Satisfying our shareholders, without profiting from poverty

Annual Report 2011 - 12

IDF Financial Services Private Limited (IDF FSPL) *idf*

IDF Financial Services Private Limited

Mission

Financial empowerment of the economically underprivileged through good quality and sustainable financial services

Core Values

Commitment, transparency, innovation, business ethics, exceptional teamwork

Objectives

Our aim is to "Build a banking model" with a social face that is commercially viable for the poor. These include:

- Assist organizing the poor into Self Help Groups (SHGs)
- Build the capacity of Self Help Groups through Training & Non training interventions
- Help organize the SHGs into Clusters & Federations
- Facilitate Federations of SHGs to organize trainings related to Livelihood, Health & Community Development
- Assist SHG Federations mobilize thrift from the SHGs
- Assist SHG Federations to provide Credit plus services
- Provide Credit to SHGs
- Build the capacity of SHG Federations towards participation in Governance of the Federations as well as in IDF FSPL in which the federations are the share holders.

Our Bankers

Our aim is to "Build a banking model" with a social face that is commercially viable for the poor these include

- State Bank of India
- Karnataka Grameena Vikas Bank
- Indian Overseas Bank
- Syndicate Bank
- Small Industries Development Bank of India (SIDBI)
- NABARD
- NABARD Financial Services
- Ananya Finance for Inclusive Growth

Our Catalysts

- Indus Knowledgeware Private Limited

Statutory Auditors

M/s R R. Kulkarni & Co, Chartered Accountants

IDF FSPL- From the past to the present

IDF Financial Service Private Limited (IDF FSPL) has completed three successful years of valuable existence. What started as a small activity of Initiatives for development Foundation (IDF), a charitable trust in the year 2005, has today grown to gigantic proportions in the form of Non-Banking Finance Company (NBFC). The various milestones traversed since inception is traced herebelow:

1

2005-09

Initiatives for Development Foundation (IDF), a public charitable trust established during the year 2001 with the objective of "Empowerment of the underprivileged" and carry out grass root level work besides research on developmental issues.

During 2005 IDF was working with about 6000 Self-help Groups, assisting the members in developing their own enterprises and marketing their products under various projects.

The dire need for microfinance amongst the groups is felt to enable them to establish and sustain their enterprises. IDF decides to meet this need and sets up the microfinance activities as a separate division.

In the year 2004-05, a total disbursal of Rs.6,81,000 is made across 7 districts of Karnataka.

During 2006, IDF enters into a MOU with the IIM, Bangalore for an incubation program to enable it to develop proper systems for microfinance operations.

Microfinance activities gain momentum. IDF disburses loans totaling to Rs. 29, 26,000 during the year ending March 2006,- a 400% increase.

During 2007, The annual disbursement level reaches Rs. 2,46, 85,000- over 8.5 times increase over the previous year. In arrangement with ICICI Prudential Life insurance Company, the SHG members are provided life Insurance cover for the first time.

Loan disbursals cross Rs. 12 crores during 2008. The number of SHGs assisted also shows a 3 fold increase.

IDF sets up 5 SHG Federations as a for profit Mutual benefit trusts to build up the capacity of the SHGs in their respective geographical areas.

2

2009-10

The microfinance business of IDF is transferred to an existing NBFC. The new entity is christened as IDF Financial Services Private Limited. Licenses from Reserve Bank of India and Registrar of Companies obtained.

IDF provides grants to the SHGs through their Federations to invest capital in IDF FSPL, thus making the Federations (consisting of SHGs) the majority owners of the company.

3

2010-11

The Company not only survives a turbulent year for the microfinance sector, but makes excellent strides. It declares dividend to its preference shareholders for the first time. It maintains a healthy Capital adequacy ratio of 21.50%.

The portfolio crosses the Rs. 72 crores mark. Intensive credit plus activities are taken up in association with Vattikuti Foundation of USA.

The Company adopts mobile technology for its collections (repayment of loans) and integrates the same into its MIS. The IR cell and Legal cell are established.

4

2011-12

The year 2011-12 has been a tempestuous year, especially due to regulatory flux on the macro front. The Company kept its operations on low key. The portfolio reduced considerably on account of strict scrutiny with the credit bureaus. The Company's stance was concentrated towards strengthening the current operational systems and processes. Steps were initiated to ensure the Company's compliance with all the directions laid down by regulators of the sector.

Chairman's Message

I am delighted to welcome you all to our annual report for the year 2011-12.

The Microfinance sector post Andhra Crisis is slowly trying to regain much of the lost ground by taking corrective steps. Reserve Bank of India has stepped in as the regulator and has come out with an exhaustive code of conduct for the MFIs, which would definitely help to check many of the shortcomings in the sector. Greater transparency in the operations of the MFIs offer better client protection mechanism.

I am pleased to inform you that the Board has adopted the Code of Conduct prescribed by the RBI. The Company has brought out detailed circulars advising staff to strictly abide by the guidelines issued by RBI and also has brought out pamphlets in the local language educating the clients about their rights and responsibilities.

Credit Bureaus have come to play a more important role in credit decisions of the MFIs ensuring credit discipline amongst the borrowers. Credit Bureaus would become more meaningful if all the MFIs and other institutions like Banks start sharing data with them. More number of players would also help in reducing the operating costs of the Bureaus, thereby reducing the cost to the end users. Your Company is an active user of the services of 'HIGH MARK', an approved credit bureau. No loan is sanctioned without obtaining a credit status of the proposed borrower from the credit bureau.

The move by RBI in including lending to MFIs by the Banks as a priority sector advance is definitely bound to increase the flow of credit towards this sector.

Social Performance Management has become more important in the present context. Your Company has instituted a couple of studies to understand the credit utilization by its clients and reasons for the exit of clients.

Performance of the Company

During the year your Company has also had its share of woes. The overall disbursements during the year has come down by 16.95 crores resulting in a decreased outstanding portfolio of Rs.52.88 crores at the end of the year. One of the reasons for this could be the credit check of the clients with the Credit Bureau and the delay in release of loans due to the SHG model. The Company is looking towards speeding up the loan disbursements and revamping the SHG model. I am sure this would help the company to increase its client base in the year to come.

In the year gone by, considerable efforts were made to robust quality control and risk management systems to ensure that the business risks remain within predefined acceptable metrics and the overall business is compliant with all the regulations.

The federations promoted by IDF have grown in strength over the years. In the years to come, these Federations are expected to play a more proactive role in the lives of its members.

I thank State Bank of India, Karnataka Vikas Grameen Bank, NABARD, SIDBI and other banks for their continued support. I am hopeful that the coming year would once again see the re-emergence of Microfinance as a powerful tool for supporting livelihoods and financial inclusion. Your Company would also strive to reverse the down trend experienced by it.

(Vivekanand N. Salimath)
Chairman

A Word from the Managing Director

Dear Shareholders,

Steering a ship in turbulent seas is not an easy task. The storms which took over the Microfinance sector have caused enough havoc, which even the mighty MFIs have not been able to withstand. Even in the best of times, it has not been an easy task to navigate in the troubled seas of Microfinance. The sector has many unique peculiarities which defy basic logic. The client base, as we all know consists of people from the bottom of the pyramid, whose multiple needs cloud their rationale. Borrowing from multiple sources, beyond their means, improper utilization of such loans, desperate attitudes are the hall mark of many such microfinance clients. Waiting to encash upon the follies of such desperate people, are many Microfinance Institutions, who have diluted the basic principles of lending. The methods employed by many of such institutions have caused much agony to the borrowers, resulting in desperate steps taken by quite a few borrowers, thereby attracting the flak of the Government. The regulations by a State Government have left both the Microfinance sector as well as the borrowers high and dry.

With strict regulations and monitoring by the regulator, multiple financing of the borrowers have come down to a great extent. However, this has resulted in a piquant situation, where in many of the borrowers who were borrowing from multiple MFIs and using them for recycling and repayment of their loans with other MFIs have suddenly found their funds drying up. As a result, they have been defaulting on their loans. Your Company has also seen an increase in the defaults of its clients. The reasons, for the over dues and defaults, apart from the ones plaguing the industry are also due to certain internal issues.

In order to address the issues your company has come out with various prudent practices. Foreseeing many of the problems which could be faced by the sector, your Company has been deliberately slow on its disbursements. 'Credit check' with approved credit bureau is a must for any facility with the company. This has resulted in the automatic exclusion of a large number of applicants. In fact, it has become very difficult to find 'good clients', who satisfy the various parameters prescribed by the regulators. All these has resulted in slowing down of the disbursements of the Company from Rs 84.26 Crores in 2010-11 to Rs. 67.31 Crores during 2011-12

The mounting over dues during 2011-12, increase in the bad debts resulting in a 'write off' to an extent of Rs.1.38 crores have also had a sobering effect on us.

The Company has been having a serious look at the entire mode of lending and has during 2012-13 come out with Micro SHGs. This would facilitate formation of a large number of smaller groups. The reluctance of the borrowers to contribute to the Specific Capital Contribution has been appreciated by the SHG Federations, which have since June 2012 discontinued with the practice. Instead, they have been encouraging the members to save more actively with them. This in turn helps the Federations to Capitalise the Company.

Thanks to State Bank of India,Working Capital funds are not a concern for the Company. Support from Karnataka Vikas Grameen Bank, NABARD, ANANYA and other Banks & FIIs have helped the Company in meeting the requirements of its clients.

Your Company is confident that during the ensuring year 2012-13, it would definitely be able to effectively utilize the new 'Micro SHG' model to improve its disbursements and portfolio and also with stricter monitoring systems, it would be able to bring down the over dues and defaults.

I place on record the services of all the staff members and am confident with their continued support, we will be able to scale further heights in the years to come.

(N.M. Patil)
Managing Director

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About IDF FSPL- Brief Overview

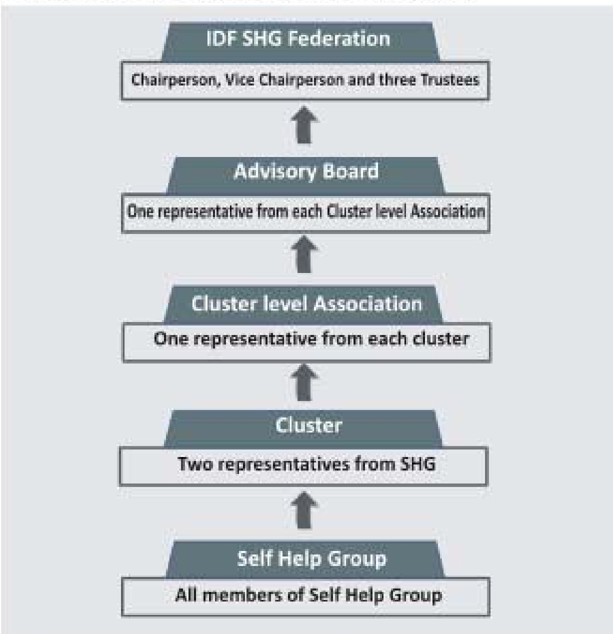
IDF Financial Services Pvt Ltd is a Community owned Non-Banking Finance Company providing Micro finance and allied financial services to Self Help Groups (SHGs) formed and nurtured by it. Presently, it is operating in Eleven (11) districts, 44 taluks of Karnataka covering around 1.5 lakh families.

These families are further organized into 12,155 SHGs, 1,105 Clusters and five federations.

Empowering borrowers through client hierarchy

IDF FSPL focuses on organization of the poor at grassroots level through a process of social mobilization for poverty eradication. Social mobilization enables the poor build their own organisations (Self-Help Groups (SHGs) in which they participate fully and directly and take decisions on all issues concerning themselves. Simultaneously, SHGs have the advantage of the assistance, be it in terms of credit or technology or market guidance etc., reaching the poor faster and more effectively

Formation of SHG helps in training and skill improvement on a collective basis whilst breeding unity and a spirit of cooperation. The self-help groups are structured into collectives to give members maximum capacity, independence and self-governance, as illustrated alongside:



Self Help Groups

- Meet weekly
- Take loans from IDF FSPL
- Collect savings from each member and invest them with the Federation

Clusters

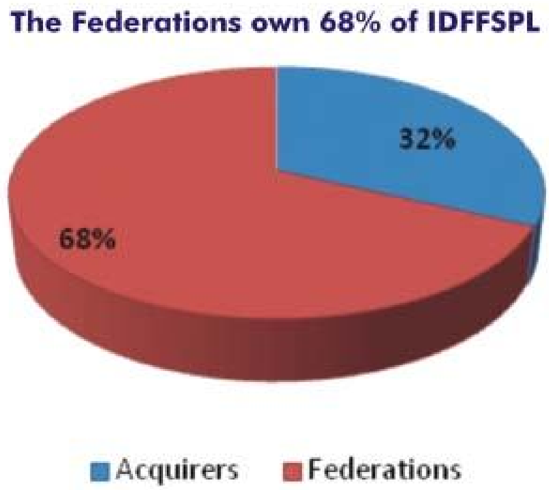
- Meet monthly (2 representatives from each SHG attend)
- Collect the loan repayments from each SHG and make them to IDF FSPL
- Recommend SHGs to IDF FSPL for loans

Federations

- Are for-profit trusts
- Are run (on behalf of the SHG members) by a Board of Trustees
- Organize training and capacity building for members
- Invest members' savings
- Buy shares in IDF FSPL
- Recommend emergency loans when required
- Carry out credit plus activities

Community Ownership

Currently there are five federations in the structure; between them, they own the majority of the IDF FSPL Business



Share holders	No of Shares	%
Acquirers	35,00,000	32
Dharwad	19,20,240	18
Haveri	8,78,360	8
Tumkur	24,71,630	23
Gadag	3,48,040	3
Belgaum	17,02,960	16
Total	**1,08,21,230**	**100**

Who We Serve

IDF FSPL focuses on organization of the poor at grassroots level through a process of social mobilization for poverty eradication. Social mobilization enables the poor to build their own organizations- Self-Help Groups (SHGs)- in which they participate fully and directly and take decisions on all issues concerning their livelihoods. Simultaneously through these SHGs, IDF FSPL provides assistance, be it in terms of credit or technology or market guidance etc.

IDF FSPL believes in equality of opportunities. There is no discrimination on the basis of caste, creed or religion. IDF FSPL believes in women empowerment and all the loans are disbursed to women.

Our clients are assessed on the following parameters for loan disbursement

- Socio-demographic characteristics
- Present activities undertaken by them and proposed activities
- Present income levels
- Group cohesiveness

Profile of SHG Members

Characteristics	Description
Income	Annual family income – Up to Rs.60,000/- in rural areas Up to Rs.1,20,000 in urban areas
Education	Illiterate or semi -literate
Age	Age group 18 to 55 (Average 30 to 45 years)
Occupation	**Rural Sector** – Farming, Animal Husbandry, Dairy, Share Croppers and Agri related labour works. **Urban Sector**– Petty Businesses, House Hold Works.

Responsible lending: Our Loan products

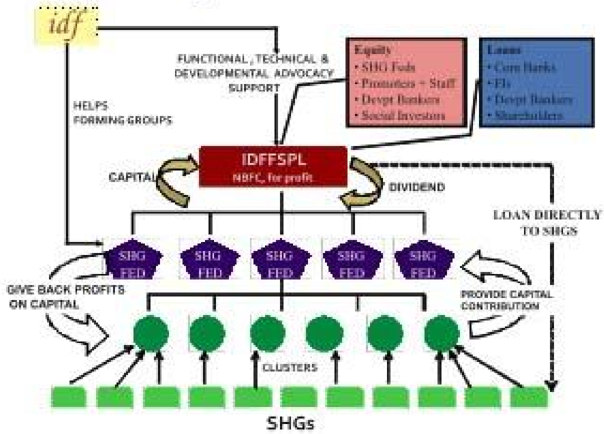
Currently, IDF FSPL has three products:

- SHG Loans
- Emergency Loans
- Bulk NGO loans

Loans are provided to SHGs mainly for livelihood activities. However based upon need, loans are also given for consumption purposes. The SHGs will on lend to their members for the following purposes. The brief details of loans are provided here below:

Loan Terms	SHG Loans			Emergency Loans	Bulk NGO Loans
	I Cycle	II Cycle	III Cycle		
Max Loan Amount in Rs.	10000 per SHG Member	10000-15000 per SHG Member	18000-25000 per SHG Member	80% to the amount Saved by SHG in their federation	25,00,000
Repayment Period in months	12	24	24	6	12-24
Rate of interest in Bangalore Metro	24%	24%	24%	5% Upfront	20%
Rate of interest in other areas	22%	22%	22%	Nil	-
Service Charge	1%	1%	1%	-	1%

Organisation Structure



The company's business process first starts by organizing 12 poor women, into self-help groups (SHGs). A group of 8-15 SHGs constitutes one Cluster. Roughly 5,000 SHGs constitute one SHG Federation. The Federations are registered as Mutual Benefit Trusts aimed at socio-economic development of its members, in addition to representing the interests of SHG members as equity shareholders.

The Company sanctions the loan after conducting thorough due diligence of the SHGs and also after looking into the recommendations from the cluster. Loans are sanctioned to those SHGs with credit ratings of at least 60%.

Section Two

Governance

'Governance is a system of checks and balances where by a board is established to manage the managers.

Governance is sometimes conceived as a virtuous circle that links the shareholder to the board, to the management, to the staff, to the customer and to the community at large.

The Company has undertaken various actions to strengthen the regulatory frameworks to enhance stake holder's confidence, and improve corporate transparency and accountability. It follows the best ethical practices

The Company has a well-defined Board consisting of highly qualified & experienced professionals. Currently the Company has Six of Directors on its Board

- 2 Executive Directors
- 2 Representative Directors from Federation
- 2 Independent Director

The policy and management decisions are collective & transparent. The Company has a code of conduct for its directors and executives that promotes ethical and responsible decision making.

Our Five Golden Rules of best corporate governance practices are:

Ethics: a clearly ethical basis to the business

Align Business Goals: appropriate goals, arrived at through the creation of a suitable stakeholder decision making model

Strategic management: an effective strategy process which incorporates stakeholder value

Organisation: an organization suitably structured to effect good corporate governance

Reporting: reporting systems structured to provide transparency and accountability

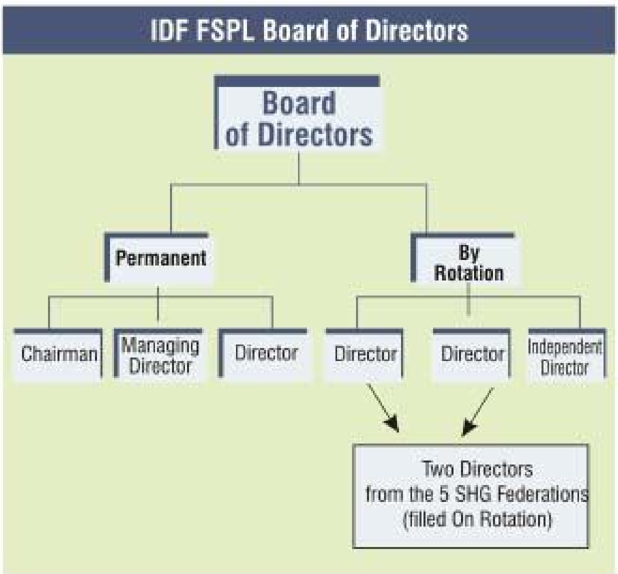
The SHG Federations

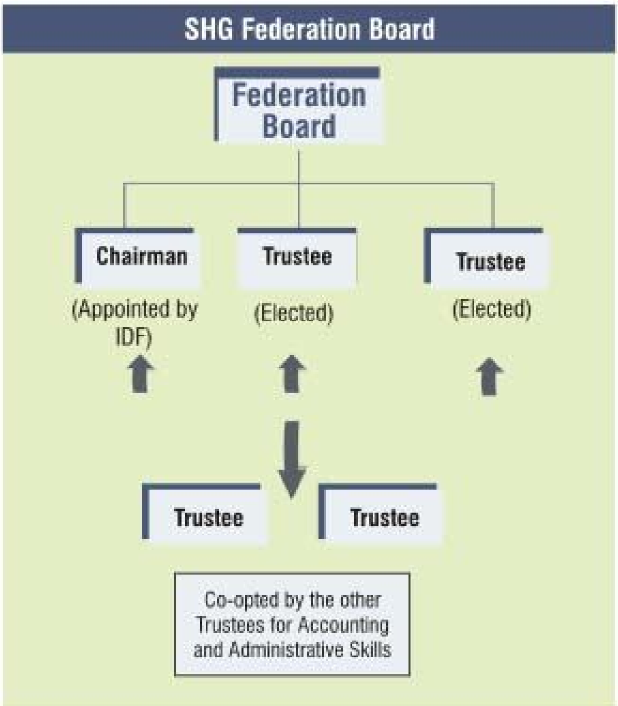
The key body in the governance structure of IDF FSPL is the SHG Federation, which is the main link between the SHGs and IDF FSPL. The Federation is a trust, ultimately owned by the SHG members. It has three roles:

1. Financial management of the members' savings and capital contributions from the members
2. Capacity building within the SHG's (Training in Marketing), Skill development of members etc.,
3. Providing or facilitating credit plus services (Healthcare, education, literacy awareness)etc.

Protecting the interests of the SHGs in Business decision-making

Two Directors on the Board of IDF FSPL represent the Federations consisting of the Self Help Group members.The Federations are represented on the IDF FSPL Board thereby giving an opportunity to participate in the policy and management decisions. They serve and protect the interest of the Community.





IDF FSPL Board of Directors

Vivekanand N. Salimath, Chairman of IDF FSPL is a native of rural Dharwad. He is a Post Graduate in Agricultural Science with specialization in Agronomy (Gold Medalist). He isalso the founder Trustee of Initiatives for Development Foundation (IDF) and its Managing Trustee since inception.

His earlier work included building up the capacity of RUDSETIs (Rural Development and Self Employment Training Institute) and other organizations as Executive Director of RUDSETI, Ujjire, Karnataka. During his six-year tenure, RUDSETI achieved the distinction of training more than one lakh youth, with 65% of them starting their own enterprises. RUDSETI bagged an FICCI award for rural development during his tenure. He has served in Syndicate Bank for over two decades.

Vivekanand Salimath is a member of several prestigious committees including NABARD and RBI. He is the Treasurer of SA-Dhan and Chairman of AKMI (Association of Karnataka Microfinance Institutions).

N.M.Patil, Managing Director of IDF FSPL is a Post Graduate in Agriculture. Mr. Patil served in Syndicate Bank for over two decades and has comprehensive knowledge of rural borrowers.

Mr. Patil has also held important positions like Director of RUDSET Institute and Lead District Manager. Mr. Patil has gone through an incubation program on Micro Credit conducted by IIM Bangalore.

T.V. Srikantha Shenoy, Director –is a native of Thirthahalli, Shimoga. Mr. Shenoy is also a founder Trustee of Initiatives for Development Foundation (IDF)

Has served for nearly two decades in Syndicate Bank and amongst other functions, was a key member of development and policy planning at its corporate office.

Mr. Shenoy is passionate and strong in NGO capacity building, team development, networking, media communication, and creativity. He has spread awareness on organic farming technology and sustainable agriculture through Future Farmers Clubs and Farm Information Exchange Clubs. Mr. Shenoy has been instrumental in visualizing and implementing the Sujeevan project in Kunigal taluk of Tumkur district where the Farmer Field Schools were started.

Tajbi Nadaf, Director, serves as Vice Chairperson of Haveri IDF SHG Federation. She is an SHG member who has successfully worked her way up to the Board of Directors. She has been an incredibly active member of her SHG and cluster community, and is highly respected by the SHG fraternity.

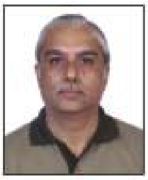
Mrityunjaya S. Korimath, is a post graduate in Agriculture with specialization in Soil and water conservation. He is also a diploma holder in aerial photo interpretation and remote sensing from ISRO. He has served in the Department of Agriculture, Govt. of Karnataka for 34years and retired as Asst. Director of Agri. He has vast experience in livelihoods and rural poverty alleviation. He has been with Initiatives for Development Foundation since 2006 as District in charge of all the projects in Haveri district including Micro finance since then. Presently he is the Chairperson of IDF SHG Federation, Haveri.

Vijay V. Kulkarni, A highly accomplished person, Mr. Kulkarni has a post graduate qualification in Social Sciences from the Tata Institute of Social Sciences, a post graduate diploma in Gandhian studies and a Management Education Programme from IIM-Ahmedabad. He was with Canara Bank, later as Director with RUDSETI. Subsequently he was with BASIX as Associate Vice President. He has co-founded Development Resource Centre (DRC), promoting civil society Institutions. As a consultant, he has been associated with World Bank, UNDP, FAO, Adam Smith Institute, GTZ, SIDBI, NABARD, Govt of Karnataka. For nearly 5 years, he was the programme director with AKSHARA foundation actively involved in primary education. He has worked with some of the best known names in the field of Microfinance like Mr. Malcolm Marshall & Vijay Mahajan.

Leadership

IDF FSPL Management Team

Administration



Krishnanand. A. H. is Head of the Human Resources department. With a Masters in Agricultural Economics and a 27years' rich and varied experience in Syndicate Bank, he has been instrumental in bringing about vibrancy in the Human resources department. He has also worked as the General Manager of Prathama Gramin Bank, the first Regional rural bank of India

S. Raghunandan Sharma, Finance Head, has rich experience in the field of administration and rural poverty alleviation programs. He has been associated with IDF since 2003 and has been extending support to the Management Board and is incharge of finance.

Shashidhara Murthy is Head of Audit and Inspection. In addition to 2 decades with the Bank of India, he served in the department of Agriculture for 3 years. He held senior positions at various reputable NGOs since 2001, before joining IDF 6 years ago.

N. A. Hoskatte is Senior Manager, Accounts. He holds a Master's degree in Arts with CAIIB and has been taking care of Accounts for the last 5 years.

Shambu C. Sangapur is Senior Manager IT in charge of all technological functions including systems management, software adoption, normalization and backup among a host of other functions. He also serves as CEO of IDF SHG Federation at Dharwad. Mr. Sangapur is a Post Graduate in Computer Applications.

S G Kolkar is currently the Senior Manager in charge of Audit and Inspection. He brings with him 30 years of rich experience from Karnataka Grameen Vikas Bank in the field of administration and inspection.

He has been associated with IDF FSPL since 2010.

D.R. Lakshmikanth, is Senior Manager, HRD. He belongs to Chickamagalur district and holds a degree in Business Management with PGDBM in Marketing & HR. He has earlier worked with a recruitment consultancy firm. He is with the HR department of the company since March 2010.

Operations

V.V. Kamath, Senior Manager in Charge of Advances, is an Arts graduate who earlier worked with Syndicate Bank for almost four decades in various capacities

Raghavendra H. Harapanahalli is presently the Area Manager at Haveri Area Office. He is a graduate in Agricultural sciences and worked earlier as a Field Investigator in the University of Agricultural Sciences, Dharwad. He joined IDF as a training coordinator and soon diversified into its microfinance activities.

Neelakantappa. M, Area Manager of Tumkur District, handles one of the largest portfolios in the company. Past roles include Trainer in Entrepreneurship Development and he has rich experience in Income Generation Activities and Livelihoods.

Sridharsing D. Hajeri, Area Manager of Belgaum Area Office, has a varied background including experience as a supervisor, MFI Coordinator, Manager, and more in various commercial and nongovernmental organisations. He has completed MBA-Finance Management.

Vinod S. Kanthi - a native of Bijapur district, he holds a post graduate degree from the Karnataka University, Dharwad. He worked with the Zilla Panchayat and later with SVYM at Mysore as a District Coordinator. He joined the company as a Credit officer and is presently working as the Area Manager of the company in the district of Gadag.

The year that was

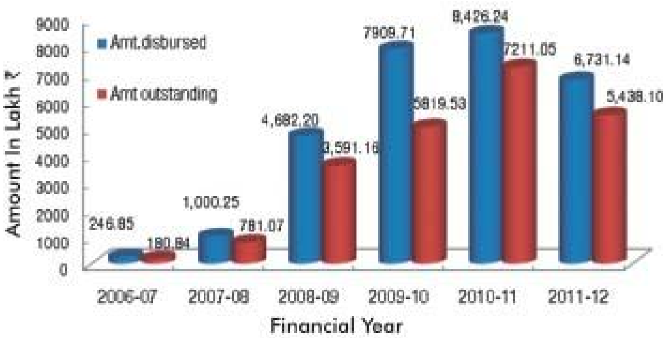
IDF FSPL- Results and Performance

No of Loans disbursed	Disbursements (Rs in Lakhs)	No of loans outstanding	Outstanding (Rs. in Lakhs)
7361	6731.14	9079	5438.10

Business Snapshot 2011-12

Year	Amount (Rs in Lakhs)
Income	1388.64
Expenditure	1302.47
Profit after tax	58.18

The following graph contrasts the loan portfolio of IDF FSPL and disbursements over the years of its microfinance operations:



IDF FSPL Compared to the peers

The following matrix contrasts IDF FSPL Performance with other Indian MFI's of a comparable stature

METRIC	Average of MFI's	IDF FSPL
Growth		
Growth in terms of client outreach	-15.73%	-15.05%
Growth rate in terms of loan portfolio	-16.67%	-24.60%
Portfolio Quality		
PAR 60 (Based on size)	1.00%	1.90%
Return on Investment		
Yield on portfolio	26.19%	21.42%
ROA (Return on Assets)	2.61%	1.13%
Operating expenses		
Financial Expenses (as a portion of total expenses)	44.16%	47.9%
Personnel expenses (as a portion of total expenses	27.13%	26.6%
Other expenses (as a portion of total expenses)	28.71%	25.5%
Distribution of assets		
Loan Portfolio	86.07%	81.32%
Liquid	13.93%	13.48%
Debt		
Debt dependence	75.82%	72.03%
Debt to equity ratio	3.14	2.57

Dream, Desire and Fulfill

Life was not easy for Nagarathnamma of Melehalli, Koratagere taluk, Tumkur district. Her family comprised of five members and their total earnings from farm labour was not sufficient to take care of all their needs. Nagarathnamma had experience in rearing cows, but did not have the requisite capital to buy a cow. The exorbitant rates of interest charged by the local money lender deterred her from pursuing her dreams of having her own cow. She came to know about the Self Help groups promoted by IDF through her neighbor Bhagyamma. Along with 10 other likeminded needy women, she approached IDF and thus was born 'Mahalakshmi IDF Mahila SHG'. The group members participated in the group meetings with a lot of interest saved regularly every week and thus became eligible for a group loan from IDF FSPL. The group got a loan of Rs.100000/- from IDF FSPL. Since one of the members decided not to avail her share of the loan due to personal reasons, the group agreed to give that share to Nagarathnamma, who thus got Rs. 20000/- as a loan. Ecstatic Nagarathnamma was thus able to fulfill her dreams of owning a cow. With the loan she got, she purchased a CB Jersey cow yielding around 15 litres per day. With the help of her family members, she was able to take care of the cow and market the milk locally and started earning Rs. 300/- per day. After meeting all expenses, she was able to save nearly Rs. 200/- per day. She was able to repay her loan from IDF FSPL within the prescribed one year and also build up a saving of Rs. 3000/-. She also has been able to help her fellow SHG members in their need to a certain extent.

Nagarathnamma is a proud woman today. With continued support from her group and assistance from IDF FSPL, she is leading a better life, being the proud owner of two cows-Thanks to IDF FSPL.

Credit Plus Activities

Enhancing the skills of SHG members

Enhancement of the capacities of SHG members through appropriate skill up gradation is an avowed policy of IDF. Towards this, during this year training programmes - Micro Enterprises Development Programme (MEDP) and Skill Development Programme(SDP) under the sponsorship of NABARD, was undertaken.

Trainings were imparted in the areas of food processing, wool weaving, Dress Designing, Embroidery, Areca Plate Making and Vermi composting, in Belgaum, Dharwad, Haveri, Tumkur, Chitradurga and Gadag.These trainings help in enriching the participant's knowledge on enterprise management, business dynamics and rural markets.

Jijao SHG member engaged in making cane items

List of trainings in various area offices:

Period		Place	Activity	No of Participants
From	To			
30.06.2011	12.07.2011	Chitradurga	Dress Designing	30
05.01.2012	17.01.2012	Bailhongal(Belgaum)	Food & Masala Products	33
20.01.2012	02.02.2012	Haveri	Bag Making	30
11.01.2012	18.01.2012	Gubbi(Tumkur)	Areca Plate Making	30
17.01.2012	27.01.2012	Dharwad	Vermi Composting	29

Social awareness programmes

To make the SHG Members more conscious and capacitate them in sustainable development through upgrading and enhancing their skills and to achieve sustainable livelihood without disturbing the ecology and the bio-diversity is the major objective of SEDP conducted by NABARD

Training programmes were conducted by Tumkur federation through the Socio Economic Development programme in Chitradurga, Challakere, Hiriyur, Hosadurga taluks. Around 500 SHG members participated in the programme. The programmes were conducted under joint auspices of the Company, IDF Trust, and Tumkur Federation. Trainings were conducted in improving the skill levels of members in Financial literacy, self-employment awareness programme, Loan distribution programme, Health awareness and importance of sanitation in village, education awareness, environmental awareness etc. The SHG members received technical skill and soft skills to improve their enterprises.

Vana Mahotsava at Hosadurga Taluk

Date	Place	Branch	Activities	No of Participants
01.07.2011	Ramsagar	Challakere	Awareness about Environment	64
19.07.2011	Vanivilassagar	Hiriyur	Health awareness	105
04.08.2011	Madure	Hosadurga	Awareness about Environment	130
20.08.2011	Devapur	Hosadurga	Health and Education awareness	105

Kai Krafts

Project Kasuti

Kai Kraft is a social enterprise of IDF SHG Federation Dharwad to promote skill base and earning levels of artisans well- versed in Kasuti, embroidery, unique to the Dharwad region of Karnataka, which is at the lowest end of value chain. The project strives to revive North Karnataka crafts and to improve the earning potential of the skilled artisans in these crafts.

The project announced the launch of its first product line in March 2012. This range included hand made products ranging from home furnishings such as cushion covers, table runners and wall hangings to wearable items such as stoles and dupattas.

The project seeks to expand market opportunities by connecting with local, national and international markets. The local and national target market includes both large and small retailers of clothing, home furnishing and stationery.The international marketing will be initially done through 3rd party E-Commerce platforms.

Financial literacy

The Financial literacy camps are basically conducted to enhance the set of skills and knowledge which enables an individual to make informed and effective decisions through their understanding of Finances. During the year the Company conducted 11 extensive financial literacy camps and training programmes on savings, self-employment, income management etc in the districts of Belgaum, Dharwad, Gadag, Tumkur, Haveri, Bangalore etc., in order to improve the literacy levels of the SHG members.

Festival Bazaars

Festivals are joyous occasions where the people celebrate with new purchases.To assist the members of the Self Help Groups to encash upon this opportunity, the Company with the active sponsorship of NABARD, IDF trust and SHG Federations has been conducting special festival bazaars in Dharwad, Belgaum & Haveri districts of Karnataka. These festival bazaars provide a platform for SHG members to exhibit their talents and workmanship and market their products, which is a very good value addition to their micro enterprises. Not only will the SHG members benefit from such programmes, even the public at large will get the advantage of buying directly from the producers at lower prices. The response to these Bazaars are really overwhelming. During 2011-12, the following festival bazaars were organized:

Organized Festival Bazaar details

Name of the Festival bazaar	Date	Place	No of Participants (app)	No of Visitors (app)	Total Volume of Business (In Rs.)
Sankranthi Bazaar	10-11-2011 to 12-11-2011	Belgaum	50 SHGs	4000	135000
Dasara Special Bazaar	01.10.2011 to 03.10.2011	Hubli	40 SHGs	2800	64000
Dasara Bazaar	22.10.2011 to 24.10.2011	Dharwad	40SHGs	2200	115000
Deepavali Special Bazaar	29.10.2011 to 31.10.2011	Dharwad	40SHGs	2000	60000

Celebration of days of National Importance

The SHG members never miss an opportunity to recall and celebrate important National events.During the year the SHG groups celebrated important national events like Independence Day, Gandhi Jayanthi, Women's day, Children's day, International Environment day. On these occasions the SHGs members fondly recollected sacrifices made by the great leaders.

Credit plus activities conducted during the year 2011-12

No	Programmes	Tumkur	Chitradurga	Haveri	Gadag	Dharwad	Belgaum	Bangalore	Total
1	Women's Day Celebrations	4	--	6	5	1	1	1	**18**
2	Awareness Camps (Health, Financial literacy, legal rights for women & Children etc)	8	4	6	11	4	4	3	**40**
3	Skill Development Trainings	10	2	6	6	7	5	- -	**36**
4	World Environment Day	--	--	5	--	--	--	- -	**5**
5	Cluster Annual Day	1	--	3	2	--	1	1	**8**
6	Celebrations of National importance days	4	2	4	5	3	1	3	**22**
	Total	**27**	**8**	**30**	**29**	**15**	**12**	**8**	**129**

Joining hands for progress

Sri Banashankari IDF SHG was started by twelve women residing in Rachoteshwara nagar, Gadag on 24.07.2011. The group was actively led by Susheela Hiremath with effective guidance by field staff Fakeeramma Lakundi from IDF FSPL. At the initial stages the group met regularly and started bank small amounts.

The group always deliberated on starting own business during their group meetings. While assessing the various business thoughts, the idea of preparing vermicelli triggered.The group felt it was a viable business venture and the group leader Mrs. Susheela Hiremath promised to make arrangements of a small plant to set up the unit. Five members of the group visited 'Gangapura' nearby market to learn the art of preparing Vermicelli.

The group further enquired about the various means of accessing finance and initial capital for purchasing the required resources. Field staff Fakeeramma Lakundi immediately proposed their eligibility to borrow the loan from IDF FSPL. The Company after being satisfied with group, granted them a first cycle group loan of Rs. 90000/-.

The group invested Rs. 50000/- to set up the unit. They also purchased vermicelli preparing machine, weighing machine, sealing machine and other required resources for preparing vermicelli for Rs. 36000/-.

The group started their business on the 1st of January 2012 and it has had a good run till date. They market their produce in the nearby villages like Kadhampura, Sambhapura, Adavisomapura, Kurudagi, Samshi.

They have also completed 42 successful weeks with the Company. IDF FSPPL appreciates their initiatives and promises to boost their business so as to reach out to more markets.

Section Four

Organisational Development

Human Resources Department

Human resources are one of the company's greatest strengths, in particular for their commitment to the work and willingness to give their best.

The Human Resources Department of the Company is fully geared up to meet the challenges lie ahead. Designing appropriate recruitment policies, identifying and providing Training Programmes, Structuring Staff Compensation, taking care of their Health and Social benefit are some of the measures under taken by the HRD.

Empowering Human Resources

Internal Trainings Programme: Sharpening the skill sets of its staff members is one of the Key objectives of the Company. In this aspect, the Institutional training division at Haveri conducted various training programmes in book keeping, Management Information Systems, Documentation, Group recognition Test etc., benefitting nearly 516 members.

External training Programme: Eight of our staff members were deputed to attend the training programme conducted by Bankers Institute of Rural development (BIRD) at Lucknow. The training programmes were pertaining to Managing SHGs using computers for SHPI NGOs, Credit aspects in Rural Development, Planning, Guiding and managing Tiny & Micro Enterprises, Enabling SHGs to Graduate to Microenterprises etc.

The Company actively participated in the Seminars, conferences and Workshops organized by the external organisations. The events attended are as given below:

- Seminar on Financial Inclusion in Karnataka organized by AKMI and FKCCI during February 2012.
- Workshop on adoption of Fair practices code organized by AKMI during March 2012.

Profile of the Human resource

Category	No. As on 31.03.12	%	No. As on 31.03.11	%
Education wise Classification				
SSLC	150	40	221	43
PUC	105	28	124	26
Graduates	68	18	82	17
Post Graduates	52	14	50	14
Total	**375**	**100**	**477**	**100**

Category	No. As on 31/3/12	%	No. As on 31/03/11	%
Gender Wise Classification				
Women	206	55	262	55
Men	169	45	215	45
Total	**375**	**100**	**477**	**100**

Category	No. As on 31.03.12	%	No. As on 31.03.11	%
Cadre wise Classification				
Community Organizers	211	56	300	63
Credit Officers	72	19	81	17
Credit Managers	20	05	18	4
Risk Managers	03	01	4	1
Dy. Area Managers	03	01	0	0
Area Managers	05	01	5	1
Computer Operators	19	05	24	5
Executives	24	07	25	5
Internal Auditors	12	03	13	3
Attenders / Drivers	06	02	7	1
Total	**375**	**100**	**477**	**100**

Weaving her Life's Success

Paravva Hebbali is a bamboo basket weaver in Myaadar oni of Dharwad. She belongs to the Myaadar Community whose main occupation is bamboo basket weaving. About twenty years ago, Paravva got married and moved with her husband to Dharwad. They have two children – boy and a girl.Her husband was working in a nearby local market as a basket weaver while she was a homemaker.

Fiveyears back, her husband fell ill. With an ailing husband and three children to take care of, life had become miserable. She lacked finances for the medical treatment of her husband and to take care of her children. Paravva had to bear the brunt.

She took a brave decision of taking care of the family on her own by weaving and marketing bamboo baskets. Initially her income was very low even though she worked hard and many times she was left empty handed with no income because of the high cost of borrowing from the private borrowers. Further due to lack of adequate capital she could not increase herproduct range.

Her family was barely able to survive on herincome, let alone generate extra income to reinvest into herbusiness.

Things changed from the time of her association with IDF. She joined "Ilahi IDF Mahila SHG group in the year 2007. Her initial borrowing of Rs.5000/- from IDF and the subsequent loan of Rs.15000/- helped her to gradually increase her product range and thereby her monthly income. With another Rs.15000/- today, Paravva is taking care of her family needs and the education of her children.

We are proud of you Paravva Hebballi and assure you that we will be there always in your future needs.

I T Department

"One of the most important jobs that the IT Department does is ensuring the ability of IDF FSPL to capture management information about its loan-making activities. As such, one of our main projects last year was decentralizing and upgrading the management information systems (MIS)

Mobile Banking was a major intervention in our IT department of our company.

Mobile banking is a term used for performing balance checks, account transactions, credit applications and other banking transactions through a mobile device such as a mobile phone with WAP support.

Mobile banking can offer services such as the following:

1. Loan outstanding details.
2. SHG Savings details.
3. Monitoring of Field Level Transactions from the office.
4. Collection of SHGs Savings & Loan Repayments.
5. Demand, Collection and Balance for SHG A/c in Mobile handsets.
6. Remittance details of collections.

With the help of this technology, the entire operational process has become faster and accurate, which has helped in successful supervision of financial transactions at the field level.

Future Plans also include introduction of 'Core Banking Solution', a staff information system and an inventory system for assets."

Audit and Inspection Department

The Company has a well defined the audit system in place since November 2009 has been playing a proactive role in verifying the adherence to systems and procedures laid down by the Company from time to time.The audit team comprises of 13 members placed across the entire operational area which is reporting the irregularities in the day-to-day financial transactions. The earlier system of portfolio audit has been transformed into the Concurrent Audit system mainly to address the financial irregularities within the company.

The department has also been flexible in meeting the needs of the company in carrying out the special tasks as and when warranted, suitably developing the tools based on the need of the hour and deploying the force immediately. The audit rating being assigned to the operational staff during the course of field audit as well as area office audit has been one of the determining factors in assessing the performance of the company staff.

The audit department has been alerting the operational staff in crucial financial transactions. As a result, the company has been able to bring in financial discipline amongst the staff in the company.

From 01.04.2011 till 31.03.2012, as many as 6451 accounts have been audited as a part of the Concurrent Audit tasks. During 2011-12, 780 audit reports were generated (CRO-wise) and almost all were closed. During the period, 3 rounds of area office audit have been conducted and generated 21 audit reports (Area Office-wise). Almost all these reports are attended and closed.

Special audit was undertaken in certain selected areas inspecting 100% accounts responding to the need of the company.

As a future strategy to further improve the quality of audit system, the auditors will be rotated every month which ensures effective audit system and quality audit report.

Interface- An initiative by IDFFSPL

IDF FSPL is working towards greater co-ordination with Banks and Financial Institutions. It has set up Information sharing platform- an interface giving an opportunity to interact amongst themselves and also with the Company. The committee meets Quarterly at the registered office of the Company, wherein developments in the Microfinance sector are deliberated upon. The Company also updates all the members about the developments in the Company during the Quarter.

Three such meetings were held during the year and were attended by members from SIDBI, NABARD, SBI, NABFIN, HDFC, IOB and others.

Section Five

Director's Report

Your Directors have pleasure in presenting the 18th Annual Report of the Company. Accompanying the report are both the Auditor's Report of your company and the full Audited Statement of Accounts for the financial year ending 31st March, 2012.

Financial Highlights

The Summarized financial results of the Company are as hereunder

Particulars	2011-12		2010-11	
	Amount Lakh ₹	% ↑se or ↓se	Amount Lakh ₹	% ↑se or ↓se
Operating income	1354.92	13.02%	1198.81	45.60%
Other income	33.73	75.90%	8.13	-88.87%
Total income	**1388.64**	**15.05%**	**1206.95**	**34.64%**
Personnel expenses	346.87	89.36%	183.18	-24.79%
Administrative expenses	140.04	-42.42%	243.21	229.20%
Finance charges	623.69	2.46%	608.72	39.64%
Depreciation	53.65	9.98%	48.78	19.12%
Provisions and write-offs	138.22	87.54%	73.7	-2.16%
Total Expenses	**1302.47**	**12.52%**	**1157.59**	**33.11%**
Profit/(Loss) before tax	**86.17**	**74.61%**	**49.35**	**-15.99%**
Excess depreciation of earlier years	-		24.93	
Profit/(Loss) for the period	86.17	16.01%	74.28	26.33%
Less income tax	21.74	109.04%	10.4	9.47%
Less deferred tax	6.25	13.64%	5.5	-69.70%
Profit after tax	**58.18**	**-0.34%**	**58.38**	**87.42%**

Business Snapshot

Particulars	2011-12	% ↑se or ↓se	2010-11	% ↑se or ↓se
Customers (SHGs)	9079	-21.12%	11510	6.57%
Disbursement (Lakh ₹)	6731.14	-20.12%	8426.24	6.53%
Outstanding (Lakh ₹)	5438.1	-24.56%	7208.11	23.86%
Employees	375	-21.38%	477	20.76%
Branches	5	-16.67%	6	20.00%
Repayment rate	97.43%	-0.87%	98.29%	0.01%

The operations of the Company has been subdued during the year 2011-12. The loan disbursement during the year has come down by 20.11 % and the corresponding outstanding, has declined by 24.55 %. However the Company has been able to make decent profits for the current year as compared to last year.

Dividend

The Board has not recommended any dividend during this year on equity shares. The Interim dividend at 6% paid on the Cumulative Convertible preference shares amounting to Rs. 43,39,491/- during March 2012 has been treated as the final dividend and no other dividend is proposed.

Corporate Governance

Clauses 49 of the Standard Listing Agreement and Corporate Governance Report under this clause are not applicable to the Company. During the year, the Board of Directors met 7 times and the EOGM (Extra Ordinary General Meetings) were held twice.

Directors

The Board of Directors was strengthened with the induction of Sri. Vijay Kulkarni, an eminent person with vast experience in the field of Microfinance during August 2011. The members of the Board met regularly as per details furnished in the table.

Directors	Eligible to attend 2011 -12	Attended 2011-12
Vivekanand N Salimath	7	7
N M Patil	7	6
T V Srikantha Shenoy	7	6
M S Korimath	7	6
Tajbi Nadaf	7	5
Vijay Kulkarni	5	4

RBI Guidelines

IDF FSPL is a non deposit taking NBFC (non-banking financial company) and has complied with all applicable regulations of the Reserve Bank of India. As per the Non-Banking Finance Companies RBI Directions, 1998, the Directors hereby confirm 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.

Code of conduct, transparency and client protection

The company has fully implemented the Reserve Bank of India's Fair practice code and adopted Code of Conduct prescribed by Sa-Dhan (Association of Community Finance Institution) and Association of Karnataka Micro finance Institutions (AKMI).

Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956 the Board of Directors of the Company confirms that:

1. In preparation of the Annual Accounts, the applicable accounting standards have been followed.
2. The Directors have selected such Accounting Policies and applied them consistently and made judgements 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 and of the profit or loss of the company for that period.
3. The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
4. The Directors had prepared the Annual Accounts on a going concern basis.

Disclosures under Section 217(1) (d) of the Companies Act, 1956

Except as disclosed elsewhere in this report, there have been no material changes and commitments which can affect the financial position of the Company occurred between the end of the financial year of the Company and date of this report.

Transfer to Reserves in terms of Section 217(1)(b)of the Companies Act, 1956

For the financial year ended 31stMarch 2012, the Company has transferred a sum of Rs. 11, 63,650/- to Reserves.

Particulars of Employees

There is no employee in the Company whose particulars are required to be given under section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended.

Auditors

M/s R R Kulkarni, Chartered Accountants, having their office at Laxmi Apartment, Kalaghatagi Road, Saraswatpur, Dharwad 580002 will retire at the ensuing Annual General Meeting of the Company and are eligible to offer themselves for reappointment. Your directors recommend their reappointment as Statutory Auditors of the Company.

Auditors' Report

The observations of the auditors in their report are self-explanatory and therefore, in the opinion of the Directors, do not call for further comments.

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

The particulars as required under the provisions of Section 217(1)(e) of the Companies Act, 1956 in respect of conservation of energy and technology absorption have not been furnished considering the nature of activities undertaken by the company during the year under review. Further during the year under review, the Company has neither earned nor used any foreign exchange.

Acknowledgment

Your Directors place on record their gratitude for the continuing support of Shareholders, bankers and Business associates at all levels.

For and on behalf of the Board

Vivekanand N Salimath	**Naganagouda M Patil**
Chairman	Managing Director

Date : July 27, 2012
Place: Bengaluru

IDF FINANCIAL SERVICES PRIVATE LIMITED BENGALURU

Management Discussion and Analysis

1.0 The Microfinance Landscape in 2011-12

A little over a year ago, this industry of ours was shaken to its core. With brickbats more bountiful than bouquets, the past year was extremely tempestuous for the microfinance industry. The journey from being the poster child of poverty alleviation to being slandered as the villain of the piece has been swift and painful.

With the sector at a standstill, microfinance institutions, microfinance clients, banks, investors, and local governments were calling for new regulation to address the prominent issues of the sector. In particular the State of Andhra Pradesh(AP) posed challenges in the form of stringent regulation and most MFIs could not counter the challenge. The problems faced by MFIs in AP had contingent effect on MFIs outside AP too. The Regulators came out with various guidelines which lacked clarity.

The much awaited Micro Finance Bill is expected to bring solace to the sector. The current provisions of The Micro Finance Institutions (Development and Regulation) Bill, 2011 (the "Bill"), are a welcome step in the right direction and its early passage is critical in restoring the Indian Government's plan to provide financial inclusion for millions of the poor across India.

In summary, the passage of the microfinance Bill has the potential to be a significant step forward to restore the credibility of the Indian microfinance sector and the government's commitment towards achieving financial inclusion for India's 450 million "unbanked people."

Regulation of MFIs

As the MFI industry undergoes the biggest churn in a decade, it is the test of resilience for the MFI industry. The Government of India felt the need for regulation of micro finance sector practiced by all forms of organizations and across all states of the country and drafted Microfinance Institutions (Development and Regulation) Draft Bill 2011. This bill was tabled in the Parliament during the monsoon session. The bill with some modifications is expected to bring in orderly growth of Microfinance in India.

As your company is community owned, it has structure and policy to involve stakeholders in Governance and Management. These aspects take care of many of the challenges faced by the industry. However, the company has plans to address various concerns by strengthening the human and technical capacity of the company.

As you will see from the analysis below the accompanying annual report, despite the challenging climate, IDF FSPL has delivered fairly good performance and is in a stable position for future growth.

Microfinance Statistics 2011-12 (Extracts from Sa-Dhan Report 2012)

Growth in client outreach has reversed its trend in 2012. The total client base of MFIs has come down below 30 million mark touched last year, thanks to the microfinance crisis. For the total 167 MFIs that reported to Sa-Dhan this year, the total client outreach stands at 26819104 (26.8 million) as on 31 March 2012.

MFIs total loan portfolio as of March 2012 stood at Rs.20913 crore. The loan portfolio growth trajectory has changed the direction a little and posted a decline in 2012, by three per cent, compared to 2011. Cautious bankers releasing fewer funds to the sector has contributed to the decline.

The loan disbursement for the period during April 2011 – March 2012 is found to be lower by over Rs.12500 crore, compared to the disbursement during the corresponding period last year. The disbursement is the lowest during the past three years.

Loan Write off is the ultimate move by MFIs on persistent nonperforming assets. The MFIs have collectively written off portfolio worth nearly Rs.1700 crore this year compared to Rs.500 crore last year.

Flow of equity to the sector has been tardy. Equity participation in the sector indicates long term commitment of the investors to the sector. The total equity raised by Indian MFIs is just Rs.500 crore during 2011-12. This, of course, is more than double the amount of what was reported for the last year. The absolute increase is a welcome sign. The capital requirement for MFIs, in the light of mounting loan overdues and the provision requirement stipulated by RBI, is very high. Fresh capital is desperately needed for the sector. The present flow, at best, is one-tenth of the requirement.

The MFI in general have brought down the operating cost during this year. Their profitability is still under stress. The recent RBI announcement of relaxing 26 percent interest rate cap is a welcome step. The benefit of this relaxation will be realize by MFI's at the end of this Financial Year.

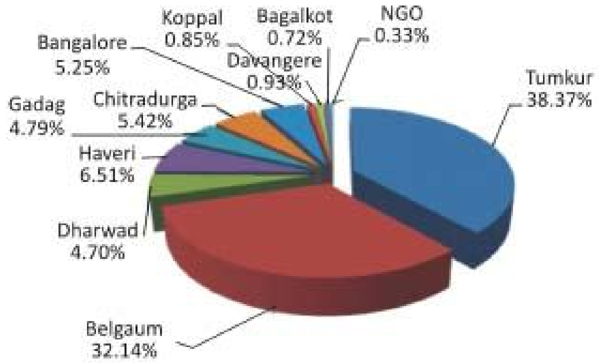
2.0 Financial performance

IDFFSPL had a fairly healthy financial performance in terms of growth compared to several other MFIs.

2.1 Outreach

Your company has been continuously growing since its inception. When compared to last year the performance of the Company has waned. The following facts come into picture while comparing the Company's present performance as compared to previous year:

- Total value of loans disbursed has decreased by 20%, from ` 8426.24 Lakhs to ` 6731.14 Lakhs
- The number of loans given has decreased by 19 % from 9,114 last year to 7361 this year.
- The total number of Active Borrowers has reduced by 9.63%, from 164235 last year to 149810 this year.



The highest share of your company's portfolio is in the districts of Tumkur (38.37%), Belgaum (32.14%) and Haveri (6.51%).

2.2 Portfolio

The following table provides an analysis of the portfolio of your company

Description	As on March 2012	As on March 2011
Total value of loans disbursed during period in Lakh ₹	6731.14	8426.24
Total number of loans disbursed to SHGs during period	7,361	9,114
Number of active borrowers (End of Period)	1,49,810	1,64,235
Average number of active borrowers	1,43,470	1,49,347
Value of loan outstanding (End of period) in Lakh ₹	5438.10	7208.11
Average outstanding balance of loans in Lakh ₹	5401.02	6980.91
Value of payments in arrears (End of Period) in Lakh ₹	229.46	128.93
Value of outstanding balance of loans in arrears (End of period) Lakh ₹	597.44	513.63
Value loans written off during period in Lakh ₹	138.22	68.51
Average loan size per SHG in Lakh ₹	1.00	0.90
Average loan term (months)	12 to 24	12 to 24
Average number of loans officers during period	72	86
Value of loan outstanding for which repayment is yet to begin in Lakh ₹	758.57	1183.74

Your company operates in 11 districts of Karnataka and the district wise breakup of loans as on 31st March 2012 is as follows:

No	Districts	Disbursed		Amt Outstanding	
		Amt in Lakh ₹	%	Amt in Lakh ₹	%
1	Tumkur	2613.47	38.83	2029.18	38.37
2	Belgaum	2033.47	30.21	1699.38	32.14
3	Dharwad	194.49	2.89	248.36	4.70
4	Haveri	462.69	6.87	344.10	6.51
5	Chitradurga	429.15	6.38	286.56	5.42
6	Bangalore	317.22	4.71	277.86	5.25
7	Gadag	440.24	6.54	253.28	4.79
8	Koppal	74.87	1.11	44.98	0.85
9	Davangere	71.98	1.07	48.93	0.93
10	Bagalkot	68.57	1.02	38.07	0.72
11	Gulbarga	25	0.37	17.39	0.33
	TOTAL	**6731.14**	**100.00**	**5288.10**	**100.00**

The portfolio is concentrated in Tumkur and Belgaum districts accounting for 38.37% and 32.14% respectively followed by Haveri district at 6.51%.

2.3 Product wise distribution

The following table provides an analysis of the portfolio of your company

Product	2011-12			2010-11		
	Number of accounts	Amount in Lakh ₹	%	Number of accounts	Amount in Lakh ₹	%
I Cycle	3204	1500.70	27.60	5014	1951.68	27.08
II Cycle	4540	2415.62	44.42	5629	5015.25	69.58
III Cycle	960	1298.74	23.88	157	192.38	2.67
IV Cycle	20	26.27	0.48			
NGO	1	17.39	0.32	2	12.50	0.17
Emergency Loan	408	29.37	5.42	708	36.30	0.50
Other Loans	1	150.00	2.76			
Total	**9079**	**5438.10**	100.00	**11510**	**7208.11**	100.00

2.4 Distribution of portfolio by purpose

The loans disbursed by your company are used for different purposes by the borrowers. The majority are invested in enterprise, as illustrated below.

Sl No		Category	2011-2012			2010-11		
			No of Borrowers	Loans outstanding in Lakh ₹	% of Port folio	No of Borrowers	Loans outstanding in Lakh ₹	% of Port folio
1		Non-farm enterprises						
	a	Manufacturing / Production	5380	203.93	3.75	3318	145.47	2.02
	b	Small Business / Services	25753	976.14	17.95	37315	1439.80	19.96
	c	Trading (wholesale / Petty)	48479	1837.53	33.79	30104	1271.45	17.64
2		Farm based						
	a	Agriculture	9139	346.41	6.37	11210	442.43	6.14
	b	Agri - allied	7647	289.85	5.33	7853	370.34	5.14
	c	Animal Husbandry / Poultry / Dairy / Sericulture etc.,	13414	508.46	9.35	13655	649.43	9.01
3		Others						
	a	Housing / Dwelling units / workheads - cum - tenements	6958	263.75	4.85	10892	501.32	6.96
	b	Consumption (e.g. education, marriage, illness etc)	26700	1012.03	18.61	49888	2387.84	33.13
			143470	**5438.10**	**100.00**	**164235**	**7208.11**	**100.00**

81.39% of the loans are for livelihood activities while 18.61% of the loans are for consumptive purposes.

2.5 Portfolio quality

The trend in PAR as compared to last year has increased, which is a warning sign regarding the portfolio quality. The company wrote off bad debts of the value of Rs.138.22 Lakhs this year i.e. 2.19% of the portfolio. The industry standard is 1.3%; the company has initiated steps to improve the quality of its portfolio.

Sl. No	Type of Loans	2011-2012			2010-11		
		No. of Borrowers	Value of Loans	% of Total Loan Outstanding	No. of Borrowers	Value of Loans	% of Total Loan Outstanding
1	Regular Loans	7327	4840.65	89.01	9988	6694.45	92.87
2	Less than 30 Days past due	665	245.45	4.58	514	293.15	4.07
3	Between 31 -60 days past due	310	101.99	1.90	227	84.98	1.18
4	Between 61 -90 days past due	222	66.59	1.24	125	35.27	0.49
5	Between 91 -180 days past due	338	120.57	2.25	272	45.75	0.63
6	Between 181 -365 days past due	172	55.60	1.04	243	35.26	0.49
7	>365 days past due	45	7.25	0.14	141	19.25	0.27
	Total	**9079**	**5438.10**	**100.00**	**11510**	**7208.11**	**100.00**

2.6 Portfolio yield, profitability and sustainability

The portfolio yield for the year 2011-12 was 21.42% higher as compared to 18.40% for the year 2010-11. Despite a reduced portfolio, higher interest realisations helped in this regard.

This year, operational costs were high, at 10.73%, The total cost was also higher at 23.95%.

Even after meeting the escalated costs your company posted a sustainability ratio of 106.62% higher than the 104.22% during the previous year.

3.0 Resource mobilisation

Your company has strong networks in banking as majority of the Senior Management originated from that sector, bringing with them decades of experience. This helps the institution in presenting a correct perspective of the budget plans and projections.

The Company did not have any problems during the year with respect to its liquid funds. The cost of funds for IDF FSPL in financial year 2011-12 was approximately 11.12%, significantly lower than the prevailing market rate (about 14%). This was possible due to proper fund management during the year.

However, it is important to note that after transformation to NBFC, the interest rates are increasing. The costs of statutory compliances are high. Therefore keeping operational costs low will be challenging in the next year.

Source of Debt Funds		2011-12		2010-11	
		Amount in Lakh ₹		Amount in Lakh ₹	
Banks	State Bank of India	3365.42		3446.99	
	Indian Overseas Bank	61.49		178.84	
	K V G	368.28		571.39	
	HDFC	0		16.66	
			3795.19		**4213.88**
Financial Institutions	SIDBI	218.01		470.04	
	NABARD	500.00		250	
	NAB Fin	53.20		109.9	
	Ananya Finance	55.56	**826.77**	961.12	**1791.06**
Others	IDF SHG Federation	0		531.24	
	IDF	26.45	**26.45**	34.71	**565.95**
	(FD's lien with bank)				**79.25**
	Total		**4648.41**		**6491.64**

Currently the debt funds sources comprise: Banks (81.64%), Financial Institutions (17.79%) and Other Institutions (e.g. SHG Federations and IDF) (0.57%). Efforts will be made to diversify these funding sources. Your company is looking for Social Investors who can add value to the organisation, both in terms of capital and global best practices.

4.0 Ratings and evaluations

Your company was rated by CRISIL during December 2010, India's leading ratings, research, risk, and policy advisory company, and received a grading of **mfR4** (wheremfR1 is highest, and mfR8 is lowest). The rating is of the MFI's ability to conduct its operations in a scalable and sustainable manner.

The Rating was valid up to December 2011 and the Company is in the process of obtaining a fresh Rating.

The Company has received **'BB Stable'** rating from CRISIL during December 2011 in respect of the Bank facilities it has availed and proposed facilities to be availed in future.

Capital Adequacy

The Capital Adequacy Ratio of the company was 29.15% as on 31st March 2012 which is higher than 21.50% as on31st March 2011.

5.0 Opportunities and risks in the coming year

5.1 Opportunities

As for demand, given that the current penetration of MFIs is still low in India, the potential for growth appears significant. 'Financial Inclusion' being the buzz word of the Government, the passage of the microfinance Bill has the potential to be a significant step forward to restore the credibility of the Indian microfinance sector and the government's commitment to achieving financial inclusion for India's 450 million "unbanked people."

IDF FSPL has opportunities for growth via introducing new products, increasing market penetration in existing operational areas and expanding our services to new markets. Expansion in the neighbouring states of Maharashtra is being contemplated for 2012-13, subject to availability of debt funds.

Your Company is also contemplating introduction of 'Micro SHG' concept of lending, wherein group formations would be more rapid due to the reduced number of SHG members in each group.

Credit information sharing can help MFIs make better-informed decisions about the extension of credit to clients, but it requires coordination at all levels and can be a long and expensive process. The focus was on eliminating over-indebtedness or multiple borrowings, an activity that is seen as benefitting MFIs. Associations can play an important role in ensuring better products and services for clients by promoting and supporting some kind of credit sharing mechanism that helps MFIs identify good as well as bad clients.

5.2 Risks

In the year gone by the Company made considerable efforts to institutionalize robust quality control and risk management systems to ensure that the business risks remain within predefined acceptable metrics and the overall business is compliant with all the regulations.

5.2.1 Credit Risks

Credit risk is the possibility of the adverse condition in which the clients do not pay back the loan amount. The risk is of greater significance for a Microfinance Institution as it has to deal with large number of clients with limited literacy. Risk of overleveraging of borrowers due to the presence of more than 1 MFI in the same village /area; no fool-proof methods to detect and prevent such overleveraging can be highly risky.

The Company has initiated several measures in order bring about credit discipline in our lending process, the most significant being the mandatory credit check with the credit bureau before sanctioning loans to the members.

5.2.2 Operational Risk

Operational risks are the vulnerabilities that emanate from a Company's daily operations, which can erode the institution's capital. The common risks arising out of operations are Frauds, theft, day to day cash management, high staff turnover etc.

The Company has adopted stringent system of checks and balances and a reporting system such as internal and external audit that can detect and control fraud. The audit system of the Company has been playing a proactive role in verifying the adherence of staff to systems and procedures laid down by the Company from time to time.

5.2.3 Competition Risk

MFIs are becoming increasingly competitive, with new players, such as banks and consumer credit companies, entering the market. Competition risk can be exacerbated if MFIs do not have access to information about applicants' current and past credit performance with other institutions. Though competition between MFIs may lead to lower interest rates, better-designed products, and better customer service, it may also lead to overleveraging for the borrowers and hence put them under a higher debt burden.

In order to overcome severe competition from other MFIs particularly those following Joint Liability Group (JLG) models, where waiting period for loan disbursal is much lower; also a number of players scaling up operations in Karnataka, the Company has been pre-emptive and has been re-designing its product offering and service delivery mechanism.

5.2.4 Funding risk

Given the nature of the microfinance business, regular flow of funds is crucial to maintain as well as for growth of the business operations. The liquidity crunch had been continuing for almost a year. Despite directions by the RBI and others, banks have been highly selective in providing loans to MFIs. It is time that investors and funders carried out realistic appraisals of MFIs, refuse to accept grand plans of fast paced expansion and super profitability.

The move by RBI in including lending to MFIs by the Banks as a priority sector advance is definitely bound to increase the flow of credit towards this sector.

5.2.4 Industry risk

The microfinance industry is expected to face pressure on account of commercialisation of the sector and consequent pressure from the politicians, bureaucrats and the media. However the move by the Government to regulate the sector through the proposed Microfinance bill is welcome.

Your company is well geared to face and mitigate these risks by better internal control, capacity building of human resources, intense involvement with the community and industry level networking and advocacy.

M/s R R Kulkarni & Co.
CHARTERED ACCOUNTANTS

"LAXMI" APARTMENT
KALGHATAGI ROAD
SARASWATPUR
DHARWAD - 580 002
PH: 2442076/988053935

Auditor's Report

1. We have audited the attached Balance Sheet of IDF FINANCIAL SERVICES PRIVATE LIMITED as at 31stMarch 2012, the Profit and Loss Account 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 have conducted our audit in accordance with the 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 proves reasonable basis for our opinion.

3. As required by the Companies' (Auditor's Report) Order, 2003 in terms of sub Section (4A) of section 227 of the Companies Act, 1956, and according to the Information and explanation given to us during the course of the audit and on the basis of such checks as we consider appropriate, we enclose in the Annexure a statement on the matters specified in paragraph 4 and 5 of the said Order.

4. Further to our comments in the Annexure referred to above, we report that:

    i. We have obtained all the information and explanations, which to the best ofour knowledge and belief were necessary for the purpose of our audit.

    ii. In our opinion, the Company has kept proper books of accounts as required by law so far, as appears from our examination of those books.

    iii. The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of accounts.

    iv. In our opinion, the Balance Sheet and Profit & Loss Account dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.

    v. On the basis of written representation received from the directors, as on 31st March 2012 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 2012 from being appointing as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

    vi. The board of directors has been changed and the directors newly appointed have taken their position as per the Form no.32.

    vii. In our opinion, and to the best of our information and accounting to the explanation given to us, the said accounts give the information required by the companies Act 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India.

        (a) In the case of Balance Sheet, of the state of affairs of the Company as at 31stMarch 2012; and

        (b) In the case of Profit and Loss Account, of the loss for the year ended on the date.

for **M/s. R R Kulkarni & Co.,**
Chartered Accountants
F R. No.: 010916S

M/s. R. R. KULKARNI & Co. M.No. 211616 DHARWAD CHARTERED ACCOUNTANTS

(R R Kulkarni)
Proprietor
M. No.: 211616

Date: July 27, 2012
Place: Dharwad

Annexure to the Auditor's Report

i) a) The company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.

(b) During the year, the company had carried out physical verification of assets. The company has a regular programme for verification of fixed assets. In our opinion, the frequency of verification is reasonable, having regard to the size and the nature of its business.

(c) In our opinion, the Company has not disposed off substantial part of fixed assets during the year and the going concerns status of the Company is not affected.

ii. There is no stock of inventory. Hence this clause is not applicable.

iii. The company has not given/taken any loans, to/from any companies, firms or other parties listed in register maintained under section 301 of the Companies Act, 1956.

iv. In our opinion, and according to the information and explanations given to us, there is an adequate internal control procedure commensurate with size of the Company and the nature of its business for the purchase of inventory and assets and for the sale of goods. During the course of our audit we have not observed any continuing failure to correct major weakness in internal control.

v. (a) In our opinion and accordance to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements that needed to be entered in the register maintained under section 301 of the Companies Act, 1956 have been so entered.

(b) In our opinion and accordance to the information and explanations given to us, the transactions made in pursuance of contracts of arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding Rs. 5,00,000/- in respect of each party during the year have been made at prices which are reasonable having regard to the prevailing market price at the relevant time. This clause is not applicable to the company.

vi. The Company has not accepted any deposits from the public during the year. In terms paragraph 9(2) NBFC Public Deposit (RBI Directions)1998 the company has passed a resolution to the effect that the company has neither accepted deposit nor would accept any public deposit during the year.

vii. In our opinion, the internal audit system in the company during the year is adequate and commensurate to the size and the nature of the business of the Company.

viii. The Central Government has not prescribed maintenance of cost records under Section 209- (l)(a) of the Companies Act, 1956 for any product of the company.

ix. On the basis of records produced before us, the Company is generally regular in depositing undisputed statutory dues including Income Tax, Sales Tax, Customs Duty and Excise Duty. Accordance to the information and explanations given to us, there are no undisputed amounts payable in respects of Provident Fund, Income Tax, Sales Tax, Customs Duty and Excise Duty which are outstanding as on 31sr March 2012 for a period of more than six months from the date on which they become payable.

x. According to the information and explanation given to us and as per the records examined by us, there were no disputed amounts due in respect of Sales Tax, Income Tax, Custom Duty, Wealth Tax, Excise Duty and Cess.

xi. The company has accumulated surplus in the previous year and has not incurred cash losses during the Current financial year.

xii. Based on our audit procedures and according to the information and explanation given to us, we are of the opinion that the Company has not defaulted in repayment of dues to financial institutions or banks.

xiii. In our opinion and according to the explanations given to us and based on the information available, no loans and advances have been granted by the Company on the basis of security by way of pledge of shares, debentures and other securities.

xiv. In our opinion, the Company is not a chit fund, nidhi/mutual benefit funds/society. Therefore, the provision of clause 4(xiii) of the Companies (Auditor's Report) Order 2003, are not applicable to the company.

xv. The Company does not deal or trade in shares, securities, debentures and other investments. Hence provision of clause 4(xiv) of the Companies (Auditor's Report) Order 2003, are not applicable to the company.

xvi. The company has not given any guarantee for the loans taken by others from banks or financial institutions.

xvii. According to the information and explanation given to us and on an overall examination of the Balance Sheet of the Company, we are of the opinion that there are no funds raised on short-term basis that have been for long term investment.

xviii. The company has not made preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Companies Act, 1956 during the year.

XIX. The company has not issued debentures during the financial year.

xx. The company has not raised any monies by public issue.

for **M/s. R R Kulkarni & Co.,**
Chartered Accountants
F R. No.: 010916S

(R R Kulkarni)
Proprietor
M. No.: 211616

Date: July 27, 2012
Place: Dharwad

IDF FSPL Audited Accounts 2011-12

Balance Sheet as at March 31, 2012

Particulars	Note no.	31-Mar-12	31-Mar-11
I. Equity and Liabilities		₹	₹
Shareholders' funds			
(a) Share capital	2.1	180,537,150	180,537,150
(b) Reserves and surplus	2.2	4,911,919	4,125,131
		185,449,069	**184,662,281**
Non-Current liabilities			
(a) Long-term borrowings	2.3	464,841,443	657,089,887
(b) Deferred tax liability (net)	2.4	2,991,531	2,366,215
		467,832,974	**659,456,102**
Current liabilities			
(a) Trade payables	2.5	1,381,333	1,730,573
(b) Other current liabilities	2.6	5,582,725	20,344,953
(c) Short-term provisions	2.7	3,863,515	4,996,766
		10,827,573	**27,072,292**
		664,109,616	**871,190,675**
II. Assets			
Non-current assets			
(a) Fixed assets	2.8		
(i) Tangible assets		2,539,236	3,650,902
(ii) Intangible assets		25,900,000	29,600,000
(b) Loans to groups	2.9	365,450,602	523,460,616
(c) Long-term loans and advances	2.10	4,889,948	6,709,724
		398,779,786	**563,421,242**
Current assets			
(a) Cash and cash equivalents	2.11	84,064,947	102,739,398
(b) Loans to groups	2.9	160,216,490	194,919,270
(c) Short-term loans and advances	2.12	15,180,623	830,405
(d) Other current assets	2.13	5,867,770	9,280,360
		265,329,830	**307,769,433**
		664,109,616	**871,190,675**
Significant accounting policies and notes onaccounts	**1 & 2**		
The accompanying notes are an integral part ofthese financial statements			

As per our report of even date

for **M/s. R R Kulkarni & Co.,**
Chartered Accountants
F R. No.: 010916S

(R R Kulkarni)
Proprietor

M. No.: 211616

Date: July 27, 2012
Place: Bengaluru

for **IDF Financial Services Private Limited**

(V N Salimath)
Chairman

(N M Patil)
Managing Director

IDF FINANCIAL SERVICES PRIVATE LIMITED

Profit and Loss Account for the year ended March 31, 2012

Particulars	Note no.	31-Mar-12	31-Mar-11
Income		₹	₹
Revenue from operations	2.14	135,491,711	119,881,241
Other income	2.15	3,372,597	813,469
Total Revenue		**138,864,308**	**120,694,710**
Expenses			
Employee benefits expense	2.16	34,687,168	18,317,906
Finance costs	2.17	62,369,168	60,872,154
Depreciation and amortization expenses	2.8	5,364,820	4,878,013
Provisions and write -offs	2.18	13,821,737	7,370,328
Other operating expenses	2.19	14,004,025	24,321,077
Total expenses		**130,246,918**	**115,759,478**
Profit/(Loss) before tax		**8,617,390**	**4,935,232**
Tax expense:			
- Current tax		2,200,000	1,040,000
- Reversal of Income tax provision - prior years		(26,177)	-
- Deferred tax		625,316	550,426
Profit/(loss) for the year		**5,818,251**	**3,344,806**
Earning per equity share (EPS) ***[refer note 3.4]***			
- Basic		0.54	0.54
- Diluted		0.32	0.48
Number of shares considered for			
- Basic		10,821,230	6,221,678
- Diluted		18,053,715	6,968,346
Significant accounting policies and notes on accounts	**1 & 2**		
The accompanying notes are an integral part of these financial statements			

As per our report of even date

for **M/s. R R Kulkarni & Co.,**
Chartered Accountants
F R. No.: 010916S

(R R Kulkarni)
Proprietor

M. No.: 211616

Date: July 27, 2012
Place: Bengaluru

for **IDF Financial Services Private Limited**

(V N Salimath)
Chairman

(N M Patil)
Managing Director

IDF FINANCIAL SERVICES PRIVATE LIMITED

Cash Flow Statement for the year ended March 31, 2012

Particulars		31-Mar-12	31-Mar-11
CASH FLOW FROM OPERATING ACTIVITIES		₹	₹
Net Profit before taxation		**8,617,390**	**4,935,232**
Adjustment for Non- cash (income) / expenditure:			
Depreciation		5,364,820	4,878,013
Provision for doubtful assets		-	519,319
Baddebts written off		13,821,737	
Revolving fund		12,002	34,297
Loss on sale of assets		55,733	-
Provision for gratuity		-	370,067
Operating profit before changes in operating assets		**27,871,682**	**10,736,928**
Adjustments for			
(Increase)/ decrease in current assets		3,956,715	(9,762,834)
(Decrease)/increase in current liabilities		(15,111,468)	5,516,301
(Increase)/ decrease in loans to groups		163,607,266	(139,152,783)
Net cash generated from operating activities before tax		**180,324,195**	**(132,662,388)**
Less: Income tax (paid)/refund		152,149	(2,200,000)
Net cash generated from operating activities after tax	**(A)**	**180,476,344**	**(134,862,388)**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(608,886)	(2,910,151)
Maturity of term deposits held as margin money		-	250,000
Net cash flow from investing activities	**(B)**	**(608,886)**	**(2,660,151)**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital [Incl premium]		-	33,465,950
Secured borrowings [Net]		(138,299,034)	91,081,706
Corporate dividend tax paid		(703,974)	(468,132)
Dividend paid		(4,339,491)	(2,754,529)
Unsecured borrowings [net]		(53,949,410)	86,046,437
Net cash generated from financing activities	**(C)**	**(197,291,909)**	**207,371,432**
Net increase/(decrease) in cash and cash equivalents during the year (A)+(B)+(C)		(17,424,452)	69,848,893
Cash and cash equivalents at the beginning of the year		102,739,398	32,890,505
Cash and cash equivalents at the end of the year *[Refer note 2.11]*		**85,314,947**	**102,739,398**
Significant accounting policies and Notes on accounts	**1 & 2**		

As per our report of even date

for **M/s. R R Kulkarni & Co.,**
Chartered Accountants
F R. No.: 010916S

(R R Kulkarni)
Proprietor
M. No.: 211616

for **IDF Financial Services Private Limited**

(V N Salimath)
Chairman

(N M Patil)
Managing Director

Date : July 27, 2012
Place: Bengaluru

Company overview:

IDF Financial Services Private Limited [herein after 'the company'] is engaged in micro finance activities directed to ultimate benefit of poor women [organized in the form of Self-help-groups] for enhancement of their livelihoods in a financially viable manner and provide financial support to these groups through Community based Self Help Group Federations.

1) Significant accounting policies

1.1 Basis of preparation of financial statements

The financial statements are prepared under historical cost convention, on accrual basis of accounting and in accordance with the provisions of Companies Act, 1956 and comply with the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) to the extent applicable, except otherwise stated and stipulated in the directions issued by Reserve Bank of India (RBI) for Non Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 from time to time.

1.2 Use of estimates

The preparation of financial statements in conformity with Indian Generally Accepted Accounting Policies requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of financial statements and reported amounts of revenue and expenses during the reported period. Although such estimates are made on a reasonable and prudent basis taking into account all available information, actual results could differ from those estimates.

1.3 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue measured and collectibility is reasonably assured.

1.3.1 Interest income on loans disbursed is recognized on accrual basis as per effective interest rate method except in the case of Non-performing assets (NPA) where interest is recognized upon realisation, in accordance with the directives of the Non-Banking Financial (Non Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 (as amended).

1.3.2 Income from service contracts is recognized on the basis of proportionate completion of the contract with reference to the stage of performance.

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

1.4 Fixed assets and intangible assets

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

Acquisition of trademarks in the form of right for use of brand name and other intellectual property rights in the field of micro finance has been accounted for as intangible assets at the purchase price.

1.5 Depreciation and amortisation

Depreciation is provided pro-rata on the Written down value method at the following stated rates specified under Schedule XIV of the Companies Act, 1956:

Class of Fixed assets	Rate of Depreciation
Furniture & fixtures	18.10%
Office equipment	20.00%
Computers	40.00%
Vehicle	25.89%

In view of the nature business and the enduring nature for exploitation of intangible assets, the same is written off over 10 years, with depreciation rate of 10%

1.6 Asset classification

These are classified as standard assets, sub-standard assets, doubtful assets and loss assets in terms of the Non-Banking Financial (Non Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions 2007.

1.7 Provision for loan losses

Provision for doubtful loans and advances has been made as per the norms stated in the above Directions by Reserve Bank of India, 2007, which are stated below:

Classification of Assets	Criteria for Classification	Provision %	
		Management estimate	As per the prudential norms of RBI
Standard Assets	The assets in respect of which, no default in repayment of principal or payment of interest is perceived	0.50%	0.25%
Sub-standard Assets	An asset which has been classified as non-performing asset (NPA) for a period not exceeding 18 months.	50%	10% of the loan outstanding.
Doubtful Assets	An assets which remained as sub standard assets for a period of 18 months after becoming NPA	100%	100% of unsecured portion of the loan outstanding and an increasing % over a period of three years on secured portion.
Loss Assets	As identified by the management, auditors and RBI at any point of time.	100%	To be written off or provided at 100%.

Non performing assets (NPA) are assets in respect of which interest has remained overdue for a period of six months or more.

1.8 Loans write-off policy

Loans are written off when the management has exhausted all options for recovery of Principal and interest on the loan which are overdue.

1.9 Employee benefits

1.9.1 Provident fund: Contribution is accounted on actual liability basis and paid to the Government managed Employees' Provident Fund Organization.

1.9.2 Leave encashment: Liability arising for the year is provided and paid during the same year.

1.9.3 Gratuity: This is a defined benefit plan. Gratuity liability is provided based on actuarial valuation using Projected Unit Credit Method. Actuarial Gains and Losses comprising of experience adjustments and the effects of changes in actuarial assumptions, are recognised immediately in the Profit and Loss Account as income or expense.

1.10 Accounting for taxes on income

Provision for current tax is made based on the liability computed in accordance with the relevant tax rates and tax laws. Provision for deferred tax is made for all timing differences arising between the taxable income and accounting income at the tax rates enacted or substantively enacted by the balance sheet date. As a prudent policy, any deferred tax asset is not recognized.

1.11 Earning per share

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

1.12 Provisions and contingent liabilities

The Company creates a provision when there is a present obligation as a result of past event that probably requires an outflow of resources and reliable estimate can be made of the amount of obligation. A disclosure of contingent liability is made, when there is a possible obligation or a present obligation that will probably not require outflow of resources or where reliable estimate of the obligation cannot be made.

1.13 Segment information

The company operates in a single reportable segment i.e. lending activity, which has similar risks and returns for the purpose of reporting under AS-17 'Segment Reporting' issued by ICAI. The Company does not have any reportable geographical segment.

1.14 Share issue expenses

Expenditure incurred in relation to issue of equity shares is adjusted against the securities premium reserve, net of corresponding tax benefits, if any.

2) Notes on Accounts

2.1 Share Captial

	31-Mar-12	31-Mar-11
Authorized	₹	₹
15,000,000 [Previous year: 15,000,000] Equity shares of Rs. 10 each	15,00,00,000	15,00,00,000
10,000,000 *[Previous year: 10,000,000]* Preference shares of Rs. 10 each	10,00,00,000	10,00,00,000
	25,00,00,000	**25,00,00,000**
Issued, subscribed and paid-up		
Equity		
10,821,230 [Previous year: 10,821,230] Equity shares of Rs. 10 each fully paid -up	10,82,12,300	10,82,12,300
Preference		
7,232,485 [Previous year:7,232,485] 6% Cumulative Convertible Preference shares of Rs. 10 each fully paid-up	7,23,24,850	7,23,24,850
	18,05,37,150	**18,05,37,150**

2.1.1 Reconciliation of shares

	Number	Amount	Number	Amount
a) Equity shares				
Balance at the beginning of the year	1,08,21,230	10,82,12,300	15,45,890	1,54,58,900
Add: issued during the year	-	-	92,75,340	9,27,53,400
Balance at the end of the year	**1,08,21,230**	**10,82,12,300**	**1,08,21,230**	**10,82,12,300**
b) Preference shares				
Balance at the beginning of the year	72,32,485	7,23,24,850	38,85,890	3,88,58,900
Add: issued during the year	-	-	33,46,595	3,34,65,950
Balance at the end of the year	**72,32,485**	**7,23,24,850**	**72,32,485**	**7,23,24,850**

2.1.2. Of the above, 9,275,340 equity shares are allotted by way of bonus shares during the year 2010-11

2.1.3 Rights, preferences, restrictions of share capital

a) Equity shares: The Company has only one class of equity shares having a par value of Rs. 10 per share. Each holder of equity share is entitled to one vote per share.

b) Cumulative convertible Preference shares [CCPS]: CCPS are convertible into equity after completion of 5 years from the date of allotment and such conversion is to effect at fair value to be determined at the time of conversion. Preference share holders are not entitled to any voting rights except where the rights of the preference share holders are proposed to be affected. In such event, preference share holders will have the same right as the equity share holders in the meeting of the share holders for the agenda of the meeting affecting their rights only. Dividends are accumulatable until fully paid.

2.1.4. The details of shareholders as at March 31, 2012 is set out below:

	31-Mar-12		31-Mar-11	
	No. of shares	%	No. of shares	%
Equity share capital				
IDF FSPL balaga welfare trust	7,87,500	7%	7,87,500	7%
IDF SHG Federation - Dharwad	19,20,240	18%	19,20,240	18%
IDF SHG Federation - Haveri	8,78,360	8%	8,78,360	8%
IDF SHG Federation - Tumkur	24,71,630	23%	24,71,630	23%
IDF SHG Federation - Gadag	3,48,040	3%	3,48,040	3%
IDF SHG Federation - Belgaum	17,02,960	16%	17,02,960	16%
Vivekanand. N. Salimath	5,42,500	5%	5,42,500	5%
Naganagouda M Patil	5,42,500	5%	5,42,500	5%
T V Srikantha Shenoy	5,42,500	5%	5,42,500	5%
Shrikant M Hebbal	5,42,500	5%	5,42,500	5%
Gururaj M Deshpande	5,42,500	5%	5,42,500	5%
Total	**1,08,21,230**	**100%**	**1,08,21,230**	**100%**
Preference share capital				
IDF SHG Federation - Dharwad	7,56,792	10%	7,56,792	10%
IDF SHG Federation - Haveri	3,25,210	4%	3,25,210	4%
IDF SHG Federation - Tumkur	38,45,838	53%	38,45,838	53%
IDF SHG Federation - Gadag	5,58,160	8%	5,58,160	8%
IDF SHG Federation - Belgaum	17,46,485	24%	17,46,485	24%
Total	**72,32,485**	**100%**	**72,32,485**	**100%**

2.2. Reserves and surplus

	31-Mar-12	31-Mar-11
Securities premium reserve		
Opening balance	7,76,700	9,35,30,100
Additions/adjustments during the year	-	(9,27,53,400)
	7,76,700	**7,76,700**
Statutory reserve		
Opening balance	13,03,394	6,34,433
Additions during the year	11,63,650	6,68,961
	24,67,044	**13,03,394**
Vehicle Revolving Fund		
Opening balance	98,885	64,588
Additions during the year	12,002	34,297
	1,10,887	**98,885**
Surplus in the statement of Profit and Loss		
Opening balance	**19,46,152**	**24,92,968**
Add: Profit/(loss) for the year	58,18,251	33,44,806
Less: Transferred to statutory reserve	(11,63,650)	(6,68,961)
Less: Proposed dividend on preference shares	(43,39,491)	(27,54,529)
Less: Dividend distribution tax	(7,03,974)	(4,68,132)
	15,57,288	**19,46,152**
	49,11,919	**41,25,131**

2.3 Long-term borrowings

	31-Mar-12	31-Mar-11
a) **Secured** ***[Refer note 3.3]***		
i) Term loans		
- From banks	4,29,76,767	23,47,61,110
- From other parties	8,26,77,001	17,91,24,750
ii) Cash credit	33,65,41,688	18,66,08,630
b) Unsecured loans from rebted parties ***[Refer note 3.3]***	26,45,987	5,65,95,397
	46,48,41,443	**65,70,89,887**

2.3.1 Details of security for each type of borrowings including terms of repayment

Term loans availed from banks and financial institutions are fully secured by way of hypothecation of book debts and by way of the pledge of fixed deposits in respect of certain loans as set out in Note 3.3. Term loans are repayable on monthly and quarterly basis depending on the respective loan arrangements as detailed in Note 3.3.

2.4 Deferred tax liability (net)

	31-Mar-12	31-Mar-11
Opening balance	23,66,215	18,15,789
Additions during the year	6,25,316	5,50,426
	29,91,531	**23,66,215**

2.4.1 Deferred tax liability arising out of differences in depreciation and amortisation in block of fixed assets and intangible assets as per tax books and financial books

2.5 Trade payables

	31-Mar-12	31-Mar-11
Payabl to staff	13,81,333	17,30,573
	13,81,333	**17,30,573**

There are no micro and small enterprises, to whom the Company owes dues as at reporting date.

2.6 Other current liabilities

	31-Mar-12	31-Mar-11
Interest accrued but not due on borrowings	14,93,234	16,32,606
Insurance claims payable	2,71,914	23,765
Insurance premium payable	-	47,78,498
Income received in advance	-	1,10,41,204
Statutory liabilities	85,375	4,86,744
Other payables	4,92,202	3,92,136
Provisions for Tax	32,40,000	19,90,000
	55,82,725	**2,03,44,953**

2.7 Short-term provisions

	31-Mar-12	31-Mar-11
Employee benefits (Gratuity) *[refer note 3.2 below]*	-	9,51,831
Contingent provision against standard assets	31,59,541	35,76,803
Dividend distribution tax	7,03,974	4,68,132
	38,63,515	**49,96,766**

2.9 Loans to groups

	31-Mar-12		31-Mar-11	
	Non-current	Current	Non-current	Current
Unsecured, considered good	36,23,07,942	16,02,16,490	52,07,35,219	19,49,19,270
Unsecured, considered doubtful	62,85,319	-	54,50,794	-
	36,85,93,261	16,02,16,490	52,61,86,013	19,49,19,270
Less: Provision for doubtful assets	31,42,660	-	27,25,397	-
	36,54,50,602	**16,02,16,490**	**52,34,60,616**	**19,49,19,270**

2.10 Long-term loans and advances

	31-Mar-12	31-Mar-11
Unsecured, considered good		
Security deposits	6,12,500	5,72,000
Prepaid taxes *[net of provision of Rs. 3,240,000 (Previous year: Rs. 1,990,000)]*	40,00,000	59,00,000
TDS Receivables	1,12,043	4,005
Vehicle loans to staff	1,65,405	2,33,719
	48,89,948	**67,09,724**

2.11 Cash and cash equivalents

	31-Mar-12	31-Mar-11
Balances with banks		
- in current accounts	1,67,01,305	8,46,18,236
- in deposit account	6,70,02,887	1,77,60,179
Cash on hand	3,60,755	3,60,983
	8,40,64,947	**10,27,39,398**
Bank deposits with more than 12 months maturity	Nil	Nil

2.12 Short-term loans and advances

	31-Mar-12	31-Mar-11
Unsecured, considered good		
Loans to related parties *[Refer note 3.6.2]*	1,50,00,000	-
Vehicle loans to staff	1,80,623	2,45,780
Other advances	-	5,84,625
	1,51,80,623	**8,30,405**

2.13 Other current assets

	31-Mar-12	31-Mar-11
Interest earned on loans to groups	8,60,889	21,575
Unamortised processing fee	-	13,33,334
IDF Trust -FD A/c	50,06,881	79,25,451
	58,67,770	**92,80,360**

2.14 Revenue from operations

	31-Mar-12	31-Mar-11
Interest Income	12,88,67,911	11,98,28,487
Late payment interest	-	52,754
Service charges on loans	66,23,800	-
	13,54,91,711	**11,98,81,241**

2.15 Other income

	31-Mar-12	31-Mar-11
Interest on term deposits	24,72,594	34,552
Bad debts recovered	2,99,858	3,93,131
Other non-operating income	6,00,145	3,85,786
	33,72,597	**8,13,469**

2.16 Employee benefit expense

	31-Mar-12	31-Mar-11
Salaries, wages and bonus	3,21,22,987	1,67,18,474
Contributions to provident and other funds	21,22,040	8,86,045
Staff welfare and training expenses	25,740	1,73,320
Gratuity	4,16,401	5,40,067
	3,46,87,168	**1,83,17,906**

2.17 Finance costs

	31-Mar-12	31-Mar-11
Interest on borrowings	6,05,19,305	5,93,05,583
Loan processing fee on borrowings	13,33,334	13,94,566
Bank charges	4,40,477	21,106
Documentation and evaluation expenses	76,052	1,50,899
	6,23,69,168	**6,08,72,154**

2.18 Provisions and write-offs

	31-Mar-12	31-Mar-11
Bad debts written-off	13,821,737	6,851,009
Provision for doubtful assets	-	519,319
	13,821,737	**7,370,328**

2.19 Other operating expenses

	31-Mar-12	31-Mar-11
Professional and consultancy charges	1,403,958	14,409,261
Travelling and conveyance	5,085,206	3,560,783
Communication expenses	1,473,963	1,055,735
Rent	1,996,813	1,567,917
Office maintenance	882,199	932,249
Printing & stationary	630,212	701,366
Insurance	881,004	761,435
Loss due to embezzlement	711,740	-
Auditor's remuneration	455,815	410,000
Repairs and maintenance	259,810	263,701
Loss on sale of assets	55,733	-
Meeting expenses	33,792	61,878
Subscription fees	115,530	25,000
Filing fee	16,250	564,050
Miscellaneous expenses	2,000	7,702
	14,004,025	**24,321,077**

3) Supplementary information

3.1 Contingent liabilities and commitments

	31-Mar-12	31-Mar-11
Contingent liabilities	Nil	Nil
Commitments		Nil

3.2 Additional disclosures pursuant to the Reserve Bank Directions vide circular no. RBI/2010-11/118, DNBS (PD).CC.No.178/03.02.001/2010-11, dated 1 July, 2010

3.2.1 Capital to Risk-Assets Ratio [CRAR]

	31-Mar-12	31-Mar-11
CRAR %	**29.15%**	**21.40%**
CRAR - Tier I Capital (%)	29.15%	21.40%
CRAR - Tier II Capital (%)	0%	0%

3.2.2 Loans classification as per RBI

The loan portfolio has been classified as per the norms prescribed for classification by the Reserve Bank of India through Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 2007. The necessary provisions as per RBI norms have been made. The details are shown below:

Rs.

Asset classification	Loan outstanding (without provisioning)				Provision		
	31-Mar-12		31-Mar-11		31-Mar-12	During the year	31-Mar-11
	No. of accounts	Amount	No. of accounts	Amount	Amount	Amount	Amount
Standard assets	8,862	537,524,433	11,126	715,654,489	3,159,540	-	3,576,803
Sub-standard assets	217	6,285,319	384	5,450,794	3,142,660	-	2,725,397
Doubtful assets	-	-	-	-	-	-	-
Loss assets	-	-	-	-	-	-	-
Total	**9,079**	**543,809,752**	**11,510**	**721,105,283**	**6,302,200**	-	**6,302,200**

3.3. Loans classification as per RBI

Name of the bank/financial institution	Balance [Rs.] Outstanding as at		Repayment period including moratorium	Type of security
	31-Mar-12	31-Mar-11		
1. TERM LOANS - SECURED				
A. From banks				Hypothecation of book debts of the company
State Bank of India – Bangalore	-	16,749,540		
State Bank of India – Dharwad	-	20,174,280		
Indian overseas bank-Bangalore	6,113,444	10,660,050	60 monthly installments terminating on November, 2013	

Indian overseas bank - Dharwad	35,522	7,224,120	Repayable in 36 monthly installments with a moratorium period of 3 months terminating on April, 2012	
State Bank of India - Bangalore	-	25,000,000		
State Bank of India - Bangalore	-	31,347,570		
State Bank of India - Dharwad	-	30,000,000		
State Bank of India - Dharwad	-	34,800,000		
KVG Bank - Dharwad	25,952,358	36,643,310	Repayable in 36 monthly installments with a moratorium period of 6 months terminating on May, 2013	
KVG Bank - Dharwad	10,875,443	20,495,570	Repayable in 36 monthly insta llments with a moratorium period of 6 months terminating on January, 2014	
HDFC Bank - Dharwad	-	1,666,670		
Total	**42,976,767**	**234,761,110**		

B. From other Financial Institutions				
NABARD - Bangalore - I Financial Services	2,216,000	5,552,000	Repayable in 10 quarterly installments terminating on November, 2012	Hypothecation of book debts of the company
NABARD - Bangalore - I	20,000,000	25,000,000	Repayable in 10 half-yearly installments terminating on December, 2015	
NABARD - Bangalore	30,000,000	-	Repayable in 5 yearly installments terminating on July, 2016	
NABARD - Bangalore - II Financial Services	3,104,450	5,437,850	Repayable in 12 quarterly installments terminating on June, 2013	
SIDBI - Bangalore - I	7,501,000	10,000,000	Repayable in 12 quarterly installments commencing from January 10, 2012.	
SIDBI - Bangalore - II	-	8,443,800	Repayable in 4 years with a moratorium of 6 months	
SIDBI - Bangalore - II	14,300,000	28,580,000	Repayable in 12 quarterly installments commencing from January 10, 2012.	
Ananya Finance for inclusive growth private limited.	-	10,000,000	18 months	
	-	16,666,660	18 months	
	-	38,888,890	18 months	
	5,555,551	30,555,550	18 months	
Total	**82,677,001**	**179,124,750**		

2. UNSECURED LOANS FROM RELATED P ARTIES		
IDF SHG Federation - Dharwad	-	2,412,800
IDF SHG Federation - Haveri	-	22,026,950
IDF SHG Federation - Tumkur	-	23,324,170
IDF SHG Federation - Gadag	-	4,521,310
IDF SHG Federation - Belgaum	-	838,800
Initiative for Development Foundation - I	2,645,987	2,645,987
Initiative for Development Foundation - II	-	825,380
Total	**2,645,987**	**56,595,397**
3. CASH CREDIT FROM BANKS		
State bank of India - Bangalore	131,096,680	111,370,270
State bank of India - Dharwad	201,580,120	75,238,360
State bank of India - Tumkur	3,864,888	-
Total	**336,541,688**	**186,608,630**

3.4. Earnings per share

Reconciliation of basic and diluted shares used in computation of earnings per share

	31-Mar-12	31-Mar-11
Net profit as per profit and loss account [Rs.]	5,818,251	3,344,806
Weighted average number of shares considered for computation of basic earnings per share	10,821,230	6,221,678
Add: Effect of convertible preference shares	7,232,485	746,668
Weighted average number of shares considered for computation of diluted earnings per share	18,053,715	6,968,346
Nominal value per share [Rs.]	10	10

3.5. Gratuity [disclosure under AS-15]

The Company has a defined benefit gratuity plan. Every employee who has completed five years or more of service entitled to a gratuity on departure 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 summaries 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 respective plan:

3.5.1 Profit and Loss Account

	31-Mar-12	31-Mar-11
Current service cost	-	-
Interest cost on benefit obligation	-	-
Expected return on plan assets	-	-
Net actuarial (gain) / loss recognized in the year	-	-
Past service cost		-
Net expense recognized	-	-

3.5.2 Balance sheet

	31-Mar-12	31-Mar-11
Defined benefit obligation	-	-
Less: Fair value of plan assets	-	-
	-	-
Less: Unrecognized past service cost	-	-
Plan liability / (asset)	**-**	**-**
Actual return on plan assets		

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

	31-Mar-12	31-Mar-11
Opening defined benefit obligation	-	-
Interest cost	-	-
Current service cost	-	-
Benefits paid	-	-
Actuarial (gains) / losses on obligation	-	-
Closing defined benefit obligation	**-**	**-**

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

	31-Mar-12	31-Mar-11
Opening fair value of plan assets	-	-
Expected return	-	-
Contributions by employer	-	-
Benefits paid	-	-
Actuarial gains / (losses)	-	-
Closing fair value of plan assets	**-**	**-**

3.5.5 The major categories of plan assets as a percentage of the fair value of total plan assets are as follows

	31-Mar-12	31-Mar-11
Investments with insurer	0%	0%

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

3.5.6 The principal assumptions used in determining gratuity benefit obligations for the company's plans are shown below

	31-Mar-12	31-Mar-11
Discount rate	8%	8%
Attrition rate	10%	10%
Salary escalation rate	7.5%	7.50%

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

3.6 Related party disclosures

3.6.1 Names of related parties and nature of relationship

Names	Nature of relationship
Initiative for Development Foundation	Entity in which key management personnel have significant influence
IDF SHG Federation – Belgaum	
IDF SHG Federation – Haveri	
IDF SHG Federation - Tumkur	
IDF SHG Federation - Gadag	
IDF SHG Federation – Dharwad	
Mr. Vivekanand Salimath	Key management Personnel
Mr. N M Patil	

3.6.2 Nature of transactions

Rs.

Name of related party	Nature of transaction	Type	31-Mar-12	31-Mar-11
IDF SHG Federation – Dharwad	Loans disbursed	Payment	15,000,000	
	Loan repayment	Payment		
	Interest paid	Payment		
	Dividend paid	Payment	454,075	
IDF SHG Federation – Belgaum	Loan repaid	Payment		
	Interest paid	Payment		
IDF SHG Federation – Haveri	Loan repaid	Payment		
	Interest paid	Payment		
IDF SHG Federation – Tumkur	Loan repaid	Payment		
	Interest paid	Payment		
IDF SHG Federation – Gadag	Loan repaid	Payment		
	Interest paid	Payment		
Initiative for Development Foundation	Loan repaid	Payment		
	Interest paid	Payment		
Mr. N M Patil	Remuneration	Payment	1,285,248	1,269,016

3.6.3 The outstanding receivable/(payable) as on Balance Sheet date

	31-Mar-12	31-Mar-11
IDF SHG Federation – Dharwad	15,000,000	(2,412,800)
IDF SHG Federation – Belgaum	-	(838,800)
IDF SHG Federation – Haveri	-	(22,026,950)
IDF SHG Federation – Tumkur	-	(23,324,170)
IDF SHG Federation – Gadag	-	(4,521,310)
Initiative for Development Foundation	(2,645,987)	(3,471,367)

3.7 The outstanding receivable/(payable) as on Balance Sheet date

	31-Mar-12	31-Mar-11
Earnings	Nil	Nil
Expenditure	Nil	Nil

3.8 Other information required under para 5(viii) of Part II of Revised Schedule VI of the Companies Act-Nil/Not applicable.

3.9 Prior year comparatives

The previous year figures are regrouped /rearranged to conform to current year's presentation as per revised Schedule VI of Companies Act, 1956.

As per our report of even date

for **M/s. R R Kulkarni & Co.,**	for **IDF Financial Services Private Limited**
Chartered Accountants	
F R. No.: 010916S	
(R R Kulkarni)	**(V N Salimath)** Chairman / **(N M Patil)** Managing Director
Proprietor	
M. No.: 211616	

Date : July 27, 2012
Place: Bengaluru

IDF FINANCIAL SERVICES PRIVATE LIMITED

Notes to the financial statements as at March 31, 2012

Note 2.8 : Fixed assets

Rs.

Particulars	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As on March 31, 2011	Additions for the year	Deletions for the year	As on March 31, 2012	Up to March 31, 2011	Additions for the year	Deletions For the year	As on March 31, 2012	As At March 31, 2012	As at March 31, 2011
A. Tangible assets										
Computer and Accessories	2,301,558	469,321	141,758	2,629,121	1,157,999	1,050,088	133,907	2,074,180	554,941	1,143,559
Furniture and Fixtures	1,383,931	111,180	99,081	1,396,030	310,233	263,714	51,199	522,748	873,282	1,073,698
Vehicle	170,250	-	-	170,250	88,126	44,078	-	132,204	38,046	82,124
Office equipment	1,528,632	28,385	-	1,557,017	177,111	306,939	-	484,050	1,072,967	1,351,521
Total [A]	**5,384,371**	**608,886**	**240,839**	**5,752,418**	**1,733,469**	**1,664,820**	**185,106**	**3,213,182**	**2,539,236**	**3,650,902**
B. Intangible assets										
Acquisition of trademark for right to use brand name and other intellectual property rights	37,000,000	-	-	37,000,000	7,400,000	3,700,000	-	11,100,000	25,900,000	29,600,000
Total [A+B]	**42,384,371**	**608,886**	**240,839**	**42,752,418**	**9,133,469**	**5,364,820**	**185,106**	**14,313,182**	**28,439,236**	**33,250,902**
Previous year	***39,474,220***	***2,910,151***	-	***42,384,371***	***4,255,455***	***4,878,013***	-	***9,133,469***	***33,250,902***	

Date : July 27, 2012
Place: Bengaluru

IDF FINANCIAL SERVICES PRIVATE LIMITED

SCHEDULE

Balance Sheet of a Non-Deposit taking Non-Banking Financial Company as on March 31, 2012

[As required in terms of Paragraph 13 of Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007]

Rs. in ooo's

	Particulars	Amount Outstanding	Amount Overdue
Liabilities side:			
1	**Loans and advances availed by the NBFCs inclusive of interest accrued thereon but not paid:**		
a	Debentures : Secured	-	-
	: Unsecured	-	-
	(other than falling within the meaning of public deposits)		
b	Deferred Credits	-	-
c	Term Loans	462,195	-
d	Inter-corporate loans and borrowings	-	-
e	Commercial paper	-	-
f	Public Deposits	-	
f	Other loans (Unsecured)	2,646	-
II Breakup of 1(f) above (outstanding public deposits)*			
a	In the form of Unsecured debentures	-	
b	In the form of partly secured debentures i.e., debentures where	-	
	there is a shortfall in the value of security	-	
c	Other public deposits	-	

Represents unrenewed deposits

	Particulars	Amount Outstanding
Assets side:		
2	**Break-up of Loans and Advances including bills receivables (Other than those included in (4) below):**	
a	Secured	-
b	Unsecured	540,667
3	**Break-up of Leased Assets and Stock on hire and other assets counting towards AFC activities:**	-
(i)	Lease assets including lease rentals under sundry debtors	-
a	Financial Lease	-
b	Operating Lease	-
(ii)	Stock on hire including hire charges under sundry debtors	
a	Assets on hire	-
b	Repossessed Assets	-
(iii)	Other loans counting towards AFC activities:	
a	Loans where assets have been repossessed	-
b	Loans other than (a) above	-

	Particulars	Cost	Market value
4 Break-up of Investments:			
	Current Investments:		
A	**Quoted**		
i	**Shares:**		
a	Equity	-	-
b	Preference	-	-
ii	Debentures and Bonds	-	-
iii	Units of Mutual funds	-	-
iv	Government Securities	-	-
v	Others (Please Specify)	-	-
B	**Unquoted**		
i	**Shares:**		
a	Equity	-	-
b	Preference	-	-
ii	Debentures and Bonds	-	-
iii	Units of Mutual funds	-	-
iv	Government Securities	-	-
v	Others (Please Specify)	-	-
	Long Term Investments		
A	**Quoted:**		
i	**Shares:**		
a	Equity	-	-
b	Preference	-	-
ii	Debentures and Bonds	-	-
iii	Units of Mutual funds	-	-
iv	Government Securities	-	-
v	Others (Please Specify)	-	-
B	**Unquoted**		
i	**Shares:**		
a	Equity	-	-
b	Preference	-	-
ii	Debentures and Bonds	-	-
iii	Units of Mutual funds	-	-
iv	Government Securities	-	-
v	Others (Please Specify)	-	-
	Total	-	-
*Unquoted Investments disclosed at break up / fair value / NAV			

5 Borrower group-wise classification of assets financed as in (2) and (3) above:				
				Rs. in ooo's
	Category	Amount net of provisions		
		Secured	Unsecured	Total
A	Related Parties**	-	15,000	15,000
a	Subsidiaries	-	-	-
b	Companies in the same group	-	-	-
c	Other related parties	-	-	-
B	**Other than related parties**	-	525,667	525,667
	Total	-	**540,667**	**540,667**

6. Investor group-wise classification of all investments (current and long term) in shares and securities (both quoted and unquoted)			
	Category	Market Value/ Break up or fair value or NAV	Book Value (Net of provisions)
A	**Related parties ****		
a	Subsidiaries	-	-
b	Companies in the same group	-	-
c	Other related parties	-	-
B	**Other than related parties**	-	-
	Total	-	-

** As per Accounting Standard of ICAI

7	Other Information	
	Particulars	*Rs. in ooo's*
(i)	**Gross Non-Performing Assets**	-
a	Related Parties	-
b	Other than related parties	6,285,319
(ii)	**Net Non-Performing Assets**	-
a	Related Parties	-
b	Other than related parties	3,142,660
(iii)	**Assets acquired in satisfaction of debt**	-

As per our report of even date

for **M/s. R R Kulkarni & Co.,**
Chartered Accountants
F R. No.: 010916S

(R R Kulkarni)
Proprietor
M. No.: 211616

for **IDF Financial Services Private Limited**

(V N Salimath)
Chairman

(N M Patil)
Managing Director

Date : July 27, 2012
Place: Bengaluru

Sri. Jagadish Shettar, Minister for Rural Development and Panchayat Raj- Government of Karnataka inaugurating workshop on "Financial Inclusion- Convergence of efforts" on 9th February, 2012.

Sri Basant Seth, CMD, Syndicate Bank, visited IDF-FSPL stall at an exhibition organized by Karnataka Vikas Gramin Bank

SHG members receiving Micro loan

Book keeping by SHG members

SHG members undergoing training in Micro Enterprise Development Programme

idf

IDF Financial Services Private Limited (IDF FSPL)

Regd. Office: 147, 1st Floor, 11th 'C' Cross
1st Main, WOC Road, 2nd Stage, Mahalakshmi Puram
Bengaluru-560 086 | Phone: 080 23197714
Fax: 080 23123652 | email: idf.finance@gmail.com

Admn. Office : No. 81, Bhushan Nilaya, 3rd Main,
10th Cross, Manjunatha Colony, Shivagiri, Dharwad- 580 008
Phone: 0836 2772701, 2771804 | email: idff.ao@gmail.com
website: www.idf-finance.in