

Advocating for
universal access to
financial services

mission

IFMR Trust is a private trust whose mission is to ensure that every individual and every enterprise in India has complete access to financial services.



c o n t e n t s

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Message from the Chairman

A number of certainties about financial systems dissolved in the face of the massive economic and trade crises suffered by most nations, in varying degrees. In such an environment, it would seem adventurous to suggest that some design principles may still be invoked to create a financial system that is capable of serving all the three masters: growth, stability and inclusion.

I would like to put forward three principles:

- Financial products have a long-cycle character, and the effect of moving cash flows from one time period to another, one geographical location to another, and one state to another. While designing a financial system, we have to be fully conscious of this core character of financial products.

- Financial products interact in a complex way with the household's cash flows. When used well, financial products are able to smoothen out kinks in the finances of a household. For this to happen, financial products have to be well-designed and offered with utmost care to customers so that the products integrate smoothly with the household's cash flows.

- Financial risks must be borne by those who are in the best position to understand, manage and absorb risks; those who are not in this position must transfer the risks.

A financial system based on these three principles will have the following features:

- *Numerous lightly but adequately capitalised local financial institutions equipped with the highest level of capability to fully understand each and every household they serve, and with the ability to take full responsibility for the quality of financial services offered to each household.*

These would be the risk originators. They would be equipped to offer the entire range of financial services required by a household, including savings, loans, insurance, investment and pension

products. They would have enough capital to absorb the risks particular to the set of households they serve (idiosyncratic risk). Given low levels of capitalisation, risk originators would not be permitted to hold high levels of risk, such as risk implied by offering savings and insurance services from their own balance sheets.

- *Moderately capitalised national financial institutions with the ability to closely monitor the behaviour of local financial institutions and the willingness to absorb residual risk, while requiring that local financial institutions hold most of the risks particular to the households they serve.*

These would be the risk transmitters. They would seek to isolate systemic components of the risks borne by local households and, therefore, the local financial institution. Risk transmitters would transfer the risks to national/global institutions that are better placed to absorb these risks.

- *Heavily capitalised and well diversified national financial institutions with the ability to hold and diversify all the area-specific risks of local financial institutions.* These would be risk aggregators. They would not be specialised according to any specific product category and would need to be regulated principally from the customer protection standpoint.

Risk transmitters and risk aggregators could be specialised according to product type; alternatively, they could be integrated. Rating agencies and risk transmitters would have to supervise the quality of operations of risk originators. Thresholds of entry can be lowered.

While the failure of a risk originator is a possibility, and could imply the failure of a risk transmitter, the failure of a risk aggregator could have catastrophic effects on the financial system. Hence, for risk aggregators, a special class of regulation would be required. The capital limit to qualify as a risk aggregator would have to be extremely high. Additionally, strong

diversification and credit rating requirements would have to be imposed on risk aggregators.

IFMR Trust is a non-profit organisation which believes that such a design is essential to deliver financial inclusion, with the imperatives of growth and stability. Further, the Trust believes such a design is viable. Indeed, IFMR Trust's efforts are focused on demonstrating its feasibility.

IFMR Trust began operations in January 2008, and I hope you will see from this annual report that, in a relatively short period of two-and-a-half years, it has made considerable progress. There is still a long journey ahead, but I am confident that the talented team assembled by IFMR Trust is more than up to the challenge.

Nachiket Mor

“Financial risks must be borne by those who are in the best position to understand, manage and absorb risks; those who are not in this position must transfer the risks.”



Message from the President



In Andipatti village in Thanjavur district, where Pudhuaaru KGFS, one of our investee companies, has a branch, I recently met a woman I cannot stop thinking about. She and her husband are doing everything they can - agricultural labour, odd jobs in the village, even migrating to find work - to ensure that their two girls and two boys are put through college. The girls are close to graduating; the boys are still in high school.

Speaking to the woman, I couldn't help feeling that the power of finance and financial markets was not being made available to the family when they needed it badly. If the family were "financially included," they would be able to "move resources across time". They would be able to benefit from the fact that the two girls may soon have jobs and an income; that future income could be tapped today, through a loan. Instead, the woman and her husband had to earn all the resources required to send their children to college. And despite all their efforts, the numbers were just not adding up!

This family is not an exception. Sadly, they represent a majority of households in our country whom our financial system has failed to reach.

Pudhuaaru KGFS will work with this particular family and offer them a wealth management plan with a suite of customised products. Likewise, it will work with similar families through its branches. But what about the millions of other households in the country?

At IFMR Trust, we strongly believe that the answer lies in well-functioning financial markets. Well-functioning financial markets enable movement of resources

across time, through borrowings, savings and investments; and movement of resources across states, through insurance and derivatives. When these two central features of finance combine with the innate desire of people to improve their lives and the lives of their children, the result can be deeply transformative.

Well-functioning financial markets enable movement of resources across time and states. When these two features combine with the innate desire of people to improve their lives and the lives of their children, the result can be deeply transformative.

But the challenge remains: How do we ensure that every citizen of our country benefits from the two central features of finance? And how do we do this quickly -- every day lost is a day in which millions of families have had to make bad, potentially debilitating decisions because this power was not available to them?

We believe financial inclusion can happen quickly if the financial system has three elements:

- A large number of high-quality, local *risk originators* offering a full range of financial products and wealth management services to their individual, local corporate and local government clients.
- An adequate number of *risk transmitters*

Financial inclusion: key India metrics

Number of districts 'critically excluded' in terms of credit from institutional sources	256*
Average number of people served per bank branch (rural)	18,000 [§]
Population covered by insurance of any type	<10% [@]
Population participating in debt and equity markets, directly or indirectly (through mutual funds, etc)	8 million [†]

* Presentation made by Dr K C Chakrabarty, Deputy Governor, RBI; New Delhi, 2009

§ World Bank-NCAER Rural Financial Access Survey, 2003

@ UNDP, 2007

† Report of Committee on Investor Awareness and Protection (Swarup Committee report), 2009

who can isolate systemic components of the risk borne by households and risk originators, and transfer it to financial institutions and markets that are better placed to absorb such risks.

- *Risk aggregators* in the form of a few well-capitalised and well-managed financial institutions with the ability to hold and diversify all the area-specific risks of the risk originators.

Think of a life insurance policy bought by a customer at her doorstep, or at a branch of a financial institution close to her house. The policy pays out within hours of a need arising, but the actuarial risk embedded in the insurance is held by a national entity with the capital to bear the risk. In simple words, every individual and every enterprise needs to be close to a financial

institution that is, in the words of Professor Jonathan Murdoch, reliable, convenient, flexible and continuous. In order to be sustainable, these financial institutions need to transfer risks that are beyond their ability to manage to larger, better equipped financial institutions and capital markets.

All of our work is geared towards making this vision a reality.

How are we going about it?

We realised that for a challenge as daunting as the one we face, we needed to make a big shift from the strategies used so far. Accordingly, we are engaged in a unique brand of advocacy -- one that is firmly rooted in the reality of the financial services needs of our country, and engages directly with the existing financial system to bring it closer to the goal of financial inclusion.

We are not sitting on the sidelines or protesting against the status quo. We are participating in the change process, in the following thematic areas:

Deepening our understanding of the financial services needs of under-served segments

Working towards universal access to finance is too important a challenge to be driven by anecdote, however well told.

We think it is vital that all our product and channel innovations are rooted in a textured understanding of the financial status and needs of households.

To illustrate, one of the issues we are grappling with is the fact that many households in rural India, including rich households, build savings mainly through physical assets -- livestock, plots of land, houses. Most of these assets are illiquid, highly correlated to the local economy, and have low total income potential. A good outcome of financial access would be that these households start converting physical assets to more secure financial assets, such that even if households take risks, they will do so in exchange for good long-term returns. And they will be able to adequately diversify their exposure to risks.

How can financial service providers facilitate this transition? Is the mere provision of a high-quality savings account adequate? Are additional “nudges” required, in the form of product design and communication? The fact is, we don’t really know. The only way to know is through a process of careful experimentation and learning.

We do this with the help of our partner research centres.

In the year under review, our partner research centres - Centre for Micro Finance (CMF), Centre for Insurance and Risk Management (CIRM), Centre for Innovations in Financial Design (CIFD), and InnerWorlds - continued to investigate themes that are important to amplify the impact of financial access.

CMF completed the world’s first randomised evaluation of micro credit, in partnership with Spandana, an MFI based in Hyderabad and Massachusetts Institute of Technology. The results were widely discussed and have been influential in developing a deeper understanding of the impact of micro credit on households and enterprises. Ongoing analysis of the 2,000 households that were studied under this programme is expected to yield valuable insights for MFIs and their stakeholders. CMF has also completed a series of studies that examined the role of groups and group meetings in strengthening the social capital of joint liability groups and repayment rates. These findings are critical as MFIs contemplate the evolution of their operating models.

In partnership with the Economic Growth Centre at Yale University, CMF is running a large-scale panel survey covering all districts of Tamil Nadu to gather data that will be used to study the pathways through which economic development is getting influenced. The panel survey will also give us granular data about the shape of financial inclusion over time in dynamic settings.

CIFD went ahead in its efforts to develop usable conceptual insights that could improve the design of financial products and channels. For example, it carried out a study to identify and analyse behavioural reasons for sub-optimal allocation of resources in dairy production and irrigation. The insights from this study will help in the design of financing mechanisms for investments in livestock and irrigation -- two of the most attractive investment opportunities available to farmers in India. A similar study was conducted to help identify financing opportunities to improve the efficiency of water markets.

CIRM continued to design and test insurance solutions for livestock,

agriculture and healthcare. The research centres also hosted and participated in knowledge-sharing and training events during the course of the year. CIRM partnered with Wharton Business School to hold a training programme for practitioners on micro insurance design in emerging markets. CMF’s partnership with the Reserve Bank of India’s College of Agriculture Banking has continued to deepen. The microfinance summit held in January 2010 brought together leading practitioners, researchers and regulators, to reflect on the theme of translating insights from recent microfinance research projects to better practice.

InnerWorlds continued to map the subjective experience of lives, livelihoods, aspirations and wellbeing of households in rural India, using a participatory dialogic approach. In 2009-10, the team added 411 life stories from Tamil Nadu, Orissa, Uttarakhand and Bihar, to take its respondent database to a total of 592 families spread across India. More families and more states will be covered in the current year to capture high-quality data that reflects the complexities in the financial lives of households. Insight gained from these stories has been taken forward by IFMR entities in various ways, including structuring the dialogue process between KGFS wealth managers and clients.

Directly catalysing the creation of high-quality originators for remote rural India, and addressing performance issues faced by existing originators in both rural and urban India

India does not have enough financial institution front-ends. There is, on average, one bank branch for every 11,000 people in the country (18,000 in rural areas). Bank branches provide a narrow range of financial services, and people have to travel several kilometres to effect even a basic transaction. Clearly, there is a need for several hundred well-functioning financial institutions that also serve the remotest villages. In our view, the task of creating the required number of originators is too large for any one entity.

Our approach, therefore, is as follows:

- We are backing the creation of a few large, prototypical high-quality originators in diverse contexts and geographies. The prototypes are expected to offer the full range of services and meet the ideal in a demonstrably impactful, sustainable and profitable manner.
- We are building industry utilities in risk management, technology and training

that will enable easy replication of these prototypes.

- We are working hard to persuade other players in the market to proliferate originators.

We are working closely with three financial institutions to develop them as examples of high-quality origination: Pudhuanu Kshetriya Gramin Financial Services (KGFS) in Thanjavur and Thiruvarur districts of Tamil Nadu; Sahastradhara KGFS in Dehradun, Rudra Prayag, Tehri Garhwal, Pauri Garhwal and Uttarkashi districts of Uttarakhand; and Dhanei KGFS in Ganjam and Khurda districts of Orissa. In the year under review, these three institutions achieved an aggregate outreach of over 900 villages and hamlets, and 58,994 customers. Jointly with IFMR Rural Finance, which is building the above-mentioned industry utilities, these institutions offer their clients a suite of products under the integrated wealth management approach.

We are also working with Aajeevika Bureau, Rajasthan, to develop a model of origination for seasonal migrants - a segment that is roughly 100-million strong, yet has been largely ignored by the formal financial system. Aajeevika Bureau has come up with channels and products that meet the unique needs of this segment.

In the current year, we have initiated work with the rapidly growing business correspondent (BC) network of banks, to understand how BCs can be “complete” access points for financial services. We also worked with India’s largest BC network, developed by FINO Fintech Foundation - affiliated to FINO, one of our investee companies - and helped them add a lending product to their channel.

Simultaneously, we are trying to identify and isolate factors that led to some originators performing better than others within a common legal and governance structure. We are gleaning lessons from district cooperative credit banks (DCCBs) in India and community development finance institutions (CDFIs) in the United States that have weathered the sub-prime crisis. These lessons will be critical for newer types of originators such as KGFS entities and MFIs.

Some high-quality originators, particularly not-for-profit ones, are unable to scale up due to shortage of risk capital. For these entities we have promoted IFMR Mezzanine, to create a mezzanine finance product. With mezzanine finance, originators get risk capital and the investor is repaid from the company’s balance sheet, without acquiring an equity stake.

Clearly, there is a need for several hundred well-functioning financial institutions that serve the remotest villages.

Message from the President

This levels the playing field for for-profit and not-for-profit entities, as far as the ability to access risk capital is concerned.

IFMR Mezzanine got off to a good start in fiscal 2010; the current year will be its first year of full-fledged operations.

Building mechanisms for orderly risk transfer to risk aggregators

A key threat to regionally focused originators is that they may hold risks in their balance sheets that they are ill-equipped to manage. They do not have the capital to withstand risks such as a failed monsoon, or shocks to the local economy. Hence, mechanisms have to be built for transfer of risk. The US credit crisis has taught us that moral hazard is rampant when risk is traded. The Indian experience of failed development finance institutions, regional rural banks, state finance corporations, and cooperative banks has highlighted the dangers of holding on to concentrated risks within poorly diversified entities. We need a market infrastructure that ensures that risk transfer happens in an orderly manner, and that capital finds its way to disciplined, high-quality originators.

The primary purpose of our investee company, IFMR Capital, is to create just such a market infrastructure, to begin with in micro finance. In the year under review, IFMR Capital securitised micro finance debts of INR 1.05 billion. In a pathbreaking transaction for the global micro finance market, the company facilitated the participation of a mutual fund investor. In another historic effort, it arranged and co-invested in the world's first multi-originator securitisation of micro loans. Multi-originator securitisation is significant because it allows an originator to be regionally focused while giving the investor the benefit of diversification through pooling. We also believe that the presence of multiple investor groups promotes greater transparency and price discovery in this rapidly growing and robust asset class.

Debt access through markets will reduce servicer-concentration risks in the industry structure by enabling smaller and newer entities to benefit from access to capital. It will also create conditions for orderly market competition which, in turn, may sharply bring down rates of interest being charged by MFIs; there would be no need for legislation that could stifle access to finance.

Focusing on provider liability for financial wellbeing

At an unforgettable meeting with Professor Robert Merton earlier this year, he told us that financial literacy was like asking a customer who is being wheeled into surgery: "Do you want 14 sutures or 17?" Our view on this issue is similar. We feel complexity in financial product design is necessary, perhaps even desirable, to engineer an optimal solution to a customer's problems. Financial literacy then becomes an impossible task. Rather than transfer the onus on to the customer, who is expected to be "well-informed" and "literate", *we believe financial providers should be accountable for outcomes arising from the use of financial services and the advice provided.*

This shift of accountability places an enormous burden of expertise on the financial provider. We have designed a course called 'Financial Engineering for

Low-Income Households', in partnership with the faculty at IFMR Business School, to impart a building-blocks understanding of finance to providers of financial services. The course is mandatory for all our staff and those of our investee companies. We are looking forward to making the course and its textbook widely available to other financial institutions.

We are also developing a website (IFMR Wealth Manager) that will feature all the calculators and simulators required to allow the employee of a financial institution to provide her customer with a high-quality financial plan.

Ensuring that providers can offer a full range of well-designed financial products and services

Access to finance is effective only when there is a wide range of financial products and

services that meet all the liquidity and risk management needs of individuals and enterprises. Our product development efforts are focused on large segments that currently receive inadequate attention. Examples include working capital finance for small businesses; exchange-linked warehouse receipt finance; livestock insurance; remittances, index funds, and money market mutual funds for rural markets. IFMR Rural Finance and IFMR Ventures are dedicated to this task, in the household and enterprise spaces respectively.

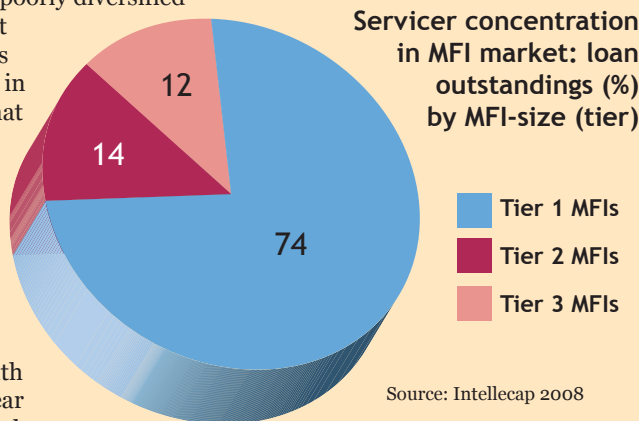
IFMR Ventures has incubated sector-specific companies called network enterprises (NE). In the year under review, these companies improved our understanding of scalable solutions for supply chain constraints that businesses in rural India face. Some NEs work closely with KGFS entities to develop financing propositions for specific enterprises; others directly address supply chain bottlenecks. The Rural Tourism NE is ready for the next stage of growth in providing reliable access to markets for thousands of properties in remote rural India, after having successfully tested the model with over 250 properties in coastal Maharashtra. The Agricultural Terminal Markets NE deals with improving price discovery and small-lot exchange trading capability among farmers. It has facilitated exchange trade worth about INR 65 million for castor and groundnut farmers in Kadi (Mehsana) and Maliya (Junagadh), in Gujarat. In the coming months, the Agricultural Terminal Markets NE will look to replicate this infrastructure widely with other regional partners.

The Dairy NE, in partnership with Pudhuuuru KGFS and CIRM, conceptualised and rolled out a livestock insurance product based on radio frequency identification (RFID) tagging; it has also developed a prototype for delivery of animal healthcare services.

These are exciting times for people working towards financial inclusion in India. We are witnessing a wonderful convergence of technology, capital and human resources, which makes me believe that we are going to reach our goal sooner than we thought.

I take this opportunity to thank the Governing Council of IFMR Trust for inspiring and challenging us, and for being generous with their time and guidance. I thank the CEOs of our investee companies and all IFMR Trusters for their unwavering focus in helping us execute the group's mission. I also thank ICICI Group for its continued mentorship and support of our work.

Bindu Ananth



Access to finance is effective only when there is a wide range of financial products and services that meet all the liquidity and risk management needs of individuals and enterprises.

IFMR TRUST GOVERNING COUNCIL



Dr NACHIKET MOR
Chair, Governing Council



DEIDRA WAGER
Member, Governing Council



W BOWMAN CUTTER III
Member, Governing Council



Dr TILMAN EHRBECK
Member, Governing Council



H N SINOR
Member, Governing Council



BINDU ANANTH
*President and Member,
Governing Council*

SENIOR MANAGEMENT



BINDU ANANTH
*President, IFMR Trust
 and Member, Governing Council*



SG ANIL KUMAR
*Senior Vice President
 and CEO, IFMR Rural Finance*



SUCHARITA MUKHERJEE
*Senior Vice President
 and CEO, IFMR Capital*



DAVE WALLACK
*Senior Vice President and
 Head, Transformation
 (strategy, innovation, design),
 IFMR Trust*



PUNEET GUPTA
*Senior Vice President
 and CEO, IFMR Mezzanine*



DEEPTHI REDDY
Head, IFMR Ventures



L MURALIDHARAN
Head, Finance



M UDAYA KUMAR
Head, Human Capital

Auditors' report to the trustees of IFMR Trust

1. We have audited the attached Balance Sheet of IFMR TRUST ("the Trust") as at March 31, 2010, the Profit and Loss Account and the Cash Flow Statement of the Trust for the year ended on that date, both annexed thereto. These financial statements are the responsibility of the Trust's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and the disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a

reasonable basis for our opinion.

3. We report that:

(i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

(ii) in our opinion, proper books of account as required by law have been kept by the Trust so far as it appears from our examination of those books;

(iii) the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;

(iv) in our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in compliance with the Accounting Standards issued by the Institute of Chartered Accountants of India;

(v) in our opinion and to the best of

our information and according to the explanations given to us, the said accounts give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Trust as at March 31, 2010;

(b) in the case of the Profit and Loss Account, of the loss of the Trust for the year ended on that date and

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

For DELOITTE HASKINS & SELLS
Chartered Accountants
(Registration No. 008072S)

Bhavani Balasubramanian
Partner
(Membership No. 22156)
Chennai
June 2, 2010

IFMR Trust, Chennai
Balance Sheet as at March 31, 2010

	Schedule	As at March 31, 2010 (Amount in INR)	As at March 31, 2009 (Amount in INR)
I SOURCES OF FUNDS			
General fund		1,000	1,000
Loan funds			
Secured loan	1	-	300,205,479
Unsecured loan			
Term loan from bank (Refer note No.3.3 of Schedule 12)		1,500,000,000	1,500,000,000
Revocable grants from bank (Refer note No.3.3 of Schedule 12)		564,628,532	564,628,532
Total		2,064,629,532	2,364,835,011
II APPLICATION OF FUNDS			
Fixed assets	2		
Gross block		33,137,653	15,642,437
Less: Accumulated depreciation		12,917,352	5,674,426
Net block		20,220,301	9,968,011
Capital advances		30,481,553	-
Investments	3	811,091,459	90,616,581
Advance subscription towards proposed investment in equity shares (Refer note 3.1 of Schedule 12)		453,632,609	605,150,000
Deferred tax asset (Refer note 3.12 of Schedule 12)		-	11,348,213
Current assets, loans & advances			
Cash and bank balances	4	179,979,288	922,965,085
Loans & advances	5	458,982,354	735,256,109
		638,961,642	1,658,221,194
Current liabilities & provisions			
Current liabilities	6	23,921,702	35,745,938
Provisions	7	1,270,000	1,528,000
		25,191,702	37,273,938
Net current assets		613,769,940	1,620,947,257
Profit and Loss Account		135,433,670	26,804,949
Total		2,064,629,532	2,364,835,011

Notes forming part of accounts

12

Schedules referred to above form an integral part of this Balance Sheet

As per report of our even date

For Deloitte Haskins & Sells
Chartered Accountants

For and on behalf of IFMR Trust

Bhavani Balasubramanian
Partner

Bindu Ananth
President

L Muralidharan
Head, Finance

Place: Chennai
Date: June 2, 2010

IFMR Trust, Chennai Profit and Loss Account for the year ended March 31, 2010					
	Schedule		For the year ended March 31, 2010 (Amount in INR)		For the year ended March 31, 2009 (Amount in INR)
INCOME					
Interest on loans (Current year TDS 62,42,290 previous year 10,815,016)			58,944,229		54,303,774
Interest on fixed deposits with bank (Current year TDS 53,47,952 previous year 93,63,889)			50,295,306		82,728,965
Interest on debentures			-		731,250
Other income	8		23,203,752		-
Document processing charges			-		37,500
Guarantee fees			-		2,776,310
Total			132,443,287		140,577,799
EXPENDITURE					
Staff costs	9		29,654,625		35,970,141
Administrative and other expenses	10		172,429,965		128,256,644
Interest	11		19,598,139		246,511
Depreciation			7,995,015		6,512,853
Total			229,677,744		170,986,149
Loss for the year			(97,234,457)		(30,408,350)
Taxation					
- Current tax		-		2,300,000	
- Deferred tax		11,348,213		(11,348,213)	
- Fringe Benefit Tax		-		910,000	
- Fringe Benefit Tax relating to earlier years		46,051		-	
			11,394,264		(8,138,213)
Loss after tax			(108,628,721)		(22,270,137)
Loss brought forward from previous year			(26,804,949)		(4,534,812)
Loss carried to Balance Sheet			(135,433,670)		(26,804,949)

Notes forming part of accounts

12

Schedules referred to above form an integral part of this Profit and Loss Account

As per report of our even date

For Deloitte Haskins & Sells
Chartered Accountants

For and on behalf of IFMR Trust

Bhavani Balasubramanian
PartnerBindu Ananth
PresidentL Muralidharan
Head, FinancePlace: Chennai
Date: June 2, 2010

IFMR Trust, Chennai
Cash Flow Statement for the year ended March 31, 2010

Particulars	For the year ended March 31, 2010 (Amount in INR)	For the year ended March 31, 2009 (Amount in INR)
A. CASH FLOW FROM OPERATING ACTIVITIES:		
Loss for the year before tax	(97,234,457)	(30,408,350)
Adjustments for:		
Depreciation	7,995,015	6,512,853
Interest paid	19,598,139	205,479
Interest income on fixed deposit	(50,295,306)	(137,032,739)
Interest income on debentures	-	(731,250)
Interest income recognised in previous year charged off	3,008,573	-
Loss on sale of asset	-	23,853
Assets written off	34,362	24,537
Advances no longer recoverable written off	-	3,690,334
Bad debts written off	4,904,771	-
Provision for doubtful advances	69,486,085	30,102,057
Provision for diminution in value of investments	25,092,200	-
Provision for bad debts provided in earlier years now written back	(18,699,302)	-
Excess gratuity provision of earlier years written back	(258,000)	1,379,000
Operating loss before working capital changes	(36,367,920)	(126,234,227)
Adjustments for:		
Decrease/(Increase) in loans and advances	190,598,496	(387,902,140)
(Decrease)/Increase in current liabilities and provisions	(12,319,025)	28,197,218
Cash generated from/(used in) operations	141,911,551	(485,939,149)
Direct taxes - including Fringe Benefit Taxes paid	(156,051)	(2,092,887)
Net cash generated from/(used in) operating activities	141,755,500	(488,032,036)
B. CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of fixed assets (net)	(17,636,878)	(15,342,531)
Proceeds from sale of fixed assets	-	271,480
Capital advances (asset)	(30,481,553)	-
Investment in subsidiaries	(138,284,498)	(8,832,563)
Investment in associates	(49,000)	-
Investments - others	-	(31,035,000)
Subscription towards purchase of equity shares	(453,632,609)	(605,150,000)
Investment in deposits on lien (net)	328,000,000	(219,000,000)
Interest received	75,146,859	87,176,275
Net cash used in investing activities	(236,937,679)	(791,912,339)

(Continued on next page)

IFMR Trust, Chennai Cash Flow Statement for the year ended March 31, 2010 (contd.)		
Particulars	For the year ended March 31, 2010 (Amount in INR)	For the year ended March 31, 2009 (Amount in INR)
C. CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	-	1,400,205,479
Repayment of borrowings	(300,205,479)	-
Interest paid	(19,598,139)	(205,479)
Net cash (used in)/ generated from financing activities	(319,803,618)	1,400,000,000
Net (decrease)/increase in cash and cash equivalents (A+B+C)	(414,985,797)	120,055,625
Cash and cash equivalents at the beginning of the year	594,965,085	474,909,460
Cash and cash equivalents at the end of the year	179,979,288	594,965,085

As per our report of even date

For Deloitte Haskins & Sells
Chartered Accountants

For and on behalf of IFMR Trust

Bhavani Balasubramanian
Partner

Bindu Ananth
President

L Muralidharan
Head, Finance

Place: Chennai
Date: June 2, 2010

IFMR Trust, Chennai
Schedules to the Balance Sheet as at March 31, 2010

Amount in INR

		As at March 31, 2010	As at March 31, 2009
1 Secured loan			
Loan from bank against deposits (Refer Note No.3.2 of Schedule 12)		-	300,205,479
		-	300,205,479
3 Investments (long term - at cost)			
Investments unquoted:			
In fully paid-up equity shares of subsidiary companies			
IFMR Mezzanine Finance Private Limited (formerly known as Sachkhand Motors and Finance Company Private Limited) (400,000 equity shares (PY 25,000 equity shares) of INR 100 each)		40,400,000	2,900,000
Pudhuaaru Kshetriya Gramin Financial Services (1,000 equity shares (PY 1 equity share) of INR 100 each)		100,000	100
Dhanei Kshetriya Gramin Services (1,000 (PY Nil) equity shares of INR 100 each)		100,000	-
Sahastradhara Kshetriya Gramin Services (1,000 (PY Nil) equity shares of INR 100 each)		100,000	-
NE Aqua Private Limited (9,990 (PY Nil) equity shares of INR 10 each)		99,900	-
NE Crafts Apparel and Furnishings Company Private Limited (9,990 (PY Nil) equity shares of INR 10 each)		99,900	-
NE Education Private Limited (9,990 (PY Nil) equity shares of INR 10 each)		99,900	-
NE Emerging Channels Services Private Limited (9,999 (PY Nil) equity shares of INR 10 each)		99,990	-
NE Green Power Private Limited (9,990 (PY Nil) equity shares of INR 10 each)		99,900	-
NE Housing Company Private Limited (9,990 (PY Nil) equity shares of INR 10 each)	99,900		-
Less: Provision for diminution (Refer note no. 3.4 of Schedule 12)	(99,900)	-	
NE Medicare Private Limited (9,990 (PY Nil) equity shares of INR 10 each)	99,900		-
Less: Provision for diminution (Refer note no. 3.4 of Schedule 12)	(99,900)	-	

IFMR Trust, Chennai
Schedules to the Balance Sheet as at March 31, 2010 (contd.)

Amount in INR				
		As at March 31, 2010		As at March 31, 2009
NE Milkcrush Private Limited (9,990 (PY Nil) equity shares of INR 10 each)		99,900		-
NE Processed Foods Private Limited (9,990 (PY Nil) equity shares of INR 10 each)		99,900		-
NE Rural BPO Company Private Limited (9,990 (PY Nil) equity shares of INR 10 each)	99,900			-
Less: Provision for diminution (Refer note no. 3.4 of Schedule 12)	(99,900)	-		
NE Rural Supply Chain Private Limited (9,990 (PY Nil) equity shares of INR 10 each)		99,900		-
NE Rural Tourism Private Limited (9,990 (PY Nil) equity shares of INR 10 each)		99,900		-
NE Agri Services Private Limited (399,990 equity shares (PY 9,990 equity shares) of INR 10 each)		3,999,900		99,900
IFMR Ventures India Private Limited (formerly known as IFMR Advisory Service India Private Limited) (99,990 equity shares (PY 99,990 equity shares) of INR 10 each)		999,900		999,900
IFMR Finance Foundation (9990 equity shares (PY 9,990 equity shares) of INR 10 each)		99,900		99,900
IFMR Capital Finance Private Limited (59,999,999 equity shares (PY 320,000 equity shares) of INR 10 each)		602,432,843		5,632,763
IFMR Holdings Private Limited (4,909,990 equity shares (PY 9,990 equity shares) of INR 10 each)		49,099,900		99,900
Pudhuaaru Financial Services Private Limited (formerly known as Pamara Micro Finance Private Limited) (4,89,600 (PY Nil) equity shares of INR 10 each)		49,492,328		-
Megha Holdings Private Limited (249,999 (PY Nil) equity shares of INR 10 each)		5,093,300		-
In fully paid-up equity shares of associates				
IKP Center For Advancement in Agricultural Practices (4,900 (PY Nil) equity shares of INR 10 each)		49,000		-
Grameen Capital India Limited (2,475,000 equity shares (PY 2,475,000 equity shares) of INR 10 each)		24,750,000		24,750,000

IFMR Trust, Chennai
Schedules to the Balance Sheet as at March 31, 2010 (contd.)

Amount in INR

		As at March 31, 2010	As at March 31, 2009
Aarusha Homes Private Limited (48,358 (PY Nil) equity share of INR 10 each)		483,580	-
Investment in fully paid up shares of other companies			
Desi Power (Kosi) Private Limited (3,198 (PY Nil) preference shares INR 100 each) Less: Provision for diminution (Refer note no. 3.4 of Schedule 12)	1,750,000 (1,750,000)	-	-
Financial Information and Network Operations Limited (5,00,000 equity shares (PY 5,00,000 equity shares) of INR 10 each)		5,000,000	5,000,000
Education Initiatives Private Limited (1,45,660 equity shares (PY 1,45,660 equity shares) of INR 1 each)		19,999,118	19,999,118
In debentures of:			
Earthy Goods & Services Private Limited (91, (PY 91) 15% debentures of INR 100,000 each) Less: Provision for diminution (Refer note no. 3.4 of Schedule 12)	15,985,000 (7,992,500)	7,992,500	15,985,000
Sandhi HandCrafts Private Limited (47, (PY 47) 15% debentures of INR 100,000 each) (40, (PY 40) 10% debentures of INR 100,000 each) Less: Provision for diminution (Refer note no. 3.4 of Schedule 12)	15,050,000 (15,050,000)	-	15,050,000
		811,091,459	90,616,581
4 Cash and bank balances			
Cash and cheques on hand (cheques on hand - INR 99,000 (PY - Nil))		99,000	5,918
Balance with scheduled banks			
- on current accounts		17,630,288	12,172,261
- on deposit accounts		162,250,000	910,786,906
		179,979,288	922,965,085

(Continued on next page)

IFMR Trust, Chennai
Schedule of fixed assets for the year ended March 31, 2010
Schedule 2

Asset	Gross block						Depreciation				Net block	
	As on 01.04.2009	Additions	Adjustments*	Deletions	As on 31.03.2010	As on 01.04.2009	For the year ended 31.03.2010	Adjustments*	On Deletions	As on 31.03.2010	As on 31.03.2010	As on 31.03.2009
Tangible assets												
Furniture & fittings	2,018,225	5,296,014			7,314,239	242,686	287,421	649,079	63,624	530,107	6,784,132	1,775,539
Computers	11,082,924	6,843,459	1,407,458	97,986	16,420,939	4,955,041	5,168,501	39,386		9,410,839	7,010,100	6,127,883
Office equipments	642,832	2,697,294	147,581		3,192,545	88,977	197,214			246,805	2,945,740	553,855
Vehicles	532,876	3,190			536,066	79,931	68,327			148,258	387,808	452,945
Intangible assets												
Software	1,365,580	4,308,284			5,673,864	307,791	2,273,552			2,581,343	3,092,521	1,057,789
Total	15,642,437	19,148,241	1,555,039	97,986	33,137,653	5,674,426	7,995,015	688,465	63,624	12,917,352	20,220,301	9,968,011
Previous year	2,675,375	15,342,531		2,375,469	15,642,437	1,217,172	6,512,853		2,055,600	5,674,426	9,968,011	1,458,203

*Represents cost and accumulated depreciation of the assets transferred during the year to entities within the group

IFMR Trust, Chennai
Schedules to the Balance Sheet as at March 31, 2010 (contd.)

Amount in INR

		As at March 31, 2010		As at March 31, 2009
5 Loans & advances (unsecured)				
Considered good				
Advances recoverable in cash or in kind or for value to be received including advances to creditors		16,777,084		12,390,191
Loans to group companies		39,826,987		260,348,694
Loans to others		275,893,828		328,074,356
Deposits		74,057,300		74,042,000
Advance tax and tax deducted at source (net of provision for tax) (provision for tax - INR 57,14,051 (PY INR 56,68,000))		29,681,164		17,980,921
Interest accrued but not due on loans given		22,703,793		42,419,947
Amount recoverable towards remuneration	62,198		42,198	
Less: Remuneration payable to trustees	(20,000)	42,198	(42,198)	-
Considered doubtful				
Loans to others	80,888,840		30,102,057	
Less: Provision for doubtful advances (Refer note no. 3.4 of Schedule 12)	(80,888,840)	-	(30,102,057)	-
		458,982,354		735,256,109
6 Current Liabilities				
Sundry creditors		6,106,193		11,299,835
Other liabilities (Refer note no. 3.14 of Schedule 12)		17,815,509		24,446,103
		23,921,702		35,745,938
7 Provisions				
Provision for gratuity		1,270,000		1,528,000
		1,270,000		1,528,000
8 Other Income				
Excess provision for gratuity made in earlier years, written back		258,000		-
Excess provision for doubtful advances made in earlier years no longer required written back		18,699,302		-
Fees for professional services rendered		3,541,659		-
Others		704,791		-
Total		23,203,752		-
9 Staff costs				
Salaries, allowances and bonus		25,828,952		30,326,901
Company's contribution to Provident Fund		3,045,111		3,301,235
Staff welfare expenses		780,562		963,005
Gratuity		-		1,379,000
Total		29,654,625		35,970,141

(Continued on next page)

IFMR Trust, Chennai
Schedules to the Balance Sheet as at March 31, 2010 (contd.)

Amount in INR				
		As at March 31, 2010		As at March 31, 2009
10 Administrative and other expenses				
Incubation expenses (Refer note 3.10 of Schedule 12)		28,693,588		37,140,545
Rent and amenities		2,060,560		1,621,335
Repairs and maintenance				
- Computers	457,893		498,925	
- Repairs	2,516,002	2,973,895	175,819	674,744
Postage and telegrams		156,303		228,316
Printing and stationery		662,958		1,040,926
Telephone expenses		949,723		1,410,779
Travelling and conveyance		3,694,614		9,660,239
Consultancy charges		4,058,480		13,260,807
Legal and professional charges		13,596,408		20,756,029
Brokerage and commission		35,946		48,225
Advertisement charges		152,212		1,693,004
Conference and seminar expenses		2,885,944		2,071,508
Recruitment charges		228,090		38,500
Office expenses		3,732,812		1,695,414
Subscription		108,121		100,022
Sponsorship charges		2,058,337		1,088,951
Software development expenses		608,891		-
Loss on sale of asset		-		23,853
Assets written off		34,362		24,537
Exchange variation (net)		18,186		4,020
Website maintenance and internet expenses		712,210		582,769
Auditors' remuneration				
For statutory audit (inclusive of Service Tax)	1,103,000		877,404	
For tax audit	-		55,150	
For reimbursement of expenses	35,825	1,138,825	18,520	951,074
Provision for doubtful advances		69,486,085		30,102,057
Provision for diminution in value of investments		25,092,200		-
Rates and taxes		-		52,938
Advances no longer recoverable written off		-		3,690,334
Interest income recognised in previous year charged off		3,008,573		-
Bad debts		4,904,771		-
Miscellaneous expenses		1,377,871		295,718
Total		172,429,965		128,256,644
11 Interest and finance charges				
Interest on bank loan		19,554,506		205,479
Bank charges		43,633		41,032
Total		19,598,139		246,511

Schedule 12

Notes on accounts for the year ended March 31, 2010

1. Background

IFMR Trust (hereinafter referred to as Trust) is a private trust established under the Indian Trust Act 1882 on October 19, 2006 at Chennai represented by IFMR Trusteeship Services Private Limited acting in its capacity as trustee to IFMR Trust. IFMR Trust's mission is to ensure that every individual and every enterprise has complete access to financial services.

During the year, Trust acquired one non-banking finance Company (NBFC) to accomplish its mission.

The names and the business of the major Companies which are incubated/acquired by the Trust have been elucidated below:

- IFMR Capital Finance Private Limited (formerly known as Highland Leasing and Finance Private Limited): Its mission is to act as a bridge to mainstream capital markets for entities and asset classes of relevance to low-income households. IFMR Capital's objective is providing liquidity and developing access to debt-capital markets for critical sectors such as, rural financial service providers, urban financial service providers that focus on low-income households, municipalities and rural infrastructure.
- IFMR Ventures India Private Limited (formerly known as IFMR Advisory Services India Private Limited): This Company is a subsidiary of the Trust, and is an Asset Management Company that is launching its first equity fund, IFMR Trust's Network Enterprises Fund™ (NEF). The NEF intends to make investments in some key missing links in rural supply chains. During the year, the Network Enterprise Fund has been registered as a private equity fund with SEBI; however the fund is yet to make commercial investment.
- IFMR Holdings Private Limited: The primary goal of the Company would be to demonstrate by actually building and operating local, geography-focused community financial services institutions that such models of financial access are indeed viable and replicable in IFMR Trust remote rural locations.
- IFMR Finance Foundation: IFMR Trust's principal strategy for ensuring complete access to financial services is advocacy. IFMR Foundation is looking to complement existing efforts in the arena of access to financial services by supporting practice-relevant action research and pilot projects on access to finance, and by influencing thinking and action among key sectoral actors.
- IFMR Mezzanine Finance Private Limited (formerly known as Sachkhand Motors and Finance Company Private Limited): IFMR Mezzanine Finance Private Limited is established with the aim to facilitate access to risk capital to micro finance institutions (MFIs). It is intended that this Company will make investments in micro financial institutions in the form of subordinated debt instruments with a quasi equity nature that can be leveraged by the micro finance institutions with other lenders, allowing them to access funds that were hitherto unavailable to them. This is the first attempt to enable MFIs to use a new class of liability to leverage their equity capital for further expansion.
- Megha Holdings Private Limited (Megha Holdings) is a non deposit taking NBFC, wholly owned by IFMR Trust. The Company was incorporated in September 1985, and was acquired by Trust from its erstwhile promoters in December 2009.

2. Significant accounting policies

2.1 Basis of preparation of financial statements

The financial statements are prepared under the historical cost convention, on the accrual basis of accounting and in accordance with accounting principles generally accepted in India and comply with the accounting standards issued by the Institute of Chartered Accountants of India (ICAI).

The Trust is classified as a Level I enterprise as defined by the scheme of applicability of accounting standards issued by ICAI. Accordingly, the Trust is required to comply with all mandatory accounting standards prescribed by the ICAI.

2.2 Use of estimates

The preparation of the financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of financial statements and the reported amount of revenues and expenses during the reporting period. Management believes that the estimates used in the preparation of financial statements are prudent and reasonable. Future results could differ from these estimates.

2.3 Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation on assets is provided on the Written down Value Method at the following rates:

Asset category	Depreciation rate
Furniture and fittings	10%
Computers	60%
Office equipment	15%
Vehicles	15%

Computer software is amortised over the licence period or five years whichever is lower.

2.4 Impairment of assets

The Trust determines whether there is any indication of impairment of the carrying amount of its assets. The recoverable amount of such assets are estimated, if any indication exists and impairment loss is recognised wherever the carrying amount of the assets exceeds its recoverable amount.

2.5 Investments

Long-term investments are stated at cost of acquisition. Provision for diminution is made if such diminution is considered as being other than temporary in nature.

2.6 Revenue recognition

Income is recognised on accrual basis.

2.7 Leases

Leases are classified as finance or operating leases depending upon the terms of the lease agreements.

Finance leases

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

Operating leases

Leases of assets under which all risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

2.8 Foreign currency transactions

Transaction in foreign currencies is accounted at the exchange rates prevailing on the date of the transaction and the realized exchange loss /gain are dealt with in the Profit & Loss Account. Monetary assets and liabilities denominated in foreign currency are restated at the rates of exchange as on the Balance Sheet date and the exchange gain/loss is suitably dealt with in the Profit and Loss Account.

2.9 Employee benefits

Defined contribution plans

Fixed contributions to Provident Fund made on monthly basis with relevant authorities are absorbed in the Profit and Loss Account.

Defined benefit plans (long-term employee benefits)

Gratuity

The Trust accounts its liability for future Gratuity benefits based on the actuarial valuation as at the Balance Sheet date, determined using the Projected Unit Credit method and is provided for.

Compensated absences

Benefits of compensated absences are not provided to the employees of the Trust.

2.10 Taxes on income

Current tax is determined in accordance with the provisions of Income Tax Act, 1961.

Deferred tax is calculated at the tax rates and laws that have been enacted or substantially enacted as at the Balance Sheet date and is recognised on timing differences that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets, subject to consideration of prudence, are recognised and carried forward only to the extent that they can be realised.

2.11 Provisions, contingent liabilities and contingent assets

Provisions are recognised only when there is a present obligation as a result of past events and when a reliable estimate of the amount of obligation can be made. Contingent liability is disclosed for (i) possible obligation which will be confirmed only by future events not wholly within the control of the Trust or (ii) present obligations arising from past events where it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made. Contingent assets are not recognised in the financial statements since this may result in the recognition of income that may never be realised.

2.12 Provision for advances

Provision for advances given to various parties is made based on the management's analysis of the recoverability of such advances outstanding as at the Balance Sheet date.

3 Notes forming part of accounts

3.1 Advance subscription towards equity shares

Advance subscription of INR 453.63 million represents the proposed investment of INR 3.5 million in the shares of Pudhuaaru Financial Services Private Limited, INR 199.48 million in the shares of Megha Holdings Private Limited, INR 184.65 million in the shares of IFMR Mezzanine Finance Private Limited and INR 66 million in the shares of IFMR Holdings Private Limited. These shares are yet to be allotted.

3.2 The lien on fixed deposits amounting to INR 328 million with bank towards loan of INR 300.20 million was created during the previous year. The loan has been repaid during the year out of the fixed deposits held under lien and the lien was accordingly released.

3.3

A. Unsecured loan

Unsecured loan represents the interest-free term loans received from ICICI Bank Limited. Term loans are given for supporting/funding enterprises set up with the objective of providing services including but not limited to consulting, advisory, training services to low income, unbanked households and/or semi-urban/ rural population in India.

B. Revocable grants

Revocable grants represent funding for specific projects.

3.4 Provision for doubtful advances and diminution in the value of investments

Provision for advances given to various parties is made based on management's analysis of the recoverability of such advances as explained in policy 2.12 above. Provision for diminution in value of investments is made if such diminution is considered other than temporary in nature. The details of movement of these provisions are given below:

	(Amount in INR)			
	Opening balance	Additions	Release	Closing balance
Provision for doubtful advances	30,102,057	69,486,085	18,699,302	80,888,840
Provision for diminution in value of investments	-	25,092,200	-	25,092,200

3.5 Employee benefits

The Trust's obligation towards Gratuity is a defined benefit plan. The details of actuarial valuation have been given below:

Valuation as at March 31, 2010

Movements in accrued liability

	As at March 31, 2010 In INR	As at March 31, 2009 In INR
Accrued liability as at beginning of the period	1,528,000	149,000
Interest cost	122,000	11,000
Current service cost	746,000	1,419,000
Past service cost	0	0
Curtailement cost	0	0
Settlement cost	0	0
Benefits transferred	0	0
Actuarial gain/loss	(1,126,000)	(51,000)
Accrued liability as at the end of the period (No fund is being maintained)	1,270,000	1,528,000
Amounts to be recognised in the Balance Sheet		
Present value of obligations as on the accounting date	1,270,000	1,528,000
Fair value of the plan assets (Zero as no fund is being maintained)	0	0
Liability to be recognised in the Balance Sheet	(1,270,000)	(1,528,000)
Expenses to be recognised in P/L Account		
Interest cost	122,000	11,000
Current service cost	746,000	1,419,000
Past service cost	0	0
Expected return on plan assets	0	0
Curtailement cost (credit)	0	0
Settlement cost (credit)	0	0
Net actuarial (gain)/loss	(1,126,000)	(51,000)
Net expenses to be recognised in P/L a/c	(258,000)	1,379,000
Principal actuarial assumptions		
Interest rate (liabilities)	8%	7.50%
Return on assets	NA	NA
Mortality table	LIC (94-96)	LIC (94-96)
Resignation rate per annum	10%	10%
Salary escalation rate	10%	10%

3.6 Segment reporting

Business segments

The Trust operates under a single segment - providing access to financial services to the under-served population in the country. All assets, liabilities, revenue and expenses relate to this single segment.

Geographical segments

The Trust operates only in the domestic market and therefore, there are no reportable geographical segments as required to be disclosed under Accounting Standard - 17, 'Segment Reporting'.

3.7 Related party disclosures

a) List of related parties and nature of relationship (as identified by management and relied upon by Auditors)

Parties where control exists

i) Trustee Company:

IFMR Trusteeship Services Private Limited represented by Dr Nachiket Mor Director & Chairman Governing Council, IFMR Trust, Prof Balasubramaniam and Soumitra Ghosh - Director.

ii) Associates:

- Grameen Capital India Limited
- IKP Center for Advancement in Agricultural Practices
- Aarusha Homes Private Limited

iii) Subsidiaries:

- IFMR Capital Finance Private Limited
- IFMR Mezzanine Finance Private Limited (formerly known as Sachkhand Motors and Finance Company Private Limited)
- IFMR Finance Foundation
- IFMR Holdings Private Limited
- Pudhuaaru Kshetriya Gramin Financial Services
- Dhanei Kshetriya Gramin Services
- Sahastradhara Kshetriya Gramin Services
- Pudhuaaru Financial Services Private Limited (formerly known as Pamara Micro Finance Private Limited)
- Megha Holdings Private Limited
- IFMR Ventures India Private Limited (formerly known as IFMR Advisory Services India Private Limited)
- NE Emerging Channels Services Private Limited
- NE Agri Services Private Limited
- NE Crafts Apparel and Furnishings Company Private Limited
- NE Education Private Limited
- NE Green Power Private Limited
- NE Housing Company Private Limited
- NE Medicare Private Limited
- NE Milkrush Private Limited
- NE Processed Foods Private Limited
- NE Rural BPO Company Private Limited
- NE Rural Supply Chain Private Limited
- NE Rural Tourism Private Limited
- NE Aqua Private Limited

iv) Key management personnel:

IFMR Trusteeship Services Private Limited represented by Dr Nachiket Mor, Director

Bindu Ananth, President of IFMR Trust

Remuneration is paid by the Trust to the President amounting to INR 2.4 million (Previous year - INR 0.9 million)

a) Transaction with related parties during the year

Related Party	Transaction	Amount (in INR) For the year ended March 31, 2010	Amount (in INR) For the year ended March 31, 2009
IFMR Trusteeship Services Private Limited *	Remuneration to trustees	20,000	20,000
	Advance given	44,048	65,892
IFMR Ventures India Private Limited (formerly known as IFMR Advisory Services India Private Limited)	Advances given	6,228,078	3,071,963
	Investment in equity shares	Nil	999,900
IFMR Holdings Private Limited	Share application money paid	Nil	300,000,000
	Refund of share application money	185,000,000	Nil
	Advances given	33,484,227	29,437,710
	Assets transferred	186,624	Nil
	Investment in equity shares	49,000,000	99,900
	Purchase of shares held by them in Pudhuaaru Kshetriya Gramin Financial Services, Sahastradhara Kshetriya Gramin Services and Dhanei Kshetriya Gramin Services	399.890	Nil
Pudhuaaru Kshetriya Gramin Financial Services	Unsecured loan	44,727,000	116,532,991
	Unsecured loan-repaid during the year	37,227,000	Nil
	Advance given	318,496	Nil
	Investment in equity shares	99,900	100
Dhanei Kshetriya Gramin Services	Advance given	558,852	1,194,878
	Advance received back	1,783,874	Nil
	Investment in equity shares	100,000	Nil

(Continued on next page)

(Contd.)

Sahastradhara Kshetriya Gramin Services	Advance given	588,421	700,795
	Advance received back	1,217,563	Nil
	Investment in equity shares	100,000	Nil
NE Emerging Channels Services Private Limited	Advance given	6,639,977	14,868,822
	Advance received back	20,858,811	Nil
	Investment in equity shares	99,990	Nil
IFMR Capital Finance Private Limited (formerly known as Highland leasing and Finance Private Limited)	Advances given	19,341,755	64,372,472
	Investment in equity shares	596,800,080	5,632,763
IFMR Mezzanine Finance Private Limited (formerly known as Sachkhand Motors and Finance Company Private Limited)	Advance given	7,219,009	510
	Share application money paid	359,036,168	100,000
	Refund of share application money	136,986,168	Nil
	Investment in equity shares	37,500,000	2,900,000
	Assets transferred	145,594	Nil
NE Agri Services Private Limited	Advance given	6,317,173	7,810,264
	Advance received back	7,792,690	Nil
	Share application money paid	Nil	3,900,000
	Investment in equity shares	3,900,000	99,900
IFMR Finance Foundation	Advance given	3,662,733	12,777,803
	Advance received back	3,276,847	58,069,895
	Investment in equity shares	Nil	99,900
	Assets transferred	25,709	Nil
Pudhuaaru Financial Services Private Limited (formerly known as Pamara Micro Finance Private Limited)	Advance given	1,257,171	1,250,000
	Share application money paid	47,500,000	Nil
	Investment in equity shares	49,492,328	Nil
Megha Holdings Private Limited	Advance given	1,300,510	Nil
	Share application money paid	203,182,609	Nil
	Refund of share application money	3,700,000	Nil
	Investment in equity shares	5,093,300	Nil
NE Crafts Apparel and Furnishings Company Private Limited **	Advance given	804	Nil
	Investment in equity shares	99,900	Nil
NE Education Private Limited**	Advance given	804	Nil
	Investment in equity shares	99,900	Nil
NE Green Power Private Limited**	Advance given	189,911	Nil
	Investment in equity shares	99,900	Nil
NE Housing Company Private Limited**	Advance given	1,416	Nil
NE Medicare Private Ltd**	Advance given	35,120	Nil
NE Milkcrush Private Limited**	Expenses reimbursement	26,282	Nil
	Investment in equity shares	99,900	Nil
NE Processed Foods Private Limited**	Advance given	804	Nil
	Investment in equity shares	99,900	Nil
NE Rural BPO Company Private Limited**	Advance given	1,216	Nil
NE Rural Supply Chain Private Limited**	Advance given	804	Nil
	Investment in equity shares	99,900	Nil
NE Rural Tourism Private Limited**	Advance given	1,201,686	Nil
	Advance received back	968,176	Nil
	Investment in equity shares	99,900	Nil
NE Aqua Private Limited**	Advance given	1,824	Nil
	Investment in equity shares	99,900	Nil
IKP Center for Advancement in Agricultural Practices **	Investment in equity shares	49,000	Nil

b) Outstanding balances with related parties as on Balance Sheet date

Related Party	Transaction	Amount (in INR) as at March 31, 2010	Amount (in INR) as at March 31, 2009
IFMR Trusteeship Services Private Limited *	Remuneration to Trustees	20,000	20,000
	Advance given and outstanding	34,714	65,892
IFMR Ventures India Private Limited (formerly known as IFMR Advisory Services India Private Limited)	Advance given and outstanding	9,138,659	3,071,963
	Investment in equity shares	999,900	999,900
IFMR Holdings Private Limited	Investment in equity shares	49,099,900	99,990
	Share application	66,000,000	300,000,000
	Advance given and outstanding	1,524,904	29,437,710
Pudhuaaru Kshetriya Gramin Financial Services	Unsecured loan	7,500,510	116,532,991
	Investment in equity shares	100,000	100
Dhanei Kshetriya Gramin Services	Advance given and outstanding	(30,144)	1,194,878
	Investment in equity shares	100,000	Nil
Sahastradhara Kshetriya Gramin Services	Advance given and outstanding	71,654	772,045
	Investment in equity shares	100,000	Nil
NE Emerging Channels Services Private Limited	Advance given and outstanding	454,988	14,868,822
	Investment in equity shares	99,990	Nil
IFMR Capital Finance Private Limited (formerly known as Highland leasing and Finance Private Limited)	Unsecured loan	2,587,368	64,372,472
	Investment in equity shares	602,432,843	5,632,763
IFMR Mezzanine Finance Private Limited (formerly known as Sachkhand Motors and Finance Company Private Limited)	Advance given and outstanding	7,219,519	510
	Investment in equity shares	40,400,000	2,900,000
	Share application money	184,650,000	100,000
NE Agri Services Private Limited	Unsecured loan	6,310,039	7,785,556
	Investment in equity shares	3,999,900	99,900
IFMR Finance Foundation	Investment in equity shares	99,900	99,900
	Advance given and outstanding	1,331,639	920,044
Pudhuaaru Financial Services Private Limited (formerly known as Pamara Micro Finance Private Limited)	Investment in equity shares	49,492,328	Nil
	Share application money	3,500,000	Nil
	Advance given and outstanding	1,257,171	Nil
Megha Holdings Private Limited	Investment in equity shares	5,093,300	Nil
	Share application money	199,482,609	Nil
	Advance given and outstanding	1,300,510	Nil
NE Crafts Apparels and Furnishings Company Private Limited **	Investment in equity shares	99,900	38,079
	Advance given and outstanding	38,883	Nil
NE Education Private Limited**	Investment in equity shares	99,900	Nil
	Advance given and outstanding	26,383	25,579
NE Green Power Private Limited**	Investment in equity shares	99,900	Nil
	Advance given and outstanding	215,490	25,579
NE Housing Company Private Limited**	Investment in equity shares #	99,900	Nil
	Advance given and outstanding	30,965	29,549
NE Medicare Private Ltd**	Investment in equity shares #	99,900	Nil
	Advance given and outstanding	26,736	58,216

NE Milkrush Private Limited**	Investment in equity shares Advance given and outstanding	99,900 (15,703)	Nil 10,579
NE Processed Foods Private Limited**	Investment in equity shares Advance given and outstanding	99,900 16,383	Nil 25,579
NE Rural BPO Company Private Limited**	Investment in equity shares Advance given and outstanding	99,900 30,765	Nil 29,549
NE Rural Supply Chain Private Limited**	Investment in equity shares Advance given and outstanding	99,900 11,383	Nil 10,579
NE Rural Tourism Private Limited**	Investment in equity shares Advance given and outstanding	99,900 517,715	Nil 27,039
NE Aqua Private Limited**	Investment in equity shares Advance given and outstanding	99,900 31,723	Nil 29,899
IKP Center for Advancement in Agricultural Practices **	Investment in equity shares	49,000	Nil

* The remuneration payable to trustees is recoverable from beneficiary.

** Represents entities which have become subsidiaries during the year. Consequently, previous year figures have not been furnished.

Provision for the entire investments in these subsidiaries has been made during the year.

3.8 Leases

Operating leases

The Trust has not entered into any non-cancellable operating leases. The Trust has taken premises on cancellable operating leases and lease payments on such operating leases amounting to INR 2.06 million (Previous year INR 1.62 million) have been charged to Profit and Loss account.

Finance leases

The Trust has not taken any finance lease.

3.9 A) As on March 31, 2010, the value of estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances paid) is INR 30 million (Previous year - INR 70.95 million)

B) Contingent liabilities

Contested claims not provided for:

Particulars	As at March 31, 2010	(Amount in INR)
		As at March 31, 2009
Disputed claim against the Trust (to the extent quantifiable)	46,130,000	Nil

Note: During the year, Trust has won the case in the Supreme Court of the State of New York. The plaintiff is likely to file an appeal against the Trust after completion of court formalities. However, the Trust is of the opinion that the above demand is not sustainable and expects to succeed in any further appeal by the plaintiff.

3.10 During the year, Trust carried out various pilot projects and incubated entities in line with the mission of the Trust for access to finance by every individual and enterprise. The initial incubation expenses and other support costs incidental to these companies to the extent of INR 28.69 million (Previous Year INR 37.14 million) have been incurred and absorbed by IFMR Trust.

3.11 The Trust shares certain costs/service charges with other entities in the Group. These costs have been allocated between the entities on a basis mutually agreed to between the entities and the Trust.

3.12 Breakup of deferred tax asset and deferred tax liability arising out of timing differences:

Description	Year ended March 31, 2010	Amount in INR)
		Year ended March 31, 2009
Deferred tax asset		
Gratuity	-	519,367
Provision for doubtful advances	-	10,231,689
Depreciation	-	597,157
Total	-	11,348,213
Deferred tax liability	-	-
Net deferred tax asset		11,348,213

As at March 31, 2010, the timing differences arose mainly on account of carry forward losses, employee benefits, provision for doubtful advances and diminution in the value of investments, resulting in a net deferred tax asset. However the net deferred tax asset had not been recognised as the management believed that there was no virtual certainty that sufficient future taxable income would be available to realise the deferred tax asset.

3.13 Pursuant to amendment in Finance Act, 2009, Fringe Benefit Tax has been abolished with effect from April 1, 2009 and hence no provision is considered for the year April 1, 2009 to March 31, 2010.

3.14 During the year, Trust has entered into a share purchase agreement with the promoters of Pamara Micro Finance Private Limited (now known as Pudhuaaru Financial Services Private Limited) for acquiring the shares of this Company. As per the agreement, an amount of INR 0.15 million has been retained by the Trust and shown under Schedule 6 - Current Liabilities, which would become payable on completion of certain secretarial matters in a manner that would not attract any legal consequences to the buyers or their successors.

3.15 Previous year figures have been regrouped/reclassified wherever necessary.

For Deloitte Haskins & Sells
Chartered Accountants

For and on behalf of IFMR Trust

Bhavani Balasubramanian
Partner
Place: Chennai
Date: June 2, 2010

Bindu Ananth
President

L Muralidharan
Head, Finance

