21,228,715	21,228,715
Charge for the year	4,602,778	4,602,778
Deductions	-	-
At March 31, 2014	25,831,493	25,831,493
Net block		
At March 31, 2013	10,784,851	10,784,851
At March 31, 2014	6,182,073	6,182,073

4.9 Non-Current Investments

Non-Current Investments	31-Mar-14	31-Mar-13
(Valued at cost unless otherwise stated)		
Non-trade investments		
Unquoted		
- Investments in equity instruments		
100,000 (previous year: 100,000)	1,000,000	1,000,000
equity shares of Rs. 10 each fully paid up in Alpha Micro Finance Consultants Private Limited		
	1,000,000	1,000,000
Aggregate amount of unquoted investments	1,000,000	1,000,000

Notes to financial statements for the year ended 31 March 2014

(All amounts in Indian rupees, except share data and where otherwise stated)

4.10 Loan portfolio	Non-current		current	
	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Joint liability group loans				
Unsecured, considered good*	521,635,561	413,357,050	7,599,193,294	8,281,335,706
Unsecured, considered doubtful**	6,205,722,035	11,282,945,537	-	-
	6,727,357,596	11,696,302,587	7,599,193,294	8,281,335,707
Individual loans				
Unsecured, considered good*	14,304,879	462,231	230,488,841	3,455,969
Unsecured, considered doubtful**	5,849,560,216	1,689,558,193	-	-
Secured, considered good*	123,523,508	59,963,250	488,148,017	557,244,441
Secured, considered doubtful**	39,510,691	23,448,270	-	-
	6,026,899,294	1,773,431,944	718,636,858	560,700,117
Total	12,754,256,890	13,469,734,531	8,317,830,152	8,842,036,117

* Represents standard assets in accordance with Company's asset classification policy

** Represents non-performing assets in accordance with Company's asset classification policy

4.11 Loan and advances	Non-current		current	
	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
A. Security deposits				
Unsecured, considered good	21,448,284	24,105,501	-	-
(A)	21,448,284	24,105,501	-	-
B. Other loans and advances				
Unsecured, considered good				
Advance income tax (net of provision)	164,787,107	410,082,566	-	-
Advance with service provider	5,100,000	2,500,000	-	-
Prepaid expenses	-	-	2,784,520	3,152,604
Advance against sum assured	-	-	9,296,960	35,565,828
Other advances	-	-	9,801,043	19,141,559
Unsecured, considered doubtful				
Employee loans	2,211,299	2,113,290	-	-
Amounts deposited with courts	5,231,622	5,703,527	-	-
Advance against sum assured	16,707,306	-	-	-
	194,037,334	420,399,383	21,882,523	57,859,991
Provision for doubtful advances	(23,938,225)	-	-	-
(B)	170,099,109	420,399,383	21,882,523	57,859,991
Total (A + B)	191,547,393	444,504,884	21,882,523	57,859,991

4.12 Other assets	Non-current		current	
	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Non-current bank balances (refer note 4.14)	17,632,578	24,509,364	-	-
Ancillary borrowing costs	12,211,282	16,281,717	4,070,437	4,070,427
Contribution towards gratuity (net of provision)	13,555,630	13,479,453	-	-
Interest accrued but not due on portfolio loans	-	-	86,739,606	53,239,173
Interest accrued and due on portfolio loans	-	-	9,048,244	161,600
Interest accrued on term deposits	-	-	667,096	10,005,859
Other receivables	-	-	507,204	852,077
	43,399,490	54,270,534	101,032,587	68,329,136

4.13 Trade receivables		
	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Outstanding for a period less than six months from the date they are due for payment		
Unsecured, considered good	1,613,180	-
	1,613,180	-

Notes to financial statements for the year ended 31 March 2014

(All amounts in Indian rupees, except share data and where otherwise stated)

4.14 Cash and bank balances	Non-current		current	
	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Cash and cash equivalents				
Balances with banks				
On current accounts	-	-	229,899,770	1,213,581,278
Cash on hand	-	-	27,854,038	12,955,793
	-	-	257,753,808	1,226,537,071
Other bank balances				
Cash collateral against borrowings	-	-	-	500,000,000
Margin money deposit (refer note below)	17,632,578	24,509,364	-	-
	17,632,578	24,509,364	-	500,000,000
Amount disclosed under non-current assets (refer note 4.12)	(17,632,578)	(24,509,364)		-
	-	-	257,753,808	1,726,537,071

Note : Represent margin money deposits placed as cash collateral in connection with asset assignment transactions.

4.15 Revenue from operations	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Interest income on portfolio loans	2,549,232,414	2,211,718,176
Income from assignment of loans (refer note 4.21)	25,264,420	-
Other operating revenue		
Loan processing fees (refer note 4.21)	154,907,284	57,041,219
Recovery against loans written off	19,439,901	3,177,416
Interest on margin money deposits*	1,598,079	3,711,986
	2,750,442,098	2,275,648,797

* Represents interest on deposits placed to avail term loans and on as cash collateral in connection with asset assignment.

4.16 Other Income	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Interest on fixed deposits	1,443,938	232,566,833
Dividend from mutual funds	10,133,281	77,902,156
Profit on sale of fixed assets (net)	2,139,878	-
Provisions no longer required, written back	5,724,158	130,686,765
Interest on income tax refund	30,787,748	-
Commission income	2,316,618	-
Miscellaneous income	1,745,660	11,369,212
	54,291,281	452,524,966

4.17 Employee benefits expense	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Salaries, wages and bonus (refer note 4.21)	646,326,370	749,789,216
Contribution to provident fund (refer note 4.21)	14,554,171	18,806,336
Contribution to Employees State Insurance Corporation	5,784,856	8,740,040
Leave benefits	8,994,929	9,506,971
Gratuity expense	(76,177)	(13,479,453)
Staff welfare expenses	1,524,165	2,954,436
	677,108,314	776,317,546

4.18 Finance costs	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Interest		
On term loans from banks (refer note 4.21)	813,945,804	907,582,719
On term loans from financial institutions	111,687,506	150,402,423
On term loans from non-banking financial companies	45,943,527	62,669,230
Reversal of premium on OCCRPS	-	(1,087,200,000)
Other finance cost	16,746,966	8,153,760
Bank charges (refer note 4.21)	11,264,690	13,572,808
	999,588,493	55,180,940

4.19 Other expenses	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Rent (refer note 4.21)	66,275,434	96,408,243
Rates and taxes (refer note 4.21)	1,505,963	8,567,388
Office maintenance (refer note 4.21)	6,789,874	10,322,953
Computers and network maintenance (refer note 4.21)	13,372,790	12,241,421
Electricity charges (refer note 4.21)	9,069,645	12,250,500
Travelling expenses (refer note 4.21)	97,950,178	117,385,738
Communication expenses (refer note 4.21)	17,776,879	22,001,335
Printing and stationery (refer note 4.21)	10,771,592	9,360,596
Legal and professional charges	16,267,114	20,208,881
Directors sitting fees	471,124	324,354
Auditors remuneration (refer details below)	4,034,840	2,900,000
Recruitment and training	1,491,978	1,185,010
Subscription fees	2,000,000	2,987,931
Other provisions and write off (refer note 4.21)	136,203,337	12,982,297
Security charges	6,176,704	4,222,604
Foreign exchange loss (refer note 4.21)	3,874,849	-
Loss on sale of fixed assets (net)	-	1,556,991
Miscellaneous expenses (refer note 4.21)	5,700,710	5,217,391
	399,733,011	340,123,633
Payment to auditors	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
As auditor:		
Audit fee	3,875,570	2,400,000
Other services (certification fees)	159,270	500,000
	4,034,840	2,900,000

4.20 Provisions and write offs	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Contingent provision against standard assets (refer note 4.28)	67,125,238	3,001,016
Provision for non-performing assets (refer note 4.28)	(936,158,073)	11,566,023,607
Loss on assigned portfolio against credit enhancements provided	146,618,479	39,422,964
Portfolio loans written off	775,604,522	1,544,780,325
	53,190,166	13,153,227,912

Notes to financial statements for the year ended 31 March 2014

(All amounts in Indian rupees, except share data and where otherwise stated)

4.21 Prior period items

The prior period items for the year ended March 31, 2014 are as follows:

Particulars	Income/(Expense)	Refer Note
Income from assignment of loans	25,264,420	4.15
Loan processing fees	2,733,290	4.15
Salaries, wages and bonus (net)	24,487,807	4.17
Contribution to provident fund	(181,003)	4.17
Interest on term loans from banks	(5,513,027)	4.18
Bank charges	1,078,905	4.18
Other expenses		
- Rent	7,985,460	4.19
- Rates and taxes	31,575	4.19
- Office maintenance	1,172,361	4.19
- Computer and network maintenance	72,375	4.19
- Electricity charges	1,188,139	4.19
- Travelling expenses	95,628	4.19
- Communication expenses	1,645,412	4.19
- Printing and stationery	774,729	4.19
- Other provisions and write-offs	(4,568,301)	4.19
- Foreign exchange loss	(1,399,701)	4.19
- Miscellaneous expenses	603,680	4.19
Total	55,207,329	

4.22 Earnings per share (EPS)

Particulars	Year ended March 31, 2014	Year ended March 31, 2013
Net profit/(loss) after tax attributable to equity shareholders	643,139,173	(11,626,199,842)
Weighted average number of equity shares – Basic EPS	19,380,767	19,380,767
Effect of dilution: Convertible preference shares	930,416,575	-
Weighted average number of equity shares – Diluted EPS	949,797,342	19,380,767
Basic EPS (Rs.)	33.18	(599.88)
Diluted EPS (Rs.)	0.68	(599.88)
Nominal value per share (Rs.)	10.00	10.00

For the year ended March 31, 2013, since the impact of conversion of potential equity shares is anti-dilutive in nature, the same has not been considered in calculation of diluted EPS.

4.23 Segmental Reporting

The Company operates in a single reportable segment i.e. lending to members, which have similar risks and returns for the purpose of AS 17 on 'Segment Reporting' notified under the Companies (Accounting Standard) Rules, 2006 (as amended). The Company operates in a single geographical segment i.e. domestic.

4.24 Related parties

1. Enterprises where key management personnel exercise significant influence

- Spandana Rural and Urban Development Organization
- Criss Financial Holdings Limited
- Abhiram Marketing Services Limited
- Spandana Employee Welfare Trust
- SpandanaSphoorty Chit Fund Private Limited

2. Key Management Personnel

Ms. Padmaja Gangireddy - Managing Director

3. Relative of Key Management Personnel

Mr. VijayaSivarami Reddy Vendidandi (Husband of Mrs. Padmaja Gangireddy)

Related party transactions during the year:

Name of the related party	Nature of transactions	31-Mar-14		31-Mar-13	
		Transactions during 2013-14	(Payable)/ Receivable	Transactions during 2012-13	(Payable)/ Receivable
Spandana Rural and Urban Development Organization	Security services Sale of fixed assets Rent expense	- - 941,291	- - (15,354)	44,008 150,000 -	- - -
Abhiram Marketing Services Limited (Formerly Spandana Sphoorty Marketing Services Limited)	Rent income Commission income Security services Purchase of stationery Other purchases Reimbursement of expenses	1,972,008 2,316,618 1,931,794 3,199,859 741,868 657,676	- 1,550,973 (696,428) (36,327) 137,285 657,676	1,703,944 - - 497,442 - -	(780,635) - - - - -
Criss Financial Holdings Limited (Formerly Keertana Financial Limited)	Reimbursement of expenses Rental income Portfolio purchased Payment towards portfolio purchased	- - - 923,028	- - - -	169,047 61,150 - -	- - (923,028) -
Spandana Employee Welfare Trust	Reimbursement of expenses	-	-	621,409	-
Spandana Chit Funds Private Limited	Reimbursement of expenses	-	-	52,791	-
Mrs. Padmaja G. Reddy	Rent paid Rent deposit given Remuneration	120,000 60,000 27,150,000	(18,000) 60,000 1,515,560	- - 30,000,000	- - 947,020
Mr. Vijaya Sivarami Reddy Vendidandi	Salary and wages Salary advance	588,000 348,600	- 49,000	- -	- -

4.25 Contingent liabilities not provided for

Particulars	31-Mar-14	31-Mar-13
(a) Claims against Company not acknowledge as debts:		
(i) Penal damages levied by ESIC	-	3,472,432
(ii) Corporate guarantee towards asset assignment	-	182,783,790
(iii) Service tax open assessments	195,904,490	86,148,224
(iv) Income tax open assessments	-	117,394,438
(v) Partnership assignment with a bank	-	52,504,788
(b) Dividend payable on OCCRPS and tax there on		
(i) Arrears of dividend on OCCRPS not provided for		
- FY 2012-13	94,060	94,060
- FY2013-14	90,533	-
(ii) Tax on OCCRPS dividend	13,987	14,532
(c) Interest on other micro credit loan not provided for	-	55,890,000
(d) Redemption premium on OCCRPS	-	2,257,440,000
(e) Claims relating to interest/other debts from banks and financial institutions on implementation of CDR not acknowledged by the Company subject to reconciliations	-	42,788,274
Total	196,103,070	2,356,118,274

Notes to financial statements for the year ended 31 March 2014

(All amounts in Indian rupees, except share data and where otherwise stated)

4.26 Employee benefit plans

The following tables 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	As at March 31, 2014	As at March 31, 2013
Balance as at April 1, 2013	10,318,383	26,279,410
Service cost	1,885,284	2,506,380
Interest cost	760,898	1,887,976
Actuarial loss/(Gain)	(931,271)	(14,995,954)
Benefits paid	(3,727,927)	(5,359,429)
Balance at March 31, 2014	8,305,367	10,318,383

Change in the fair value of plan assets

Particulars	As at March 31, 2014	As at March 31, 2013
Balance at April 1, 2013	23,793,267	25,779,689
Expected return on plan assets	2,141,394	2,062,375
Actuarial gains	(345,737)	810,911
Employer contributions	-	499,721
Benefits paid	(3,727,927)	(5,359,429)
Balance at March 31, 2014	21,860,997	23,793,267

Amount recognized in Balance Sheet

Particulars	Year ended March 31, 2014	Year ended March 31, 2013
Present value of funded obligations	8,305,367	10,318,383
Fair value on plan assets	21,860,997	23,793,267
Net (liability)/asset	13,555,630	13,474,884

Expense recognized in statement of profit and loss account

Particulars	Year ended March 31, 2014	Year ended March 31, 2013
Current service cost	1,885,284	2,506,380
Interest on defined benefit obligation	760,898	1,887,976
Expected return on plan assets	(2,141,394)	(2,062,375)
Net actuarial loss/(gain) recognized in the year	(585,534)	(15,806,865)
Amount included in Personnel expenses	(80,746)	(13,474,884)

Asset Information

Category of Assets	As at March 31, 2014	As at March 31, 2013
Insurer managed funds	21,860,997	23,793,267
Total	21,860,997	23,793,267

Summary of Actuarial Assumptions

Particulars	Year ended March 31, 2014	Year ended March 31, 2013
Discount rate	9.00%	8.00%
Expected return on plan assets	8.00%	8.00%
Salary escalation rate (p.a.)	5.00%	5.00%
Attrition rate	10.00%	10.00%

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.

Amounts for the current and previous four periods are as follows

Particulars	March 31, 2014	March 31, 2013	March 31, 2012	March 31, 2011	March 31, 2010
Defined benefit obligation	8,305,367	10,318,383	26,719,410	25,517,770	17,055,992
Fair value of plan assets	21,860,997	23,793,267	25,779,689	17,868,112	11,763,853
Surplus/(deficit) in the plan	13,555,630	13,474,884	(449,721)	(7,649,658)	(5,293,139)
Experience adjustments on plan liabilities	(931,271)	(14,995,954)	(8,089,454)	(2,605,144)	(2,271,355)
Experience adjustments on plan assets	(345,737)	810,911	142,316	161,672	(157,861)

4.27 Leases

Operating lease : company as lessee

Head office and branch office premises are acquired operating lease. The branch office premises are generally rented on cancellable term ranging from twelve months to thirty six months with or without escalation clause; however none of the branch lease agreement carries non-cancellable lease periods. The head office premises have been obtained on a lease term of six to nine years with an escalation clause of five to eight percent after every twelve months; however none of the lease agreement carries non-cancellable lease periods. There are no restrictions imposed by lease arrangements. There are no non-cancellable sub-leases.

Lease payments during the year are charged to statement of profit and loss.

Particulars	Year ended March 31, 2014	Year ended March 31, 2013
Operating lease payments recognized during the year	66,275,434	96,408,243

Sub-lease payments received (or receivable) recognised in the statement of profit and loss.

Particulars	Year ended March 31, 2014	Year ended March 31, 2013
Sub-lease lease payments recognized during the year	1,972,008	1,765,094

Notes to financial statements for the year ended 31 March 2014

(All amounts in Indian rupees, except share data and where otherwise stated)

4.28 Loan portfolio and provision for standard and non-performing assets:

Asset Classification	Portfolio loans outstanding (Gross)		Provision for standard and non-performing assets				Portfolio loans outstanding	
	As at Mar-14	As at Mar-13	As at Mar-13	As at in FY 2013-14	Written back in FY 2013-14	As at Mar-14	As at Mar-14	As at Mar-13
Unsecured Loan Portfolio								
Standard	836.56	869.86	2.15	6.22	-	8.37	828.19	867.71
Non-performing	1,203.53	1,297.25	1,297.25	-	91.72	1,205.53	-	-
Subtotal (A)	2,042.09	2,167.11	1,299.41	6.22	91.72	1,213.90	828.19	867.71
Secured Loan Portfolio								
Standard	61.17	61.72	0.15	0.50	-	0.65	60.52	61.57
Sub-standard	3.39	1.98	1.98	-	1.64	0.34	3.05	-
Doubtful	0.56	0.36	0.36	-	0.25	0.11	0.45	-
Subtotal (B)	65.12	64.07	2.50	0.50	1.89	1.10	64.02	61.57
Total (A + B)	2,107.21	2,231.18	1,301.91	6.72	93.61	1,215	892.21	929.28

4.29 Amounts payable to Micro, Small and Medium enterprises

There are no amounts that need to be disclosed in accordance with the Micro Small and Medium Enterprise Development Act, 2006 (the 'MSMED') pertaining to micro or small enterprises.

For the year ended March 31, 2014, no supplier has intimated the Company about its status as micro or small enterprises or its registration with the appropriate authority under MSMED.

4.30 Additional information required by RBI

a. Capital to risk assets ratio ('CRAR'):

Particulars	31-Mar-14	31-Mar-13
CRAR (%)	5.98%	28.00%
CRAR-Tier I Capital (%)	2.99%	14.00%
CRAR-Tier II Capital (%)	2.99%	14.00%

The modifications to the NBFC-MFI directions issued by RBI vide its circular no. RBI/2012-13/161 DNBS (PD) CC. No. 300 /03.10.038/2012-13 dated August 3, 2012 have specified that provision made towards portfolio in the state of Andhra Pradesh should be in accordance with extant NBFC prudential norms and such provision should be added back notionally to the net owned funds for the purpose of calculation of the capital to risk assets ratio ('CRAR') and would be progressively reduced by 20% each year, over 5 years i.e. from March 31, 2013 to March 31, 2017. As per the progressive reduction 80% of provisioning made towards portfolio in the state of Andhra Pradesh has been notionally reckoned as a part of net own funds. Had the amount of provision, referred to above, not been added back to the net owned funds, the CRAR as at March 31, 2014 would have been 193.68% (negative).

The CRAR of the Company is lower than the minimum CRAR prescribed by the RBI. However, the Company has obtained regulatory forbearance for not maintaining minimum CRAR. Refer note 2(b) and 3(b).

b. Exposure to real estate sector

Particulars	Year ended March 31, 2014	Year ended March 31, 2013
A Direct exposure		
I Residential Mortgages - Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented:	34,092,574	43,785,321
II Commercial Real Estate - Lending secured by mortgages on commercial real estates (office buildings, retail space, multipurpose Commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure would also include non-fund based (NFB) limits.	-	-
III Investments in Mortgage Backed Securities (MBS) and other securitised exposures - Residential Commercial Real Estate	-	-
B Indirect Exposure		
Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	-	-

c. Outstanding of loans against security of gold as a percentage to total assets is 2.76% (March 31, 2013: 1.99%)

d. Asset liability management:

Maturity pattern of assets and liabilities as on March 31, 2014:

Particulars	(Rupees in Crores)								Total
	Upto 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	
Liabilities									
Borrowings from banks	73.86	19.68	19.68	59.04	118.58	285.14	13.98	-	589.95
Market borrowings	18.89	4.72	4.72	14.16	28.31	41.69	0.21	-	112.69
Assets									
Advances	129.00	127.63	111.17	251.74	214.43	82.96	5.64	-	922.57*
Investments	-	-	-	-	-	-	-	0.10	0.10

* Net of provision towards doubtful advances.

Maturity pattern of assets and liabilities as on March 31, 2013:

Particulars	(Rupees in Crores)								Total
	Upto 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	
Liabilities									
Borrowings from banks	69.99	24.99	24.99	74.96	148.36	531.85	99.98	-	975.12
Assets									
Advances	94.89	110.71	99.24	267.24	265.70	81.46	0.39	1,303.61	2,223.24
Investments	-	-	-	-	-	-	-	0.10	0.10

e. Information on instances of fraud

Instances of fraud reported during the year ended March 31, 2014:

Nature of fraud	No. of cases	Amount of fraud	Recovery	Amount written off
Cash Embezzlement	25	1,480,336	111,973	1,368,363
Fake Loans	3	3,406,780	398,570	3,008,210

Instances of fraud reported during the year ended March 31, 2013:

Nature of fraud	Amount of fraud	Recovery*	Amount written off
Cash embezzlement	15,557,585	6,120,778	94,36,807

*Recovery includes fraud relating to earlier years

Notes to financial statements for the year ended 31 March 2014

(All amounts in Indian rupees, except share data and where otherwise stated)

4.31 Un-hedged foreign currency

The Company has un-hedged foreign currency exposure in respect of:

Particulars	31-Mar-14		31-Mar-13	
	USD	INR	USD	INR
Guarantee fee payable	433,438	26,309,208	433,438	24,651,828

4.32 Previous year figures have been audited by another firm of chartered accountants.

4.33 Previous year figures have been regrouped / reclassified, where necessary, to conform to this year's classification.

for Spandana Sphoorty Financial Limited

Sd/-
Padmaja Gangireddy
Managing Director

Sd/-
Lakshmi Narasaiah G
Director

Sd/-
Tasneem Shariff
Company Secretary

Place: Hyderabad
Date: 06-Aug-14

Notice of Annual General Meeting

Notice is hereby given that the Eleventh Annual General Meeting of the Company 'Spandana Sphoorty Financial Limited' will be held at 3:30 P.M. on Tuesday, 23-September-2014 at Registered Office of the Company at Plot 79, Care Crystal, Vinayak Nagar, Gachibowli, Hyderabad – 500032 to transact the following business :

Ordinary Business:

1) To receive, consider and adopt the Balance Sheet as at 31-Mar-2014, the Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that date and the reports of the Directors and Auditors thereon.

2) To consider and, if thought fit, to pass with or without modification(s) the following resolution as an Ordinary Resolution

“RESOLVED THAT subject to the provisions of the Section 139 and other applicable provisions, if any, of the Companies Act, 2013, approval of the shareholders, be and is hereby accorded to re-appoint M/s. S R Battiboi & Co. LLP (Firm No 301003E), Chartered Accountants Firm, Hyderabad as Statutory Auditors to audit the books of the company for a period of four years starting from the financial year 2014-15 till the conclusion of the AGM held for the FY 2017-2018.”

Special Business:

3 a) TO CONSIDER, APPROVE AND FIX THE BORROWING POWERS

“RESOLVED THAT subject to the approval of shareholders, the consent of the board be and is hereby accorded to the company under Section 180(1)(c) of the Companies Act, 1956, to borrow any sum or sums of moneys from time to time notwithstanding that the money or moneys to be borrowed, together with the moneys already borrowed by the company (apart from temporary loans obtained from the company's bankers in the ordinary course of business) may exceed the aggregate of the paid up capital of the company and its free reserves, that is to say, reserves not set apart for any specific purposes, provided however, the total amount so borrowed shall not exceed Rs. 4,000 Crores (Rupees Four thousand crores only).

“RESOLVED FURTHER THAT the Board of Directors do hereby delegate the above said powers to the Executive Committee of the Board to enable it to exercise these powers, from time to time, up to the limits as stated above in one or more branches and the committee shall periodically report to the Board of Directors on the aggregate value of the powers so exercised.”

3 b) TO CREATE CHARGE / MORTGAGE ON THE PROPERTIES OF THE COMPANY

“RESOLVED THAT subject to the approval of the shareholders at a general meeting, consent of the board be and is hereby accorded to the company in terms of Section 180(1)(a) and other applicable provisions, if any, of the Companies Act, 2013 to mortgage and/or create a charge of all the immovable and movable properties of the company wherever situated, present and future, and/or conferring power to enter upon and to take possession of assets of the company in certain events, to or in favour of any Commercial bank(s) or Financial Institution(s) situated in India or abroad [hereinafter referred to as “the Lenders”] to secure Rupee Term Loans or a Foreign Currency Loans or a combination of both not exceeding Rs. 4, 000 Crores (Rupees Four Thousand crores only) lent and advanced/agreed to be lent and advanced by the lender(s) to the company either jointly or severally or in any other combination thereof, as the case may be, together with interest thereon at the respective agreed rates, compound interest, additional interest, liquidated damages, premia on prepayment or on redemption, costs, charges, expenses and other monies including any increase as a result of devaluation/ revaluation/ fluctuation in the rates of exchange of foreign currencies involved payable by the company to the Lenders under the Loan Agreement(s), Memorandum of Terms and Conditions entered into / to be entered into by the company in respect of the said term loans.”

“RESOLVED FURTHER THAT the board of directors of the company be and are hereby authorised to delegate the above said powers to the sub-committee of the board to enable it to exercise these powers, from time to time, up to the limits as stated above in one or more tranches and the committee shall periodically report to the board of directors on the aggregate value of the powers so exercised.”

Date : 6-Aug-14
Place: Hyderabad

For Spandana Sphoorty Financial Limited

Sd/-
Padmaja Gangireddy
Managing Director

Notes :

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of himself/herself and the proxy need not be a member.
2. A proxy form, duly completed and stamped, must reach the Registered Office of the Company not less than 48 hours before the commencement of the meeting.
3. The relevant explanatory statement pursuant to the provisions of Section 180 of the Companies Act, 2013 is annexed hereto.
4. Members are requested to communicate their change of address, addressing the Company Secretary, Spandana Sphoorty Financial Limited, Plot 79, Care Crystal, Vinayak Nagar, Gachibowli, Hyderabad- 500032.

EXPLANATORY STATEMENT PURSUANT TO SECTION 102(1) OF THE COMPANIES ACT, 2013

Item No. 3 (a) & (b)

The members of the Company at their meeting held on 29-Oct-2010 had approved resolutions under Section 293(1)(a) and 293(1)(d) of the erstwhile Companies Act, 1956 for mortgaging the properties of the company in favor of the lenders and also for exercising the borrowing limits up to an aggregate amount of Rs. 4,000 Crores for the purpose of business of the company.

Pursuant to notification of Section 180 of the Companies Act, 2013, prior consent of the Shareholders by a special resolution is required to enable the Board of Directors to exercise these powers which, in aggregate, may exceed the paid-up capital and free reserves of the Company and to create charge on movable/immovable properties of the Company in favor of the lenders.

Further, the Ministry of Corporate Affairs vide their circular no.4 dated: 25-03-2014 had clarified that all such resolutions passed earlier under section 293(1)(a) and 293(1)(d) of the erstwhile Companies Act, 1956 are valid and effective only for a period of one year up to 11-Sep-2014. Any such mortgages and borrowings after this date would require a fresh prior approval of the shareholders under section 180 of the Companies Act, 2013 through a special resolution. It is imperative that such an authority is required to be delegated to the Board of Directors or its Committee for carrying on the business of the Company in the ordinary course and the Board is of the view that the earlier approved borrowing limits of up to Rs. 4,000 Crores would be sufficient to carry on the business. Hence, the Board is not proposing any increase in these limits. Accordingly, the Board of Directors of the company at its meeting held on 6-Aug-2014 had approved these proposals subject to your approval.

None of the Directors / Key Managerial Personnel are interested in the above resolutions.

Company Information

REGISTERED OFFICE:

Plot No. 79, Care Crystal, Vinayak Nagar
Gachibowli, Hyderabad – 500032.
CIN: U65929TG2003PLC040648

BOARD OF DIRECTORS:

Mrs. Padmaja Gangireddy - Managing Director
Mr. K. S. Singhwan - Nominee Director of SIDBI
Mr. Lakshmi Narasaiah Gunturu - Independent Director
Ms. Abanti Mitra - Independent Director

BOARD COMMITTEES:

Audit, Compliance & Corporate Governance Committee
Asset Liability Management & Credit Policy Committee
Remuneration & Nomination Committee
Product, Process & Grievance Redressal Committee
Risk & Fraud Control and Monitoring Committee
Asset Sale Committee
Executive Committee
Corporate Social Responsibility Committee

COMPANY SECRETARY:

Mrs. Tasneem Shariff

AUDITORS:

M/s. S R Batliboi & Co, LLP
(Firm Registration No. 301003E),
Hyderabad

REGISTRARS & TRANSFER AGENT:

Karvy Computershare Private Limited
Karvy House, 46, Avenue 4, Street No. 1
Road No. 10, Banjara Hills, Hyderabad.

WEBSITE:

www.spandanaindia.com

BANKERS:

Sl. No.	Name of the Bank
1.	Andhra Bank
2.	Axis Bank
3.	Bank of Baroda
4.	Bank of India
5.	Central Bank of India
6.	Corporation Bank
7.	Dhanalaxmi Bank
8.	HDFC Bank
9.	HSBC
10.	ICICI Bank Ltd
11.	IDBI Bank Ltd
12.	Indian Overseas Bank
13.	IndusInd Bank
14.	ING Vysya Bank Ltd.
15.	Jammu & Kashmir Bank
16.	Karnataka Bank Ltd
17.	Karur Vysya Bank
18.	Lakshmi Vilas Bank
19.	Oriental Bank of Commerce
20.	Punjab National Bank
21.	Punjab & Sind Bank
22.	South Indian Bank
23.	Standard Chartered Bank
24.	State Bank of Hyderabad
25.	State Bank of Mysore
26.	State Bank of Patiala
27.	State Bank of Travancore
28.	Syndicate Bank
29.	Vijaya Bank
30.	YES Bank
31.	Manaveeya H&I (Pvt.) Ltd
32.	Rabo India Finance
33.	SIDBI
34.	Tata Capital Limited
35.	UCO Bank
36.	Union Bank of India
37.	BNP Paribas
38.	CITI Bank



SPANDANA

Spandana Sphoorty Financial Limited

CIN: U65929TG2003PLC040648

Plot No. 79, Care Crystal, Vinayak Nagar, Gachibowli,
Hyderabad - 500032