

To,
The Board of Directors
SKS Microfinance Private Limited

Dear Sirs,

We have audited the attached Balance Sheet of SKS Microfinance Private Limited ('the Company') as at March 31, 2008 and also the Profit and Loss Account and the Cash Flow Statement for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

As required by the Non-Banking Financial Companies Auditors Report (Reserve Bank) Directions, 1998, issued by the Reserve Bank of India ('RBI') vide Notification No. DFC. 117/DG (SPT)-98 dated January 2, 1998 as amended from time to time, based on our audit, we give hereunder a statement on the matters specified in paragraphs 3 and 4 of the said directions:

1. The Company is registered with RBI as a Non-Banking Financial Company with out accepting public deposits vide certificate no. N.09.00415 dated January 20, 2005.
2. A resolution for non-acceptance of any public deposit was passed in the meeting of the Board of Directors on May 16, 2007.
3. The Company has not accepted any public deposits during the year ended March 31, 2008.
4. In our opinion and to the best of our information and according to the explanations given to us, the Company has complied with the prudential norms relating to income recognition, accounting standards, asset classification and provisioning for bad and doubtful debts, as applicable to it.



CHARTERED ACCOUNTANTS

Mumbai
May 31, 2008

Auditors' Report**To The Members of
SKS Microfinance Private Limited**

1. We have audited the attached Balance Sheet of SKS Microfinance Private Limited ('the Company') as at March 31, 2008 and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 (as amended) ('the Order') issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, ('the Act') we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:
 - i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - ii. 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;
 - iii. The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - iv. In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
 - v. On the basis of the written representations received from the directors, as on March 31, 2008, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2008 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;



S.R. BATLIBOI & Co.

Auditors' Report
SKS Microfinance Private Limited

Page 2 of 5

- vi. In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;
- a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2008;
 - b) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
 - c) in the case of Cash Flow Statement, of the cash flows for the year ended on that date.



For S.R. BATLIBOI & Co.
Chartered Accountants



per Viren H. Mehta
Partner
Membership No.: 048749

Mumbai
May 31, 2008

**Annexure referred to in paragraph 3 of our report of even date
SKS Microfinance Private Limited ('the Company')**

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) Fixed assets have been physically verified by the management during the year and no material discrepancies were identified on such verification.
- (c) There was no disposal of fixed assets during the year.
- (ii) The Company is a Non-Banking Financial Company ('NBFC') engaged in the business of providing loans and does not maintain any inventory. Therefore the provisions of clause 4(ii) of the Order are not applicable to the Company.
- (iii) (a) The Company has granted loan to parties covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount involved during the year was Rs.16,361,380 and there was no year-end balance of loan granted to such parties.
- (b) According to the information and explanations given to us, we are of the opinion that the terms and conditions of the loan given by the Company for such loans are not prima facie prejudicial to the interest of the Company. The loan given is interest free.
- (c) In respect of loans granted, repayment of such loan has been made during the year, and there is no default on part of the parties to whom the money has been lent. The loan given is interest free.
- (d) There is no overdue amount of loans granted to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956.
- (e) As informed, 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 Companies Act, 1956.
- (iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase of fixed assets and for the sale of services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas.
- (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 our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements exceeding value of Rupees five lakhs have been entered into during the financial year at prices which are reasonable having regard to the 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 Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for the products of the Company.
- (ix) (a) Undisputed statutory dues including provident fund, employees' state insurance, sales-tax, wealth-tax, customs duty, excise duty, cess have generally been regularly deposited with the appropriate authorities *though there has been a slight delay in a few cases; in case of advance income-tax, there has been a significant delay in one case; and in case of dues for service tax, there have been considerable delays in many cases.*
 - (b) According to the information and explanations given to us, no undisputed amounts payable 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 undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable.
 - (c) According to the information and explanation given to us, there are no dues of income tax, sales-tax, wealth tax, service tax, customs duty, excise duty and cess which have not been deposited on account of any dispute.
- (x) The Company has been registered for a period of less than five years and hence we are not required to comment on whether or not the accumulated losses at the end of the financial year is fifty per cent or more of its net worth and whether it has incurred cash losses in such financial year and in the immediately preceding financial year.
- (xi) Based on our audit procedures and as per the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to a financial institution, banks or debenture holders.
- (xii) According to the information and explanations given to us and based on the documents and records produced to 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 Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (xiv) In respect of dealing / trading in shares, securities, debentures and other investments, in our opinion and according to the information and explanations given to us, proper records have been maintained of the transactions and contracts and timely entries have been made therein. The shares, securities, debentures and other investments have been held by the Company, in its own name.

SM
✓

- (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. The maximum amount of idle/surplus fund invested during the year was Rs 100,000,000 of which no balance was outstanding as at the year end.
- (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 Companies Act, 1956.
- (xix) The Company did not have any outstanding debentures during the year.
- (xx) The Company has not raised any money by public issue during the year.
- (xxi) We have been informed that during the period covered by our audit report, *following cases of frauds were noticed or reported by the Company as given below:*
- (a) *Twenty-one cases of cash embezzlements by the employees of the Company aggregating to Rs.6,290,091.* The services of all such employees involved have been terminated and the Company is in the process of taking legal action. We have been informed that eleven of these employees are absconding. The outstanding loan balance (net of recovery) aggregating to Rs.5,665,580 has been written off;
- (b) *Two cases of misrepresentation by the employees of the Company aggregating to Rs.1,354,000.* The services of all such employees involved have been terminated and the Company is in the process of taking legal action. We have been informed that one such employee is absconding. The outstanding loan balance (net of recovery) aggregating to Rs.925,753 has been provided for; and
- (c) *Misrepresentation by a borrower who collected loan repayments from other borrowers aggregating to Rs.155,000.* The Company is pursuing the borrower to repay the money. The amount has been fully written off.



For S.R. BATLIBOI & Co.
Chartered Accountants



per Viren H. Mehta
Partner
Membership No.: 048749


Mumbai
May 31, 2008

SKS MICROFINANCE PRIVATE LIMITED
Balance Sheet As At March 31, 2008

	Schedules	March 31, 2008 Rupees	March 31, 2007 Rupees
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	443,316,520	266,430,470
Stock Options Outstanding	1A	2,569,412	-
Reserves and Surplus	2	1,679,472,069	450,320,442
Loan Funds			
Secured Loans	3	7,898,449,915	2,490,194,068
TOTAL		10,023,807,916	3,206,944,980
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block			
Gross Block	4A	123,289,326	36,504,818
Less: Accumulated Depreciation		48,355,901	15,878,359
Net Block		74,933,425	20,626,459
Capital Work in Progress Including Capital Advances		3,996,977	35,706
		78,930,402	20,662,165
Intangible Assets			
Gross Block			
Gross Block	4B	100,003,354	47,954,635
Less: Accumulated Amortization		35,657,550	17,024,754
Net Block		64,345,804	30,929,881
Capital Work in Progress Including Capital Advances		1,675,000	540,000
		66,020,804	31,469,881
Deferred Tax Assets (Net)	5	9,389,663	8,896,348
Current Assets, Loans and Advances			
Cash and Bank Balances	6	2,752,275,237	564,536,150
Other Current Assets	7	44,302,133	10,393,752
Loans and Advances	8	7,936,529,420	2,713,132,200
	(A)	10,733,106,790	3,288,062,102
Less: Current Liabilities and Provisions			
Current Liabilities	9	769,438,769	81,611,602
Provisions	10	94,200,974	60,533,914
	(B)	863,639,743	142,145,516
Net Current Assets	(A-B)	9,869,467,047	3,145,916,586
TOTAL		10,023,807,916	3,206,944,980
Notes to Accounts	18		

The schedules referred to above and notes to accounts form an integral part of the Balance Sheet.

As per our report of even date



For S. R. BATLIBOI & Co.
Chartered Accountants



per Viren H. Mehta
Partner
Membership No.048749
Place: MUMBAI
Date: 31 MAY 2008



For and on behalf of the Board of Directors of
SKS Microfinance Private Limited

   
Vikram Akula Sitaram Rao S. Dilli Raj Manish Kumar
Managing Director Director CFO Company Secretary



SKS MICROFINANCE PRIVATE LIMITED
Profit and Loss Account for the Year Ended March 31, 2008

	Schedules	March 31, 2008	March 31, 2007
		Rupees	Rupees
INCOME			
Income from Operations	11	1,650,495,643	449,859,616
Other Income	12	49,581,321	6,803,584
TOTAL		1,700,076,964	456,663,200
EXPENDITURE			
Financial Expenses	13	564,647,002	138,529,201
Personnel Expenses	14	477,553,378	129,674,099
Operating and Other Expenses	15	266,575,790	97,160,613
Depreciation and Amortization	4A & 4B	51,110,338	23,789,360
Provisions and Write Offs	16	50,763,652	22,124,763
TOTAL		1,410,650,160	411,278,036
Profit Before Tax and Prior Period Items		289,426,804	45,385,164
Prior Period Items	17	-	(18,647,121)
Profit Before Tax		289,426,804	64,032,285
Provision for Tax			
Current Tax		111,629,578	36,792,749
Deferred Tax		(493,316)	(12,208,278)
Income Tax for the Previous Year		2,835,200	-
Fringe Benefit Tax		8,991,712	2,776,143
Total Tax Expense		122,963,174	27,360,614
Profit After Tax		166,463,630	36,671,671
Profit Brought Forward from Previous Year		33,086,598	3,749,261
Profit Available for Appropriation		199,550,228	40,420,932
APPROPRIATIONS			
Transfer to Statutory Reserve		33,292,726	7,334,334
Surplus Carried to Balance Sheet		166,257,502	33,086,598
Earning Per share (Basic and Diluted) (Refer Note 15 of Schedule 18)		5.53	2.63
Notes to accounts	18		

The schedules referred to above and notes to accounts form an integral part of the Profit and Loss Account

As per our report of even date

Sansar Singh

For S. R. BATLIBOI & Co.
Chartered Accountants

Viren H. Mehta

per Viren H. Mehta
Partner

Membership No.048749

Place: MUMBAI

Date: 31 MAY 2008

For and on behalf of the Board of Directors of
SKS Microfinance Private Limited

Vikram Akula *Sitaram Rao*

Vikram Akula Sitaram Rao
Managing Director Director

S.Dilli Raj

S.Dilli Raj
CFO

Manish Kumar

Manish Kumar
Company Secretary



SKS MICROFINANCE PRIVATE LIMITED
Schedules to Balance Sheet and Profit and Loss Account

March 31, 2008 **March 31, 2007**

Schedule 1: Share Capital

Authorized Share Capital

Equity Shares

52,000,000 (Previous Year 37,000,000) Equity Shares of Rs. 10 each 520,000,000 370,000,000

Preference Shares

3,000,000 (Previous Year 3,000,000) Preference Shares of Rs. 10 each 30,000,000 30,000,000

550,000,000 **400,000,000**

Issued, Subscribed and Fully Paid-up

44,138,481 (Previous Year: 26,643,047) Equity Shares of Rs. 10 each 441,384,810 266,430,470

Issued, Subscribed and Partly Paid-up

38,63,415 (Previous Year: Nil) Equity Shares of Rs. 10 each, Rs.0.50 paid up 1,931,710 -

Total

443,316,520 **266,430,470**

Schedule 1A: Stock Options Outstanding (Refer Note 10 of Schedule 18)

Employee Stock options outstanding 14,212,480 -

Less : Deferred Employee compensation outstanding 11,643,068 -

2,569,412 **-**

Schedule 2: Reserves and Surplus

A. Securities Premium Account

As per Last Balance Sheet 408,904,759 -

Add: Amount received during the year 1,062,419,827 408,904,759

Total **1,471,324,586** **408,904,759**

B. Statutory Reserve

As per Last Balance Sheet 8,329,085 994,751

Add: Transfer from Profit and Loss Account 33,292,726 7,334,334

Total **41,621,811** **8,329,085**

C. Profit and Loss Account

Surplus brought forward from the Profit and Loss Account statement 166,257,502 33,086,598

Add: Adjustment for Employee Benefits provision (Refer Note 11 of Schedule 18) 268,170 -

Total **166,525,672** **33,086,598**

Total

1,679,472,069 **450,320,442**

Schedule 3 : Secured Loans

Term Loans

From Banks (Secured by Hypothecation of Portfolio Loans) 5,935,104,021 2,014,509,514

From Financial Institutions (Secured by Hypothecation of Portfolio Loans and by Bank Deposits marked as Lien) 1,963,345,894 475,684,554

Total **7,898,449,915** **2,490,194,068**



SKS MICROFINANCE PRIVATE LIMITED
Schedules to Balance Sheet and Profit and Loss Account

Schedule 4: Fixed Assets and Intangible Assets

4A. Fixed Assets

PARTICULARS	GROSS BLOCK				DEPRECIATION			NET BLOCK		
	As on April 1, 2007	Additions	Deletion	As on March 31, 2008	As on April 1, 2007	For the Year	Deletion	Total March 31, 2008	As on March 31, 2008	As on March 31, 2007
	(I) Furniture and Fixture	12,193,791	23,234,793	-	35,428,584	9,261,793	17,471,716	-	26,733,509	8,695,075
(II) Plant and Machinery: Computers** Office Equipments@	20,440,734 3,129,143	56,194,592 7,355,123	-	76,635,326 10,484,266	5,769,543 635,208	13,503,671 1,365,110	-	19,273,214 2,000,318	57,362,112 8,483,948	14,671,191 2,493,935
(III) Vehicles	741,150	-	-	741,150	211,815	137,045	-	348,860	392,290	529,335
Total	36,504,818	86,784,508	-	133,289,326	15,878,359	32,477,542	-	48,355,901	74,933,425	20,626,459
Previous Year	-	26,181,416	-	36,504,818	-	13,312,706	-	15,878,359	20,626,459	-

** Gross block of Computers include grant assets of nominal value of Rs 586.

@ Gross block of Office Equipment include grant assets of nominal value of Rs 14

4B. Intangible Assets

PARTICULARS	GROSS BLOCK				DEPRECIATION			NET BLOCK		
	As on April 1, 2007	Additions	Deletion	As on March 31, 2008	As on April 1, 2007	For the Year	Deletion	Total March 31, 2008	As on March 31, 2008	As on March 31, 2007
	(I) Goodwill	39,701,135	-	-	39,701,135	12,571,227	7,940,227	-	20,511,454	19,189,681
(II) Computer Software	8,253,500	52,048,719	-	60,302,219	4,453,527	10,692,569	-	15,146,096	45,156,123	3,799,973
Total	47,954,635	52,048,719	-	100,003,354	17,024,754	18,632,796	-	35,657,550	64,345,804	30,929,881
Previous Year	-	-	-	47,954,635	-	10,476,654	-	17,024,754	30,929,881	-



SKS MICROFINANCE PRIVATE LIMITED
Schedules to Balance Sheet and Profit and Loss Account

March 31, 2008

March 31, 2007

Schedule 5: Deferred Tax Assets / (Liabilities) (Net)

Deferred Tax Assets

Differences in depreciation and other differences in block of fixed assets and intangible assets as per tax books and financial books	-	699,446
Difference due to disallowance of expenses under section 43B of Income tax Act, 1961	3,919,935	3,466,529
Difference due to disallowance of provision for doubtful debts	10,927,347	3,577,886
Difference due to disallowance of provision for gratuity	-	598,823
Difference due to charge of tax on income on non-performing assets	-	117,835
Difference due to others disallowances	-	435,829
Gross Deferred Tax Assets	14,847,282	8,896,348

Deferred Tax Liabilities

Differences in depreciation and other differences in block of fixed assets and intangible assets as per tax books and financial books	5,457,619	-
Gross Deferred Tax Liabilities	5,457,619	-
Net Deferred Tax Assets	9,389,663	8,896,348

Schedule 6: Cash and Bank Balances

Cash on Hand	106,787,608	40,391,380
Balances with Scheduled Banks:		
On Current Accounts	1,479,173,793	423,187,675
On Deposit Accounts	1,161,538,551	100,106,863
(Of the total deposits placed with bank, deposit certificates of Rs.136,897,979 (Previous Year Rs.28,016,064) has been partly lien marked against term loans from financial institutions and asset assignments)		
Balances with Unscheduled Banks (Refer Note 18 of Schedule 18):		
On Current Accounts	4,775,285	850,232
On Deposit Accounts	-	-
Total	2,752,275,237	564,536,150

Schedule 7: Other Current Assets

Interest Accrued But Not Due		
On Portfolio Loans	35,252,129	8,689,397
On Deposits placed with Banks	4,790,007	12,642
Others	4,259,997	1,691,713
Total	44,302,133	10,393,752



