ANNUAL REPORT 2010-2011

Creating outstanding success stories

SKS Microfinance has been extending loans to 73 lakh women in 378 districts across 19 states of India.

By delivering the most convenient, cost-effective financial inclusion option in their neighbourhood, SKS Microfinance has been supporting the income generation activities of these women. In the process, there have been thousands of outstanding success stories of micro entrepreneurship.

Our vision is to serve 5 crore household across India and other parts of the world and also to create a commercial microfinance model that delivers high value to our borrowers.

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Message from the Executive Chairman

"Your Company has been able to remain strong as SKS is geographically well-diversified with presence in 18 other states. Moreover, with a relatively strong balance sheet, the situation in the microfinance sector spells a big opportunity in the medium and long-term for consolidation of borrowers."

The fiscal 2010-2011 started with a tremendous milestone for microfinance as your Company had a remarkable debut on the stock exchanges. On August 16, 2010, your Company's borrowers Yadamma of Andhra Pradesh, Indumathi of Karnataka, Kunti Patra of Odisha, Tayran Bibi of West Bengal and Neelu Bai of Maharashtra rang the gong at the Bombay Stock Exchange (BSE). It was a glorious symbol of the lakhs of success stories that your Company has been creating across villages throughout rural India.

The year ended on an optimistic note as well with far-reaching regulatory changes that will ensure a healthy growth of the sector and will pave the way for bringing microfinance back to its core mission of financial inclusion, something which your Company has been practicing for almost 14 years. Your Company has welcomed the RBI's Malegam Committee recommendations as we have been adhering to the regulations laid down by the RBI and following the best practices of microfinance from our founding days.

Sandwiched between the brightest spots of the year were the toughest times for microfinance in India. There was an external political attack on microfinance that culminated in draconian provisions of a microfinance law passed in Andhra Pradesh, the Andhra Pradesh MFI Act. This has been challenging. The Act has hampered growth in Andhra Pradesh and resulted in a slight reduction (5%) in your Company's overall loan portfolio; your Company has also posted a net profit of Rs. 111.63 crore for the year ended March 31, 2011 as compared to Rs. 173.95 crore for the year ended March 31, 2010.

However, despite the challenges, your Company has been able to remain strong as SKS is geographically well-diversified with a presence in 19 states. Moreover, with a relatively strong balance sheet, the situation in the microfinance sector spells a big opportunity in the medium and long-term for consolidation of borrowers in the sector, though some pain is foreseen in the next couple of quarters — particularly if the situation in Andhra Pradesh is not resolved.

It is pertinent to note that SKS' special leave petition challenging the Andhra Pradesh MFI Act has been admitted by the Honourable Supreme Court of India. Also, the fundamentals of the business remain intact as repayment in 18 of the states outside of Andhra Pradesh continues to be excellent.

Your Company is also taking some proactive steps, by adopting a three-pronged strategy to revitalize its operations. The elements of this strategy include: 1) consolidation of our existing borrower base instead of acquiring new ones, 2) diversification into lending against gold, financing kirana stores and financing the purchase of mobile phones, and 3) continuing efforts to seek the Andhra Pradesh Government support in resolving the situation in the State.

With these steps, we are confident that your Company, as well as the microfinance sector generally, will get back on track. This is important because I believe yours is a great Company, with a great purpose. The sentiment is best expressed in the words of one of our borrowers, Gangamani from Medak district in Andhra Pradesh. She has been a borrower for 10 years. She started with a loan of Rs. 8,000, selling saris from her home. Today she has her own sari shop and two sewing machines with a few people working for her. Her children are studying in college. She says with pride, "We have been able to change our lives with your support... We will be there to help you fight but you have to lead us. You can't let us down."

For the sake of Gangamani and lakhs of other women like her, your Company is committed to leading the microfinance sector back to its great purpose.

As your Company continues its efforts in that direction, let me take this opportunity to thank my colleagues, particularly our field staff, as well as the entire support functions for their untiring efforts. I particularly want to acknowledge M R Rao, our MD and CEO, who has shown tremendous leadership in the face of the challenges of the past year. I also want to recognize S Dilli Raj, our CFO, who has ensured your Company has a strong financial platform, despite the difficulties in raising funds last year. Let me also express my gratitude to the Board of Directors for their support and guidance in the face of extraordinary circumstances.

Dr. Vikram Akula
Executive Chairman

Message from the Managing Director & CEO

"This fiscal, the focus will be on reaching out to the last mile with a bouquet of products - Gold Loans, Sangam stores and Loans for Mobile Phones."

The most challenging times for the microfinance sector are behind us, though some pain cannot be ruled out in the short term.

Your Company has 2,379 branches across 378 districts in 19 states with a borrower base of 73 lakh (7.3 million) at the end of 2010-11. The number of employees stands at 22,733.

Operations in 18 out of the 19 states, where your Company has a presence, have not witnessed the Andhra Pradesh contagion effect. Your Company's exposure in Andhra Pradesh has dropped significantly. Over 80% of future receivables are now from the other 18 states.

This was because of the quick measures taken by your Company as the Andhra Pradesh situation unfolded. Your Company now plans to further strengthen its position by adopting a three-pronged strategy. The elements of the strategy include: 1) diversification, 2) consolidation of borrower base and 3) continuing efforts to seek the Andhra Pradesh Government support in resolving the situation in the State at the earliest.

This fiscal, the focus will be on reaching out to the last mile with a bouquet of products — Gold Loans, Sangam stores and Loans for Mobile Phones. Last year, we had run these programs as pilot projects. Based on the success of the pilots, your Company has decided to scale them into new business verticals.

In the microfinance sector, your Company is well placed to comply with all regulatory changes while consolidating its position with increased focus on existing borrowers.

In short, your Company is taking firm steps as it enters the year of revitalization and reinvention, which is ahead of us.

M R Rao
Managing Director & CEO

Message from the CFO

"Broad basing the revenue stream, derisking the business model, rationalizing the cost structure and compliance orientation are strategic priorities for FY 2011-12."

Financial year 2010-11 saw SKS Microfinance delivering on its leadership role of connecting the capital markets with the MFI sector through its IPO which was oversubscribed by 13.6 times. This sector-defining event demonstrated public market's willingness to support free market solutions addressing social issues.

SKS Microfinance's approach of remaining well capitalized with adequate liquidity helped to combat the issues posed by the Andhra Pradesh Microfinance Act. Protecting our investment in the franchise built, delivering on promises to credit grantors, mitigating the contagion risk and playing an active role in policy-formulation were some of the objectives well accomplished in the second half of FY-11.

Notification of the Malegam Committee Recommendations by the Reserve Bank of India (RBI) brought in the much-needed regulatory clarity (RBI to be the sole regulator) and funding certainty (continuation of priority sector status) with contagion risk being fully mitigated in 18 other states we operate in. The business model is validated with no substitute or alternative credit-delivery model emerging to meet the credit demands of rural India in a collateral-free form at its doorstep.

Continuing with our conservative accounting approach, we have made additional provisioning/ write-off of Rs. 184 crore for FY 2010-11 benchmarked against the applicable provisioning norms stipulated by the RBI. Drop in PAT for FY 2010-11 needs to be reviewed in the context of this self-imposed financial obligation. This is not to argue that the pain and hardships are behind us. The pain could continue for a quarter or two but the medium term prospects are bright given the change in the competitive landscape. Simply put, it is:

- Near term - Pain
- Medium term - Highly positive
- Long term - Absolutely bullish

Broad basing the revenue stream, derisking the business model, rationalizing the cost structure and compliance orientation are strategic priorities for FY 2011-12. Getting its act together on these priorities could help SKS Microfinance emerge as the SBI or ICICI of the MFI sector.

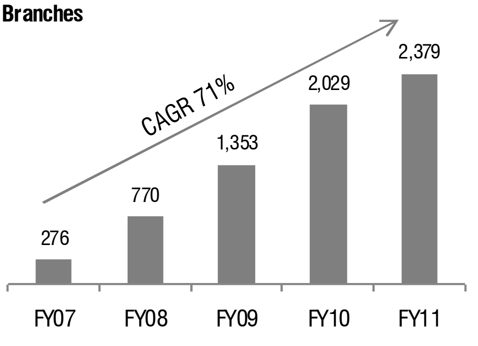
S Dilli Raj
CFO

Operational Highlights

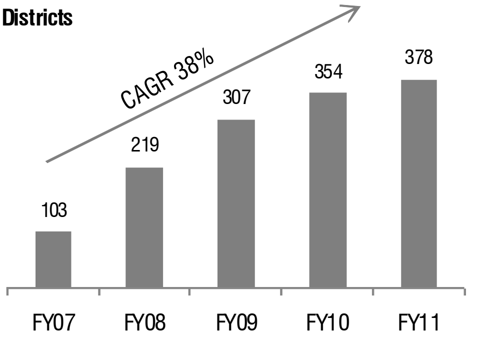
Operational Highlights	FY-07	FY-08	FY-09	FY-10	FY-11
No. of branches	276	770	1,353	2,029	2,379
No. of districts	103	219	307	354	378
No. of employees	2,381	6,818	12,814	21,154	22,733
No. of borrowers (in Lakh)	6.04	18.79	39.53	67.80	73.07
Disbursements (Rs. in Crore)	452	1,680	4,485	7,618	7,831
Gross loan portfolio (Rs. in Crore)*	276	1,051	2,456	4,321	4,111

* Includes assigned portfolio

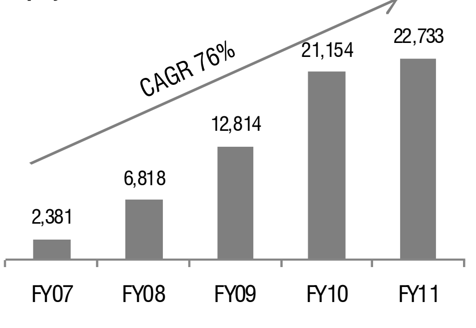
Branches



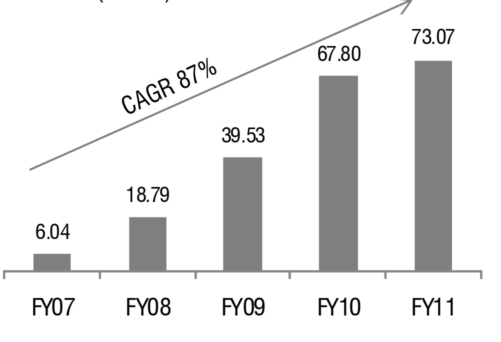
Districts



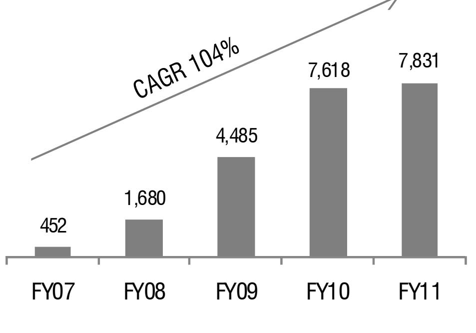
Employees



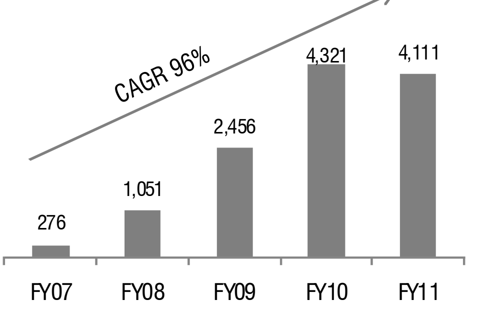
Borrowers (in Lakh)



Disbursements (Rs. in Crore)



Loan Portfolio (Rs. in Crore)

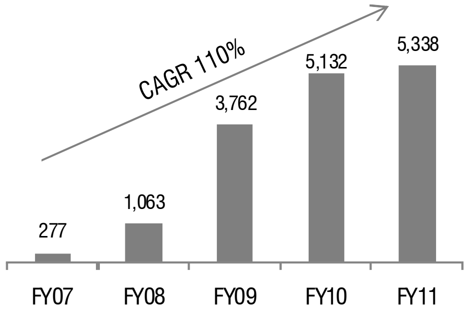


Financial Highlights

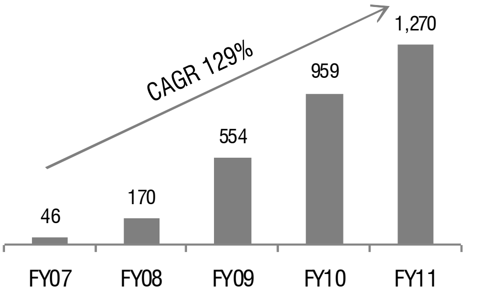
Financial Highlights	FY-07	FY-08	FY-09	FY-10	FY-11
Incremental borrowing* (Rs. in Crore)	277	1,063	3,762	5,132	5,338
Total revenue (Rs. in Crore)	46	170	554	959	1,270
Profit After Tax (Rs. in Crore)	3.67	16.65	80.22	173.95	111.63
Total assets (Rs. in Crore)	335	1,089	3,039	4,047	4,300
Return on average asset	1.69%	2.34%	3.89%	4.91%	2.40%
Return on average equity	8.54%	11.71%	18.29%	21.54%	7.50%

* Amount of sanctions received from banks and financial institutions

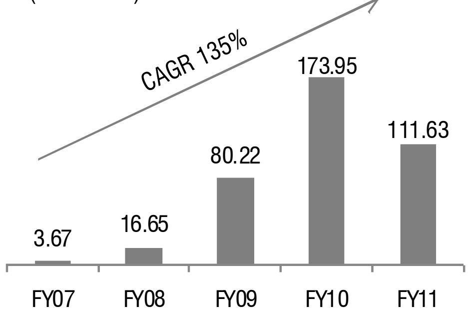
Incremental Borrowing (Rs. in Crore)



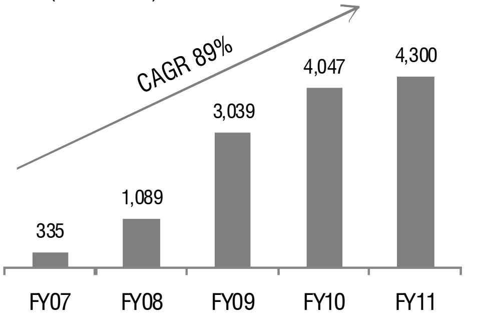
Revenue (Rs. in Crore)



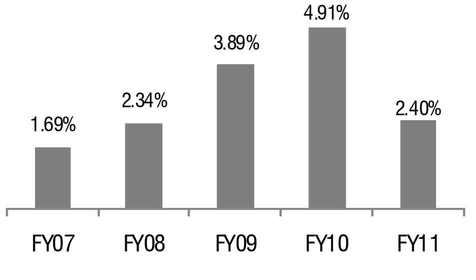
PAT (Rs. in Crore)



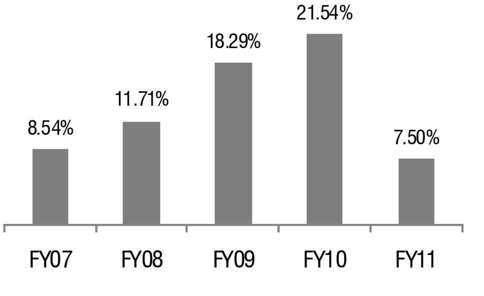
Assets (Rs. in Crore)



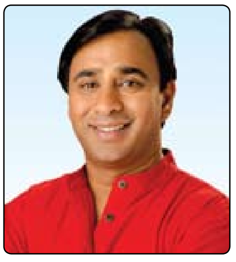
Return on Assets



Return on Equity



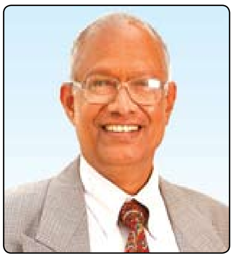
Board of Directors*



Vikram Akula
Executive Chairman

Pramod Bhasin
Independent Director

Sumir Chadha
WestBridge Capital



V Chandrashekaran
Nominee Director- SIDBI

Tarun Khanna
Independent Director

Paresh Patel
Sandstone Capital

M R Rao
Managing Director & CEO

P H Ravikumar
Independent Director

Geoffrey Tanner Woolley
Independent Director

** As on June 2, 2011*

Directors' Report

Dear Members,

Your Directors have pleasure in presenting the Eighth Annual Report of your Company together with the audited statement of accounts for the year ended March 31, 2011.

Initial Public Offering

During the year under review, your Company successfully completed its Initial Public Offering (IPO) of equity shares and has achieved a rare distinction of becoming the first microfinance institution in India to be listed on the Bombay Stock Exchange and the National Stock Exchange on August 16, 2010.

Your Company completed an IPO of 1,67,91,579 equity shares of Rs. 10 each for cash consisting of a fresh issue of 74,45,323 equity shares at a premium of Rs. 975 each to Qualified Institutional Buyers and Non-Institutional Buyers and at a premium of Rs. 925 each to Retail Individual Buyers as well as an offer for sale of 93,46,256 equity shares at a premium of Rs. 975 each to Qualified Institutional Buyers and Non-Institutional Buyers and at a premium of Rs. 925 each to Retail Individual Buyers. The IPO was done in accordance with the terms of your Company's prospectus dated August 5, 2010.

Utilization of IPO Proceeds

As on March 31, 2011, the amount raised through the IPO has been utilized by your Company towards the following objectives of the Issue:

Particulars	**Amount** (Rs. in Crore)
Total fresh Issue proceeds	722.20
Utilization for onward lending (business operations)	682.80
Retained for IPO expenditure	39.40

Financial Highlights

The financial performance for the fiscal ended March 31, 2011 is summarized in the following table:

(Rs. in Crore)

Year ended March 31	**2011**	**2010**
Total revenue	1,269.54	958.51
Less: total expenditure	1,097.11	690.81
Profit Before Tax (PBT)	172.43	267.70
Profit After Tax (PAT)	111.63	173.95
Surplus brought forward	220.00	80.84
Amount available for appropriation	331.63	254.79
Appropriation has been made as under:		
Transfer to statutory reserve	22.33	34.79
Surplus carried to balance sheet	309.30	220.00
EPS (Rs.)	16.10	32.82
Diluted EPS (Rs.)	15.24	27.33

- The Company's total revenue for the year ended March 31, 2011 has increased to Rs. 1,269.54 crore from Rs. 958.51 crore in the previous year registering an increase of 32.4%.

- Net profit after tax for the year decreased by 36% to Rs. 111.63 crore from Rs. 173.95 crore in the previous year.

- An amount of Rs. 22.33 crore was transferred to the Statutory Reserve Fund pursuant to Section 45-IC of the Reserve Bank of India Act, 1934.

Operational Highlights

The following table summarizes the operational performance of your Company for the year ended March 31, 2011:

Year ended March 31	2011	2010	Percentage change
Number of branches	2,379	2,029	17.25%
Number of borrowers (in Lakh)	73.07	67.80	7.77%
Number of employees	22,733	21,154	7.46%
Amount disbursed (Rs. in Crore)	7,831	7,618	2.79%
Portfolio outstanding (Rs. in Crore)	4,111	4,321	(4.85%)

During the year under review, your Company's borrower base has increased to 73.07 lakh (7.31 million) as compared to 67.80 lakh (6.78 million) for the previous year which demonstrates a growth of 7.77%, resulting in a 2.79% increase in loans disbursed to Rs. 7,831 crore from Rs. 7,618 crore.

Industry Leader

Even as it continued to grow, your Company has displayed leadership in thought and action. Your Company's leadership position in the microfinance sector enhanced SKS' reputation and credibility with various stakeholders. SKS continues to finance its expansion by accessing multiple sources of capital, both debt and equity, including listed debentures, priority sector qualifying loans from banks and equity investments. Additionally, your Company could sell/ assign its portfolio loans to banks to improve its financial position and finance its growth. Your Company continued to capitalize on its strengths on various parameters like superior asset quality, pan-India distribution channels, development of an Information Technology platform, strategic business alliances and an experienced management team.

Microfinance Situation in the State of Andhra Pradesh

The industry had its share of uncertainty with the Andhra Pradesh Government promulgating the Microfinance Institutions (Regulation of Money Lending), Ordinance 2010 in October 2010. The Ordinance — which later became an Act when the State Assembly passed the Andhra Pradesh Microfinance Institutions (Regulation of Money Lending), AP Act 1 of 2011 (AP MFI Act) — hindered microfinance operations in the State, which until then was the role model state and accounted for nearly 40% of the industry. The hindrances from the new Act resulted in reduction in total MFI disbursement in Andhra Pradesh from Rs. 5,035 crore in first half of the year to a meager Rs. 8.5 crore in the second half of the year. While the Act had an impact on SKS, your Company is geographically well-diversified with a presence in 18 other states and Andhra Pradesh contributed only 28% of the portfolio when the AP MFI Ordinance was promulgated.

The AP MFI Act, which was aimed at curbing irresponsible players in the sector, raised a regulatory conundrum for NBFC-MFIs, such as SKS, which are registered with the RBI, as it was not clear whether the NBFC-MFIs should follow the State Government Act or the RBI guidelines. The RBI had set up the Malegam Committee to look into all aspects of microfinance. The Malegam Committee's Report (MCR) effectively addressed all concerns regarding microfinance as it suggested that the RBI be the sole regulator for NBFC-MFIs, re-emphasized the priority sector status for microfinance and laid out detailed guidelines on operational aspects as well. In its monetary policy statement on May 3, 2011, the RBI accepted the broad framework of regulations recommended by the MCR, ending the regulatory uncertainty.

Business Initiatives

Your Company is currently reaching over one lakh (1,00,000) villages in India with a presence in 19 states and 2,379 branches. Your Company has begun leveraging this extensive branch network and its financing ability to provide more financial services to the bottom of the pyramid. In this direction, your Company undertook initiatives like mobile handset financing, financing loans against gold collateral and lending to kirana stores (Sangam stores).

- **Mobile Financing Program**

  India has a high potential in the mobile telephony market, but the high cost of mobile handsets is a key deterrent for rural borrowers of SKS. Considering this, your Company has launched a mobile finance program that offers its borrowers mobile phones at a relatively lower price with the option of paying in small, easy installments. Your Company has partnered with Nokia India Pvt. Ltd. to supply quality handsets to its borrowers. A loan product has been designed to facilitate finance for handset purchases. Under this program, your Company has disbursed 3.5 lakh mobile loans to its borrowers in six states of India. This initiative has instilled confidence in its borrowers and improved their business through better access to communication.

- **Sangam stores**

  A Sangam store is a kirana store run by an SKS borrower. The objective of your Company's Sangam store lending initiative is to enable Sangam store owners to buy — from a wholesale vendor — fast-moving consumer goods and groceries which they would then resell in their retail kirana stores. This will give them access to quality products at competitive prices. It also saves the borrower time and transport costs. About 8% of the total borrower base of SKS is running kirana stores (i.e 5 lakh kirana stores). With SKS providing finance and the wholesaler facilitating delivery to kirana stores, SKS and their partner wholesaler can both enhance the volume of business done by Sangam stores and meet working capital needs of Sangam store owners.

  A suitable credit product has been designed to meet this specific need. SKS partnered with one of the world's most reputed wholesalers, Metro Cash and Carry (India) Pvt. Ltd., in Hyderabad. SKS enrolled 3,500 stores and is now planning to expand this program geographically (to Bengaluru and Kolkata) as well as to different customer segments (non-borrowers). SKS is building new relationships to extend the non-borrower program across the country. SKS has also developed a mobile based MIS system to collect and consolidate orders and track the loan portfolio. The enhanced software system will help SKS in scaling the program in multiple locations working with multiple partners. This program can act as the first step in creating distribution channels for a wide range of other non-financial products. Your Company believes that it can offer profitable products that benefit its approximately 5 lakh Sangam store owners and which have trickle-down benefits to its broader borrower base.

- **Gold Loan**

  Currently, the gold loan market is predominantly operated by usurious pawn-brokers with players in the organized sector having limited reach in the rural markets. To bridge this gap, your Company has initiated the Gold Loan pilot project. The objective is to enable borrowers to get loans at competitive rates to increase their business, to fulfill personal needs and to address other emergencies. Your Company plans to target its current borrowers as well as new ones with the product. A pilot project has been launched in three locations in Karnataka and in two centres in Gujarat to test the product and processes.

Dividend

Your Directors have not recommended any dividend during the year as the Board is of the view that the Company should retain capital in order to maintain a healthy capital adequacy ratio and to support future growth opportunities, such as taking advantage of potential opportunities for consolidation of borrowers of other MFIs.

Management Discussion & Analysis

The Management Discussion & Analysis Report for the year under review is presented in a separate section on Page 29 in this Annual Report.

Corporate Governance

Your Company adopts corporate best practices and is committed to conducting its business in accordance with applicable laws, rules and regulations. Your Company follows the highest standards of business ethics. A report on Corporate Governance is provided on Page 35 in this Annual Report.

Resources and Liquidity

Your Company, being a Systemically Important Non-deposit Accepting NBFC, is subject to the capital adequacy requirements prescribed by the RBI. Your Company needs to maintain a minimum ratio of 15% as prescribed under the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 (as amended from time to time) based on total capital to risk weighted assets. Your Company maintained a Capital to Risk Asset Ratio (CRAR) of 45.4% and 28.3% respectively, as on March 31, 2011 and as on March 31, 2010, which is higher than the statutory 15% requirement for the FY 2010-11 and 12% for the FY 2009-10 respectively.

During the year, your Company has received ratings for various instruments to raise funds and a summary of the ratings is presented in the following table

Agency	Item	Rating
CARE Ratings	Short Term Debt	PR1+
CRISIL Ratings ^	Short Term Debt	P1+
CARE Ratings	Assignment	PR1+ (SO)
CRISIL Ratings	Securitization	P1+ (SO)
ICRA Ratings	Securitization	A1 (SO)

^ Rating withdrawn

Further, CARE has revised its rating assigned to the Short Term Debt Program of Rs. 500 crore of your Company from PR1+ (One plus) to PR1 (One) and the rating has been kept under Credit Watch since October 2010 following the implementation of the Andhra Pradesh Microfinance Institutions (Regulation of Money Lending) Ordinance, 2010 by the State Government of Andhra Pradesh.

Your Company accessed an incremental borrowing of Rs. 2,783 crore in debt including Commercial Paper for Rs. 245 crore, term loan of Rs. 1,727 crore and Asset Assignment/ Securitization of Rs. 811 crore in the financial year 2010-11 and sanctioned limits of Rs. 5,338 crore.

Fixed Deposits

Your Company has not accepted any fixed deposits and, as such, no amount of principal or interest was outstanding in the fiscal.

Increase in Share Capital

During the year under review, 74,45,323 equity shares were issued as part of the IPO and 3,51,368 equity shares were issued under SKS ESOP (Independent Directors) 2008 and SKS ESOP 2009 Plans.

Thus, the issued, subscribed and paid-up equity share capital increased from 6,45,27,219 to 7,23,23,910 as on March 31, 2011.

RBI Guidelines

Your Company is registered with the Reserve Bank of India, as a non-deposit accepting NBFC (NBFC-ND) under Section 45-IA of the RBI Act, 1934. As per Non-Banking Finance Companies RBI Directions, 1998, the Directors hereby report that the Company did not accept any public deposits during the year and did not have any public deposits outstanding at the end of the year.

In October 2010, the Reserve Bank of India has set up a sub-committee of the Central Board of Directors of the Reserve Bank of India, headed by Mr. Y H Malegam to study the issues and concerns of the microfinance sector, including ways and means of making interest rates charged by MFIs reasonable. The committee was set up after the Andhra Pradesh Government issued an Ordinance making registration of MFIs with the State Government compulsory.

On January 19, 2011, the sub-committee made the following recommendations after studying the issues and concerns in the MFI sector:

i. Creation of a separate category of NBFCs operating in the microfinance sector to be designated as NBFC-MFIs, with an NBFC-MFI defined as a company which provides financial services to pre-dominantly low-income borrowers, with loans of small amounts, for short-terms, on unsecured basis, mainly for income-generating activities, with repayment schedules which are more frequent than those normally stipulated by commercial banks.

ii. The NBFC-MFI will hold not less than 90% of its total assets (other than cash and bank balances as also money market instruments) in the form of qualifying assets, with restrictions on total outstanding loan per household and household income, among other restrictions, constituting what is deemed as qualifying.

iii. There are limits of an annual family income of Rs. 50,000 and an individual ceiling on loans to a single borrower of Rs. 25,000.

iv. Not less than 75% of the loans given by the MFI should be for income-generating purposes.

v. There is a restriction on the other services to be provided by the MFI, which has to be in accordance with the type of service and the maximum percentage of total income as may be prescribed.

vi. The interest chargeable to the borrower has been recommended with an average margin cap of 10% for MFIs having a loan portfolio of Rs. 100 crore and of 12% for smaller MFIs and a cap of 24% for interest on individual loans.

vii. MFIs can levy only three charges - (a) processing fee (b) interest and (c) insurance charge.

However, based on the recommendation of the Malegam Committee Report (MCR) on the MFI sector, the RBI has notified that all MFIs, including NBFCs working as MFIs on or after April 1, 2011, would be eligible for classification for Priority Sector Loans under respective category of indirect finance, provided:

- MFI loans are eligible only for a household with an annual income not exceeding Rs. 60,000 in case of rural areas (relaxation of MCR which recommended Rs. 50,000) and Rs.1,20,000 in case of urban areas.

- The maximum interest rate charged by MFIs is 26% (relaxation of MCR which recommended 24%).

- MFI loans must not exceed Rs. 35,000 in the first cycle and Rs. 50,000 in subsequent cycles.

- Total indebtedness of the borrower must not exceed Rs. 50,000 at any point.

Credit Bureau for MFIs

In order to address the issue of multiple lending or over indebtedness, various microfinance institutions/ NBFCs have come together to invest in a Credit Information Bureau, High Mark Credit Information Services Private Limited ("High Mark") via Alpha Micro Finance Consultants Private Limited ("Alpha"). In order to facilitate the collective investment in High Mark, as well as undertake other collective steps for building the technology infrastructure for credit information-sharing among themselves, and to educate their staff in ensuring good customer protection principles are followed, 25 NBFC-MFIs have established Alpha as a collective entity. These NBFC-MFIs together have about 70% of the total portfolio of the microfinance loans. In Alpha, your Company has invested Rs. 20 lakh. The RBI has issued a Certificate of Registration to High Mark on November 25, 2010 and SKS has started sharing its borrowers' information with the credit bureau.

Self-regulation for MFIs

Your Company endorses the view that the existence of strong and effective Self-Regulatory Organizations (SROs) will result in development of best practices in various areas in which Microfinance Institutions (MFIs) work. These best practices will evolve through self-regulation/ self-discipline and eventually complement regulatory prescriptions or Government intervention by way of legislation.

In that spirit, your Company along with 43 other Non-Banking Financial Companies (NBFC-MFIs) is a member of and is duly represented on the Board of Microfinance Institutions Network (MFIN), a self-regulatory organization of NBFC-MFIs that aims to work with regulators to promote microfinance to achieve larger financial inclusion goals.

MFIN has set forth a Code of Conduct ("Code") upholding good governance and transparency. This Code broadly focuses on fair practices with borrowers including promoting transparency in communicating interest rates (on reducing balance method) and fees to borrowers in vernacular language, fixing overall lending limits at a borrower level, data sharing, recruitment practices, whistle-blowing, enforcement and an Ombdusperson mechanism for redressing grievances. Your Company has agreed to implement and follow the MFIN Code of Conduct in addition to adhering to the Fair Practice Code as laid down by the RBI.

During the year under review, as the microfinance sector witnessed the phase of regulatory ambiguity and for other reasons, MFIN concerted its efforts towards positioning itself as the primary representative body for the microfinance sector, developing a self-regulation policy, and advocating on sectoral issues to both regulatory bodies as well as to the media.

Lastly, your Company believes that steps towards self-regulation would bring the focus back to the borrowers, improve public trust, help guarantee long-term sustainability, and supplement the regulatory regime.

Information Technology Initiatives

The Information Technology (IT) team has focused on streamlining the cost of operations while improving service to end-users. In fiscal 2011, your Company adopted new technologies and launched initiatives to identify and eliminate unnecessary costs. Collaboration, consolidation and centralization are key objectives as SKS continues to utilize technology in order to further improve the performance of the Company.

Human Resource Management

Human resources is one of the key elements of your Company's growth.

The Human Resource (HR) function has over the years fully developed its capabilities and set up a scalable recruitment and human resources management process, which enables us to attract and retain higher calibre employees.

HR has played a critical role in supporting the business goals during the various changes in the sector as well as in the Company. HR has made changes in various policies, processes and systems to strengthen the effectiveness of operations and to keep pace with a rapidly changing business scenario. In the last year, your Company has undertaken various industry first initiatives in the areas of talent adequacy, capability enhancement and growing leaders from within.

The total manpower of your Company stood at 22,733 as on March 31, 2011 as compared to 21,154 as on March 31, 2010, a growth of 7.5%.

Employee Stock Option Plans (ESOP) and Employee Share Purchase Scheme (ESPS)

Presently, stock options have been granted or shares have been issued under the following schemes:

A. SKS Microfinance Employee Share Purchase Scheme 2007 ("ESPS 2007")

B. SKS Microfinance Employee Stock Option Plan 2007 ("ESOP 2007")

C. SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors) ("ESOP 2008 (ID)")

D. SKS Microfinance Employee Stock Option Plan 2008 ("ESOP 2008")

E. SKS Microfinance Employee Stock Option Plan 2009 ("ESOP 2009")

The disclosures with respect to each of the Company's above-mentioned Employee Share Purchase Scheme (ESPS) and Employee Stock Option Plans (ESOP) as required by the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme), Guidelines, 1999 are appended as Annexure - 1 and form part of this report.

Further, it is proposed to ratify all pre-IPO SKS Microfinance Employees Stock Option Schemes in the ensuing Annual General Meeting.

Particulars of Employees

Pursuant to the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of employees are set out in Annexure - 2 to the Directors' Report.

Directors

During the year under review, Mr. M R Rao was appointed Additional Director under Section 260 of the Companies Act, 1956 with effect from October 4, 2010 on the Board of the Company as the Managing Director and Chief Executive Officer in place of Mr. Suresh Gurumani. Mr. M R Rao holds his office up to the date of the ensuing Annual General Meeting. The Company has received notice together with deposit as required under Section 257 of the Companies Act, 1956, proposing his appointment as Director of the Company.

Mr. M R Rao's appointment as Managing Director and Chief Executive Officer for a period of three years with effect from October 4, 2010 is proposed to be ratified in the ensuing Annual General Meeting.

Mr. Sumir Chadha, Mr. Geoffrey Tanner Woolley and Dr. Tarun Khanna retire by rotation and are eligible to offer their services for re-appointment. A brief profile of the above Directors is given in the Notice of the Eighth Annual General Meeting.

Appointment of Dr. Vikram Akula as Executive Chairman (designated as Chairman) of the Company with effect from April 1, 2011 for a period of five years, subject to review by the Board after three years, is also proposed to be ratified in the ensuing Annual General Meeting.

Based on recommendations of the Nomination Committee and the Remuneration and Compensation Committee, the Board recommends the above appointments/ re-appointments for your approval.

Further, the following changes were effected during the year:

Mr. Ashish Lakhanpal resigned with effect from October 4, 2010 from the Board of Directors of the Company in order to comply with the requirements of Clause 49 of the Listing Agreement with the stock exchanges on composition of Independent and Non-Independent Directors by the Company.

Mr. Suresh Gurumani, vide his letter dated May 27, 2011, tendered his resignation as a Director from the Board of Directors of the Company with immediate effect.

The Board placed on record their appreciation for the contribution made by them to the Company during their tenure.

Directors' Responsibility Statement

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, your Directors' confirm as under:

i) In the preparation of the annual accounts, the applicable accounting standards read with requirements set out under Schedule VI to the Companies Act, 1956 had been followed and there are no material departures from the same.

ii) Your Company has 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 the Company at the end of the financial year 2010-11 and of the profit of the Company for that year.

iii) Your Company has taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

iv) Your Company has prepared the annual accounts of the Company on a 'going concern' basis.

Auditors

The Statutory Auditors of the Company, M/s. S R Batliboi & Co, Chartered Accountants, Mumbai, retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept office of the Auditors, if appointed. The Audit Committee and the Board of Directors recommend reappointment of M/s. S R Batliboi & Co as Statutory Auditors of the Company for the financial year 2011-12 for your approval.

Response of the Board to the Auditors' Comments

In terms of the provisions of Section 217(3) of the Companies Act, 1956, the Board would like to place on record an explanation to the Auditors' comments in their Audit Report dated May 6, 2011.

S. No.	Auditors' Comments	Response
1.	One hundred and fifty six cases of cash embezzlements by the employees of the Company aggregating Rs. 16,018,106 were reported during the year. 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 fifty two of these employees were absconding. The outstanding balance (net of recovery) aggregating Rs. 9,634,467 has been written off.	Employee fraud is an inherent risk in the business in which the Company operates, since all the transactions are cash based. The Company has recovered from employees Rs. 53,41,192 towards cash embezzled and Rs. 10,42,447 under the insurance cover. Cash embezzlement is 0.02% of disbursement during the year. To mitigate this risk to a large extent, the management has put in place several preventive control measures as under: - Procuring an indemnity bond from every field staff, with personal guarantee of a third person. - Every bank transaction (deposit/ withdrawal) is to be executed by minimum of 2 staff comprising a bank signatory and a confirmed staff. - The cash safe at every branch is controlled by two keys and the keys are held by two employees in the branch. - Surprise visits are conducted by managerial level staff, at the time of carrying out cash/ bank transactions by field-level staff. - Minimizing the cash balances at various branches to the lowest level possible (Rs 50,000 + next day disbursement). **There are also several detective controls like** - Staff wise daily reconciliations of cash balances by the managerial level staff at each branch. - Frequent surprise visits by accountants and the internal auditors, which covers verification of physical cash and bank balances. **The following is the action taken in such cases** - Terminating services of all the employees involved in cash embezzlement and taking legal action against them. - Recovering money from such employees. - Also, the Company has taken fidelity insurance to minimize the losses from cash embezzlement.

2.	Two hundred and five cases of loans given to non-existent borrowers on the basis of fictitious documentation created by the employees of the Company aggregating Rs. 45,177,531 were reported during the year. The services of all such employees involved have been terminated and the Company is in the process of taking legal action. The outstanding loan balance (net of recovery) aggregating Rs. 35,417,295 has been written off.	The Company has recovered an amount of Rs. 65,11,492 against these cases and Rs. 32,48,744 under insurance cover. These cases are 0.06% of disbursement during the year. The following are the various **preventive control measures** included in the loan process to mitigate the risk of loans to non-existent borrowers/ fictitious borrowers: - All the loans disbursed have a maker/ checker control, wherein all the loans processed by Sangam managers are approved by branch managers/ assistant branch managers. • The Sangam managers are not deployed in their home towns, so as to prevent collusion with local people. • Employee rotation takes place every six months, wherein the Sangam managers handle different centres at the end of six months. • Transfer of Sangam manager/ branch manager to different branches in a span of 9 to 12 months. - Developed internal processes to restrict the loan disbursements to inactive members. **Detective controls** - The branch managerial staff performs a loan utilization check for every loan disbursed. - The internal audit staff, on a test basis, verifies the loan documents and performs a loan utilization check for the loans disbursed. **Actions taken** - Terminating services of all the employees involved in fake loan transactions and taking legal action against them. - Recovering money from such employees.

3.	Forty seven cases of loans taken by certain borrowers, in collusion with and under the identity of other borrowers, aggregating Rs.13,786,130, were reported during the year. The Company is pursuing the borrowers to repay the money. The outstanding loan balance (net of recovery) aggregating Rs. 6,386,267 has been written off.	These frauds are largely concentrated in a specific region and the corrective measures taken by the Company have yielded positive results. The Company has recovered an amount of Rs. 73,99,863 against these cases which range from 17% to 100% on individual case basis. Average recovery against these cases is above 50%. These cases are 0.02% of disbursement during the year. **Preventive controls** - The branch managerial staff performs thorough screening of the loan applications and the groups by physically visiting the centre. **Detective controls** - The branch managerial staff performs a loan utilization check for every loan disbursed. - The internal audit staff, on a test basis, verifies the loan documents and performs loan utilization checks for the loans disbursed. **Actions taken** - Recovering money from such borrowers. - Drop out such borrowers from the group and ensure that no fresh loans are given to such borrowers in future. Also, since the business is carried out on a joint liability model, the Company would be indemnified from such fraudulent cases.
	The net impact of frauds comes to around 0.070% of the total amount disbursed during the year. The Company is working towards reducing this percentage by making process improvements, covering the loss by having an adequate insurance policy and by increasing opportunities for direct contact with our borrowers. During the year, the Company has recovered an amount of Rs. 0.96 crore against fraud amount written off in previous years.	

Energy Conservation, Technology Absorption and Foreign Exchange Earnings and Outgo

The particulars required to be furnished under sub section (1) (e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, are set out in the Annexure - 3 to this report.

Acknowledgements

Your Directors express their sincere appreciation of the co-operation and assistance received from Sangam members, shareholders, bankers, and other stakeholders during the year under review. Your Directors also wish to place on record their deep sense of appreciation for the commitment displayed by all executives, officers and field staff resulting in the successful performance of the Company during the year.

For and on behalf of the Board of Directors

Place: Hyderabad
Date: June 2, 2011

SD/-	SD/-
Vikram Akula	**M R Rao**
Executive Chairman	Managing Director

Annexure - 1 to the Directors' Report

Employee Share Purchase Scheme (ESPS) and Employee Stock Option Plans (ESOPs)

The disclosures with respect to your Company's Employee Share Purchase Scheme (ESPS) and Employee Stock Option Plans (ESOP) are set out hereunder:

A. SKS Microfinance Employee Share Purchase Scheme 2007 ("ESPS 2007")

The Company instituted ESPS 2007 pursuant to a special resolution dated February 9, 2007 passed at an EGM of the Company. The ESPS 2007 was implemented by the Compensation Committee and the SKS Microfinance Employee Welfare Trust (EWT). The EWT was constituted on March 28, 2007 pursuant to a resolution passed by the Board of Directors dated March 5, 2007. The effective date of the ESPS 2007 was March 31, 2007 and it shall be in effect till March 31, 2020.

Under ESPS 2007, 18,49,750 equity shares were issued for the benefit of eligible employees and in the event the employee is terminated or has resigned from the service of the Company, then the unreleased equity shares to the said employee stand transferred to the EWT. The same is used for the other eligible employees of the Company.

The following table sets forth the particulars of the equity shares granted under the ESPS 2007 as on March 31, 2011:

Particulars	Details of Tranche I	Details of Tranche II	Details of Tranche III
Shares issued	8,18,000	5,14,250	5,17,500
Date of issue	March 31, 2007	November 20, 2007	August 25, 2008
Allotment price of share (Rs.)	10.00	49.77	70.67
Person wise details of shares granted to			
i) Directors and key managerial employees	Refer below		
ii) Any other employee who was allotted equity shares amounting to 5% or more of the equity shares allotted during the year	Not Applicable	Not Applicable	Not Applicable
iii) Identified employees who were allotted equity shares, during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of allotment	Not Applicable	Not Applicable	Not Applicable
Fully diluted EPS	Rs. 15.24 as on March 31, 2011		
Difference between employee compensation cost using the intrinsic value method and the employee compensation cost that shall have been recognized if the Company had used fair value and impact of this difference on profits and EPS of the Company	Not Applicable	Not Applicable	Not Applicable

Details regarding equity shares allotted/ transferred to Directors and key managerial employees are set forth below:

Name of Director/ key managerial personnel	Number of equity shares	Date of Allotment/ Transfer
Mr. M R Rao	4,56,666	2,00,000 equity shares allotted on March 31, 2007. 1,63,750 equity shares allotted on August 25, 2008. 86,250 equity shares have been transferred from EWT on August 25, 2008. 6,666 equity shares transferred from EWT on July 29, 2009.
Mr. S Dilli Raj	1,02,666	1,00,000 equity shares have been transferred from EWT on February 1, 2008. 2,666 equity shares transferred from EWT on July 29, 2009.

* Out of the 4,56,666 equity shares, 1,00,000 equity shares have been transferred to EWT on July 29, 2009 at a price of Rs.300.00 per equity share and 62,500 equity shares have been transferred to Tree Line on April 16, 2010 at a price of Rs. 636.72 per equity share.

** Out of the 1,02,666 equity shares, 25,000 equity shares have been transferred to Tree Line on April 16, 2010 at a price of Rs. 636.72 per equity share.

B. SKS Microfinance Employees Stock Option Plan 2007 ("ESOP 2007")

The Company instituted ESOP 2007 pursuant to a special resolution dated September 8, 2007 passed at an AGM of the Company.

The total number of shares (equity shares of the Company and securities convertible into equity shares) that may be issued under

ESOP 2007 are 18,52,158 equity shares. The ESOP 2007 came into effect on September 8, 2007 and is valid up to September 7, 2011, or such other date as may be decided by the Board of Directors. The ESOP 2007 was implemented by the Board of Directors and the Compensation Committee. Unless otherwise specified, the vested options were to be exercised prior to the expiry of 48 months from the date of vesting.

The Company has granted 18,52,158 options convertible into 18,52,158 equity shares of face value of Rs.10 each on various dates as tabulated below and the following table sets forth the particulars of the options granted under ESOP 2007 as on March 31, 2011:

Particulars	Details
Options granted	18,52,158
Date of grant	October 15, 2007
Exercise price of options (in Rs.)	49.77
Options vested	18,52,158
Options exercised	9,45,424
Total No. of shares arising as a result of exercise of option	9,45,424
Options forfeited/ lapsed	-
Variation in terms of options	-
Money realized by exercise of options (in Rs.)	4,70,53,753
Total No. of options in force	9,06,734
Details of options granted to senior managerial personnel - Directors and key managerial employees	18,52,158
Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during that year	-
Identified employees who are granted options, during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant	-
Diluted EPS on issue of shares on exercise calculated in accordance with AS 20	Rs. 15.24 as on March 31, 2011
Method of calculation of employee compensation cost	Fair Value Method
Weighted average exercise price of options	Rs. 246.64
Weighted average fair value of options	Rs. 7.28

Details regarding options granted to Directors and key managerial employees are set forth below:

Name of Director / key managerial personnel	Total No. of options granted under ESOP 2007	No. of options exercised under ESOP 2007	Total No. of options outstanding under ESOP 2007	No. of equity shares held	Plan
Dr. Vikram Akula	18,52,158	9,45,424	9,06,734	-	ESOP 2007

C. SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors) ("ESOP 2008 (ID)")

The Company instituted ESOP 2008 (ID) pursuant to a special resolution dated January 16, 2008 passed at an EGM of the Company. The Stock Option Plan 2008 was amended pursuant to the Board resolution dated January 5, 2010 and EGM held on January 8, 2010 and the name has been changed to SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors).

The total number of equity shares that may be issued under ESOP-2008 (ID) are 1,95,000 equity shares (as amended, pursuant to a resolution of the shareholders dated January 8, 2010). The ESOP-2008 (ID) came into effect on January 16, 2008 and is valid up to January 15, 2015, or such other date as may be decided by the Board of Directors. The ESOP 2008 (ID) was implemented by the Board of Directors. Unless otherwise specified the vested options were to be exercised prior to the expiry of 60 months from the date of vesting.

The following table sets forth the particulars of the options granted under the ESOP 2008 (ID) as on March 31, 2011:

Particulars	Details of Tranche I		Details of Tranche II	Details of Tranche III	Details of Tranche IV
	A	B			
Options granted	30,000	15,000	6,000	18,000	90,000
Date of grant	February 1, 2008	February 1, 2008	November 10, 2008	July 29, 2009	February 1, 2010
Exercise price of options (in Rs.)	70.67	70.67	70.67	300.00	300.00
Options vested	30,000	15,000	6,000	12,000	22,500
Options exercised	30,000	15,000	1,000	-	-
Total No. of shares arising as a result of exercise of options	25,000 (5,000 yet to be allotted)	15,000 yet to be allotted	1,000	-	-
Options forfeited/ lapsed	-	-	-	-	-
Variation in terms of options	-	-	-	-	-
Money realized by exercise of options (in Rs.)	21,20,100	10,60,050	70,670	-	-
Total No. of options in force	-	-	5,000	18,000	90,000
Details of options granted to senior managerial personnel					
i) Directors and key managerial employees	30,000	15,000	6,000	18,000	90,000
ii) Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during the year	-	-	-	-	-
iii) Identified employees who are granted options, during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant	-	-	-		-
Diluted EPS on issue of shares on exercise calculated in accordance with AS 20	Rs. 15.24 as on March 31, 2011				
Method of calculation of employee compensation cost.	Fair Value Method				
Weighted average exercise price of options (Rs.)	1,266	-	1,266	-	-
Weighted average fair value of options (Rs.)	15.28	17.72	52.14	21.57	72.53

Details regarding options granted to Independent Directors are set forth below, as on March 31, 2011:

Name of Director	**Total No. of options granted under ESOP 2008 (ID)**	**No. of options exercised under ESOP 2008 (ID)**	**Total No. of options outstanding under ESOP 2008 (ID)**	**No. of equity shares held**	**Plan**
Mr. Gurcharan Das*	15,000	15,000	-	-	ESOP 2008 (ID) -Tranche I
Mr. P H Ravi Kumar	15,000	15,000	-	-	ESOP 2008 (ID) -Tranche I
Dr. Tarun Khanna	15,000	15,000	-	-	ESOP 2008 (ID) -Tranche I
Dr. Tarun Khanna	3,000	-	3,000	-	ESOP 2008 (ID) -Tranche II
Mr. P H Ravi Kumar	3,000	1,000	2,000	-	ESOP 2008 (ID) -Tranche II
Mr. Geoffrey Tanner Woolley	18,000	-	18,000	-	ESOP 2008 (ID) -Tranche III
Mr. P H Ravi Kumar	18,000	-	18,000	-	ESOP 2008 (ID) -Tranche IV
Dr. Tarun Khanna	18,000	-	18,000	-	ESOP 2008 (ID) -Tranche IV
Mr. Geoffrey Tanner Woolley	18,000	-	18,000	-	ESOP 2008 (ID) -Tranche IV
Mr. Pramod Bhasin	36,000	-	36,000	-	ESOP 2008 (ID) -Tranche IV

* Resigned with effect from January 5, 2010

D. SKS Microfinance Employee Stock Option Plan 2008 (“ESOP 2008”)

The Company instituted ESOP 2008 pursuant to a special resolution dated November 8, 2008 passed at an EGM of the Company.

The total number of shares (which mean equity shares of the Company and securities convertible into equity shares) that may be issued under ESOP 2008 are 26,69,537 equity shares. The ESOP 2008 came into effect on November 10, 2008 and is valid up to November 9, 2014, or such other date as may be decided by the Board of Directors. The ESOP 2008 was implemented by the Board of Directors and the Compensation Committee. Unless otherwise specified, the vested options were to be exercised prior to the expiry of 60 months from the date of vesting.

The following table sets forth the particulars of the options granted under ESOP 2008 as on March 31, 2011:

Particulars	Details of Tranche I	Details of Tranche II
Options granted	17,69,537	9,00,000
Date of grant	November 10, 2008	December 8, 2008
Exercise price of options (in Rs.)	300.00	300.00
Options vested	17,69,537	2,25,000
Options exercised	-	2,25,000
Total No. of shares arising as a result of exercise of options	-	2,25,000
Options forfeited/ lapsed	-	-
Variation in terms of options	-	-
Money realized by exercise of options (in Rs.)	-	6,75,00,000
Total No. of options in force	17,69,537	6,75,000
Details of options granted to senior managerial personnel i) Directors and key managerial employees	17,69,537	9,00,000
ii) Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during the year	-	-
iii) Identified employees who are granted options, during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant	-	-
Diluted EPS on issue of shares on exercise calculated in accordance with AS 20	Rs. 15.24 as on March 31, 2011	
Method of calculation of employee compensation cost.	Fair Value Method	
Weighted average exercise price of options (Rs.)	Nil	333.33
Weighted average fair value of options (Rs.)	2.92	1.81

Details regarding options granted to Directors and key managerial personnel are set forth below:

Name of Director / key managerial personnel	Total No. of options granted under ESOP 2008	No. of options exercised under ESOP 2008	Total No. of options outstanding under ESOP 2008	No. of equity shares held	Plan
Dr. Vikram Akula	17,69,537	-	17,69,537	-	ESOP 2008 - Tranche I
Mr. Suresh Gurumani	9,00,000	2,25,000	6,75,000*	-	ESOP 2008 - Tranche II

* Mr. Suresh Gurumani resigned as Director with effect from May 27, 2011. Hence, 4,50,000 unvested options shall lapse/ be forfeited.

E. SKS Microfinance Employees Stock Option Plan 2009 (“ESOP 2009”)

The Company instituted ESOP 2009 pursuant to a special resolution dated September 30, 2009 and as amended pursuant to a special resolution dated December 10, 2009 passed at an EGM of the Company.

The total number of equity shares that may be issued under ESOP 2009 (as amended, pursuant to a resolution of shareholders dated December 10, 2009) are 24,99,490 equity shares. The ESOP 2009 came into effect on September 30, 2009 and is valid up to November 30, 2014, or such other date as may be decided by the Board of Directors. The ESOP 2009 was implemented by the Board of Directors and the Compensation Committee. The vested options were to be exercised prior to the expiry of six years from the date of grant of the options as may be determined by the Board/ Compensation Committee.

The following table sets forth the particulars of the options granted under ESOP 2009 as on March 31, 2011:

Particulars	**Details of Tranche I**	**Details of Tranche II**	**Details of Tranche III**
Options granted	5,14,750	18,81,160	10,340
Date of grant	November 3, 2009	December 16, 2009	May 4, 2010
Exercise price of options	Rs. 300.00	(a) 13,13,160 at Rs. 150.00 per option; and (b) 5,68,000 at Rs. 300.00 per option	(a) 4,340 at Rs. 150 per option; and (b) 6,000 at Rs. 300 per option
Options vested	1,85,900	3,11,450	-
Options exercised	1,44,910	1,80,458	-
Total No. of shares arising as a result of exercise of options	1,44,910	1,80,458	-
Options forfeited/ lapsed	50,000	(a) 2,23,910 @ Rs. 150.00 per option; and (b) 1,00,000 @ Rs 300.00 per option	(a) 350 @ Rs. 150.00 per option; and (b) 3,000 @Rs. 300.00 per option
Variation in terms of options	-	-	-
Money realized by exercise of options (in Rs.)	4,34,73,000	3,71,18,700	-
Total No. of options in force	3,19,840	(a) 9,75,792 at Rs. 150.00 per option; and (b) 4,01,000 at Rs. 300.00 per option	(a) 3,990 at Rs. 150.00 per option; and (b) 3,000 at Rs. 300.00 per option
Details of options granted to senior managerial personnel	-	-	-
(i) Directors and key managerial employees	-	-	-
ii) Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during the year	-	-	-
iii) Identified employees who are granted options, during any one year equal to exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant	-	-	-
Diluted EPS on issue of shares on exercise calculated in accordance with AS 20	Rs. 15.24 as on March 31, 2011		
Method of calculation of employee compensation cost	Fair Value Method		
Weighted average exercise price of options (Rs.)	690.46	i) 642.96 ii) 634.98	-
Weighted average fair value of options (Rs.)	41.18	i) 115.30 ii) 69.29	i) 233.75 ii) 152.53

Apart from the above disclosures, the details related to the method and significant assumptions used during this year to estimate the fair values of options granted is mentioned in clause 10 of Schedule 20: Notes to Accounts.

Apart from the options granted under the ESOP 2007, ESOP 2008, ESOP 2009 and ESOP 2008 (ID) there are no outstanding financial instruments or any other rights which would entitle the existing promoters or shareholders or any other person any option to acquire our equity shares after the Issue.

For and on behalf of the Board of Directors

Place: Hyderabad
Date: June 2, 2011

SD/-
Vikram Akula
Executive Chairman

SD/-
M R Rao
Managing Director

Annexure - 2 to the Directors' Report

Information under Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, and forming part of the Directors' Report for the Financial Year ended March 31, 2010.

A. Employed throughout the year and in receipt of remuneration of Rs. 60,00,000/- and above:

S No.	Employee Name	Designation	Qualification	Age	Exp. (Years)	Joining Date	Gross Remuneration (Rs.)	Previous Employment & Designation
1	M R Rao*	MD & CEO	MMS	47	25	Oct. 24, '06	1,47,76,648	ING Vysya Life Insurance, Head-Alternate Channels
2	S Dilli Raj	CFO	B.Com, MBA	43	21	Jan. 28, '08	1,01,30,744	First Leasing Company of India Ltd, CFO

* Appointed as MD & CEO with effect from October 4, 2010.

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

S No.	Employee Name	Designation	Qualification	Age	Exp. (Years)	Joining Date	Gross Remuneration (Rs.)	Previous Employment & Designation
1	Atul Takle	EVP - Communications	Diploma, MMM	54	26	May 18, '10	44,23,056	Pantaloon Retail, Head-Corporate Communications
2	Srinivas Reddy Vudumula	EVP - Human Resources	BE, PGD PM&IR (XLRI)	43	19	June 7,'10	35,69,682	IL&FS Engineering & Construction Company Ltd., Head - HR
3	A V Sateesh Kumar	VP - Member Services	PGDM (IIM)	46	21	July 8,'10	27,17,855	India Infoline, President of Life Insurance Distribution
4	Suresh Gurumani	MD & CEO# (up to October 4, 2010)	B.Com, CA	48	24	Dec. 8,'08	1,81,40,353*	Barclays, Director - Retail Banking

* Includes payment of Rs. 46,87,500/- made towards Non-compete Agreement fees.
# Ceased to be MD & CEO with effect from October 4, 2010.

Notes:

1. Only Managing Director & Chief Executive Officer's appointment is contractual.
2. No Director is related to any other Director or employee of the Company listed above.
3. Remunerations received/ receivable includes Gross Salary (Fixed), Employers Contribution to PF, actual bonus and special incentive paid.
4. None of the employees listed above, individually or along with his/ her spouse and dependent children holds 2 percent or more of the equity shares of the Company.

Annexure - 3 to the Directors' Report

Particulars pursuant to Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988:

A.	**Conservation of energy**	
(a)	Energy conservation measures taken.	• Installed 50 roof-top solar photovoltaic panels at an equal number of locations of the Company across India • Distributed 5,394 D-Light solar lanterns this year among the Company's Sangam managers across regional offices. With this, the total number of solar lanterns deployed has gone up to 15,394 units
(b)	Additional investments and proposals, if any, being implemented for reduction of consumption of energy.	Rs. 91,67,333 incurred for installation of above measures in this year. Cumulative expenditure on this till date is Rs. 2,53,98,953
(c)	Impact of the measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods.	Saving of 120.8 MW energy per year.
(d)	Total energy consumption and energy consumption per unit of production as per Form A of the Annexure in respect of industries specified in the Schedule thereto.	- Not applicable -
B.	**Technology absorption**	
(e)	Efforts made in technology absorption as per Form B of the Annexure:	- Refer Form B -
C.	**Foreign exchange earnings and outgo :**	
(f)	Activities relating to exports; initiatives taken to increase exports; development of new export markets for products and services; and export plans;	- Not applicable -
(g)	Earnings	Rs. Nil
(h)	Outgo	Rs. 43,23,917

FORM B

1. Efforts, in brief, made towards technology absorption, adaptation and innovation	The Company designed specific tools, rules, and discipline for the organization, creating a unique identity in the microfinance industry, and helping the organization in terms of improving efficiency and productivity with low-cost valued solutions. Key areas of improvement are: 1) Developing enterprise core applications and business reporting & intelligence systems in managing the application portfolio for different products 2) Setting up advanced data center and business continuity solutions for the organization and designing hybrid connectivity in connecting SKS branches across India 3) Email - Messaging solutions with integrated knowledge and content management helping employees in different dimensions across head office and regional offices.
2. Benefits derived as a result of the above efforts, e.g., product improvement, cost reduction, product development, import substitution, etc.	Cost and time reduction in the operations of the Company.
3. In case of imported technology (imported during the last five years reckoned from the beginning of the financial year), following information may be furnished: (a) Technology imported. (b) Year of import. (c) Has technology been fully absorbed? (d) If not fully absorbed, areas where this has not taken place, reasons there for and future plans of action.	- Not applicable -

For and on behalf of the Board of Directors

Place: Hyderabad
Date: June 2, 2011

SD/-	SD/-
Vikram Akula	**M R Rao**
Executive Chairman	Managing Director

Management Discussion and Analysis

Microfinance Industry

Fiscal 2011 was a landmark year for the Indian microfinance industry. With SKS completing an Initial Public Offering, the Indian microfinance industry has for the first time successfully tapped the public capital markets.

During the first half of the year, the industry continued its growth path, but in the second half the industry faced regulatory constraints emanating from the Government of Andhra Pradesh (AP). This led to a reduction in the industry's disbursements and consequently loan book. However, this reduction does not reflect the fact that the demand for credit from poor households remains strong. In fact, the credit need of 15 crore poor households — who have an estimated demand of Rs. 2,25,000 crore — is still largely unmet by formal financial institutions. According to an official of the National Bank for Agriculture and Rural Development (NABARD), the Andhra Pradesh situation has created a credit gap of Rs. 4,000 crore in the State, which, if not fulfilled immediately, would have a serious impact on the productivity and financial strength of individuals.

AP MFI Act and Regulatory Issues

The industry had its share of uncertainty with the Andhra Pradesh Government promulgating the Microfinance Institutions (Regulation of Money Lending), Ordinance 2010 in October 2010. The Ordinance — which later became an Act when the State Assembly passed the Andhra Pradesh Microfinance Institutions (Regulation of Money Lending), AP Act 1 of 2011 (AP MFI Act) — hindered microfinance operations in the State, which until then was the role model State and accounted for nearly 40% of the industry. The hindrances caused by the MFI Act resulted in reduction in loan disbursement by MFIs in Andhra Pradesh from Rs. 5,035 crore in first half of the year to Rs. 8.5 crore in the second half of the year. While the Act had an impact on SKS, your Company is geographically well-diversified with a presence in 18 other states and Andhra Pradesh contributed only 28% of the portfolio when the AP MFI Ordinance was passed.

The AP MFI Act, which was aimed at curbing irresponsible players in the sector, raised a regulatory conundrum for NBFC- MFIs, such as SKS, which are registered with the RBI as it was unclear whether the NBFC-MFIs should follow the State Government Act or the RBI guidelines. The RBI set up the Malegam Committee to look into all aspects of microfinance. The committee's report (MCR) effectively addressed all concerns regarding microfinance as it suggested that the RBI be the sole regulator for NBFC-MFIs, re-emphasized the priority sector status for microfinance and laid out detailed guidelines on operational aspects as well. In its monetary policy statement on May 3, 2011, the RBI accepted the broad framework of regulations recommended by MCR, ending the regulatory uncertainty.

Case for Microfinance

The salient features that have emerged from the Andhra Pradesh situation and the subsequent RBI notification are:

1. **Regulatory clarity:** The RBI is the sole regulator for NBFC-MFIs. The MCR lays down seven merit-based arguments for states not to regulate the NBFC-MFIs.

2. **Funding certainty:** The RBI has re-emphasized that microfinance is a national priority by maintaining the priority sector status for microfinance loans, thus encouraging bank lending to the sector.

3. **Fundamental business case is intact:** In Andhra Pradesh, no other credit delivery model has been able to replace the vacuum from the severe cutback in MFI lending. While all the challenges the industry has faced is on the supply side, the demand for credit in rural India remains robust. Also, the fundamentals of the business remain intact as repayment in 18 of the states outside of Andhra Pradesh continues to be excellent.

4. **No contagion risk:** The robust collection efficiency rates in all states, barring Andhra Pradesh, confirm that the challenges in Andhra Pradesh are due to externally induced challenges and not a question of credit discipline. On the regulatory front as well, no other state has rushed to introduce a legislation on the lines of the Andhra Pradesh MFI Act.

The Andhra Pradesh situation, however, needs to be resolved and SKS is optimistic that the RBI's view on the matter will prevail. Owing to the aforementioned developments, fiscal 2012 will be marked by consolidation in the sector, thus benefitting players which have a strong balance sheet, higher operating scale, and more efficiency.

SKS Maintains its Leadership Position

SKS maintained its leadership position in the industry with total disbursements of Rs. 7,831 crore and a borrower base of 73.1 lakh (7.3 million) in fiscal 2011. Your Company also became the only Indian MFI to make a public offer, thereby tapping capital market resources to meet credit needs of rural households.

As a responsible leader, SKS has always followed ethical practices and processes in dealing with borrowers.

Throughout the challenges of second half of fiscal 2011, SKS has kept its investment in franchise building intact and has also demonstrated its ability to raise funds. SKS achieved this even as its close competitors opted to undertake corporate debt restructuring. SKS is well capitalized and is in a strong position to benefit from the consolidation in the sector.

Our strategy for fiscal 2012 will be three pronged:

1. **Consolidation:** SKS will consolidate its leadership position and focus on meeting the various needs of its existing borrowers rather than acquiring new ones.

2. **Diversification:** SKS will scale earlier pilots on fee-based services and secured lending, gradually converting them into business verticals.

3. **Resolve the Andhra Pradesh situation:** SKS is actively engaged with the regulators, the State Government, and borrowers to rebuild the sector in the State. Also, SKS's special leave petition challenging the Andhra Pradesh MFI Act has been admitted by the Honourable Supreme Court of India.

Operational and Financial Highlights

During the five-year period from fiscal year 2006 to 2011, SKS expanded from 2,01,943 borrowers in five states to 73,06,638 borrowers in 19 states as of March 2011. In the same period, the number of branches increased from 80 to 2,379. The number of employees grew from 574 to 22,733. Total loans outstanding (including assigned loans) increased at a Compounded Annual Growth Rate (CAGR) of 114% from Rs. 94 crore as of March 31, 2006 to Rs. 4,111 crore as of March 31, 2011. Over the four-year period from fiscal 2007 to fiscal 2011, our profit after tax increased at a CAGR of 135%, from Rs. 3.7 crore to Rs. 111.6 crore.

Operational Highlights	**Mar-06**	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**
No. of branches	80	276	770	1,353	2,029	2,379
No. of districts	19	103	219	307	354	378
No. of employees	574	2,381	6,818	12,814	21,154	22,733
No. of borrowers (in Lakh)	2.02	6.04	18.79	39.53	67.80	73.07
Disbursements for the year (Rs. in Crore)	153	452	1,680	4,485	7,618	7,831
Gross loan portfolio (Rs. in Crore)*	94	276	1,051	2,456	4,321	4,111

* Includes assigned portfolio

Financial Highlights	**Mar-06**	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**
Incremental borrowings* (Rs. in Crore)	88	277	1,063	3,762	5,132	5,338
Total revenue (Rs. in Crore)	11	46	170	554	959	1,270
Profit after tax (Rs. in Crore)	0.44	3.67	16.65	80.22	173.95	111.63
Total assets (Rs. in Crore)	100	335	1,089	3,039	4,047	4,300
Return on average asset	0.87%	1.69%	2.34%	3.89%	4.91%	2.4%
Return on average equity	5.44%	8.54%	11.71%	18.29%	21.54%	7.5%

* Amount of sanctions received from banks and financial institutions

Financial Performance in 2010-2011

Particulars	2010 - 11		2009 - 10		Increase/ Decrease
	Rs. in Crore	Per cent to Revenue	Rs. in Crore	Per cent to Revenue	
Income from operations	1,160.2	91.4%	872.9	91.1%	32.9%
Other income	109.3	8.6%	85.6	8.9%	27.8%
Gross revenue	1,269.5	100.0%	958.5	100.0%	32.4%
Financial expenses	347.9	27.4%	288.4	30.1%	20.6%
Personnel expenses	326.3	25.7%	216.4	22.6%	50.8%
Operating and other expenses	170.5	13.4%	122.1	12.7%	39.7%
Depreciation and amortization	16.1	1.3%	12.6	1.3%	28.2%
Provisions and write-offs	236.2	18.6%	51.3	5.4%	360.5%
Total expenditure	1,097.1	86.4%	690.8	72.1%	58.8%
Profit before tax	172.4	13.6%	267.7	27.9%	-35.6%
Tax expense	60.8	4.8%	93.7	9.8%	-35.1%
Profit after tax	111.6	8.8%	174.0	18.1%	-35.8%

Income from operations: Income from operations increased by 32.9% to Rs.1,160.2 crore in fiscal 2011 from Rs. 872.9 crore in fiscal 2010. This growth is primarily due to an increase in average gross loan portfolio by 38.5% from Rs. 3,388.6 crore in fiscal 2010 to Rs. 4,694.4 crore in fiscal 2011. The opening and closing gross loan portfolio for the fiscal 2011 was Rs. 4,320.7 crore (March 2010) and Rs. 4,110.7 crore (March 2011) respectively.

Other income: Other income increased by 27.8% to Rs. 109.3 crore in fiscal 2011 from Rs. 85.6 crore in fiscal 2010. The rise in other income is primarily due to an increase in income from group insurance administrative charges by Rs. 38.5 crore.

There is a decrease in income from insurance commission by Rs. 8.7 crore, as SKS stopped the pilot project of distribution of new life insurance policies from May 2010.

Interest income from fixed deposits decreased by Rs. 11.0 crore in fiscal 2011 due to a decrease in cash and bank balances from Rs. 973.5 crore in fiscal 2010 to Rs. 557.9 crore in fiscal 2011.

Other commission income increased by 19.7% from Rs. 3.2 crore in fiscal 2010 to Rs. 3.9 crore in fiscal 2011. Other commission income relates to the commission received from strategic alliance partners on sale of other products, such as mobile phones and on the purchases made by the kirana stores owned by SKS borrowers.

Financial expenses: Your Company's financial expense represents 31.7% of the total expenses for fiscal 2011. Financial expenses increased by 20.6% from Rs. 288.4 crore in fiscal 2010 to Rs. 347.9 crore in fiscal 2011 due to an increase in average borrowings by 19.2% from Rs. 2,415.6 crore in fiscal 2010 to Rs. 2,879.2 crore in fiscal 2011. The opening and closing borrowings for the fiscal 2011 was Rs. 2,694.7 crore (as on March 31, 2010) and Rs. 2,236.1 crore (as on March 31, 2011) respectively.

Personnel expenses: Personnel expenses consist of salaries and employee benefits. Personnel expenses increased by 50.8% from Rs. 216.4 crore in fiscal 2010 to Rs. 326.3 crore as of March 31, 2011, due to an increase in average headcount from 17,277 in fiscal 2010 to 23,998 in fiscal 2011.

Operating and other expenses: Operating and other expenses increased by 39.7% from Rs. 122.1 crore in fiscal 2010 to Rs. 170.5 crore in fiscal 2011. This increase is primarily due to opening of 350 new branches as also increase in travelling and conveyance expenses with higher average field staff count during the year.

Depreciation and amortization: Depreciation and amortization increased by 28.2% to Rs. 16.1 crore in fiscal 2011 from Rs. 12.6 crore in fiscal 2010. This increase was primarily on account of net additions of fixed and intangible assets of Rs. 21.6 crore during the year.

Provisions and write-offs: Provisions and write-offs increased by 360.5% from Rs. 51.3 crore in fiscal 2010 to Rs. 236.2 crore in fiscal 2011, primarily due to higher provisions and write-offs made in the State of Andhra Pradesh for Rs. 129.7 crore in fiscal 2011.

Risk Management

Risk is an integral part of the Company's business and sound risk management is critical to the success of the organization. As a financial intermediary, the Company is exposed to risks that are particular to its lending and the environment within which it operates. The Company has implemented an Enterprise Risk Management (ERM) mechanism to ensure that critical risks are addressed as early as possible. The Company has identified and implemented comprehensive policies and procedures to assess, monitor and manage risk throughout the Company.

The primary objective of implementing ERM framework at SKS is to ensure:

- Risks faced by SKS are identified and collated in a central repository, enabling top management to have a comprehensive understanding.

- Risks taken by your management are within SKS risk appetite and these risks are managed proactively.

The Audit Committee of the Board reviews the risk management policies in relation to various risks and regulatory compliance issues.

Internal Audit and Internal Control

The Company has a well-equipped Internal Audit department carrying out a regular independent appraisal of various activities undertaken by the Company through its branches, regional offices and the head office. The Internal Audit Department comprises 438 employees, headed by a senior management personnel with reporting lines to the Chairman of the Board of Directors and the Audit Committee of the Board and only indirectly to the Managing Director. The audit function maintains its independence and objectivity while carrying out assignments. It evaluates on a continuous basis, the adequacy and effectiveness of internal control mechanism; adherence to policies as also procedures and suggests measures to strengthen as well as streamline control for timely action against various risks. The Company has adopted risks based on Internal Audit as its strategy while carrying out its activities. The Audit Committee of the Board reviews the performance of the Internal Audit on a continuous basis, gives directions to its functionaries and reviews effectiveness of Internal Control Systems. The Internal Audit function has been certified with ISO 9001:2008.

Human Resources

Human Resources (HR) has made a successful journey from being a prompt basic service provider to becoming a Business/ Strategic Partner for the organization. Last year has been a remarkable period for SKS, and this has given an opportunity to HR to help employees understand changes in the internal and external environment as well as to support business goals by designing various interventions and employee engagement initiatives.

- HR has introduced various mechanisms for building and strengthening an inclusive culture at SKS, like creating a platform to meet the field staff across 19 states, being accessible to each and every employee through a toll free number for employees facilitating skip-level level meetings and mobile-enabled services.

- HR has initiated various interventions in building the confidence and the morale of staff during this year thus enabling employees to maneuver during the challenging period in a positive manner.

- Around 21.96% of employees have been covered under the Employee Stock Option Plans (ESOP) and the Employee Share Purchase Scheme (ESPS) with primary focus on retention, productivity and co-creation of wealth as well as a sense of ownership in the Company.

- The relief on account of life losses in the field has been enhanced and medical insurance benefit extended to parents of employees.

- Strengthened the Service Level Agreement of disciplinary processes for a speedy and fair closure of employee grievances.

- Your Company has also strengthened the behavioural and managerial skills of employees to build an internal talent pipeline. The Learning and Development team has carried out about 17,630 hours of training across India.

- Your Company has a dedicated team of 250 trainers who have successfully delivered 3,65,042 hours of technical training for field force in nine major Indian languages. Training covers areas like processes, products and policies with a robust testing mechanism measuring the effectiveness of programs.

- Initiated Supervisory Skills Training Program for Branch Managers.

- As part of its efforts to develop competent future leaders for SKS from within the organization, your Company has provided programs related to self/ leadership development and job-oriented skills to the entire middle-level management.

- A very robust Performance Management System (PMS) has been implemented. The PMS helps the organization identify top performers, in order to retain and prepare them for the next level.
- Conducted a spoken English program for field staff to improve their language skills. This will enable them to interact effectively with senior management and external stakeholders.
- HR has been promptly providing services to the employee base of 22,733 across India as on March 31, 2011. The manpower distribution is: field staff including regional office employees - 22,332 (98%) and head office staff - 401 (2%).
- There has been a growth of 7.0% over the last financial year, when employees totalled 21,154.
- Attrition moved up to 29.52% in FY 2010-2011 compared to 25.7% last year.

Information Technology

The Information Technology (IT) team has focused on streamlining the cost of operations while improving service to end-users. In fiscal 2011, your Company adopted new technologies and launched initiatives to identify and eliminate unnecessary costs. Collaboration, consolidation and centralization are key objectives as SKS continues to utilize technology in order to further improve the performance of the Company.

SKS Lite - Core Microfinance System

The pilot phase of SKS Lite has been implemented across 20 branches in eight months.

Portfolio Tracker

Significant improvements have been incorporated in Portfolio Tracker, such as loan processing systems to manage financing for mobile handsets and water purifiers; capability for additional report generation so that branches can monitor performance better. The IT team has also completed the computerization of ‘Know Your Customer’ forms, which include address details of borrowers and centers of rural borrowers living in the remotest parts of the country.

Credit Bureau

The Company is working with Credit Bureaus like Highmark, Equifax and CIBIL. The credit bureau will identify overlapping microfinance borrowers, their overall loan exposure, and incidents of high default. This will be integrated in the loan delivery processes which will minimize the over indebtedness of borrowers. This pilot project has started in three states and will be rolled out across branches in a phased manner.

Reporting

Reporting processes have been streamlined for weekly and monthly loans as well as securitization of assets with different financial institutions. Portals have been built to monitor and track progress. This system can generate reports for Finance and Accounts as also other verticals of the business. With improved processes and new hardware including powerful servers in place, processing time has been reduced, enabling quick turnaround of reports. Such reporting capabilities have enabled us to comply with the new AP MFI Act, by promptly submitting monthly reports to designated State authorities.

Sangam stores

The software for Sangam store has been enhanced to support multiple wholesalers stationed at multiple locations. More features like day-in, day-end, credit limit revision workflow, enhanced mobile application features, enhanced reports, and validations have been added to the software. This phase, termed Phase II, went live in October 2010.

Retail Insurance

The Retail Insurance Application (which is integrated with Portfolio Tracker) has been enhanced to cover additional features like registering claim requests, recording surrender and death payments, enhanced operational and financial reports with more stringent controls and validations. Retail Insurance reconciliation and enhanced Retail Insurance member software installation have been completed in all 1,390 non-Andhra Pradesh Retail Insurance branches of 26 regions.

The Retail Insurance software user interface has also been integrated with the SKS Lite database and is being piloted in 10 branches across two regional offices in three months. The pilot has been successful.

Intranet Collaboration Portal

V-Konnect has played a key role as a personalized gateway to the SKS world of business applications, resources and utilities. To be able to consistently improve on efficiency and productivity benchmarks, V-Konnect intranet portal provides an interface to the SKS community with various departmental sites to collaborate and share information effectively. V-Konnect has cut down turnaround time of processes of the Company by deploying customized applications that streamline processes.

Investor Relations Portal

After the Public Issue of the Company, the Investor Relations Portal was developed and launched on the Company's website.

Centralization of IT Support through Sevadesk and i-Seva

Sevadesk, a service desk solution, has been providing technology support across the organization reaching as high as 10,000 calls a month with the Service Level Agreement achievement above 93%.

Multi-protocol Label Switching connectivity has been established across the regional offices to enable secure connectivity.

Data center rack consolidation has been implemented to reduce annual recurring costs on hosting and services.

The monthly billing for data cards has been reduced following a stock optimization initiative. Data cards have been issued only to employees who travel regularly and to senior management.

Treasury

In fiscal 2011, the Company received sanctions for Rs. 5,338 crore as compared to Rs. 5,132 crore during fiscal year 2010. Further, the weighted average cost of all interest bearing liabilities as on balance sheet date has increased from 11.94% in fiscal year 2010 to 12.08% in fiscal 2011. Increase in cost was marginal due to a rising interest rate scenario throughout the year. The Company has also raised funds through securitization or assignment by selling a portfolio of Rs. 900 crore. The second half of the year was very challenging for the Company due to the AP MFI Act. Despite that, your Company has managed to draw Rs. 895 crore from banks and financial institutions during that period. Your Company became the first Microfinance Institution to:

- Be listed on stock exchange and raise Rs. 722 crore through an IPO.
- Complete a securitization transaction with a Mutual Fund
- Complete the single largest microfinance assignment deal in India
- Receive a grading of MFR-1 from CRISIL Rating, the first MFI in the world to get this grading from CRISIL
- Raise Rs. 245 crore from the issuance of commercial paper rated 'PR1+' to banks and financial institutions

Cash Management System

All transactions in the field are in cash, including our disbursements and collections from borrowers. To reduce the potential risks of theft, fraud and mismanagement, the Company has implemented an integrated Cash Management System. The System is operational in approximately 2,102 of its branches as of March 31, 2011. The system utilizes an Internet banking software platform that interfaces with various banks to provide real-time data information.

Report on Corporate Governance as on March 31, 2011

I. Company Philosophy

SKS Microfinance Limited (the Company) is committed to conducting its business in accordance with applicable laws, rules and regulations. The Company, which follows the highest standards of business ethics and ethical conduct, is known for adopting corporate best practices.

In line with this approach, the Company has been complying with Clause 49 of the Equity Listing Agreement framed by the Securities and Exchange Board of India (SEBI) on Corporate Governance, well before the listing of its equity shares on the National Stock Exchange and the Bombay Stock Exchange on August 16, 2011.

In addition, the Company complies with the Reserve Bank of India's Master Circular on Corporate Governance issued vide DNBS(PD) CC No. 187/ 03.10.001/ 2010-11 dated July 1, 2010 as it has been registered with the apex regulator of the banking sector as a Non-Deposit Accepting Systematically Important NBFC (NBFC-ND-SI) under Section 45-IA of the RBI Act, 1934.

Adherence to the highest standards of integrity, transparency, fair practice and ethical behavior are fundamental to your Company's business model. Your Company's mission is to provide financial services to low-income households, and we believe that it can best be achieved by following our core values:

- **Right focus - Customer first:** Our products, processes and people are all focused on creating the highest value for the customer. This includes being respectful to customers, understanding the needs of customers and being transparent with customers.
- **Right means - Ethics always:** We will follow ethical practices in all our relationships at all times, including following the law both in letter and spirit. This includes not offering bribes, not paying or taking commissions, and not taking any other short-cuts.
- **Right way - Consistent quality:** We will have standardized processes as this will enable us to reach out to most customers cost effectively. We will foster innovation but in a way that ensures consistent quality.

II. Board of Directors

A. Composition of the Board

The Board of Directors has been implementing the principles of Corporate Governance as envisaged in Clause 49 of Equity Listing Agreement and RBI's Master Circular. On account of such highest standards of compliance, the Board is empowered with the necessary authority to review and evaluate your Company's operations and also make decisions that are independent of the management. To facilitate smoother decision-making at the Board level, your Company has also put in place the required practices and processes.

Your Company currently has a mix of Executive, Non-Executive and Independent Directors on the Board for maintaining the Board's independence with respect to its functions of governance and management as per the Code of Corporate Governance under the Listing Agreement.

As on March 31, 2011, the Board of SKS Microfinance has 10 Directors, of whom one was Non-Executive Chairman, five were Independent Directors, three were Non-Executive Directors and one was Executive (Managing) Director as stated below:

B. Directorship of the Board members held as on March 31, 2011

Name of the Director	Indian Public Companies*	Committee Membership**	Chairperson of Committees**
Mr. Geoffrey Tanner Woolley Non-Executive - Independent Director	1	1	-
Mr. M R Rao# Managing Director & CEO	1	1	-
Mr. P H Ravi Kumar Non-Executive - Independent Director	8	6	4
Mr. Paresh Patel Non-Executive Director	1	1	-
Mr. Pramod Bhasin Non-Executive - Independent Director	3	3	-
Mr. Sumir Chadha Non-Executive Director	3	1	-
Mr. Suresh Gurumani ## Non - Executive - Non-Independent Director	1	-	-
Dr. Tarun Khanna Non-Executive - Independent Director	2	1	1
Mr. V Chandrasekaran Nominee Director of SIDBI Non-Executive - Independent Director	1	1	-
Dr. Vikram Akula *** Non-Executive Chairman & Promoter	1	-	-

Note: There is no inter-se relationship between the Board members.

* Directorships in Indian Public Companies (Listed and Unlisted Companies) including in SKS Microfinance Ltd.

** As required under Clause 49 of the Listing Agreement, the disclosure covers Membership/ Chairpersonship of Audit Committee, Shareholders'/ Investors' Grievance Committee and Remuneration & Compensation Committee in Indian Public Companies (Listed & Unlisted) including SKS Microfinance Ltd.

\# Mr. M R Rao was appointed on October 4, 2010.

\## Mr. Suresh Gurumani resigned as Director of the Company with effect from May 27, 2011.

*** Dr. Vikram Akula has taken over as Executive Chairman with effect from April 1, 2011.

C. The Board Procedures

The Board is presented with relevant information on various matters relating to the working of the Company — especially those that require deliberation at a strategic level — ahead of Board meetings. Different functional heads provide presentations to the Board on various issues concerning the operations of the Company from time to time. The Directors have separate and independent access to the core management team all the time.

In addition to items which are required to be placed before the Board for their noting and/ or approval, the following information is being provided for other significant items:

1. Annual operating plans/ budgets and any updates.
2. Capital budgets and any updates.
3. Quarterly results of the Company and its operating divisions or business segments.
4. Minutes of meetings of the Audit Committee and other committees of the Board.
5. The information on recruitment and remuneration of senior officers just below the Board level, including appointment/ removal of the Chief Financial Officer and the Company Secretary.
6. Show-cause, demand, prosecution and penalty notices, which are materially important.
7. Fatal or serious accidents, dangerous occurrences, etc.
8. Any material default in financial obligations to and by the Company.
9. Any issue which involves possible public or product liability claims of substantial nature.
10. Details of any joint venture or collaboration agreement.
11. Any significant development in Human Resources.
12. Details of foreign exchange exposures and the steps taken by the management to limit the risks of adverse exchange rate movement, if material.

13. Non-compliance of any regulatory, statutory or listing requirements and shareholders service such as non-payment of dividend, delay in share transfer, etc.

During the year 2010-11, 12 meetings of the Board of Directors were held on May 4, 2010, July 16, 2010, September 7, 2010, September 27, 2010, October 3, 2010 (adjourned to October 4, 2010), October 22, 2010, November 3, 2010, November 6, 2010, January 10, 2011, January 24, 2011, March 9, 2011 and March 16, 2011. The gap between any two meetings has not been more than four months.

Attendance of each Director at the Board meetings during the financial year 2010-11

Name	Meetings attended during 2010-11	Meetings participated through electronic means	Participation overall (including through electronic means)	Seventh AGM held on July 16, 2010
Mr. Ashish Lakhanpal*	3	2	100%	Yes
Mr. Geoffrey Tanner Woolley	4	5	75%	Yes
Mr. M R Rao**	5	2	100%	N.A.
Mr. P H Ravi Kumar	12	0	100%	Yes
Mr. Paresh Patel	11	1	100%	Yes
Mr. Pramod Bhasin	3	4	58%	No
Mr. Sumir Chadha	7	4	92%	Yes
Mr. Suresh Gurumani	6	1	58%	No
Dr. Tarun Khanna	2	6	67%	Yes
Mr. V Chandrasekaran	8	0	67%	No
Dr. Vikram Akula	10	1	92%	No

* Mr. Ashish Lakhanpal has resigned with effect from October 4, 2010.
** Mr. M R Rao was appointed on October 4, 2010.
No sitting fee has been paid for participation through electronic means.

III. Board Committees

Currently, the Board has the following nine committees:

1. Audit Committee
2. Shareholder's/ Investor's Grievance Committee
3. Remuneration and Compensation Committee
4. Nomination Committee
5. Asset Liability Management/ Risk Management Committee
6. Finance Committee
7. IPO Committee
8. Strategic Initiatives and Organization Redesigning Committee
9. ESOP Allotment Committee

The Board is responsible for constituting, assigning, co-opting the members of the committee(s), fixing their terms of reference and also delegating their powers from time to time. The minutes of the meetings are circulated to the Board for its information and confirmation.

1. Audit Committee

With a view to complying with various requirements under the Companies Act, 1956 as also codes of Corporate Governance as framed by the SEBI and the RBI, the Audit Committee has been set up with a majority of the members being Independent Directors. The Committee is headed by an Independent Director as Chairman.

A) Terms of Reference of the Audit Committee are as follows:

1. **Duty of the Chairman -** The Chairman of the Audit Committee shall be present at the Annual General Meeting of the Company to provide any clarification on matters relating to audit.

2. **Invitation -** The Audit Committee may invite such of the executives, as it considers appropriate, to be present at the meetings of the Committee. However, on occasions, it may also meet without the presence of any executives of the Company. The Managing

Director & Chief Executive Officer, Chief Financial Officer, Head of Internal Audit and a representative of the statutory auditor may be present as invitees for the meetings of the Audit Committee.

3. Role of the Company Secretary - The Company Secretary shall act as the Secretary to the Committee.

4. Meetings of the Audit Committee and Quorum - The Audit Committee should meet at least four times in a year and not more than four months shall elapse between two meetings. The quorum shall be either two members or one third of the members of the Audit Committee whichever is greater, but a minimum of two Independent members should be present.

5. Powers of Audit Committee - The Audit Committee shall have powers, which should include the following:

1. To investigate any activity within its terms of reference.
2. To seek information from any employee.
3. To obtain outside legal or other professional advice.
4. To secure attendance of outsiders with relevant expertise, if it considers it necessary.

6. Role of Audit Committee - The role of the Audit Committee shall include the following:

1. Overseeing the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing, with the management, the annual financial statements before submission to the Board for approval, with particular reference to:

   a. Matters required to be included in the Director's Responsibility Statement which will be part of the Board's report in terms of clause (2AA) of Section 217 of the Companies Act, 1956.
   b. Changes, if any, in accounting policies as also practices and reasons for the same.
   c. Major accounting entries involving estimates based on the exercise of judgment by the management.
   d. Significant adjustments made in the financial statements arising out of audit findings.
   e. Compliance with listing and other legal requirements relating to financial statements.
   f. Disclosure of any related party transactions.
   g. Qualifications in the draft audit report.

5. Reviewing, with the management, the quarterly financial statements before submission to the Board for approval

5A. Reviewing, with the management, the statement of uses/ application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document/ prospectus/ notice and the report submitted by the monitoring agency verifying the utilization of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter.

6. Reviewing, with the management, the performance of statutory and internal auditors and adequacy of the internal control systems.
7. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
8. Discussion with internal auditors on any significant findings and follow-up there on.
9. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
10. Discussion with the statutory auditors, before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
11. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors.
12. To review the functioning of the whistle-blower mechanism.
13. Carrying out any other function as mentioned in the terms of reference of the Audit Committee.

B. Composition & Meetings during the year

The Audit Committee currently consists of the following members

Name of Member	Designation	No. of Meetings attended during FY 2010-11
Mr. Paresh Patel	Member	5
Mr. P H Ravi Kumar	Chairman	5
Mr. V Chandrasekaran	Member	4

Five meetings of the Committee were held during the year i.e. on May 1, 2010, July 16, 2010, September 27, 2010, October 22, 2010 and January 21, 2011.

2. Shareholders'/ Investors' Grievance Committee

With a view to complying with various requirements under Code of Corporate Governance framed by the SEBI, the Board has set up its Shareholders'/ Investors' Grievance Committee with an Independent Director as its Chairman.

A. Terms of Reference of the Shareholders'/ Investors' Grievance Committee are as follows:

a) Reviewing and redressing the grievances of the shareholders and investors, like transfer of shares, debentures, non-receipt of balance sheet and declared dividend.
b) Dealing with all aspects relating to issue and allotment of shares and debentures and/ or other securities of the Company.
c) To consider and approve sub-division, consolidation, transfer and issue of duplicate share and debenture certificates.
d) Functioning in close association with the Compensation Committee for the allotment of equity shares under Stock Option or Stock Purchase Plans and to accept as also implement the recommendations of the Compensation Committee.
e) Authority to take a decision in any other matter in relation to the above functions/ powers.
f) To delegate any of the powers mentioned above to the Company executives.
g) The Company Secretary of the Company shall act as Secretary to the Committee and shall keep the Board informed about the decisions of the Committee.

B. Composition & Meetings during the year

The Committee currently consists of the following members:

Name of Member	Designation	No. of Meetings attended during FY 2010-11
Mr. Ashish Lakhanpal	Member	3 +
Mr. M R Rao*	Member	4
Mr. P H Ravi Kumar	Chairman	7
Mr. Pramod Bhasin**	Member	2
Mr. Suresh Gurumani***	Member	2
Dr. Tarun Khanna	Member	3 +

* Appointed as Committee member on October 4, 2010.
** Appointed as Committee member on December 14, 2010.
*** Ceased to be a member with effect from October 4, 2010.
+ In addition to attending three meeting, they participated in one meeting over teleconference.

Seven meetings of the Committee were held during the year i.e. on May 1, 2010, July 16, 2010, September 7, 2010, October 22, 2010, January 10, 2011, January 24, 2011 and February 9, 2011.

Mr. Sudershan Pallap, Company Secretary, is the Compliance Officer.

Number of investors including shareholders' complaints received so far: The Company has received 4,602 complaints from the investors in the IPO.

Number solved to the satisfaction of investors including shareholders: Out of the above-mentioned complaints, 4,600 complaints were resolved to the satisfaction of the investors.

Number of pending complaints: Two investor complaints were pending as on March 31, 2011.

3. Remuneration and Compensation Committee (RCC)

With a view to complying with various requirements under the Companies Act, 1956, and Code of Corporate Governance as framed by SEBI, the Remuneration and Compensation Committee (RCC) was set up with all Non-Executive Directors headed by an Independent Director as its Chairman.

The RCC was constituted to discharge the Board's responsibilities relating to the compensation of the Company's Executive Directors and senior management. The RCC has the overall responsibility of evaluating and approving the compensation plans, policies and programs for Executive Directors and senior management of the Company.

A. Terms of Reference of the RCC

1. Determining on behalf of the Board and on behalf of the shareholders with agreed terms of reference, the Company's policy on specific remuneration packages for Executive Directors including pension rights and any compensation payment.
2. Determining the revenue matrix, salary and bonus to be paid to Whole-Time-Director(s) or Managing Director of the Company.
3. Determining the sitting fee to be paid to the members of the Board.
4. Determining the revenue matrix, salary and bonus to be paid to key management personnel of the Company.
5. To identify, appoint and review the performance of key management personnel of the Company.
6. Making recommendation to the Board of Directors with respect to the compensation to be paid to the Executive Directors and key management personnel of the Company.
7. Determining the criteria for the grant of options or shares under the Stock Option or Stock Purchase Scheme.
8. Considering any other matter as may be required under the Stock Option or Stock Purchase Scheme of the Company.
9. Authority to do any matter in relation to the above functions/ powers.
10. To delegate any of the powers mentioned above to the Company executives.
11. Quorum of the Committee shall be three members of the Committee present personally.

B. Composition & Meetings during the year

The RCC currently consists of the following members:

Name of Member	Designation	No. of Meetings attended during FY 2010-11
Mr. Geoffrey Tanner Woolley	Member	3
Mr. Pramod Bhasin	Member	2 +
Mr. Sumir Chadha	Member	2 +
Dr. Tarun Khanna	Chairman	1*

\+ In addition to attending two meetings, they participated in one meeting over teleconference.

* In addition to attending one meeting, he participated in one meeting over teleconference.

Three meetings of the RCC were held during the year i.e. on May 4, 2010, October 22, 2010 and October 29, 2010.

C. Remuneration Policy

The Remuneration and Compensation Committee determines and recommends to the Board the compensation payable to the Directors. All Board level compensation (except sitting fee) is approved by the Shareholders and separately disclosed in the Financial Statements.

a. Criteria for making payments to Independent Directors

The Independent Directors of the Company play a crucial role in independent functions of the Board. They bring an external perspective to decision-making and provide leadership and strategic guidance while maintaining objective judgments. They also oversee the Corporate Governance framework of the Company. The Company does not pay any remuneration to the Independent Directors other than sitting fees for attending the meeting of the Board, as approved by the Board within the permissible limits of the Companies Act, 1956 and ESOPs as per Schemes of the Company.

b. Criteria for making payments to Non-Executive Chairman

In recognition of his accomplishments and larger role being played by Dr. Vikram Akula, Non-Executive Chairman, the members of the Company in their Seventh Annual General Meeting held on July 16, 2010, upon recommendation of the Remuneration & Compensation Committee and the Board of Directors, approved remuneration by way of Commission not exceeding 1% of net profits of the Company as computed under the Companies Act, 1956.

Dr. Vikram Akula was appointed as the Executive Chairman with effect from April 1, 2011.

c. Criteria for making payments to Executive Directors

Payment of remuneration to Executive Directors is determined and recommended by the RCC to the Board for its approval, which is subsequently approved by the Shareholders of the Company.

Details of payment of remuneration during the year under review:

Sitting fees paid to Independent Directors:

Name of the Director #	Sitting fees (Rs.)
Mr. Geoffrey Tanner Woolley *	1,35,000
Mr. P H Ravi Kumar	1,00,000
Mr. Pramod Bhasin	-
Mr. V Chandrasekhran *	60,000
Dr. Tarun Khanna *	60,000

No sitting fee has been paid to Directors who have waived their sitting fee and for participation through Electronic Means.
* Includes arrears of sitting fee payable for previous financial years.

Commission paid to Non-Executive Chairman: (Rs. in Lakh)

Name	Commission
Dr. Vikram Akula	175.02

Remuneration paid to Executive Directors: (Rs. in Lakh)

Name	Salary & Incentives	Value of Perquisites	Contribution to Provident Fund	ESOPs	Total
Mr. M R Rao*	63.29	2.73	3.88	-	69.90
Mr. Suresh Gurumani**	116.23	9.00	4.88	4.42	134.53

* Appointed as Managing Director & CEO with effect from October 4, 2010.
** Ceased to be Managing Director & CEO with effect from October 4, 2010.

The details of the equity shares/ ESOPs held by the Directors as on March 31, 2011 are as follows:

Name of the Director	No. of shares held	No. of ESOPs held and name of the scheme
Mr. Geoffrey Tanner Woolley	Nil	36,000 stock options under SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors) (ESOP 2008) (ID)
Mr. M R Rao	2,94,166	Nil
Mr. P H Ravi Kumar	10,100	20,000 stock options under SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors) (ESOP 2008) (ID) and exercised 10,500 stock options on March 7, 2011 which are pending for allotment as on March 31, 2011.
Mr. Pramod Bhasin	Nil	36,000 stock options under SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors) (ESOP 2008) (ID).
Mr. Suresh Gurumani	10,000	6,75,000 stock options under SKS Microfinance Employees Stock Option Plan 2008 (ESOP 2008).
Dr. Tarun Khanna	8,080	21,000 stock options under SKS Microfinance Employees Stock Option Plan 2008 (Independent Directors) (ESOP 2008) (ID) and exercised 15,000 stock options on March 8, 2011 which are pending for allotment as on March 31, 2011.
Dr. Vikram Akula	Nil	-9,06,734 stock options under SKS Microfinance Employees Stock Option Plan 2007 (ESOP 2007). -17,69,537 stock options under SKS Microfinance Employees Stock Option Plan 2008 (ESOP 2008).

4. Nomination Committee

With a view to complying with the requirements under the Code of Corporate Governance framed by the RBI, the Board has set up the Nomination Committee with all Non-Executive Directors to ensure that the general character of the management or the proposed management of the non-banking financial company shall not be prejudicial to the interest of its present and future stakeholders and to ensure 'fit and proper' credentials/ status of proposed/ existing Directors of the Company. The Committee is headed by an Independent Director as its Chairman.

A. Terms of Reference of the Nomination Committee are as follows:

1. To ensure fit and proper credentials of proposed/ existing Directors.
2. Appointment and re-appointment of Directors on the Board.
3. Filling of a vacancy on the Board and
4. Appointment of members to the Executive Committee of the Board.

B. Composition & Meetings during the year

The Nomination Committee currently consists of the following members:

Name of Member	Designation	No. of Meetings attended during FY 2010-11
Mr. Ashish Lakhanpal*	Member	3
Mr. Geoffrey Tanner Woolley	Member	1
Mr. Sumir Chadha	Member	2
Dr. Tarun Khanna	Chairman	1+

* Ceased to be a member with effect from October 4, 2010.
\+ In addition to attending one meeting, he participated in one meeting over teleconference.

Three meetings of the Committee were held during the year i.e. on May 4, 2010, September 7, 2010 and September 29, 2010.

5. Asset Liability Management/ Risk Management Committee

With a view to complying with the requirements under the Code of Corporate Governance framed by the RBI, the Board has set up the Asset Liability Management/ Risk Management Committee for monitoring the asset liability gap and to strategize action to mitigate risks associated with the Company. The Committee is headed by a Non-Executive Director as its Chairman.

A. Terms of Reference of the Asset Liability Management/ Risk Management Committee are as follows:

1. To review operational risk (including sub risk for operational risk), information technology risk and integrity risk.
2. Address concerns regarding asset liability mismatches and interest rate risk exposure.
3. Take strategic actions to mitigate the risk associated with the nature of the business.
4. Achieve optimal return on capital employed, while maintaining acceptable levels of risk including and relating to liquidity, market, & operational aspects and adhering to the policies and regulations.
5. Report statement of short-term dynamic liquidity, structural liquidity and interest rate sensitivity to the RBI.
6. Apprise the Board of Directors at regular intervals regarding the process made in putting in place a progressive risk management system and risk management policy and strategy.

B. Composition & Meetings during the year

The Asset Liability Management/ Risk Management Committee consists of the following members:

Name of Member	Designation	No. of Meetings attended during FY 2010-11
Mr. Ashish Lakhanpal*	Member	1+
Mr. M R Rao**	Member	2
Mr. P H Ravikumar	Member	4
Mr. Paresh Patel	Chairman	4
Mr. Suresh Gurumani*	Member	1

* Ceased to be a member with effect from October 4, 2010.
** Appointed as Committee member on October 4, 2010.
\+ In addition to attending one meeting, he participated in one meeting over teleconference.

Four meetings of the Committee were held during the year i.e. on May 1, 2010, July 16, 2010, October 22, 2010 and January 24, 2011.

6. Finance Committee

With a view to catering to the various borrowing requirements of the Company, the Board has constituted the Finance Committee and delegated its powers including reviewing and approving various kinds of loan facilities. The Finance Committee is headed by a Non-Executive Director as its Chairman.

A. Terms of Reference of the Finance Committee are as follows:

1. Review and approve the loan facilities (on-balance sheet and/ or off-balance sheet) and borrowings within the limits specified.
2. Review the facilities beyond their limits and thereafter propose to the Board.
3. Nominate and designate representative(s) to carry out the required documentation for the facilities approved by the Committee.
4. Review the annual budget and revisions made to the Business Plan, and make specific recommendations to the Board on its adoption, including where desirable, comments on expense levels, revenue structures, fees and charges, adequacy of the proposed funding levels as also adequacy of provision for reserves.
5. Review the funding mix from time to time to ensure mitigation of risk concentration in terms of specific lender or lender class.
6. Review of cash flows in comparison to the liquidity metric.
7. Review the targeted credit limits (Funnel).
8. Power to open bank accounts in the name of the Company in/ outside India.

Other functions/ limitations of the Committee

1. **Frequency of the Meetings:** The meeting(s) of the Committee shall be convened monthly to review and approve the facilities as and when the need arises further, the meeting(s) of the Committee shall be convened one week ahead of the Board meeting to discuss and approve the administrative items for the Board meeting.
2. **Limits:** The Committee to consider under each loan/ credit facility up to Rs.350 crore from any single bank/ institution and the aggregate borrowings to be approved by the Committee shall be to the extent of Rs.1,500 crore in total between two Board meetings.
3. **Interest rate cap:** The Committee would consider facilities having rate interest of not more than 15% per annum.
4. **External Commercial Borrowings (ECBs):** Consider and approve ECBs up to $ 75 million subject to compliance with RBI norms and proper hedging of the cross currency exposure.
5. **Debentures:** Allotment of debentures subsequent to Issue of Debentures under Section 292(1)(b) of the Companies Act, 1956 by the Board of Directors of the Company
6. **Report of the Meetings:** The report of the meeting(s) of the Committee convened between two Board meetings shall be kept before the Board for its perusal and taking note.

B. Composition & Meetings during the year

The Finance Committee currently consists of the following members.

Name of Member	Designation	No. of Meetings attended during FY 2010-11
Mr. Ashish Lakhanpal*	Member	2#
Mr. M R Rao**	Member	2
Mr. P H Ravi Kumar	Member	7
Mr. Paresh Patel	Chairman	7
Mr. Suresh Gurumani*	Member	5

* Ceased to be a member with effect from October 4, 2010.
** Appointed as Committee member on October 4, 2010.
# In addition to the two meetings attended, he participated in three meetings over teleconference.

Seven Committee meetings were held during the year on May 1, 2010, June 4, 2010, July 6, 2010, July 16, 2010, September 7, 2010, October 22, 2010 and January 24, 2011.

7. IPO Committee

The IPO Committee was constituted for giving effect to the Public Issue of the Company.

A. Terms of Reference of the IPO Committee are as follows:

- Evaluating the viability of the proposed IPO of the Company vis-a-vis market conditions, investors interest and recommend to the Board on the timing of the proposed IPO, the number of equity shares that may be offered under the Issue, the objects of the Issue, allocation of the equity shares to a specific category of persons and the estimated expenses on the Issue as a percentage of Issue size.

- Identify, appoint and enter into necessary agreements/ arrangements with the book running lead managers, underwriters, syndicate members, brokers/ sub brokers, bankers, escrow collection bankers, registrars, legal advisors, placement agents, depositories, trustees, custodians, advertising agencies, monitoring agency, stabilization agent and all such persons or agencies as may be involved in or concerned with and to negotiate and finalize the terms of their appointment, including mandate letter, finalization and execution of the memorandum of understandings, etc.

- Finalizing remuneration of all such intermediaries, advisors, agencies and persons as may be involved in or concerned with the Issue, if any, by way of commission, brokerage, fees or the like and opening bank accounts, share/ securities accounts, escrow or custodian accounts, in India or abroad.

- Guiding the intermediaries in the preparation and finalization of the Draft Red Herring Prospectus, the Red Herring Prospectus, the Prospectus and the preliminary and final international wrap and approving the same including any amendments, supplements, notices or corrigenda thereto, together with any summaries thereto.

- Finalizing and arranging for the submission of the Draft Red Herring Prospectus, the Red Herring Prospectus, the Prospectus and the preliminary and final international wrap and any amendments, supplements, notices or corrigenda thereto, to the SEBI, the Stock Exchanges, the Registrar of Companies and other appropriate Government and regulatory authorities, institutions or bodies.

- Making applications for the listing of shares in one or more of the stock exchange(s) for the listing of equity shares of the Company and to execute and to deliver or arrange the delivery of necessary documentation to the stock exchange(s) concerned.

- Seeking, if required, the consent of the Company's lenders, parties with whom the Company has entered into various commercial and other agreements, all concerned Government and regulatory authorities in India or outside India, and any other consents that may be required in connection with the Issue, if any.

- Determining and finalizing the price band for the Issue, any revision to the price band and the final Issue price after bid closure, determining the bid opening and closing dates and determining the price at which the equity shares are offered or issued/ allotted to investors in the Issue.

- Making applications to the Foreign Investment Promotion Board, the RBI and such other authorities as may be required for the purpose of allotment of shares to non-resident investors.

- Opening with the bankers to the Issue such accounts as are required by the regulations issued by the SEBI.

- To carry out all such acts, deeds, matters and things and execute all such other documents, etc. as it may, in its absolute discretion, deem necessary or desirable for such purpose, including without limitation, finalize the basis of allocation and to allot the shares to the successful allottees as permissible in law, issue of share certificates in accordance with the relevant rules.

- To settle all questions, difficulties or doubts that may arise in regard to such issues or allotment as it may, in its absolute discretion deem fit.

- To delegate any of the powers mentioned above to the Company executives.

- The Company Secretary of the Company shall act as Secretary to the Committee and shall keep the Board informed about the decisions of the Committee.

B. Composition & Meetings during the year

The IPO Committee currently consists of the following members:

Name of Member	Designation	No. of Meetings attended during FY 2010-11
Mr. Ashish Lakhanpal*	Member	#
Mr. Paresh Patel	Member	4
Mr. Sumir Chadha	Member	#
Mr. Suresh Gurumani*	Member	4
Dr. Vikram Akula	Chairman	4

* Ceased to be a member with effect from October 4, 2010.
# Participated in the four meetings over teleconference.

Four meetings of the Committee were held during the year i.e. on July 25, 2010, July 27, 2010, August 3, 2010 and August 12, 2010.

8. Strategic Initiatives and Organization Redesigning Committee

The Strategic Initiatives and Organization Redesigning Committee was constituted to examine strategic initiatives.

A. Terms of Reference of the Strategic Initiatives Committee are as follows:

- To formulate policy (ies) on the future business expansion and diversification plans of the Company.
- To evaluate various strategic options/ business proposals with key parameters like growth, revenue and execution capabilities.
- To suggest the organization structure for undertaking new business proposals.

B. Composition & Meetings during the year

The Strategic Initiatives and Organization Redesigning Committee currently consists of the following members:

Name of Member	Designation	No. of Meetings attended during FY 2010-11
Mr. Ashish Lakhanpal*	Member	-
Mr. Geoffrey Tanner Woolley	Member	1
Mr. Paresh Patel	Chairman	1
Mr. Pramod Bhasin	Member	1
Mr. Sumir Chadha	Member	#
Dr. Vikram Akula	Member	1

* Ceased to be a member with effect from October 4, 2010.
# Participated in the meetings over teleconference.

One meeting of the Committee was held on October 22, 2010 during the year.

9. ESOP Allotment Committee

The ESOP Allotment Committee was constituted on March 9, 2011 for allotment of equity shares on regular basis to employees on exercise of options under the SKS Microfinance Employees Stock Options Plans.

A. Terms of Reference of the ESOP Allotment Committee are as follows:

1. To allot shares under the existing ESOP plans of the Company either at a meeting or on the basis of circular resolution.
2. To file returns/ forms with the authorities concerned for allotment of shares.
3. To issue shares in demat/ physical form.
4. To undertake corporate actions with the Depositories.
5. To apply to the stock exchanges for the listing of shares allotted under ESOPs.
6. To do any other action as may be required.
7. Any two members of the Committee, at least one of whom must be a Director.

B. Composition & Meetings during the year

The ESOP Allotment Committee currently consists of the following members:

Name of Member	Designation	No. of Meetings attended during FY 2010-11
Mr. Ashish Damani*	Member	-
Mr. M R Rao	Member	-
Mr. Srinivas Reddy Vudumula*	Member	-
Dr. Vikram Akula	Chairman	-

* Executives of the Company

There was no meeting held during the FY 2010 -11.

IV. General Body Meetings

The Annual General Meeting (AGM) is the principal forum for interaction with shareholders, where the Board answers specific queries raised by the shareholders. The Board acknowledges its responsibility towards its shareholders and therefore encourages open and active dialogue with all its shareholders – be it individuals, domestic institutional investors or foreign investors.

Details of last three Annual General Meetings are given below:

Year	Location	Date & Time	Whether any special resolutions passed in the previous 3 AGMs
2007 - 08	# 8-2-608/1/1, Karama Enclave, Road No. 10, Banjara Hills, Hyderabad - 500 034	August 7, 2008 at 4.00 pm	Yes (5 special resolutions)
2008 - 09	# 2-3-578/1, Maruti Mansion, Kachi Colony, Nallagutta, Minister Road, Secunderabad - 500 003.	September 30, 2009 at 11.30 am	Yes (5 special resolutions)
2009 - 10	'Ashoka Raghupati Chambers', 1-10-60 to 61, Opp. to Shoppers Stop, Begumpet, Hyderabad - 500 016.	July 16, 2010 at 4.30 pm	Yes (3 special resolutions)

Since no special resolution was passed through postal ballot during FY 2010-11, details relating to postal ballot are not required to be mentioned.

V. Shareholders

Disclosures regarding the appointment or re-appointment of Directors

According to the Articles of Association, one-third of the Directors retire by rotation and, if eligible, seek re-appointment at the Annual General Meeting of shareholders. As per the provisions of Articles of Association, Mr. Sumir Chadha, Mr. Geoffrey Tanner Woolley and Dr. Tarun Khanna will retire in the ensuing Annual General Meeting. The Board has recommended the re-appointment of the retiring Directors. The detailed profiles of these Directors are provided in the Notice convening the Annual General Meeting.

Investor Grievances and Share Transfer System

The Board of Directors has constituted the Shareholders'/ Investors' Grievance Committee to examine and redress complaints from shareholders and investors.

Share Transfer System

About 76.29% of the equity shares of the Company are in electronic form. Transfer of these shares is done through the depositories with no involvement of the Company. As regards transfer of shares held in physical form, the transfer documents can be lodged with the Registrar & Share Transfer Agent, Karvy Computershare Private Limited at the following address. Transfer of shares in physical form is normally processed within 15 days from the date of receipt, if the documents are complete in all respects. The Company Secretary & Compliance Officer is empowered to approve transfers up to 500 number of shares and up to 2,000 number of shares by a single committee member of the Shareholders'/ Investors' Grievance Committee. The above limits are approved by the Shareholders'/ Investors' Grievance Committee in its meeting held on July 16, 2010.

Registrar & Share Transfer Agent

Address for correspondence

KARVY COMPUTERSHARE PRIVATE LIMITED
Registrars and Share Transfer Agents
Plot No. 17 to 24, Near Image Hospital
Vittalrao Nagar, Madhapur
Hyderabad 500 081, India
Tel. : 91 40 2343 1595, Fax : 91 40 2342 0814
E-mail : varghese@karvy.com

Outstanding GDRs/ ADRs/ Warrants or any Convertible instruments, conversion date and likely impact on equity.

The Company has not issued any GDRs/ ADRs, warrants or other instruments which are pending for conversion.

Distribution of Shareholding as on March 31, 2011

Range of equity shares held	No. of Shareholders	Percentage	No. of shares	Amount	Percentage
1 - 5,000	38,396	98.388214	12,94,482	1,29,44,820	1.789840%
5,001 - 10,000	227	0.581678	1,73,779	17,37,790	0.240279%
10,001 - 20,000	182	0.466368	2,72,984	27,29,840	0.377446%
20,001 - 30,000	53	0.135810	1,32,762	13,27,620	0.183566%
30,001 - 40,000	31	0.079436	1,09,617	10,96,170	0.151564%
40,001 - 50,000	15	0.038437	66,310	6,63,100	0.091685%
50,001 - 1,00,000	42	0.107623	3,02,844	30,28,440	0.418733%
1,00,001 & above	79	0.202434	6,99,71,132	69,97,11,320	96.746888%
TOTAL	**39,025**	**100.00 %**	**7,23,23,910**	**72,32,39,100**	**100.00%**

Shareholding pattern as on March 31, 2011

Category Code (I)	Category of Shareholder (II)	Number of Share-holders (III)	Total number of shares (IV)	Number of shares held in Demate-rialized form (V)	Total Shareholding as a percentage of total number of shares		Shares pledged or otherwise encumbered	
					As a Per-centage of (A+B)1 (VI)	As a Per-centage of (A+B+C) (VII)	Number of Shares (VIII)	As a per-centage (IX) = (VIII) / (IV) * 100
(A)	Promoter and Promoter Group							
(1)	Indian							
(a)	Individuals/ Hindu Undivided Family	-	-	-	-	-	-	-
(b)	Central Govern-ment/ State Government(s)	-	-	-	-	-	-	-
(c)	Bodies Corporate	-	-	-	-	-	-	-
(d)	Financial institu-tions/ banks	-	-	-	-	-	-	-
(e)	Any other							
	Trusts	5	83,54,649	83,54,649	11.55	11.55	0	0.0000

Category Code (I)	Category of Shareholder (II)	Number of Shareholders (III)	Total number of shares (IV)	Number of shares held in dematerialized form (V)	Total Shareholding as a percentage of total number of shares		Shares pledged or otherwise encumbered	
					As a percentage of (A+B)1 (VI)	As a percentage of (A+B+C) (VII)	Number of shares (VIII)	As a percentage (IX) = (VIII) / (IV) * 100
	Sub-total (A)(1)	5	83,54,649	83,54,649	11.55	11.55	0	0.0000
(2)	Foreign							
(a)	Individuals (Non-resident individuals/ foreign individuals)	-	-	-	-	-	-	-
	Individuals							
(b)	Bodies Corporate	4	1,83,20,878	1,83,20,878	25.33	25.33	0	0.0000
(c)	Institutions	-	-	-	-	-	-	-
(d)	Any other (specify)	-	-	-	-	-	-	-
	Sub-total (A)(2)	4	1,83,20,878	1,83,20,878	25.33	25.33	0	0.0000
	Total Shareholding of Promoter and Promoter Group (A)= (A)(1)+(A)(2)	9	2,66,75,527	2,66,75,527	36.88	36.88	0	0.00
(B)	Public shareholding						N.A	N.A
(1)	Institutions						N.A	N.A
(a)	Mutual Funds/ UTI	-	-	-	-	-	-	-
(b)	Financial Institutions/ Banks	2	18,08,229	18,08,229	2.50	2.50	-	-
(c)	Central Government/ State Government(s)	-	-	-	-	-	-	-
(d)	Venture capital funds	-	-	-	-	-	-	-
(e)	Insurance Companies	1	17,61,666	17,61,666	2.44	2.44	-	-
(f)	Foreign institutional investors	41	1,53,94,723	1,53,94,723	21.29	21.29	-	-
(g)	Foreign venture capital investors	-	-	-	-	-	-	-
(h)	Any other (specify)	-	-	-	-	-	-	-

Category Code (I)	Category of shareholder (II)	Number of shareholders (III)	Total number of shares (IV)	Number of Shares Held in Dematerialized Form (V)	Total shareholding as a percentage of total number of shares		Shares pledged or otherwise encumbered	
					As a Percentage of (A+B)1 (VI)	As a Percentage of (A+B+C) (VII)	Number of Shares (VIII)	As a Percentage (IX) = (VIII) / (IV) * 100
	Sub-total (B)(1)	44	1,89,64,618	1,89,64,618	26.22	26.22	-	-
(2)	Non-institutions						N.A	N.A
(a)	Bodies Corporate	673	1,83,69,316	74,64,954	25.40	25.40	-	-
(b)	i) Individuals/ Individual Shareholders holding nominal share capital up to Rs. 1 lakh.	37,782	18,66,783	15,65,408	2.58	2.58	-	-
	ii) Individual Shareholders holding nominal share capital in excess of Rs. 1 lakh.	18	6,58,455	3,53,299	0.91	0.91	-	-
(c)	Any other (specify)							
	Trusts	4	10,95,788	288	1.52	1.52	-	-
	Non-Resident Indians	364	43,06,766	67,900	5.95	5.95	-	-
	Resident Directors	3	3,14,266	10,100	0.43	0.43	-	-
	Non-Resident Directors	1	8,080	8,080	0.01	0.01	-	-
	Clearing Members	127	64,311	64,311	0.09	0.09		
	Sub-total (B)(2)	38,972	2,66,83,765	95,34,340	36.89	36.89	-	-
	Total Public Shareholding (B)=(B)(1)+(B)(2)	39,016	4,56,48,383	2,84,98,958	63.12	63.12	N.A	N.A
	TOTAL (A)+(B)	39,025	7,23,23,910	5,51,74,485	100.00	100.00	0	0.00

(C)	Shares Held by Custodians and Against Which Depository Receipts Have Been Issued	-	-	-	N.A	N.A	N.A	N.A
	Grand total (A)+(B)+(C)	39,025	7,23,23,910	5,51,74,485	100.00	100.00	0	0.00

Dematerialization of shares and liquidity

The Company's shares are tradable compulsorily in electronic form and through Karvy Computershare Private Limited, Registrars and Share Transfer Agents. The Company has established connectivity with both the depositories, that is, National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited . The International Securities Identification Number (ISIN) allotted to our shares under the Depository System is INE180K01011. As on March 31, 2011, 76.29% of our shares were held in dematerialized form (demat) and the rest in physical form.

Shares held in demat and physical forms as on March 31, 2011 are as follows:

Category	**Number of**		**% to total equity**
	Shareholders	**Shares**	
Demat form: NSDL CDSL	 2,72,04 11,632	 5,39,85,048 11,89,437	 74.64% 1.65%
Total	38,836	5,51,74,485	76.29%
Physical form	189	1,71,49,425	23.71%
Grand total	**39,025**	**7,23,23,910**	**100.00%**

VI. Disclosures

i. Disclosures on materially significant related party transactions that may have potential conflict with the interests of the Company at large.

   There are no materially significant related party transactions with the Company's promoters, Directors, key managerial personnel or their relatives, which may have potential conflict with the interest of the Company at large.

   Disclosures on transactions with related parties, as required under the Indian Accounting Standard 18, have been incorporated in the Notes to the Accounts, being part of the Annual Report.

ii. Details of non-compliance

   There has been no instance of non-compliance with any legal requirements nor have there been any strictures imposed by any stock exchange, the SEBI or any statutory authority, on any matters relating to the capital market over the last three years.

iii. Details of compliance with mandatory requirements and adoption of the non-mandatory requirements of this clause.

   The Company has fulfilled the following non-mandatory requirements as prescribed in Annexure I D to Clause 49 of the Listing Agreements with the stock exchanges:

   a. The requirement regarding Non-Executive Chairman is complied with by the Company. Dr. Vikram Akula, Chairman of the Company is Non-Executive Chairman for the financial year ended March 31, 2011.

      None of the Independent Directors on our Board have served for a tenure exceeding nine years from the date when the new Clause 49 has come into effect.

   b. The Company has set up a Remuneration and Compensation Committee, details of which have been given earlier in this Report.

   c. There are a few comments in the Audit Report which have suitably been addressed in the Directors' Report.

   d. The Company has adopted a whistle-blower policy and has established the necessary mechanism for employees to report concerns about unethical behaviour. No person has been denied access to the Audit Committee.

The Company affirms that it has put in place a whistle-blower policy and that no personnel have been denied access to the Audit Committee.

The Company has established a mechanism for employees to report concerns about unethical behavior, actual or suspected fraud, or violation of our Code of Conduct or ethics policy. It also provides for adequate safeguards against victimization of employees who avail of the mechanism and also allows direct access to the Chairperson of the Audit Committee in exceptional cases. The Company further affirms that no employee has been denied access to the Audit Committee.

Compliance with Code of Conduct for the Members of the Board and Senior Management Personnel

The Company has adopted Code of Conduct (Code) for the members of the Board and senior management personnel as required under Clause 49 of the Equity Listing Agreement. All the Board members and the senior management personnel have affirmed compliance of the Code. The Annual Report of the Company contains a declaration to this effect signed by the Managing Director.

As required under Clause 49 of the Equity Listing Agreement, the CEO/ CFO certification is provided in the Annual Report.

Corporate Governance Compliance Certificate

M/s. Ravi & Subramanyam, Practicing Company Secretaries' certificate on Corporate Governance as required by Clause 49 of the Listing Agreement, is given in the Annexure to the Directors' Report section in the Annual Report.

Secretarial Audit

A qualified practicing Company Secretary carried out secretarial audit to reconcile the total admitted equity capital with National Securities Depository Limited and Central Depository Services (India) Limited as also the total issued and listed equity capital. The secretarial audit report confirms that the total issued/ paid-up capital is in agreement with the total number of shares in physical form and the total number of dematerialized shares held with the NSDL and the CDSL.

VII. Means of Communication

The quarterly, half-yearly and annual results of the Company are published in leading newspapers in India and in Andhra Pradesh including The Financial Express, The Economic Times and Vaartha. The results are also displayed on the Company website, www. sksindia.com. The Company's press releases, issued from time to time, are displayed on the website. Presentations made to the institutional investors and analysts after the declaration of the quarterly, half-yearly and annual results are also displayed on the website. A Management Discussion and Analysis statement is part of the Company's Annual Report.

VIII. General Shareholder Information

(i) Annual General Meeting

Date	: July 20, 2011
Time	: 10:00 a.m.
Venue	: Sri Satya Sai Nigamagamam, Srinagar Colony, Hyderabad - 500 073, AP (India)

(ii) Financial Calendar

Year ending	: March 31, 2011
AGM in	: July 2011

(iii) Date of Book Closure/ Record Date : As mentioned in the Notice of the AGM to be held on July 20, 2011.

(iv) Initial Public Offer of Equity and Listing on the stock exchanges:

During the year under review, the Company made an Initial Public Offer of 1,67,91,579 equity shares of Rs. 10 each for cash at a price of Rs.985 per equity share (including a share premium of Rs. 975 per equity share) for qualified institutional bidders and non-institutional bidders and Rs. 935 for retail individual bidders (including a share premium of Rs. 925 per equity share) aggregating up to Rs. 1,628.78 crore (Issue) consisting of a fresh issue of 74,45,323 equity shares by SKS Microfinance Limited and an offer for sale of 93,46,256 equity shares (offer for sale) by the Promoter Group.

The Issue was successfully subscribed and upon allotment the equity shares of the Company were listed on the following stock exchanges:

National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex
Bandra (E), Mumbai 400 051

Bombay Stock Exchange Limited
Floor 25, P. J. Towers, Dalal Street
Mumbai 400 001

(v) Stock Codes/ Symbol:

National Stock Exchange of India Limited : SKSMICRO
Bombay Stock Exchange Limited : 533228

Listing fees as applicable have been paid.

(vi) Corporate Identification Number (CIN) of the Company : U65999AP2003PLC041732

(viii) Market Price Data:

High, Low (based on closing prices) and number of shares traded during each month in the financial year 2010-11 since its listing on National Stock Exchange of India Limited and Bombay Stock Exchange Limited:

Monthly High, Low (based on closing prices) at Bombay Stock Exchange*

Month	High Price	Low Price	Close Price	No. of Shares
Aug-10	1,299.50	1,036.00	1,221.81	1,41,63,589
Sep-10	1,490.70	1,225.10	1,331.40	46,44,956
Oct-10	1,390.00	894.70	1,021.10	77,36,002
Nov-10	1,048.95	601.05	711.70	93,53,557
Dec-10	785.00	559.00	643.85	75,16,985
Jan-11	756.00	625.00	662.35	42,02,083
Feb-11	748.65	606.05	621.80	28,62,133
Mar-11	640.00	520.00	521.85	11,74,701

* Source : www.bseindia.com

Monthly High, Low (based on closing prices) at National Stock Exchange@

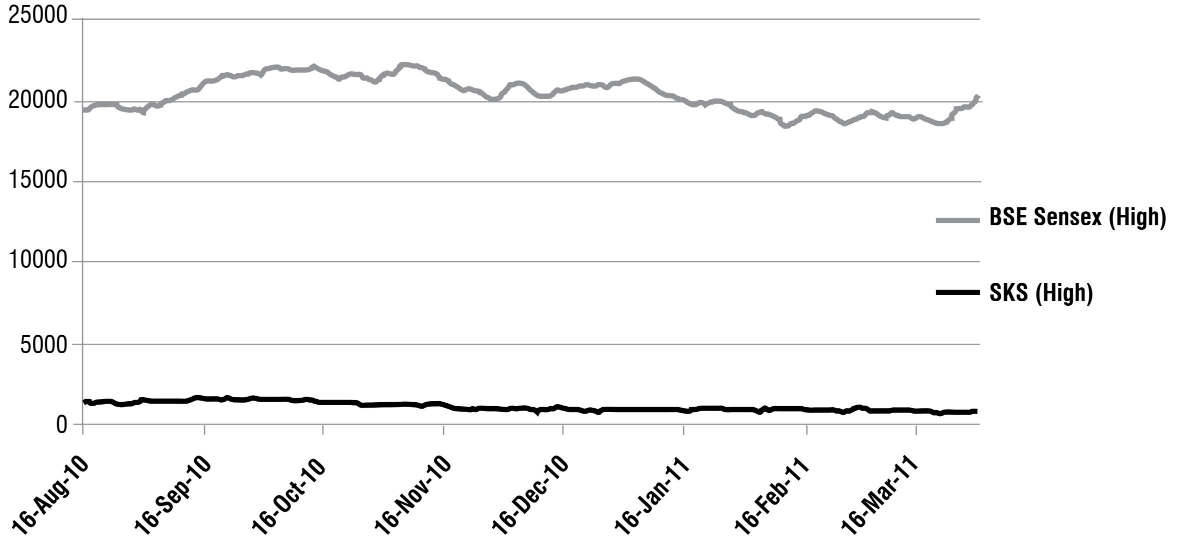
Month	High Price	Low Price	Close Price	No.of Shares
Aug-10	1,301.70	1,040.00	1,221.35	2,81,87,273
Sep-10	1,491.50	1,226.05	1,337.35	88,39,710
Oct-10	1,392.00	890.00	1,027.75	1,87,44,598
Nov-10	1,049.90	601.15	716.10	2,04,04,444
Dec-10	744.70	551.10	644.70	1,66,04,235
Jan-11	757.00	620.00	664.40	76,19,120
Feb-11	734.80	600.00	621.95	49,30,298
Mar-11	639.90	520.00	524.05	25,42,277

@ Source : www.nseindia.com

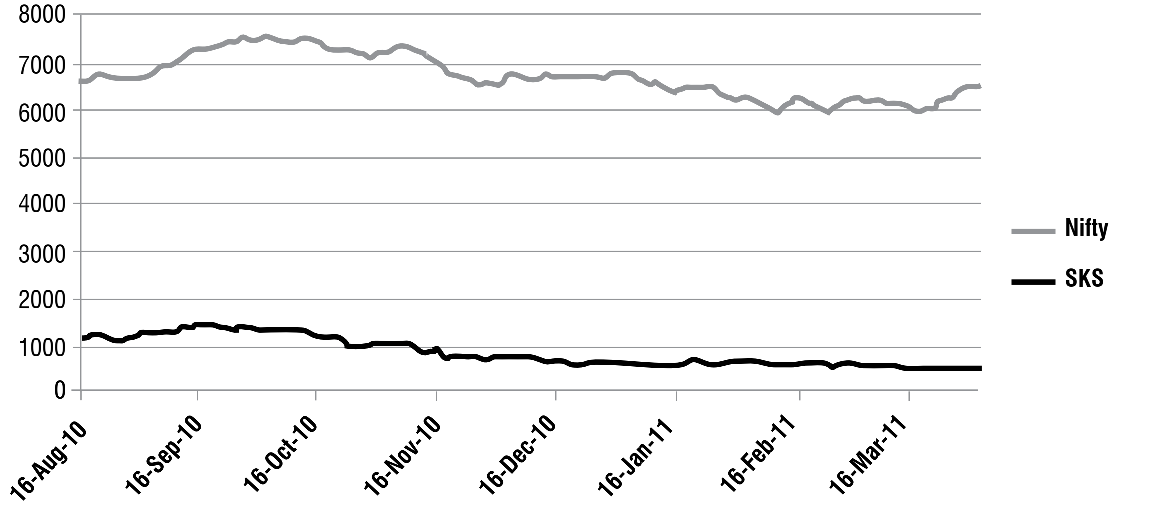
(ix) Performance of the share price of the Company in comparison to-

Bombay Stock Exchange SENSEX

Source: www.bseindia.com and www.nseindia.com



National Stock Exchange NIFTY



Address for Correspondence

The Company has 2,379 branches, 34 regional offices and operates from its Registered Office at Hyderabad.

Investors and shareholders can correspond at the Registered Office of the Company at the following address:

Registered Office:

Mr. Sudershan Pallap
Compliance Officer
SKS Microfinance Limited
Ashoka Raghupati Chambers
D. No. 1-10- 60 to 62
Opposite Shoppers Stop
Begumpet
Hyderabad - 500 016 (India)
Email: skscomplianceofficer@sksindia.com

CEO/ CFO CERTIFICATION

In accordance with Clause 49 (V) of the Listing Agreement, a certificate by CEO/ CFO was submitted to the Board.

CEO CERTIFICATION ON CODE OF CONDUCT

I, M R Rao, Managing Director & Chief Executive Officer of SKS Microfinance Limited hereby declare that all the Board members and senior managerial personnel have affirmed for the year ended March 31, 2011 compliance with the Code of Conduct of the Company laid down for them.

Place: Hyderabad
Date: May 31, 2011

SD/-
M R Rao
Managing Director & CEO

CORPORATE GOVERNANCE CERTIFICATE

To,
The Members
SKS Microfinance Limited
Hyderabad

We have examined all relevant records of SKS Microfinance Limited (the Company) for the purpose of certifying the compliance of the conditions of Corporate Governance under Clause 49 of the Listing Agreement with Bombay Stock Exchange Limited and National Stock Exchange Limited for the financial year ended March 31, 2011 (i.e. August 16, 2010 to March 31, 2011). We have obtained all information and explanations which to the best of our knowledge and belief were necessary for the purpose of certification.

The Compliance of the conditions of Corporate Governance is the responsibility of the management. Our examination was limited to the procedure and implementation thereof. This certificate is neither an assurance as to the future viability of the Company nor of the efficacy or effectiveness with which the management has conducted the affairs of the Company.

On the basis of our examination of the records produced, explanations and information furnished, we certify that the Company has complied with all the mandatory conditions of the said Clause 49 of the Listing Agreement.

For **Ravi & Subramanyam Company Secretaries**

SD/-
(K. V. S. Subramanyam)
Partner
C.P. No: 4815

Place: Hyderabad
Date: May 31, 2011

Auditors' Report

To
The Members of SKS Microfinance Limited

1. We have audited the attached Balance Sheet of SKS Microfinance Limited ('the Company') as at March 31, 2011 and also the Profit and Loss Account and 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. Without qualifying our opinion, we draw attention to Note 2(s) of Schedule 20 to the financial statements, as regards recent regulatory matters affecting the Company, and consequent implications thereof on these financial statements.

5. 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, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
   iv. In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;
   v. On the basis of the written representations received from the directors, as on March 31, 2011, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2011 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act.
   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 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, 2011;

      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 the Cash Flow Statement, of the cash flows for the year ended on that date.

SD/-
For S. R. Batliboi & Co.
Firm registration number: 301003E
Chartered Accountants

SD/-
per Viren H. Mehta
Partner
Membership No.: 048749

Place: Mumbai
Date: May 6, 2011

Annexure referred to in paragraph 3 of our report of even date
Re: SKS Microfinance 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 substantial 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 inventory. Therefore the provisions of clause 4(ii) of the Order are not applicable to the Company.

(iii) (a) 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. Therefore, the provision of clause 4 (iii)(a) to (d) of the Order are not applicable to the Company.

(b) 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. Therefore, the provision of clause 4 (iii)(e) to (g) of the Order are not applicable to the Company.

(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. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas. During the course of our audit, we have not observed any continuing failure to correct major weakness in internal control system of the Company.

(v) According to the information and explanations provided by the management, we are of the opinion that there are no 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 of the Act.

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

(vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

(viii) 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 Act for the products of the Company.

(ix) (a) The Company is generally regular in depositing with appropriate authorities 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 applicable to it.

The rules relating to amount of cess payable by the Company under Section 441A of the Act has not been notified by the Central Government of India upto the reporting date, and accordingly, as at the reporting date there is no statutory due payable pursuant section 441A of the Act.

(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 material 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 no accumulated losses at the end of the financial year and it 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, we are of the opinion that the Company has not defaulted in repayment of dues to a financial institution, bank or debenture holders.

(xii) According to the information and explanation 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 Companies (Auditor's Report) Order, 2003 (as amended) 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. Accord ingly, the provision of clause 4(xiv)of Companies (Auditor's Report) Order, 2003 (as amended), are not applicable to the Company.

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

(xvi) Based on the information and explanation 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 at relevant time were 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 Companies Act, 1956.

(xix) The Company did not have any outstanding debentures during the year.

(xx) We have verified that the end use of money raised by public issues is as disclosed in the notes to the financial statements.

(xxi) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no material fraud on or by the Company has been noticed/ reported during the year though there were some instances of frauds on the Company by its employees and borrowers as given below:

(a) One hundred and fifty six cases of cash embezzlements by the employees of the Company aggregating Rs.16,018,106 were reported during the year. 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 fifty two of these employees were absconding. The outstanding balance (net of recovery) aggregating Rs. 9,634,467 has been written off;

(b) Two hundred and five cases of loans given to non-existent borrowers on the basis of fictitious documentation created by the employees of the Company aggregating Rs.45,177,531 were reported during the year. The services of all such employees involved have been terminated and the Company is in the process of taking legal action. The outstanding loan balance (net of recovery) aggregating Rs. 35,417,295 has been written off;

(c) Forty seven cases of loans taken by certain borrowers, in collusion with and under the identity of other borrowers, aggregating Rs.13,786,130, were reported during the year. The Company is pursuing the borrowers to repay the money. The outstanding loan balance (net of recovery) aggregating Rs.6,386,267 has been written off.

SD/-
For S. R. Batliboi & Co.
Firm registration number: 301003E
Chartered Accountants

SD/-
per Viren H. Mehta
Partner
Membership No.: 048749

Place: Mumbai
Date: May 6, 2011

Balance Sheet as at March 31, 2011

	Schedules	March 31, 2011 Rupees	March 31, 2010 Rupees
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	723,239,100	645,272,190
Share application money pending allotment		2,973,120	-
Stock options outstanding	1A	91,104,431	41,792,895
Reserves and surplus	2	16,990,871,210	8,893,253,598
Loan funds			
Secured loans	3A	21,674,148,225	25,795,733,538
Unsecured loans	3B	686,388,828	1,150,988,056
TOTAL		**40,168,724,914**	**36,527,040,277**
APPLICATION OF FUNDS			
Fixed assets	4A		
Gross block		560,516,245	403,943,713
Less: Accumulated depreciation		341,867,654	215,426,101
Net block		**218,648,591**	**188,517,612**
Capital work in progress (including capital advances)		-	-
		218,648,591	**188,517,612**
Intangible assets	4B		
Gross block		196,170,668	136,911,718
Less: Accumulated amortization		131,829,086	99,521,137
Net Block		**64,341,582**	**37,390,581**
Capital work in progress (including capital advances)		28,226,800	17,683,800
		92,568,382	**55,074,381**
Investment	5	37,560,993	2,000,000
Deferred tax assets (Net)	6	357,098,519	94,796,209
Current assets, loans and advances			
Interest accrued on investment		1,768,891	-
Sundry Debtors	7	19,218,777	29,539,143
Cash and Bank Balances	8	5,579,119,573	9,735,184,488
Other Current Assets	9	155,551,679	212,141,980
Loans and Advances	10	36,535,164,961	30,157,717,384
(A)		**42,290,823,881**	**40,134,582,995**
Less: Current liabilities and provisions			
Current liabilities	11	1,940,159,195	3,694,833,925
Provisions	12	887,816,257	330,243,804
(B)		**2,827,975,452**	**4,025,077,729**
Net current assets (A-B)		**39,462,848,429**	**36,109,505,266**
Miscellaneous expenditure	13	-	77,146,809
(To the extent not written off or adjusted)			
TOTAL		**40,168,724,914**	**36,527,040,277**
Notes to accounts	20		

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

As per our report of even date

SD/-
For S. R. Batliboi & Co.
Firm Registration number : 301003E
Chartered Accountants

SD/-
per Viren H. Mehta
Partner
Membership No.048749

Place: Mumbai
Date: May 06, 2011

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

SD/-
Vikram Akula
Executive Chairman

SD/-
M.R.Rao
Managing Director and Chief Executive Officer

SD/-
S.Dilli Raj
Chief Financial Officer

SD/-
Sudershan Pallap
Company Secretary

Profit and Loss Account for the period ended March 31, 2011

	Schedules	March 31, 2011	March 31, 2010
		Rupees	Rupees
INCOME			
Income from operations	14	11,601,953,934	8,729,238,807
Other income	15	1,093,442,213	855,901,216
TOTAL		**12,695,396,147**	**9,585,140,023**
EXPENDITURE			
Financial expenses	16	3,478,864,133	2,884,051,711
Personnel expenses	17	3,263,467,726	2,164,250,109
Operating and other expenses	18	1,704,959,989	1,220,794,697
Depreciation and amortization	4A & 4B	161,495,861	125,999,054
Provisions and write offs	19	2,362,290,416	513,024,800
TOTAL		**10,971,078,125**	**6,908,120,371**
Profit before tax		**1,724,318,022**	**2,677,019,652**
Provision for tax			
Current tax		725,000,000	981,000,000
Deferred tax		(134,466,101)	(52,392,850)
Tax (credit) / charge in respect of earlier year		17,476,172	8,672,577
Fringe Benefit Tax (credit) / charge in respect of earlier year		-	201,683
Total tax expense		**608,010,071**	**937,481,410**
Profit after tax		**1,116,307,951**	**1,739,538,242**
Profit brought forward from previous year		2,199,951,901	808,321,307
Profit available for appropriation		**3,316,259,852**	**2,547,859,549**
APPROPRIATIONS			
Transferred to Statutory Reserve @ 20% of profit after tax as required by section 45-IC of Reserve Bank of India Act,1934		223,261,590	347,907,648
Surplus carried to Balance Sheet		**3,092,998,262**	**2,199,951,901**
Earnings per Share (Refer note 15 of schedule 20)			
Basic (Rs.)		**16.10**	**32.82**
Diluted (Rs.)		**15.24**	**27.33**
Nominal value of share (Rs.)		**10.00**	**10.00**
Notes to accounts	**20**		

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

SD/-
For S. R. Batliboi & Co.
Firm Registration number : 301003E
Chartered Accountants

SD/-
per Viren H. Mehta
Partner
Membership No.048749

Place: Mumbai
Date: May 06, 2011

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

SD/-
Vikram Akula
Executive Chairman

SD/-
M.R.Rao
Managing Director and
Chief Executive Officer

SD/-
S.Dilli Raj
Chief Financial Officer

SD/-
Sudershan Pallap
Company Secretary

Schedules to Balance Sheet

	March 31, 2011	March 31, 2010
	Rupees	Rupees
Schedule 1: Share capital		
Authorized share capital		
Equity Shares		
82,000,000 (Previous year 82,000,000) equity shares of Rs. 10 each	820,000,000	820,000,000
Preference Shares		
13,000,000 (Previous year 13,000,000) 0% compulsorily convertible preference shares of Rs. 10 each	130,000,000	130,000,000
	950,000,000	**950,000,000**
Equity share capital		
Issued subscribed and paid-up*		
72,323,910 (Previous year: 64,527,219) equity shares of Rs. 10 each fully paid up	723,239,100	645,272,190
Total	**723,239,100**	**645,272,190**
Schedule 1A: Stock options outstanding		
Stock options outstanding	178,832,237	223,596,198
Less: Deferred compensation outstanding	87,727,806	181,803,303
	91,104,431	**41,792,895**
Schedule 2: Reserves and surplus		
A. Securities premium account		
As per last Balance Sheet	6,143,323,329	5,048,242,086
Add: Additions during the year	7,247,482,420	1,095,081,243
Less: Share Issue expenses	266,172,759	-
Sub-total	**13,124,632,990**	**6,143,323,329**
B. Statutory reserve		
As per last Balance sheet	549,978,368	202,070,720
Add: Transferred from profit and loss account	223,261,590	347,907,648
Sub-total	**773,239,958**	**549,978,368**
C. Profit and loss account	3,092,998,262	2,199,951,901
Sub-total	**3,092,998,262**	**2,199,951,901**
Total (A+B+C)	**16,990,871,210**	**8,893,253,598**

*The Company, vide prospectus dated August 5, 2010, made an initial public offer ('IPO') of 16,791,579 equity shares of Rs. 10 each for cash consisting of a fresh issue of 7,445,323 equity shares at a premium of Rs. 975 each to Qualified Institutional Bidders and Non Institutional Bidders and at a premium of Rs. 925 each to Retail Individual Bidders and an offer for sale of 9,346,256 equity shares at a premium of Rs.975 each to Qualified Institutional Bidders and Non Institutional Bidders and at a premium of Rs. 925 each to Retail Individual Bidders.

Schedules to Balance Sheet

		March 31, 2011	March 31, 2010
		Rupees	Rupees
Schedule 3 (A): Secured loans			
Term loans			
From banks		16,498,890,841	16,251,526,566
(Secured by hypothecation of portfolio loans and by lien marked on bank deposits)			
From financial institutions		3,221,731,828	6,076,517,683
(Secured by hypothecation of portfolio loans and by lien marked on bank deposits)			
From non banking financial companies		459,419,940	703,333,332
(Secured by hypothecation of portfolio loans and by lien marked on bank deposits)			
Debentures (Short term)			
(Secured by hypothecation of portfolio loans)			
Nil (Previous year: 750) 10% Secured Redeemable Non - Convertible Debentures of Rs. 10,00,000 each redeemable at par at the end of one year from the date of allotment April 23, 2010		-	750,000,000
(Secured by hypothecation of portfolio loans)			
Nil (Previous year: 500) 8.30% Secured Redeemable Non - Convertible Debentures of Rs. 10,00,000 each redeemable at par at the end of one year from the date of allotment December 23, 2010		-	500,000,000
(Secured by hypothecation of portfolio loans)			
Nil (Previous year: 500) 9.25% Secured Redeemable Non - Convertible Debentures of Rs. 10,00,000 each redeemable at par at the end of one year from the date of allotment December 23, 2010			500,000,000
Bank Overdraft (Due within one year)		1,474,917,575	1,014,355,957
(Secured by hypothecation of portfolio loans and by lien marked on bank deposits)			
Interest accrued and due on the term loan		1,565,347	-
Finance lease obligation		17,622,694	-
(Secured by assets taken on lease)			
Total		**21,674,148,225**	**25,795,733,538**
Schedule 3 (B): Unsecured loans			
Commercial paper (Short term)	700,000,000		1,200,000,000
Less: Unamortized interest	(13,611,172)		(49,011,944)
Maximum amount raised at any time during the year Rs. 2,200,000,000			
(Previous year: 1,200,000,000)			
Total		**686,388,828**	**1,150,988,056**

Schedules to Balance Sheet

Schedule 4: Fixed assets and intangible assets
4A. Fixed assets

Rupees

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As on April 1, 2010	Additions	Deletions	As on March 31, 2011	As on April 1, 2010	For the year	Deletions	Total March 31, 2011	As on March 31, 2011	As on March 31, 2010
Freehold Assets										
(I) Furniture and fixtures	120,303,324	44,078,880	703,057	163,679,147	95,269,996	37,900,041	605,890	132,564,147	31,115,000	25,033,328
(II) Plant and machinery:										
Computers	239,138,355	71,457,551	4,069,412	306,526,494	109,399,778	78,450,060	1,990,010	185,859,828	120,666,666	129,738,577
Office equipments	41,710,884	23,735,803	508,284	64,938,403	10,220,455	7,148,308	150,459	17,218,304	47,720,099	31,490,429
(III) Vehicles	2,791,150	-	-	2,791,150	535,872	583,892	-	1,119,764	1,671,386	2,255,278
Leasehold Assets										
Computers	-	22,581,051	-	22,581,051	-	5,105,611	-	5,105,611	17,475,440	-
Total	**403,943,713**	**161,853,285**	**5,280,753**	**560,516,245**	**215,426,101**	**129,187,912**	**2,746,359**	**341,867,654**	**218,648,591**	**188,517,612**
Previous Year	**-**	**157,298,907**	**-**	**403,943,713**	**-**	**92,029,162**	**-**	**215,426,101**	**188,517,612**	

4B. Intangible assets

PARTICULARS	GROSS BLOCK				AMORTISATION				NET BLOCK	
	As on April 1, 2010	Additions	Deletions	As on March 31, 2011	As on April 1, 2010	For the year	Deletions	Total March 31, 2011	As on March 31, 2011	As on March 31, 2010
(I) Goodwill	39,701,135	-	-	39,701,135	36,391,908	3,309,227	-	39,701,135	-	3,309,227
(II) Computer software*	97,210,583	59,258,950	-	156,469,533	63,129,229	28,998,722	-	92,127,951	64,341,582	34,081,354
Total	**136,911,718**	**59,258,950**	**-**	**196,170,668**	**99,521,137**	**32,307,949**	**-**	**131,829,086**	**64,341,582**	**37,390,581**
Previous Year	**-**	**15,674,847**	**-**	**136,911,718**		**33,969,893**		**99,521,137**	**37,390,581**	

*Refer note 8 of schedule 20 for capital commitments

Schedules to Balance Sheet

	March 31, 2011 Rupees	March 31, 2010 Rupees
Schedule 5: Investments		
Long term investment (At cost)		
Other than trade - Unquoted		
200,000 (Previous year : 200,000) Equity shares of Rs 10/- each fully paid-up in Alpha Micro Finance Consultants Private Limited	2,000,000	2,000,000
Current investment (At lower of cost and market value)		
Other than trade - Unquoted		
Investment in pass through certificate	35,560,993	-
Total	**37,560,993**	**2,000,000**
(Refer note 18 of schedule 20)		
Aggregate book value of unquoted investments	37,560,993	2,000,000
Schedule 6: Deferred tax assets / (Liabilities) (Net)		
Deferred Tax assets / (liabilities)		
Difference due to disallowance of expenses under section 43B of Income tax Act, 1961	17,489,342	30,473,757
Difference due to disallowance of provision for standard assets and non performing assets	230,514,662	59,433,791
Differences in depreciation and other differences in block of fixed assets and intangible assets as per tax and books of accounts	5,530,539	4,888,661
Effect of lease accounting	1,295,008	-
Deferred tax created on unamortized preliminary expenses under section 35D of Income tax Act, 1961	102,268,968	-
Deferred tax assets (Net)	**357,098,519**	**94,796,209**
Schedule 7:Sundry debtors		
Debts outstanding for a period exceeding six months		
Unsecured, considered good	-	833,868
Unsecured, considered doubtful	3,657,196	-
Other debts		
Unsecured, considered good	15,561,581	28,705,275
	19,218,777	**29,539,143**
Schedule 8: Cash and bank balances		
Cash on hand	15,431,151	11,804,492
Balances with scheduled banks:		
On current accounts	3,326,045,754	2,242,574,554
On deposit accounts	2,237,642,668	7,480,187,058
(Includes lien marked deposits. Refer note 22 of schedule 20)		
Balances with other banks :		
(Refer note 19 of schedule 20)		
On current accounts	-	618,384
Total	**5,579,119,573**	**9,735,184,488**
Schedule 9: Other current assets		
Interest accrued but not due		
On portfolio loans	67,727,564	119,022,992
On deposits placed with banks	79,391,821	67,506,742
Others	8,432,294	25,612,246
Total	**155,551,679**	**212,141,980**

Schedules to Balance Sheet

		March 31, 2011	March 31, 2010
		Rupees	**Rupees**
Schedule 10 :Loans & advances			
A. Portfolio loans			
a. Portfolio loans (Secured, considered good)			
Individual loans		92,534,009	13,949,529
b. Portfolio Loans (unsecured, considered good)			
Joint liability group loans		33,853,541,762	29,256,915,711
Individual loans		-	281,660
c. Portfolio Loans (unsecured, considered doubtful)*			
Joint liability group loans		842,920,094	96,057,621
Individual loans		-	-
		34,788,995,865	**29,367,204,521**
d. Portfolio Loans (unsecured, considered good)			
Joint liability group loans placed as collateral for loans asset assigned / securitised			
(Refer note 5 of schedule 20)		1,239,837,922	410,813,377
Sub-Total	**(A)**	**36,028,833,787**	**29,778,017,898**
*These represent non performing assets (Refer note 1(r) of schedule 20)			
B. Other loans and advances			
Secured, considered good			
Employee loans		43,423	433,010
Unsecured, considered good			
Loans to SKS Microfinance Employees Benefit Trust (Refer note 20 of schedule 20)		60,906,186	87,285,811
Deposits		97,994,277	60,491,575
Advance fringe benefit tax (Net of Provision)		937,183	937,183
Interest accrued and due on portfolio loans		7,423,071	4,309,831
Advances recoverable in cash or kind or for value to be received			
Prepaid expenses		80,572,903	41,255,226
Others		242,654,131	172,084,046
Unsecured, considered doubtful			
Advances recoverable in cash or kind or for value to be received		15,800,000	12,902,804
Sub-Total	**(B)**	**506,331,174**	**379,699,486**
Total	**(A+B)**	**36,535,164,961**	**30,157,717,384**

Schedules to Balance Sheet

	March 31, 2011	March 31, 2010
	Rupees	Rupees
Schedule 11: Current liabilities		
Sundry creditors		
Dues to micro and small enterprises (Refer note 21 of schedule 20)	-	-
Dues to other than micro and small enterprises	240,843,072	206,339,779
Employee payable	306,783,275	203,460,604
Payable for loan asset assigned	985,545,499	2,011,686,166
Deferred income		
Unamortised interest income	78,068,888	199,766,947
Unamortised group insurance administrative charges	169,988,146	316,987,402
Deferred gain on asset assignment	-	495,783,238
Interest accrued but not due		
On term loans	123,896,084	144,401,445
On debentures	-	93,988,703
Statutory dues	35,034,231	22,419,640
Total	**1,940,159,195**	**3,694,833,925**
Schedule 12: Provisions		
Provision for taxation		
(Net of advance tax payments of Rs. 2,221,328,227 (Previous Year: Rs.1,515,362,172))	95,809,356	74,652,372
Provision for standard and non performing assets (Refer note 16 of schedule 20)	647,234,568	121,249,521
Provision for loss on assigned loans (Refer note 2s (i) of schedule 20)	39,405,140	30,187,595
Provision for other assets	23,838,523	12,902,804
Provision for gratuity (Refer note 11 of schedule 20)	27,624,087	1,596,445
Provision for leave encashment and availment	53,904,583	89,655,067
Total	**887,816,257**	**330,243,804**
Schedule 13: Miscellaneous expenditure		
Share issue expenses for proposed intial public offer	-	77,146,809
	-	**77,146,809**

Schedules to Profit and Loss Account

	March 31, 2011	March 31, 2010
	Rupees	**Rupees**
Schedule 14: Income from operations		
Interest income on portfolio loans (Refer note 4 of schedule 20)	10,308,543,947	7,609,531,413
Membership fees	99,481,848	157,755,389
(Net of service tax of Rs.10,260,363 (Previous year: Rs. 16,249,986))		
Income from assignment / securitisation of loans (Refer note 5 of schedule 20)	1,193,928,139	961,952,005
Total	**11,601,953,934**	**8,729,238,807**
Schedule 15: Other income		
Interest on bank deposits	162,622,025	272,310,159
(Tax deducted at source: Rs. 15,422,777 (Previous year: Rs. 48,688,330))		
Insurance commission	105,608,467	192,516,647
(Tax deducted at source : Rs. 12,434,995 (Previous year: Rs. 30,276,396))		
(Net of service tax of Rs.10,877,671 (Previous year: Rs. 21,690,014))		
Other commission income	38,668,418	32,308,769
(Tax deducted at source : Rs. 2,864,587 (Previous year: Rs. 1,999,993))		
(Net of service tax of Rs.4,476,722 (Previous year: Rs. 3,172,685))		
Group insurance administrative charges	708,467,266	323,233,253
Recovery against loans written off	56,140,867	20,410,363
Miscellaneous income	21,935,170	15,122,025
(Tax deducted at source : Rs. 109,299 (Previous year: Rs. 84,944))		
Total	**1,093,442,213**	**855,901,216**
Schedule 16: Financial expenses		
Interest		
On term loans from banks	2,317,690,430	1,866,720,688
On term loans from financial institutions	543,661,397	554,445,945
On term loans from non banking financial companies	67,571,174	83,150,155
On other loans	186,220,705	46,622,636
On bank overdraft facility	111,610,511	34,235,545
On debentures	68,469,859	121,750,001
Loan processing fees	147,206,614	159,755,972
Guarantee fees	6,363,000	214,800
Bank charges	30,070,443	17,155,969
Total	**3,478,864,133**	**2,884,051,711**

Schedules to Profit and Loss Account

		March 31, 2011	March 31, 2010
		Rupees	**Rupees**
Schedule 17: Personnel expenses			
Salaries and Bonus / incentives		2,844,478,814	1,851,421,236
Staff leave encashment and availment		48,325,732	88,423,953
Contribution to Provident Fund		102,619,867	65,025,435
Contribution to ESIC		49,242,698	23,299,952
Gratuity expenses (Refer note 11 of schedule 20)		30,335,931	16,915,477
Staff welfare expenses		121,374,931	90,782,032
Employee stock option expenditure		67,089,753	28,382,024
Total		**3,263,467,726**	**2,164,250,109**
Schedule 18: Operating and other expenses			
Rent		199,879,997	140,847,310
Rates and taxes		11,349,318	13,793,856
Insurance		53,488,602	49,310,050
Repairs and maintenance			
Plant and machinery		19,229,786	12,118,560
Others		108,791,694	70,498,717
Electricity charges		35,660,616	22,944,742
Travelling and conveyance		630,837,648	417,267,234
Communication expenses		117,629,416	97,361,291
Printing and stationery		131,073,728	157,202,989
Legal and professional fees		147,686,392	128,604,519
Directors' sitting fees		355,000	-
Directors stock option expenditure		3,278,688	1,004,936
Auditors' remuneration (Refer note 24 of schedule 20)			
Audit fees	5,850,000		
Certification fees	120,000		
Out of pocket expenses	1,220,825	7,190,825	8,306,977
Other Provisions and write off		128,268,965	66,181,152
Loss on sale of fixed assets		682,100	837,912
Miscellaneous expenses		109,557,214	34,514,452
Total		**1,704,959,989**	**1,220,794,697**
Schedule 19 : Provisions and write offs			
Provision for standard and non performing assets		525,985,047	59,609,243
Bad debts written off (Refer note 4 of schedule 20)		789,125,768	284,946,407
Loss from assigned loans		1,047,179,601	168,469,150
Total		**2,362,290,416**	**513,024,800**

Cash Flow Statement for the year ended March 31, 2011

			March 31, 2011	March 31, 2010
			Rupees	Rupees
A.	**Cash flow from operating activities**			
	Net profit before taxation after prior period adjustment		**1,724,318,022**	**2,677,019,652**
	Adjustments for:			
	Depreciation and amortization		161,495,861	125,999,054
	Provision for employee benefits		(4,785,247)	57,945,560
	Stock option expenditure		70,368,441	29,386,960
	Share issue expenses		-	7,531,320
	Provision for non performing assets		525,985,047	59,609,243
	Bad debts written off		789,125,768	284,946,406
	Loss from assignment of loans		1,047,179,601	168,469,149
	Other provisions and write offs		128,268,965	66,181,152
	(Profit) / Loss on disposal of fixed assets		682,100	837,912
	Operating profit before working capital changes		**4,442,638,558**	**3,477,926,408**
	Movements in working capital			
	(Increase) / decrease in sundry debtors		10,320,366	(8,134,380)
	(Increase) / decrease in other current assets		54,821,410	103,642,778
	(Increase) / decrease in portfolio loans		(7,039,941,657)	(15,887,737,340)
	(Increase) / decrease in other loans and advances		(1,297,381,362)	(409,428,438)
	(Decrease) / Increase in current liabilities		(1,794,157,954)	1,410,551,035
	Cash generated from operations		**(5,623,700,639)**	**(11,313,179,936)**
	Direct taxes paid		(721,319,186)	(948,403,683)
	Net cash generated from operating activities	**(A)**	**(6,345,019,825)**	**(12,261,583,619)**
B.	**Cash flow from investing activities**			
	Purchase of fixed assets (Including capital work in progress)		(161,853,285)	(157,229,805)
	Sale of fixed assets		1,852,294	46,385
	Purchase of intangible assets (Including capital work in progress)		(69,801,950)	(23,521,847)
	Investment		(35,560,993)	(2,000,000)
	Bank deposits not considered as cash and cash equivalent (net)		272,744,390	322,708,335
	Net cash flow in investing activities	**(B)**	**7,380,456**	**140,003,068**
C.	**Cash flow from financing activities**			
	Proceeds from issuance of share capital (Including share premium)		6,913,356,576	1,162,899,613
	Share issue expenses		127,146,809	(34,678,128)
	Secured borrowings (net)		(4,121,585,313)	4,824,423,260
	Unsecured borrowings (net)		(464,599,228)	756,616,138
	Net cash generated from financing activities	**(C)**	**2,454,318,844**	**6,709,260,883**
	Net increase/ (decrease) in cash and cash equivalents	**(A)+(B)+(C)**	**(3,883,320,525)**	**(5,412,319,668)**
	Cash and cash equivalents at the beginning of the year		7,774,797,430	13,187,117,098
	Cash and cash equivalents at the end of the year (Refer note 22 of Schedule 20)		**3,891,476,905**	**7,774,797,430**

SD/-
For S. R. Batliboi & Co.
Firm Registration number : 301003E
Chartered Accountants

SD/-
per Viren H. Mehta
Partner
Membership No.048749

Place: Mumbai
Date: May 06, 2011

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

SD/-
Vikram Akula
Executive Chairman

SD/-
M.R.Rao
Managing Director and
Chief Executive Officer

SD/-
S.Dilli Raj
Chief Financial Officer

SD/-
Sudershan Pallap
Company Secretary

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

Schedule 20: Notes to Accounts *(Amount in Rupees unless otherwise stated)*

1. Nature of operations

SKS Microfinance Limited ('the Company') is a non-deposit accepting non-banking financial company or NBFC-ND registered with the Reserve Bank of India (RBI). It is engaged in providing microfinance services to poor women in the rural areas of India who are organized as Joint Liability Groups ('JLG').

The Company provides individual loans to the existing members as a loan against property for a tenure ranging from three to five years.

The Company has also tied up with insurance companies to act as Group Insurance Manager for providing life insurance to its members.

2. Statement of Significant Accounting Policies

a. Basis of preparation of financial statements

The financial statements have been prepared to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended),the relevant provisions of the Companies Act, 1956 ('the Act') and the provisions of the Reserve Bank of India ('RBI') as applicable to a non banking financial company. The financial statements have been prepared under the historical cost convention on an accrual basis except interest on loan which has been classified as non performing assets and is accounted for on cash basis. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

b. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

c. Revenue recognition

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

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

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

iii. Membership fees from members are recognized on an upfront basis.

iv. In accordance with the RBI guidelines for securitisation of standard assets, the Company accounts for any loss arising from assignment / securitisation immediately at the time of sale and the profit/premium arising from securitisation is amortized over the life of the securities.

v. Commission income on insurance agency activities is recognized when risk and reward attached to the obligation is transferred.

vi. Dividend income is recognized when the right to receive payment is established by the balance sheet date.

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

d. Fixed assets

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

Asset under development as at the balance sheet date are shown as capital work in progress. Advance paid towards such development are also included under capital work in progress.

e. Intangibles

i. Goodwill is amortized using the straight-line method over a period of five years.

ii. Computer Software cost are capitalized and amortized using the written down value method at a rate of 40% per annum.

f. Depreciation

i. Depreciation on fixed assets is provided on the written down value method as per the rates prescribed under Schedule XIV of the Companies Act, 1956 which is also as per the useful life of the assets estimated by the management.

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

g. Impairment

The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. 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 risks specific to the asset.

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

h. Leases

Finance leases, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the lower of the fair value and present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability based on the implicit rate of return. Finance charges are charged directly against income. Lease management fees, legal charges and other initial direct costs are capitalized.

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 recognized as an expense in the Profit and Loss account on a straight-line basis over the lease term.

i. Investments

The criteria to classify the investment into current and long term investment shall be spelt out by the Board of the Company in the investment policy. Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. 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. Unquoted equity shares in the nature of current investment shall be valued at cost or break-up value whichever is lower.

j. Borrowing Costs

All borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

k. Foreign Currency Transactions

i. All transactions in the foreign currency are recognized at the exchange rate prevailing on the date of 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 Company's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognized as income or as expenses in the year in which they arise.

l. Retirement and other employee benefits

i. Retirement benefits in the form of Provident Fund are a defined contribution scheme and the contributions are charged to the Profit and Loss Account of the year when the contributions to the respective funds are due. There are no other obligations other than the contribution payable to the respective funds.

ii. Gratuity liability is defined benefit obligations and is provided for on the basis of an actuarial valuation on projected unit credit method made at the end of each financial year.

iii. Short term compensated absences are provided for based on estimates. Long term compensated absences are provided for based on actuarial valuation at the year end. The actuarial valuation is done as per projected unit credit method at the year end.

iv. Actuarial gains/ losses are immediately taken to profit and loss account and are not deferred.

m. Income Tax

Tax expense comprises 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. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized 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.

The carrying amount of the deferred tax assets are reviewed at each balance sheet date. The Company writes down the carrying amount of the deferred tax assets 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 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.

n. Earnings per Share

Basic earnings per share is 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. Partly paid equity shares are treated as fraction of an equity share to the extent that they were entitled to participate in dividends related to a fully paid equity share during the reporting 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.

o. Provisions

A provision is recognized when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

p. Cash and Cash Equivalents

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

q. Share Based payments

i. In case of Employee Share Purchase Plan, measurement and disclosure of the employee share-based payment plans is done in accordance with the Guidance Note on Accounting for Employee Share-based Payments, issued by the Institute of Chartered Accountants of India. The Company measures compensation cost relating to employee share purchase plan using the fair value method. Such compensation expense is recognized immediately as these are granted and vested immediately.

ii. In case of Stock Option Plan, measurement and disclosure of the employee share-based payment plans is done in accordance with SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and the Guidance Note on Accounting for Employee Share-based Payments, issued by the Institute of Chartered Accountant of India. The Company measures compensation cost relating to employee stock options using the fair value method. Compensation expense is amortized over the vesting period of the option on the straight line basis.

r. Classification of Loan Portfolio

i. Loans are classified as follows:

Asset Classification	Loans under JLG/ Individual scheme (Andhra Pradesh)	Loans under JLG/ Individual scheme (Other States)
Non Performing Assets	Overdue over 180 days	Overdue over 8 weeks
Sub-Standard Assets	Overdue for 180 - 720 days	Overdue for 8 weeks - 25 weeks
Loss Assets	Overdue over 720 days	Overdue for more than 25 weeks

"Overdue" refers to interest and/ or installment remaining unpaid from the day it became receivable.

ii. All other loans and advances are classified as standard, sub-standard, doubtful, and loss assets in accordance with the extant Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, as amended from time to time.

s. Provision policy for Portfolio Loans & Assets Assigned

For the state of Andhra Pradesh:

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.

In January 2011, a Sub-committee of the Central Board of Directors of the Reserve Bank of India ('RBI') ('the Malegam Committee'), in its recommendations, suggested that the provision for loan loss should be made with reference to the ageing of the overdue loan installments.

Subsequent to this, RBI vide its circular dated January 19, 2011, addressed to banks, stated that "the problems afflicting the Micro Finance Institutions (MFIs) sector are not necessarily on account of any credit weakness per-se but were mainly due to environmental factors" and extended the special regulatory asset classification benefit to restructured MFI accounts as well.

Due to the continued evolving environment, with no precedence, following the enactment of AP MFI Act and the resultant impact on the field operations in Andhra Pradesh the Company reassessed it estimate on the portfolio in the state of Andhra Pradesh as follows:

Asset Classification	Arrear Period	Provision (%)
Standard	Less than 180 days	0.25%
Sub-Standard	Overdue for 180 – 720	10%
Loss Assets	Overdue over 720 days	100%

The above-mentioned estimates for the provisioning of the loan portfolio in the state of Andhra Pradesh are based on the asset classification and provisioning norms as prescribed in the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.

For the States other than Andhra Pradesh

Loans are provided for as per the management's estimates, subject to the minimum provision required as per Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 as amended from time to time. The provisioning norms adopted by the Company is as follows:

Asset Classification	Arrear Period	Estimated Provision adopted by the Company
Standard	Less than 8 weeks	Note 1
Sub-Standard	Over 8 weeks - 25weeks	50%
Loss Assets	More than 25 weeks	Write Off

Note 1: Standard Asset provision is linked to the Portfolio at Risk** (PAR) as shown below:

If Portfolio at Risk	**Estimated Provision adopted by the Company (% of Standard Assets)**
0 - 1%	0.25%
Above 1% to 1.5%	0.50%
Above 1.5% to 2%	0.75%
Above 2%	1.00%

i. Provision for losses under assignment arrangements is made as higher of the incurred loss and provision as per the Company provisioning policy for JLG loans subject to the maximum guarantee given to respective assignee bank or financial institution.

ii. All other loans and advances are provided for in accordance with the extant Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, as amended from time to time.

iii. All overdue loans where the tenure of the loan is completed and in the opinion of the management amount is not recoverable, are written off.

3. Change of Estimates

In the current year, pursuant to the regulatory changes in the state of Andhra Pradesh, the Company changed its estimate of provision for loan portfolio in Andhra Pradesh as described in Note 2(s) above. Had the Company applied the provisioning estimates applicable to monthly repayment schedule loans, the provision for loan portfolio would have been higher by Rs.1,186,872,885.

4. Pursuant to the regulatory changes in the state of Andhra Pradesh, the Company has not recognized interest income on portfolio loans in the state of Andhra Pradesh amounting to Rs.815,318,396 and has written off loans aggregating Rs. 373,816,693 where the tenure was completed and which were outstanding at the balance sheet date.

5. Assignment/ Securitization of loans

During the year the Company has sold loans through direct assignment/ securitisation. The information on direct assignment activity of the Company as an originator is as shown below:

Particulars	**For the year ended March 31, 2011**	**For the year ended March 31, 2010**
Total number of loans assigned / securitised	1,108,982	2,144,578
Total book value of the loans assigned / securitised	8,110,873,573	17,761,478,496
Sale consideration received for the loan asset assigned / securitized	8,110,873,573	18,408,838,735
Income from asset assignment recognised in the Profit and Loss Account	1,193,928,139	961,952,005
Particulars	**As at March 31, 2011**	**As at March 31, 2010**
Credit enhancements provided and outstanding:		
Interest subordination	481,676,008	273,760,208
Principal subordination	1,239,837,922	408,023,326
Cash Collateral	988,333,533	1,198,126,851
Corporate Guarantee	-	1,041,463,312

Under the agreement for the assignment/ securitisation of loans the Company has transferred all the rights and obligations relating to such loan assets assigned/ securitised as shown above. The guarantees given by the Company under the asset assignment/ securitisation has been disclosed in note 9 below.

6. Segment information

The Company operates in a single reportable segment i.e. lending to members, who 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.

7. Related parties

a. Names of the related parties

Entities holding Significant Influence	Current year - N/A Previous Year - The entities mentioned, in aggregate, exercise significant influence over the Company: a. Sequoia Capital India Growth Investment I b. Sequoia Capital India II, LLC c. Tejas Ventures
Key Management Personnel	Mr. Suresh Gurumani, Managing Director and Chief Executive Officer (till 03.10.2010) Dr. Vikram Akula, Chairman Mr. M R Rao, Managing Director and Chief Executive Officer from 04.10.2010 (Chief Operating Officer till 03.10.2010) Mr. S Dilli Raj, Chief Financial Officer

b. Related party transactions

	Key Management Personnel		**Entities holding Significant Influence**	
	31-Mar-11	31-Mar-10	31-Mar-11	31-Mar-10
Transaction during the year				
Issue of Equity Shares (Including Share Premium) - Mr. Suresh Gurumani	-	70,500,000	-	-
Issue of Equity Share (Including Share Premium) - Mr. Vikram Akula	-	47,053,752	-	-
Salary, incentive & perquisite - Mr. Suresh Gurumani	13,452,853	16,958,448		
Salary, incentive & perquisite - Mr. M R Rao	14,776,648	14,136,988	-	-
Salary, incentive & perquisite - Mr. S Dilli Raj	10,130,744	9,036,327	-	-
Commission - Mr. Vikram Akula	17,501,643	-	-	-
Balances as at year end				
Equity Share Capital	-	-	-	158,075,760
Equity Share Capital - Mr. Suresh Gurumani	1,00,000	2,350,000	-	-
Equity Share Capital - Mr. M R Rao	2,941,660	3,566,660	-	-
Equity Share Capital - Mr. S Dilli Raj	776,660	1,026,660	-	-
Incentive Payable - Mr. Suresh Gurumani	-	1,500,000	-	
Incentive Payable - Mr. M R Rao	-	1,000,000	-	-
Incentive Payable - Mr. S Dilli Raj	-	600,000	-	-
Stock Option Outstanding - Mr. Suresh Gurumani	1,074,670	632,652	-	-
Stock Option Outstanding - Mr. Vikram Akula	11,763,269	11,763,269	-	-

8. Capital commitments

Estimated amounts of contracts remaining to be executed on capital account (net of capital advances) and not provided:

Particulars	**March 31, 2011**	**March 31, 2010**
For purchase/ development of computer software	6,135,400	39,797,435
For purchase of fixed assets	22,900	8,193,537

9. Contingent liabilities not provided for

Particulars	March 31, 2011	March 31, 2010
Guarantees given and outstanding by the Company for the loans assigned (including cash collaterals and receivables placed with banks)	1,952,301,516	2,409,375,527
Claims against the Company not acknowledged as debts*	48,549,551	24,088,137

*Represents the tax on items disallowed by the Income Tax department not acknowledged by the company.

10. Stock option scheme

The Company has provided various share-based payment schemes to its Directors and Employees. The plans in operation are Plan I (Managing Director), Plan II (Other Independent Directors) and Plan III (Employees) while 'a', 'b', 'c', 'd', 'e' are the different grants made under these plans. During the year ended March 31, 2011, the following series were in operation:

Particulars	Plan I (a)	Plan I (b)	Plan I (c)
Date of grant	Oct 15, 2007	Nov 10, 2008	Dec 8, 2008
Date of Board approval	July 31, 2007	Oct 30, 2008	Oct 30, 2008
Date of shareholder's approval	Sept 8, 2007	Nov 8, 2008	Nov 8, 2008
Number of options granted	1,852,158	1,769,537	900,000
Method of settlement	Equity	Equity	Equity
Vesting period	Immediate	Immediate	25 % equally at the end of each year
Exercise period	48 months from the date of vesting	60 months from the date of vesting	48 months from the date of grant
Vesting conditions	***None	***None	***None

Particulars	Plan II (a)	Plan II (b)	Plan II (c)	Plan II (d)	Plan II (e)
Date of grant	Feb 1, 2008	Feb 1, 2008	Nov 10, 2008	July 29, 2009	Feb 1, 2010
Date of Board approval	Oct 15, 2007	Oct 15, 2007	Oct 15, 2007	Oct 15, 2007	Jan 5, 2010
Date of shareholder's approval	Jan 16, 2008	Jan 16, 2008	Jan 16, 2008	Jan 16, 2008	Jan 8, 2010
Number of options granted	30,000	15,000	6,000	18,000	90,000
Method of settlement	Equity	Equity	Equity	Equity	Equity
Vesting period	*Immediate	**Immediate	*Immediate	*Immediate	25 % equally at the end of each year
Exercise period	36 months from the date of vesting	36 months from the date of vesting	36 months from the date of vesting	36 months from the date of vesting	60 months from the date of grant
Vesting conditions	***None	***None	***None	***None	***None

Particulars	Plan III (a)	Plan III (b)	Plan III (c)	Plan III (d)	Plan III (e)
Date of grant	Nov 3, 2009	Dec 15, 2009	Dec 15, 2009	May 4, 2010	May 4, 2010
Date of Board approval	July 29, 2009	Nov 4, 2009	Nov 4, 2009	May 4, 2010	May 4, 2010
Date of shareholder's approval	Sep 30, 2009	Dec 10, 2009	Dec 10, 2009	Dec 10, 2009	Dec 10, 2009
Number of options granted	514,750	1,313,160	568,000	4,340	6,000
Method of settlement	Equity	Equity	Equity	Equity	Equity
Vesting period	End of year 1 - 40 % End of year 2 - 25% End of year 3 - 25% End of year 4 - 10%	20 % equally at the end of each year	20 % equally at the end of each year	20 % equally at the end of each year	20 % equally at the end of each year
Exercise period	60 months from the date of grant	72 months from the date of grant	72 months from date of grant	72 months from date of grant	72 months from date of grant
Vesting conditions	***None	***None	***None	***None	***None

* 1/3rd of the options can be exercised within first twelve months from grant date; another 1/3rd of the options can be exercised within twenty four months from grant date and the rest being exercised within thirty six months from grant date.

** 1/2 of the options can be exercised within twenty four months from grant date; another 1/2 of the options can be exercised within thirty six months from grant date.

***Option holders are required to hold the services being provided to the Company at the time of exercise of options.

The details of **Plan I (a)** have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	906,734	49.77	1,852,158	49.77
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	945,424	49.77
Expired during the year	-	-	-	-
Outstanding at the end of the year	906,734	49.77	906,734	49.77
Exercisable at the end of the year	906,734	49.77	906,734	49.77
Weighted average remaining contractual life (in years)	0.6	-	1.6	-
Weighted average fair value of options granted		7.28	-	7.28

The weighted average share price at the date of exercise for stock options was Rs.246.64

The details of **Plan I (b)** have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	1,769,537	300.00	1,769,537	300.00
Granted during the year				
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	1,769,537	300.00	1,769,537	300.00
Exercisable at the end of the year	1,769,537	300.00	1,769,537	300.00
Weighted average remaining contractual life (in years)	2.6	-	3.6	-
Weighted average fair value of options granted	-	2.92	-	2.92

The details of **Plan I (c)** have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	675,000	300.00	900,000	300.00
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	225,000	300.00
Expired during the year	-	-	-	-
Outstanding at the end of the year	675,000	300.00	675,000	300.00
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	1.6	-	2.6	-
Weighted average fair value of options granted	-	1.81	-	1.81

The weighted average share price at the date of exercise for stock options was Rs. 333.33.

The details of **Plan II (a)** have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	30,000	70.67	30,000	70.67
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year*	30,000	70.67	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	-	-	30,000	70.67
Exercisable at the end of the year	-	-	30,000	70.67
Weighted average remaining contractual life (in years)	-	-	0.8	-
Weighted average fair value of options granted	-	15.28	-	15.28

The weighted average share price at the date of exercise for stock options was Rs.1,266.

*Notice of exercise received for 5000 options; however the allotment is pending as on March 31, 2011.

The details of **Plan II (b)** have been summarized below:

Particulars	**As at March 31, 2011**		**As at March 31, 2010**	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	15,000	70.67	15000	70.67
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year*	15,000	70.67	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	-	-	15,000	70.67
Exercisable at the end of the year	-	-	15,000	70.67
Weighted average remaining contractual life (in years)	-	-	0.8	-
Weighted average fair value of options granted	-	17.72	-	17.72

*Notice of exercise received for 15000 options, however the allotment is pending as on March 31, 2011.

The details of **Plan II (c)** have been summarized below:

Particulars	**As at March 31, 2011**		**As at March 31, 2010**	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	6,000	70.67	6,000	70.67
Granted during the year				
Forfeited during the year	-	-	-	-
Exercised during the year	1,000	70.67	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	5,000	70.67	6,000	70.67
Exercisable at the end of the year	5,000	70.67	4,000	70.67
Weighted average remaining contractual life (in years)	0.6	-	1.6	-
Weighted average fair value of options granted	-	52.14	-	52.14

The weighted average share price at the date of exercise for stock options was Rs.1,266.

The details of **Plan II (d)** have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	18,000	300.00	-	-
Granted during the year	-	-	18,000	300.00
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	18,000	300.00	18,000	300.00
Exercisable at the end of the year	12,000	300.00	6000	300.00
Weighted average remaining contractual life (in years)	1.3	-	2.3	-
Weighted average fair value of options granted	-	21.57	-	21.57

The details of **Plan II (e)** have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	90,000	300.00	-	-
Granted during the year	-	-	90,000	300.00
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	90,000	300.00	90,000	300.00
Exercisable at the end of the year	22,500	300.00	-	-
Weighted average remaining contractual life (in years)	3.8	-	4.8	-
Weighted average fair value of options granted	-	72.53	-	72.53

The details of **Plan III (a)** have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	5,02,250	300.00	-	-
Granted during the year	-	-	5,14,750	300.00
Forfeited during the year	37,500	300.00	12,500	300.00
Exercised during the year	144,910	300.00	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,19,840	300.00	5,02,250	300.00
Exercisable at the end of the year	40,990	300.00	-	-
Weighted average remaining contractual life (in years)	3.6	-	4.6	-
Weighted average fair value of options granted	-	41.18	-	41.18

The weighted average share price during the period was Rs.690.46

The details of **Plan III (b)** have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	1,237,040	150.00	-	-
Granted during the year	-	-	1,313,160	150.00
Forfeited during the year	1,47,790	150.00	76,120	150.00
Exercised during the year	1,13,458	150.00	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	9,75,792	150.00	1,237,040	150.00
Exercisable at the end of the year	104,392	150.00	-	-
Weighted average remaining contractual life (in years)	4.6	-	5.6	-
Weighted average fair value of options granted	-	115.30	-	115.30

The weighted average share price during the period was Rs.642.96.

The details of **Plan III (c)** have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	562,000	300.00	-	-
Granted during the year	-	-	568,000	300.00
Forfeited during the year	94,000	300.00	6,000	300.00
Exercised during the year	67,000	300.00	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	401,000	300.00	562,000	300.00
Exercisable at the end of the year	26,600	300.00		-
Weighted average remaining contractual life (in years)	4.6	-	5.6	-
Weighted average fair value of options granted	-	69.29	-	69.29

The weighted average share price during the period was Rs.634.98.

The details of **Plan III (d)** have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	4340	150	-	-
Forfeited during the year	350	150	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3990	150	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	5.1	-	-	-
Weighted average fair value of options granted	-	233.75	-	-

The details of **Plan III (e)** have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	6000	300	-	-
Forfeited during the year	3000	300	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3000	300	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	5.1	-	-	-
Weighted average fair value of options granted	-	152.53	-	-

The details of exercise price for stock options outstanding at the end of the year March 31, 2011 are:

Series	**Range of exercise prices**	**Number of options outstanding (31-Mar-11)**	**Number of options outstanding (31-Mar-10)**	**Weighted average remaining contractual life of options (in years) (31-Mar-11)**	**Weighted average remaining contractual life of options (in years) (31-Mar-10)**	**Weighted average exercise price**
Options outstanding as on 31-Mar-10 and 31-Mar-11						
Plan I (a)	49.77	906,736	906,736	0.6	1.6	49.77
Plan I (b)	300.00	1,769,537	1,769,537	2.6	3.6	300.00
Plan I (c)	300.00	675,000	675,000	1.6	2.6	300.00
Plan II(a)*	70.67	-	30,000	-	0.8	70.67
Plan II(b)**	70.67	-	15,000	-	0.8	70.67
Plan II (c)	70.67	5000	6,000	0.6	1.6	70.67
Plan II (d)	300.00	18,000	18,000	1.3	2.3	300.00
Plan II (e)	300.00	90,000	90,000	3.8	4.8	300.00
Plan III (a)	300.00	319,840	502,250	3.6	4.6	300.00
Plan III (b)	150.00	975,792	1,237,040	4.6	5.6	150.00
Plan III (c)	300.00	401,000	562,000	4.6	5.6	300.00
Options granted during the year and outstanding as on 31-Mar-11:						
Plan III (d)	150.00	3,990	-	5.1	-	150.00
Plan III (e)	300.00	3,000	-	5.1	-	300.00

*Notice of exercise received for 5000 options; however the allotment is pending as on March 31, 2011.
**Notice of exercise received for 15000 options, however the allotment is pending as on March 31, 2011.

Stock Options granted:

Plan III (d) - The weighted average fair value of stock options granted during the year was Rs.233.75. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

	2011	**2012**	**2013**	**2014**	**2015**
Weighted average share price	339.08	339.08	339.08	339.08	339.08
Exercise price (Rs.)	150.00	150.00	150.00	150.00	150.00
Expected volatility (%)	33.86	33.86	33.86	33.86	33.86
Historical volatility	-	-	-	-	-
Life of the options granted in years	1	2	3	4	5
Expected dividends per annum (Rs.)	0	0	0	0	0
Average risk-free interest rate (%)	6.88	7.06	7.24	7.42	7.53
Expected dividend rate (%)	0%	0%	0%	0%	0%

Expected Volatility - Since SKS Microfinance Limited was not a listed Company on the date of grant, a 33.86% Standard Deviation is assumed based on the volatility of the Bank Nifty Index over the last year preceding the grant date.

Plan III (e) - The weighted average fair value of stock options granted during the year was Rs 152.53. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

	2011	2012	2013	2014	2015
Weighted average share price	339.08	339.08	339.08	339.08	339.08
Exercise price (Rs.)	300.00	300.00	300.00	300.00	300.00
Expected volatility (%)	33.86	33.86	33.86	33.86	33.86
Historical volatility	-	-	-	-	-
Life of the options granted in years	1	2	3	4	5
Expected dividends per annum (Rs.)	0	0	0	0	0
Average risk-free interest rate (%)	6.88	7.06	7.24	7.42	7.53
Expected dividend rate (%)	0%	0%	0%	0%	0%

Expected Volatility - Since SKS Microfinance Limited was not a listed Company on the date of grant, a 33.86% Standard Deviation is assumed based on the volatility of the Bank Nifty Index over the last year preceding the grant date.

Effect of the share-based payment plans on the Profit and Loss Account and on its financial position:

Particulars	For the year ended March 31, 2011	For the year ended March 31, 2010
Directors stock option expenditure for the year pertaining to share - based payment plan	3,278,688	1,004,936
Employees stock option expenditure for the year pertaining to share - based payment plan	67,089,753	28,382,024
Sub total	**70,368,441**	**29,386,960**
Compensation cost pertaining to equity - settled employee share based payment plan	**70,368,441**	**29,386,960**

Particulars	For the year ended March 31, 2011	For the year ended March 31, 2010
Deferred compensation cost outstanding	87,727,806	181,803,303
Stock Options Outstanding	178,832,237	223,596,198

11. Retirement benefits

The Company has a defined benefit gratuity plan. Every employee who has completed five years or more of service is eligible for gratuity on cessation of employment and it is computed at 15 days salary (last drawn salary) for each completed year of service. The scheme is funded with an insurance company in the form of a qualifying insurance policy.

The following tables summarize the components of net benefit expense recognized in the Profit and Loss Account and the funded status and amounts recognized in the Balance Sheet for the gratuity plan.

Profit and Loss Account

Net employees benefit expense (Recognized in personnel expenses):

Particulars	For the year ended March 31, 2011	For the year ended March 31, 2010
Current service cost	20,840,971	12,462,640
Interest cost on benefit obligation	4,728,753	2,525,154
Expected return on plan assets	(3,452,663)	(1,513,633)
Net actuarial (gain) / loss recognized in the year	6,692,887	3,441,316
Past service cost	1,525,983	-
Net employee benefit expense	**30,335,931**	**16,915,477**
Actual return on plan assets	**1,407,990**	**(35,647)**

Balance Sheet

Details of provision for gratuity:

Particulars	Gratuity	
	March 31, 2011	**March 31, 2010**
Defined benefit obligation	68,883,615	36,483,997
Fair value of plan assets	(39,825,147)	(34,887,552)
Unrecognized past service cost	(1,434,381)	-
Plan liability	**27,624,087**	**1,596,445**

Changes in the present value of the defined benefit obligation are as follows:

Particulars	Gratuity	
	March 31, 2011	**March 31, 2010**
Opening defined benefit obligation	36,483,997	19,642,037
Interest cost	4,728,753	2,525,154
Past service cost	2,960,364	-
Current service cost	20,840,971	12,462,640
Benefits paid	(778,684)	(37,870)
Actuarial (gains) / losses on obligation	4,648,214	1,892,036
Closing defined benefit obligation	**68,883,615**	**36,483,997**

Changes in the fair value of plan assets are as follows:

Particulars	Gratuity	
	March 31, 2011	**March 31, 2010**
Opening fair value of plan assets	34,887,552	17,822,480
Expected return	3,452,663	1,513,633
Contributions by employer	4,308,289	17,138,589
Benefits paid	(778,684)	(37,870)
Actuarial gains / (losses)	(2,044,673)	(1,549,280)
Closing fair value of plan assets	**39,825,147**	**34,887,552**

The Company has contributed Rs. 4,308,289/- towards gratuity during the period April 1, 2010 to March 31, 2011.

The company expects to contribute Rs 5,000,000 towards gratuity in the financial year 2011-12.
The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

Particulars	Gratuity	
	March 31, 2011	**March 31, 2010**
Investment with insurer	100%	100%

The overall expected rate of return on assets is determined based on the average long term rate of return expected on investment of the fund during the estimated term of the obligations.

The principal assumptions used in determining gratuity:

Particulars	**Gratuity**			
	March 31, 2011		**March 31, 2010**	
Discount rate	8.30%		8.30%	
Expected rate of return on assets	7.50%		7.50%	
Salary escalation rate per annum	10% for the first two years and 7% there after		10% for the first three years and 7% there after	
Rates of leaving service at specimen ages	Age (Yrs)	Rates	Age (Yrs)	Rates
	21-30	5%	21-30	5%
	31-40	3%	31-40	3%
	41-59	2%	41-59	2%

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors.

Amounts for the current and previous three years are as follows:

Particulars	**Gratuity**			
	Mar 31, 11	**Mar 31, 10**	**Mar 31, 09**	**Mar 31, 08**
Defined benefit obligation	68,883,615	36,483,997	19,642,037	5,480,291
Plan assets	39,825,147	34,887,552	17,822,480	5,398,173
Surplus / (deficit)	(29,058,468)	(1,596,445)	(1,819,557)	(82,118)
Experience adjustments on plan liabilities	4,648,214	4,582,747	5,137,920	2,213,180
Experience adjustments on plan assets	(2,044,673)	(1,549,280)	431,324	(93,594)

12. Managing Director's Remuneration

Particulars	**For the year ended 31-Mar-11**	**For the year ended 31-Mar-10**
Salaries and Incentives	17,951,420	11,899,944
Perquisites	1,172,958	3,645,000
Contribution to provident fund	876,495	955,764
Stock option cost	442,018	457,740
Total	**20,442,890**	**16,958,448**

Note: As the liabilities for employee benefits are provided on an actuarial basis for the Company as a whole, the amounts pertaining to the directors are not included above.

13. **Computation of Net Profit in accordance with section 349 of the Act:**

	For the year ended	
Particulars	**March 31,2011**	**March 31,2010**
Profit before tax	1,724,318,022	2,677,019,652
Add:		
(a) Managerial Remuneration Excluding Sitting Fees	20,442,890	16,958,448
(b) Commission to Other Director	17,501,643	-
(c) Provision for bad and doubtful debts	7,659,427	12,142,804
(d) Depreciation and amortisation as per books of accounts	161,495,861	125,999,054
(e) Loss on sale of Fixed Assets (net) as per Profit and Loss account	682,100	837,912
Less:		
(a) Depreciation as per section 350 of the Companies Act, 1956	161,495,861	125,999,054
Net profit as per Section 349 of the Companies Act, 1956	1,770,604,082	2,706,958,816
Add: Director's remuneration	-	-
Net Profit as per Section 198 of the Companies Act,1956	1,770,604,082	2,706,958,816
Maximum Remuneration to the Managing Director as per Section 387 @ 5% of the net profits as computed above	84,314,480	128,902,801
Commission to other Directors		
Maximum commission u/s 309 of Companies Act, 1956 at 1% of net profits (net of remuneration other than commission)	17,501,643	-
Commission approved for payment (1% of Profit u/s 309)	17,501,643	-

14. **Expenditure in foreign currency**

Particulars	**For the year ended 31-Mar-11**	**For the year ended 31-Mar-10**
Professional fees*	3,049,215	45,644,256
Travelling expenses**	723,350	1,343,262
Guarantee fees	-	214,800
Membership and subscriptions	206,194	361,225
Staff Training	161,984	
Software Development	183,174	-
Total	**4,323,917**	**47,563,543**

*Professional fees include an amount of Rs. Nil (Previous year Rs. 38,737,042) towards consultancy services in connection with the public offer of equity shares included in miscellaneous expenditure to the extent not written off.

**Travelling Expenses include an amount of Rs. 365,796 (Previous year Nil) incurred in connection with the public offer of equity shares included in miscellaneous expenditure to the extent not written off.

15. Earnings Per Share

Particulars	For the year ended March 31, 2011	For the year ended March 31,2010
Net Profit after tax as per Profit and Loss Account	1,116,307,951	1,739,538,242
Weighted average number of shares used in computing basic earnings per share	69,343,888	53,009,025
Add: Equity shares for Nil consideration arising on grant of stock options under stock option plan	3,919,448	1,428,615
Add: Partly paid up shares of Rs. 10 each, Rs. 0.50 paid up	-	2,523,921
Add: Compulsorily Convertible Preference Share of Rs. 10 each compulsorily convertible on December 26, 2009 with an option to the holder to convert the holding at any time before that date.	-	6,679,622
Weighted average number of shares in calculating Diluted Earning Per Share	**73,263,336**	**63,641,183**
Basic Earnings per Share	16.10	32.82
Diluted Earnings per Share	15.24	27.33
[Nominal value of shares Rs. 10 each (Previous Year : Rs. 10)]	10.00	10.00

16. **Loan Portfolio and Provisions for Standard and Non Performing Assets:**

Asset Classification	Portfolio Loans Outstanding (Gross)		Provision for Standard and Non Performing Assets				Portfolio Loans Outstanding (Net)	
	As at March 31, 2011	As at March 31, 2010	For the year ended March 31, 2010	Additional Provision made during the year	Provision Write back during the year	As at March 31, 2011	As at March 31, 2011	As at March 31, 2010
	Amount	Amount					Amount	Amount
Standard assets	33,946,075,772	29,271,146,900	73,220,710	168,527,595	-	241,748,305	33,704,327,467	29,197,926,190
Sub-standard assets	842,920,093	96,057,621	48,028,811	357,457,452	-	405,486,263	437,433,830	48,028,811
Doubtful assets	-	-	-	-	-	-	-	-
Loss assets	-	-	-	-	-	-	-	-
	34,788,995,865	**29,367,204,521**	**121,249,521**	**525,985,047**	**-**	**647,234,568**	**34,141,761,297**	**29,245,955,001**

17. Leases

Finance Lease

Computers are obtained on finance lease. The lease term is for three years, there is no escalation clause in the lease agreement. There are no restrictions imposed by lease arrangements. There are no subleases.

Description	March 31, 2011	March 31, 2010
Total minimum lease payments at the year end	20,079,069	-
Less : amount representing finance charges	3,089,769	-
Present value of minimum lease payments (Rate of interest: 13% p.a.)	**16,989,300**	-
Contingent rent recognized in Profit and Loss Account	-	-
Minimum Lease Obligations		-
Not later than one year [Present value of Rs.7,729,847 as on March 31, 2011(Rs. Nil as on March 31, 2010)]	8,924,031	-
Later than one year but not later than five years year [Present value of Rs.8,367,179 as on March 31, 2011 (Rs.Nil as on March 31, 2010)]	11,155,038	-
Later than five years	-	-

Operating Lease

Office Premises

Head office and the Branch office premises are obtained on operating lease. The Branch office premises are generally rented on cancellable term for less than twelve months with no escalation clause and renewable at the option of the Company. How ever, the Head office premise has been obtained on the non-cancelable lease term of twenty four months with an escalation clause of five percent for every twelve months. There are no restrictions imposed by lease arrangements. There are no sub leases. Lease payments during the year are charged to Profit and Loss Account.

Description	March 31, 2011	March 31, 2010
Operating lease payments recognized during the year	199,879,997	140,847,310
Minimum Lease Obligations		
Not later than one year	32,130,036	41,310,012
Later than one year but not later than five years	-	32,130,036
Later than five years	Nil	Nil

Vehicles

The Company has taken certain vehicles on cancellable operating leases. Total lease expense under cancellable operating lease during the year was Rs. 8,276,680/-(Previous year Rs. 4,834,164).

18. Investment activity

Particulars	For the year ended March 31, 2011		For the year ended March 31, 2010	
	Purchased during the year (Nos.)	Amount invested	Purchased during the year (Nos.)	Amount invested
Alpha Micro Finance Consultants Pvt. Ltd.	-	-	200,000	2,000,000
Series A2 PTCs of India Microfinance Loan Receivable Trust (IMLRT) August 2010	355,609.93	35,560,993	-	-
Total	**355,609.93**	**35,560,993**	**200,000**	**2,000,000**

19. Balances held with Non–scheduled banks in the current account and deposit account as at March 31 , 2011 is as shown below:

Bank Name	**Maximum Balance outstanding during the year ended March 31, 2011**	**As at March 31, 2011**	**Maximum Balance outstanding during the year ended March 31, 2010**	**As at March 31, 2010**
Balances held in current account				
Urban Co-operative Bank	-	-	6,701,091	556,569
Buldhana Urban Credit Co-operative Bank	-	-	2,202,125	61,815
Total	**-**	**-**		**618,384**

20. The Company has given Interest free collateral free loan to an employee welfare trust under the Employee Stock Purchase Scheme to provide financial assistance to its employees to purchase equity shares of the Company under such scheme. The loan is repayable by the Trust under a back to back arrangement by the Trust with the employees of the Company. The year end balance for the total loan granted is Rs. 60,906,186 (Previous Year Rs. 87,285,811).

21. Dues to Micro and Small Enterprises

There are no amounts that need to be disclosed pertaining to Micro Small and Medium Enterprise Development Act, 2006 (the 'MSMED').

As at March 31, 2011, no supplier has intimated the Company about its status as Micro or Small Enterprises or its registration with the appropriate authority under MSMED.

22. Components of cash and cash equivalents

Particulars	**March 31, 2011**	**March 31, 2010**
Cash and Bank balance (Refer schedule 8)		
Cash on Hand	15,431,151	11,804,492
Balance with Scheduled bank		
On Current accounts	3,326,045,754	2,242,574,554
On Deposit accounts	2,237,642,668	7,480,187,058
Balance with Non-scheduled banks		
On Current accounts	-	618,384
Total	**5,579,119,573**	**9,735,184,488**
Less: Bank deposits not considered as cash and cash equivalent*	1,687,642,669	1,960,387,058
Cash and Cash Equivalent	**3,891,476,904**	**7,774,797,430**

*The amount include deposits lien marked towards term loans availed from banks, financial institutions and towards cash collateral placed in connection with asset assignments / securitization.

23. Details of utilization of proceeds raised through public issue during the year

Pursuant to the approval of the shareholders of the Company in the Extra General Meeting held on January 8, 2010 the Company made a public issue of 16,791,579 equity shares of Rs. 10 each for cash consisting of a fresh issue of 7,445,323 equity shares at a premium of Rs. 975 each to Qualified Institutional Bidders and Non Institutional Bidders and at a premium of Rs. 925 each to Retail Individual Bidders and an offer for sale of 9,346,256 equity shares at a premium of Rs.975 each to Qualified Institutional Bidders and Non Institutional Bidders and at a premium of Rs.925 each to Retail Individual Bidders. The issue has been made in accordance with the terms of the Company's prospectus dated August 5, 2010.

The details of issue are as follows:

Particulars	**Amount (in Rs.)**
Fresh Issue	7,221,963,305
Offer for Sale	9,065,870,000
Total Issue size	**16,287,833,305**

The proceeds raised from fresh issue upto March 31, 2011 are given below:

Particulars	**Amount (in Rs.)**
Funds received upto March 31, 2011	
Equity Share Capital	74,453,230
Securities Premium	7,147,510,075
Total	**7,221,963,305**

The amount raised through public issue has been utilized upto March 31, 2011 are given below:

Particulars	**Projected**	**Actual**
Total Fresh Issue Proceeds	7,221,960,000	7,221,963,305
Utilized for Onward Lending	6,616,940,000	6,827,954,337
Issue Expenses*	605,020,000	394,008,968

*Projected issue expenses include expenses attributable to shares offered for sale.

24. Auditors Remuneration

Particulars	March 31, 2011	March 31, 2010
Disclosed under "Operating and other expenses"		
Audit Fees	5,850,000	6,650,000
Certification Fees	120,000	120,000
Out of Pocket Expenses	1,220,825	1,536,977
Other Matters *	4,358,229	3,970,800

*Fees for other matters represent fees for services rendered in connection with the Initial Public Offer which has been included in share issue expenses.

25. Additional disclosures required by the Reserve Bank of India:

a. Capital to risk Ratio ('CRAR')

	Item	March 31, 2011	March 31, 2010
i.	CRAR (%)	45.39%	28.55%
ii.	CRAR - Tier I Capital (%)	44.85%	28.55%
iii.	CRAR - Tier II Capital (%)	0.54%	0.00%

b. The Company has no exposures to Real Estate Sector directly or indirectly.

c. Asset Liability Management

Maturity pattern of certain items of assets and liabilities as on March 31, 2011:

(Rs. in Crore)

	1 day - 30/31 days (one Month)	Over 1 month to 2 months	Over 2 month to 3 months	Over 3 month to 6 months	Over 6 month to 1 year	Over 1 year to 3 years	Over 3 year to 5 years	Over 5 year	Total
Liabilities									
Borrowings from Banks	282.78	162.04	179.54	234.70	420.80	505.44	12.24	-	1,797.54
Market Borrowings	17.62	19.67	86.11	93.44	99.84	110.83	10.61	-	438.12
Assets									
Advances*	575.58	570.47	439.67	1041.85	732.75	287.32	6.87	0.38	3,654.89
Investments	3.56	-	-	-	-	-	-	0.20	3.76

*Monthly recovery of 5% has been estimated on the overdue loan portfolio in the State of Andhra Pradesh.

Maturity pattern of certain items of assets and liabilities as on March 31, 2010:

(Rs. in Crore)

	1 day - 30/31 days (one Month)	Over 1 month to 2 months	Over 2 month to 3 months	Over 3 month to 6 months	Over 6 month to 1 year	Over 1 year to 3 years	Over 3 year to 5 years	Over 5 year	Total
Liabilities									
Borrowings from Banks	228.88	68.68	141.59	252.05	691.93	613.92	-	-	1,997.05
Market Borrowings	33.25	19.64	62.97	103.62	145.96	299.94	32.23	-	697.61
Assets									
Advances	461.43	435.16	373.66	911.27	779.96	0.78	3.48	8.96	2,974.70
Investment	-	-	-	-	-	-	-	0.20	0.20

26. Previous year’s figures have been regrouped where necessary to confirm to this year’s classification.

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

SD/-
Vikram Akula
Executive Chairman

SD/-
M R Rao
Managing Director and Chief Executive Officer

SD/-
S Dilli Raj
Chief Financial Officer

SD/-
Sudershan Pallap
Company Secretary

Statement pursuant to Part IV of Schedule VI to the Companies Act, 1956

Balance Sheet Abstract and Company's General Business Profile

I	Registration Details			
	Registration No:	N-09.00415	State Code:	1
	Balance Sheet Date:	31-Mar-11		
II	**Capital Raised During The Year (Amount in Rs. Thousands)**			
	Public Issue	74,453	Rights Issue	NIL
	Bonus Issue	NIL	Private Placement	NIL
	Issue of share under Employee stock option plan	3,514		
III	**Position of Mobilisation And Deployment of Funds (Amount in Rs. Thousands)**			
	Total Liabilities	40,168,725	Total Assets	40,168,725
	Sources of Funds			
	Paid-Up Capital	726,212	Reserves and Surplus	16,990,871
	Stock Options Outstanding	91,104		
	Secured Loans	21,674,148	Unsecured Loans	686,389
	Deferred Tax Liability (Net)	-		
	Application of Funds			
	Net Fixed Assets	218,649	Net Intangible Assets	92,568
	Investments	37,561	Deferred Tax Asset (Net)	357,099
	Net Current Assets	39,462,848	Miscellaneous Expenditure	-
	Accumulated Losses	-		
IV	**Performance of Company (Amount in Rs. Thousands)**			
	Turnover (Sales and other income)	12,695,396	Total Expenditure	10,971,078
	Profit Before Tax	1,724,318	Profit After Tax	1,116,308
	Earnings Per Share - Basic Rs.	16.10	Dividend Rate %	Nil
V	**Generic names of principal products/services of the Company (As per monetary Terms)**			
	Item Code No. (ITC Code)		Not Applicable	
	Product Description		Microfinance	

SKS Microfinance Limited
Registered Office: Ashoka Raghupati Chambers, D. No. 1-10-60 to 62
Opp. Shoppers Stop, Begumpet, Hyderabad - 500 016, Andhra Pradesh, India
Tel: +91 40 4452 6000, Fax: +91 40 4452 6001
Email: info@sksindia.com Website: www.sksindia.com