2015

IFMR FImpact Investment Fund

(A Scheme of IFMR Finance for Freedom Social Venture Fund)

First Annual Report 2014-15

IFMR Investment Managers

CONTENTS

ANNUAL REPORT

INTRODUCTION

IFMR Finance for Freedom Social Venture Fund is a contributory determinate Trust, settled in India by the Settlor (with Initial Settlement being irrevocable) under the provisions of the Indian Trusts Act, 1882, pursuant to an Indenture entered into between the Settlor and the Trustee. IFMR FImpact Investment Fund **("Fund")** is the first scheme of the Trust.

The Trust and the Fund is registered as an AIF with SEBI as a Category I AIF - Social Venture Fund under the provisions of SEBI (Alternative Investment Funds) Regulations, 2012. The Fund has been assigned rating of '<u>AA (AIF)</u>' by CARE Ratings denoting that the asset selection ability and asset management capabilities in their respective segments for this scheme are expected to be good.

BRIEF PROFILE:

IFMR HOLDINGS PRIVATE LIMITED – SETTLOR

IFMR Holdings Private Limited provides strategic direction to underlying investee companies. IFMR Trust is the controlling shareholder in IFMR Holdings Private Limited. It has settled the Trust with an initial contribution of Rupee Ten Thousand Only in favour of SBICAP Trustee Company Limited.

SBICAP TRUSTEE COMPANY LIMITED – TRUSTEE

SBICAP Trustee Company Limited (STCL) incorporated in December 28, 2005 is a wholly owned subsidiary of SBI Capital Markets Limited and is registered with Securities Exchange Board of India (SEBI) as a Debenture Trustee. SBICAP Trustee Company Limited is the Trustee of IFMR Finance for Freedom Social Venture Fund, which is registered as a Trust in Mumbai.

IFMR INVESTMENT MANAGERS PRIVATE LIMITED – SPONSOR AND INVESTMENT MANAGER

IFMR Investment Managers Private Limited's objective is to provide high quality investment management services in asset classes that impact the financially excluded. IFMR Investment Managers is the Sponsor and Investment Manager of the Fund. IFMR Investment Managers Private Limited has entered into an Investment Management agreement with SBICAP Trustee Company Limited and has been appointed as Manager of the Fund. Being a sponsor, IFMR Investment Managers Private Limited has invested Rupee Five Crores only

Report of the Board of Directors of IFMR Investment Managers Private Limited

(For the period ended 31st March 2015)

Dear Investors,

We have pleasure in presenting the 1st Annual Report on IFMR FImpact Investment Fund ('AIF' or 'Fund'), a close-ended 6-year Scheme of IFMR Finance for Freedom Social Venture Fund registered with SEBI as a Category I Alternative Investment Fund (AIF), for the period ended 31st March 2015.

Scheme Performance:

a. NAV per unit:

Particulars	Class A	Class B
As on 31st March 2015	1,00,378.5358	1,00,364.0686

b. Gross Income as a % of Average Assets Under Management (AAUM):

Gross Income	Rs. 33.86 Lakhs
AAUM (Average daily net assets)	Rs. 4,535.60 Lakhs
Gross Income as a % of AAUM (Actual)	0.75%
Gross Income as a % of AAUM (Annualized)	136.26%

c. Expense Ratio:

Particulars	Class A	Class B
1. Total Expenses as % of AAUM	0.37%	0.38%
2. Management Fee as % of AAUM (including service Tax @ 12.36%)	-	1.12%
3. Risk Premium	-	0.50%

d. Net Income as % of AAUM:

Particulars	Class A	Class B
1. Net Income as % of AAUM (Actual)	0.38%	0.36%
2. Net Income as % of AAUM (Annualized)	68.95%	66.32%

e. Distribution:

Particulars	Class A	Class B
For the quarter ended 31st March 2015	Nil*	Nil*

* - Excluding the Tax paid on behalf of the Investors which is held as Current Assets and to be adjusted at the time of first distribution

f. Returns:

Particulars	Class A	Class B
Annualized since Inception	69.08%	66.44%

MARKET REVIEW AND FUTURE OUTLOOK:

MICROFINANCE SECTOR

The Microfinance sector has witnessed a holistic strong growth in the past year on multiple aspects such as portfolio outstanding, number of clients served, number of branches and operating efficiency. Improvement in capital and funding availability to Microfinance Institutions (MFIs) has been the instrumental factor enabling such growth. Unlike the previous cycle where the primary growth driver was higher loan amounts without significant customer addition, the current cycle has witnessed a 23% growth in customer additions. RBI's improved regulatory framework and the effectiveness of credit bureaus post the implementation of Aditya Puri Committee recommendations have further ensured robustness of the current growth cycle.

On April 7, 2015, RBI, as part of the monetary policy, announced that the borrower indebtedness levels would be doubled to Rs.100,000 from Rs.50,000 and relaxed the maximum household income levels to Rs.100,000 and Rs.160,000 from Rs.60,000 and Rs.120,000, for rural and urban borrowers respectively. These changes are expected to provide further impetus for MFIs to expand their coverage while also increasing their portfolio size in the ensuing fiscal.

✓ Portfolio Growth:

The overall portfolio growth has improved steadily by 20% and 35% during FY13 and FY14 respectively. While the growth of portfolio outstanding was 40% from Mar'13 to Mar'14, it was over 50% from Dec'13 to Dec'14. The total number of clients for the microfinance sector has increased by 23% from 2.3 crore as of Dec '13 to 2.9 crore as of Dec '14.

✓ Increase in Debt Funding:

MFIs' access to debt funding has shown a steady growth in FY 2015 as compared to the previous financial years as lenders' comfort on the sector improved given the steady growth backed by good asset quality and a robust regulatory environment. . Though the amount of total funding has reduced in the 3rd quarter of FY15 on a sequential quarter basis, the MFI sector received debt funding of Rs.9,070 crore in Q3FY15 which is an increase of 163% over the corresponding quarter of the previous financial year.

The share of bank lending as a percentage of the total funding to the MFIs has reduced from 82% in Q3 FY14 to 77% in Q3 FY15, although it still continues to be the major source of lending to the sector. In absolute terms, the funding by banks has taken a big leap forward of about 148%, from Rs.2820 Crores in 3Q FY14 to Rs.7000 Crores in 3Q FY15. Also, there is increasing funding support from financial institutions in the form of debt funding.

- ✓ Portfolio Quality:

  The portfolio quality of the MFIs has shown consistent improvement over the last few years with PAR dropping from 2% (June 2012) to 0.3% (December 2014), one of the reasons being availability of credit data of clients. Today, most of the MFIs mandatorily share information with the credit bureaus and this has increased the comfort to lend in the sector. As of January 2015, 15.8 crore client account records have been updated with the two credit bureaus - Equifax and High Mark - compared to 7 crore as of March 2013.

- ✓ Equity:

  Total equity raised by MFIs in FY15 (upto Dec-15) increased by 126% over FY14, mainly owing to a few large deals in the sector. Nonetheless the number of MFIs that have raised equity in FY15 (upto Dec-15) stood at 10, compared to only 6 in FY14. The median equity amount raised also doubled to INR 70 Crores from INR 35.50 Crores in FY 14.

Fund Rating and outlook

The Fund has been rated 'CARE AA (AIF)' by CARE and it denotes that the asset selection ability and asset management capability are expected to be good. The Fund is the first AIF in India to have the Fund rating.

The Fund was able to receive commitments of 85% and deploy 45% of its targeted corpus of Rs.100 Crores (including a green shoe option of Rs.50 Crores) in the first year for the Fund. Given the continued demand for medium to long term investments in the microfinance sector, there is expectation that the balance commitments and deployment of the entire corpus would happen during the first quarter of FY 16.

With the proposed equal mix of Sub-ordinated and Senior Debt investments from the Fund, we expect the target returns to be higher than the initial 13% p.a. that we had planned for Class B investors.

Operations of the Scheme:

a. Average Assets under Management (AAUM): As on 31st March '2015, the assets under management (AUM) stood at Rs.45.44 Crores and the average AUM stood at Rs.45.36 Crores.

b. Operations and investor service: With a view to rendering timely and efficient investor servicing, the Investment Manager of the fund, viz., IFMR Investment Managers Private Limited has set-up a dedicated infrastructure for providing investor support and for redressing their grievances. In this regard, Computer Age Management Services Private Limited has been appointed by the Fund with the focus to use technological innovation for facilitating investors' convenience. The Fund is the first AIF in India to provide daily NAV and daily unit statement to its investors.

Brief background of the Sponsor and Investment Manager

IFMR Investment Managers Private Limited is a wholly owned subsidiary of IFMR Capital Finance Private Limited. IFMR Investment Managers' objective is to provide high quality investment management services in asset classes that impact the financially excluded.

Investment Objectives of the Scheme

The investment objective of the Fund is to promote financial inclusion in India by facilitating development of the Indian microfinance sector through investments in various securities of Microfinance Institutions (MFIs) and its underlying assets.

Significant accounting / Valuation Policies

Accounting and valuation policies are in accordance with the accounting standards prevalent in India, and SEBI (AIF) Regulations, 2012.

Statutory Information

a. Holdings in the Scheme of any single entity:
   i. In excess of 25% of signed Capital Commitments : Nil
   ii. Maximum Exposure as % of signed Capital Commitments : 15.29%
   iii. Minimum Exposure as % of signed Capital Commitments : 11.76%

b. Leverage and borrowings: Fund has not borrowed during the period ended 31st March 2015.

Risk Management System

In line with the policies of the Sponsor of the Fund, Investment Manager has adopted a full-fledged risk management framework with detailed underwriting guidelines and has automated the investment decision-making process. The Investment Manager has been rated on fund management quality as 'AMC Quality 2' by ICRA in a scale of 'AMC Quality 1' to 'AMC Quality 5', with 'AMC Quality 1' being the highest and it denotes high assurance on management quality thereby becoming the first Alternative Investment Manager to have a rating.

Liability and Responsibility of Sponsor and Investment Manager

The Investment Manager's primary responsibility is to function in the best interests of the investors and in accordance with the Regulations, the provisions of the Trust Deed and the Scheme PPM. The Sponsor and Investment Manager has also contributed Rs.5 Crores as investment in Class A, which is beyond the statutory requirement of Rs.2.50 Crores (being 2.5% of fund size or Rs.5 Crores, whichever is lower).

Acknowledgement

IFMR Investment Managers Private Limited expresses its gratitude to the investors for their continued support, Regulators, bankers, market intermediaries, fund accounting and investor servicing service provider, legal adviser, tax adviser and the management and employees of the Trustee for their continued support and guidance during the year.

REPORT OF THE SBICAP TRUSTEE COMPANY LIMITED

(For the period ended 31st March 2015)

BRIEF BACKGROUND OF THE TRUST AND TRUSTEE

IFMR Finance for Freedom Social Venture Fund is registered as a Trust in Mumbai with SBICAP Trustee Company Limited as the Trustee.

UNCLAIMED DISTRIBUTION AND REDEMPTION

There has been no distribution or redemption during the period ended 31st March 2015.

DISCLOSURE OF INVESTOR COMPLAINTS

The disclosure regarding investors' complaints is as under:

Total number of Folios: 9

Redressal of Complaints received for the period ended 31st Mach 2015

Complaint Code	Type of Complaint	No. of complaints received during the period	Resolved				Non Actionable *	Pending			
			Within 30 days	30-60 days	60-180 days	Beyond 180 days		0-3 months	3-6 months	6-9 months	9-12 months
I A	Non-receipt of income distribution on units	-	-	-	-	-	-	-	-	-	-
I B	Interest on delayed payment	-	-	-	-	-	-	-	-	-	-
I C	Non receipt of redemption proceeds	-	-	-	-	-	-	-	-	-	-
I D	Interest on delayed payment	-	-	-	-	-	-	-	-	-	-
II A	Non receipt of unit statement	2	2	-	-	-	-	-	-	-	-
IIB	Discrepancy in statement of account	-	-	-	-	-	-	-	-	-	-

Compliant Code	Type of Complaint	No. of complaints received during the period	Resolved				Non Actionable *	Pending			
			Within 30 days	30-60 days	60-180 days	Beyond 180 days		0-3 months	3-6 months	6-9 months	9-12 months
II C	Data corrections in Investor details	1	1	-	-	-	-	-	-	-	-
II D	Non-receipt of Annual Report	-	-	-	-	-	-	-	-	-	-
III A	Deviation from Scheme attributes	-	-	-	-	-	-	-	-	-	-
III B	Wrong or excess charges / load	-	-	-	-	-	-	-	-	-	-
III C	Non-updation of changes viz., address, PAN, bank details, nomination etc.	-	-	-	-	-	-	-	-	-	-
IV #	Others	-	-	-	-	-	-	-	-	-	-

- including against its authorized persons / distributors / employees etc.

* - Non-actionable means the complaints that are incomplete or outside the scope of the Fund

Statutory Information

SBICAP Trustee Company Limited, the Trustee of the Fund is not responsible or liable for any loss or shortfall resulting from the operation of the Fund. IFMR Holdings Private Limited, the Settlor of the Fund is not responsible beyond the initial contribution made towards the set-up of the Trust and such other accretions/additions to the same.

The market value and redemption value of the units, and income from them, can go up as well as down with fluctuations in the market value of its underlying instruments.

Copies of the Trust Deed and Contribution Agreement have been provided to all the investors as part of the welcome kit. Any investor requiring additional copies can contact the Investor Service team of Investment Manager to obtain the same. The annual report and the statutory investor reporting as per SEBI Regulations will be made available to all the Investors.

Liability and Responsibility of Trustee

The main responsibility of the Trustee is to safeguard the interest of the investors and to ensure that IFMR Investment Managers Private Limited – the Investment Manager - functions in the interest of the investors, and in accordance with the Regulations, the provisions of the Trust Deed and the Scheme PPM. From the information provided to the Trustee and the reviews the Trustee has undertaken, the Trustee believes that IFMR Investment Managers Private Limited has operated in the interests of the investors and in accordance with the regulations.

Acknowledgement

The Trustee takes this opportunity to express their gratitude to the investors for their continued support, regulators, bankers, fund accounting and investor servicing service provider, legal adviser, tax adviser, market intermediaries and the management and employees of the Investment Manager for their continued support and co-operation during the year.

Audited Financial Statements 2014-15

INDEPENDENT AUDITORS' REPORT

TO THE TRUSTEE OF
IFMR FIMPACT INVESTMENT FUND

Report on the Financial Statements

We have audited the accompanying financial statements of **IFMR FIMPACT INVESTMENT FUND** ("the Fund") which comprise the Balance Sheet as at March 31, 2015, the Revenue Account of the Fund for the period then ended and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Managements of SBICAP Trustee Company Limited (the "Trustee") and IFMR Investment Managers Private Limited (the "Investment Manager") are responsible for the preparation of these financial statements that give a true and fair view of the financial position and financial performance of the Fund in accordance with the accounting principles generally accepted in India. This responsibility also includes maintenance of adequate accounting records for safeguarding the assets of the Fund and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgements and estimates that are reasonable and prudent; and design, implementation and maintenance of internal controls relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements 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 Fund as at March 31, 2015;

(b) in the case of the Revenue Account, of the deficit of the Fund for the period ended on that date.

Report on Other Requirements

We report that:

(a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
(b) In our opinion, proper books of account as required by law have been kept by the Fund so far as it appears from our examination of those books.
(c) The Balance Sheet and the Revenue Account dealt with by this report are in agreement with the books of account of the Fund.

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

Bhavani Balasubramanian
Partner
(Membership No. 22156)

CHENNAI, 9 April**,** 2015

IFMR FImpact Investment Fund

(A Scheme of IFMR Finance for Freedom Social Venture Fund)

BALANCE SHEET AS AT MARCH 31, 2015

Amount in INR

Particulars	Schedule No.	As at March 31, 2015
I. Sources of funds		
Unit Capital	A	452,725,000
Reserves and Surplus	B	(1,502,154)
Deferred Interest (Refer 2 (vi))		3,171,976
Current Liabilities and Provisions	C	524,530
TOTAL		**454,919,352**
II. Application of funds		
Portfolio Investments	D	450,000,000
Cash and Bank balance	E	4,327,327
Current Assets, Loans and Advances	F	592,025
TOTAL		**454,919,352**

Net Asset Value per Unit (Refer Note 8)

- Class A Unit	1,00,378.5358
- Class B Unit	1,00,364.0686

See accompanying Notes forming integral part of the financial statements

In terms of our report attached

For
Deloitte Haskins & Sells
Chartered Accountants

Bhavani Balasubramanian
Partner

Place: Chennai
Date: April 9, 2015

For & on behalf of
SBICAP Trustee Company Limited

Authorised Signatory

Place: Mumbai
Date: April 9, 2015

For & on behalf of
IFMR Investment Managers Private Limited

Puneet Gupta
Director

Place: Chennai
Date: April 9, 2015

IFMR FImpact Investment Fund
(A Scheme of IFMR Finance for Freedom Social Venture Fund)

REVENUE ACCOUNT FOR THE PERIOD FROM MARCH 30, 2015 TO MARCH 31, 2015

Amount in INR

Particulars	Schedule No.	For the period from March 30, 2015 to March 31, 2015
INCOME		
Interest Income from Investments	G	211,438
Additional Interest Income		3,024
TOTAL		**214,462**
EXPENDITURE		
Investment Management fees (Refer Note 3)		18,684
Trusteeship fees (Refer Note 4)		
- Acceptance Fees		112,360
- Annual Fees		120,400
Auditors' Remuneration		
- Audit Fees		200,000
- Service Tax		24,720
Other Operating Expenses	H	1,240,452
TOTAL		**1,716,616**
Deficit for the period		**(1,502,154)**
Income Distributed		-
Tax on Income Distributed		-
Deficit for the period		**(1,502,154)**
Retained Surplus/(Deficit) at the beginning of the period		-
Net Deficit transferred to Revenue Reserve		**(1,502,154)**

See accompanying Notes forming integral part of the financial statements

In terms of our report attached

For	For & on behalf of	For & on behalf of
Deloitte Haskins & Sells	**SBICAP Trustee Company Limited**	**IFMR Investment Managers Private Limited**
Chartered Accountants		
Bhavani Balasubramanian	**Authorised Signatory**	**Puneet Gupta**
Partner		**Director**
Place: Chennai	**Place: Mumbai**	**Place: Chennai**
Date: April 9, 2015	**Date: April 9, 2015**	**Date: April 9, 2015**

IFMR FImpact Investment Fund

(A Scheme of IFMR Finance for Freedom Social Venture Fund)

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT MARCH 31, 2015

Schedule – A Unit Capital	As at March 31, 2015 Units	 Amount in INR
Unit Contribution committed by Contributors :		
Class A Units of Rs.100,000 each		149,250,000
Class B Units of Rs.100,000 each		698,475,000
Class C Units of Rs.100,000 each		-
		847,725,000
Units application money		
Class A Units application money @ Rs.100,000 each	1,492.50	149,250,000
Less: Capital Returned to investors	-	-
Unit contribution	1,492.50	149,250,000
Class B Units application money @ Rs.100,000 each	3,034.75	303,475,000
Less : Calls-in-Arrears	-	-
Less: Capital Returned to investors	-	-
Unit contribution	3,034.75	303,475,000
Class C Unit application money @ Rs.100,000 each	-	-
Less : Calls-in-Arrears	-	-
Less: Capital Returned to investors	-	-
Unit contribution	-	-
TOTAL	**4,527.25**	**452,725,000**

Schedule – B Reserves and Surplus	As at March 31, 2015 Amount in INR
Revenue Reserve	
At the Beginning of the Period	-
Net Deficit transferred from Revenue Account	(1,502,154)
AT THE END OF THE PERIOD	**(1,502,154)**

Schedule – C Current Liabilities and Provisions	As at March 31, 2015 Amount in INR
Sundry Creditors	293,393
Statutory Liabilities	231,137
TOTAL	**524,530**

IFMR FImpact Investment Fund

(A Scheme of IFMR Finance for Freedom Social Venture Fund)

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT MARCH 31, 2015

Schedule – D **Portfolio Investments**	**As at** **March 31, 2015** **Amount in INR**
In Non-Convertible Debentures of:	
- Secured & Senior	
Fusion Micro Finance Private Limited	100,000,000
- Unsecured & Sub-ordinated	
Suryoday Micro Finance Private Limited	100,000,000
Satin Creditcare Network Limited	130,000,000
Grama Vidiyal Micro Finance Limited	120,000,000
TOTAL	**450,000,000**

Schedule – E **Cash and Bank Balance**	**As at** **March 31, 2015** **Amount in INR**
Balance with Banks – Current Accounts	4,327,327
TOTAL	**4,327,327**

Schedule – F **Current Assets, Loans and Advances**	**As at** **March 31, 2015** **Amount in INR**
TDS receivable	234,444
Accrued Income	196,802
Tax paid on behalf of Investors	160,751
Others	28
TOTAL	**592,025**

IFMR FImpact Investment Fund

(A Scheme of IFMR Finance for Freedom Social Venture Fund)

SCHEDULES FORMING PART OF THE REVENUE ACCOUNT FOR THE PERIOD MARCH 30-31, 2015

Schedule - G **Income**	**For the period from March 30, 2015 to March 31, 2015** Amount in INR
Interest Income from Investments	
Suryoday Micro Finance Private Limited	47,945
Fusion Micro Finance Private Limited	41,096
Satin Creditcare Network Limited	63,219
Grama Vidiyal Micro Finance Limited	59,178
TOTAL	**211,438**

Schedule – H (Refer Note 6) **Operating expenses**	**For the period from March 30, 2015 to March 31, 2015** **Amount in INR**
Professional Charges	640,452
Registration Fee	600,000
TOTAL	**1,240,452**

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT MARCH 31, 2015

BACKGROUND

IFMR Finance for Freedom Social Venture Fund (“the Fund) is a Contributory Determinate Trust constituted under the Indian Trusts Act, 1882 and settled by IFMR Holdings Private Limited vide trust deed dated March 12, 2014. It is registered as a Category-I Alternative Investment Fund (Sub category: Social Venture Fund) under SEBI (Alternative Investment Fund) Regulations, 2012 pursuant to the approval from Securities and Exchange Board of India (SEBI) dated June 9, 2014. SBICAP Trustee Company Limited (“Trustee”) is the Trustee and IFMR Investment Managers Private Limited (“Investment Managers”) is the Investment Manager of the Fund.

IFMR FIMPACT Investment Fund (“the Scheme”) is the first scheme of the Fund. The Scheme issues three classes of units, viz., Class A, Class B and Class C Units, evidencing beneficial interest in the Scheme upon the making of Capital Contribution. Units shall be allotted on the capital contributed by Investors net of costs, fees and charges as may be applicable as per the Private Placement Memorandum (PPM) of the Scheme and the Contribution Agreement signed with the investors. The fund has a target size of Rs.100 Crores including a green shoe option of

Rs.50 Crores. As at March 31, 2015, the Scheme has obtained signed commitments for a capital contribution of Rs.70 Crores from Class A and Rs.15 Crores from Class B investors and it has declared December 29, 2014 as its first closing. As per the PPM, the final close has to be done within a period of 15 months from the date of first closing unless the investors provide an extension of further 3 months. The tenure of the Fund is 6 years from the date of First Closing namely 29th December 2020 extendable by Investors for a further period of 2 years on an annual basis.

SIGNIFICANT ACCOUNTING POLICIES

(i) Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention, on the accrual basis of accounting and in accordance with accounting principles generally accepted in India ('Indian GAAP') and comply with the Accounting Standards issued by the Institute of Chartered Accountants of India ('ICAI') and SEBI regulations, to the extent applicable.

(ii) Use of Estimates

The preparation of financial statements in conformity with Indian GAAP requires management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities), and the reported income and expenses during the period.

The Management believes that the estimates used in preparation of the financial statements are prudent and reasonable. Future results could differ from these estimates and the differences between the actual results and the estimates are recognized in the periods in which the results are known / materialize.

(iii) Unit capital

Unit capital is accounted on the basis of allotment of units to the Investors, as per the Contribution Agreement signed with them. The units are allotted to investors on the contribution received net of upfront fee.

(iv) Provision and contingencies

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Loss contingencies arising from claims, litigation, assessment, fines, penalties, etc. are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Contingent assets are not recognized in the financial statements.

(v) Investments

As per valuation policy of the Investment Manager and in line with SEBI regulations, Investments on acquisition are recorded at actual cost of acquisition, including brokerage, stamp duty and any other charges paid upfront directly attributable to the acquisition of the investment.

All investments are marked to market and carried at market value, wherever market value is available. Provision for unrealized gain arising out of appreciation on investments which cannot be distributed has been made. The diminution other than temporary diminution in the value of investments, if any, is determined and provided for accordingly.

(vi) Revenue recognition

Dividend income is recognized when the right to receive the same is established and generally accounted on receipt basis.

Interest Income is recognized on a time proportion basis taking into account the amount outstanding and the rate applicable on accrual basis.

Additional one-time interest income on allotment of non-convertible debentures (NCDs) s made by the Fund is recognized on a time proportion basis. The interest received in advance is disclosed as 'Deferred Interest'.

Profit or loss on sale of investments is recognized on trade dates. The cost of investments sold is determined on "weighted average cost basis".

Penal interest on unpaid contributions is accounted on accrual basis from the date of the default up to the date on which the default is made good by the investor, unless expressly waived by the investment manager. At the discretion of the investment manager, distribution proceeds and/or gains are not allocated to the defaulting contributor.

Investment Management Fees

In accordance with the Investment Management Agreement dated March 14, 2014, between the Trustee and the Investment Manager, an annual investment management fee ("Management Fee") is payable along with applicable taxes to the Investment Manager for managing the Fund. Management Fee is not charged on Class A Units in accordance with the PPM.

Trusteeship fees

Trusteeship fees represent the fees payable along with applicable taxes to the Trustee in accordance with the Indenture of Trust dated March 12, 2014.

One-time Upfront set-up fees

There is a one-time upfront set-up fees of 0.50% paid to the Investment Manager out of every contribution received by the Fund. This is over and above the expenses which are directly charged to the Scheme in accordance with the PPM.

The fund has collected upfront fee at 0.50% (inclusive of service tax) on the contribution received from Class A & Class B investors and the same was paid to the Investment Manager net of tax.

Other Operating Expenses

Expenses directly attributable and identifiable to the Scheme are charged to the Scheme. Investor related expenses viz: Registrar expenses, investor communications, investor meets etc. are allocated to the schemes in proportion to the number of live folios in the schemes. Other expenses, which are not identifiable to specific schemes, are allocated to the schemes in proportion to their net assets.

Income tax

Income tax expense comprises of current tax, and deferred tax charge or credit. Provision for current tax is made with reference to taxable income computed for the accounting year for which the financial statements are prepared by applying the Tax rate as applicable.

The Trust is constituted under the Indian Trusts Act, 1882 and registered with SEBI in accordance with the Regulations as a Category I Alternative Investment Fund – Social Venture Fund.

Income tax, to the extent the same pertains to the income distributed to investors, is netted off from the income tax expense / liability of the fund as the income chargeable to tax in the hands of the Investors, cannot be taxable in the hands of the Fund. Consequently, the beneficiaries of the Fund would now be required to discharge their tax liability, if any, on any income from Investment in this Fund during the financial year, whether distributed or not during the financial year.

Wherever the Investee Companies and fund has deducted tax or paid Income Tax on behalf of the investors, the same is held as Current Assets of the Fund and will be netted-off at the time of next distribution. As there is no tax liability for the Fund given the pass through nature, no provision is made for income tax for the Fund in the current financial period.

Computation of NAV

Particulars	Class A	Class B
	Amount in INR	Amount in INR
Unit Capital (post allotment)	149,250,000	303,475,000
Deficit as per Revenue Account (excluding Management Fee)	(489,056)	(994,414)
Add: Deferred Interest	1,045,706	2,126,270
Less: Management Fees	-	(18,684)
Less: Transfer of Risk Premium	8,314	(8,314)
Total Unit Capital & Surplus	149,814,964	304,579,858
No. of Units issued & outstanding	1,492.50	3,034.75
Net Asset Value per Unit	**100,378.5358**	**100,364.0686**

Related Party Disclosures

Information relating to related party transactions for the period ended 31st March 2015:
(As identified by the Management and relied upon by Auditors)

Parties exercising significant influence:

a) SBICAP Trustee Company Limited: As a Trustee of the Fund

b) IFMR Investment Managers Private Limited: As the Investment Manager and Sponsor of the Fund
c) IFMR Capital Finance Private Limited: As the holding company of Investment Manager towards investment made in Class A.

Transaction with related parties during the period:

Related Party	Transaction	For the period ended 31st March 2015 (Amount in INR)
SBICAP Trustee Company Limited	Trustee Fees	232,760
IFMR Investment Managers Private Limited	Invetments in Class A	50,000,000
	Upfront Fee - Setup Cost	2,275,000
	Reimbursement of expenses	1,394,560
	Management Fees payable	18,864
IFMR Capital Finance Private Limited	Investments in Class A	100,000,000

Outstanding balances with related parties as on balance sheet date:

Related Party	Nature	For the period ended 31st March 2015 (Amount in INR)
IFMR Investment Managers Private Limited	Class A – Investments	50,000,000
	Management Fees payable	18,864
IFMR Capital Finance Private Limited	Class A – Investments	100,000,000

COMPARATIVE FIGURES

This is the first accounting period for the Fund and financial statements have been prepared for the period ended 31st March 2015. Consequently, there are no comparative figures to be disclosed.

In terms of our report attached

For	For & on behalf of	For & on behalf of
Deloitte Haskins & Sells	**SBICAP Trustee Company Limited**	**IFMR Investment Managers Private Limited**
Chartered Accountants		
Bhavani Balasubramanian	**Authorised Signatory**	**Puneet Gupta**
Partner		**Director**
Place: Chennai	**Place: Mumbai**	**Place: Chennai**
Date: April 9, 2015	**Date: April 9, 2015**	**Date: April 9, 2015**

INDEPENDENT VALUATION REPORT

TO THE MEMBERS OF IFMR FIMPACT INVESTMENT FUND

8th April 2015

Dear Sir,

Valuation Report as on 31st March 2015 for IFMR FImpact Investment Fund

We appreciate having been given the opportunity to provide MSPR & Co (hereinafter referred as "we") valuation services to you. We have calculated the NAV of IFMR FImpact Investment Fund (hereinafter referred as "Fund") as at 31st March 2015 in accordance with our engagement letter dated 31st March 2015.

The scope of our engagement included having discussions with the IFMR Investment Managers Private Limited ('Investment Manager') about the nature of business; considering applicable economic, industry and competitive environments, selecting and implementing appropriate valuation methodologies and preparing this report summarizing our estimation of fair value, along with the data and significant assumptions on which this value is based. In accordance with our engagement letter, our engagement is subject to the limiting conditions contained in this Report. In particular, it may be noted that we have relied upon the information provided by the Management of the Fund. We have been given to understand that the information provided is correct and accurate and that the Management of the Fund were duly authorised to provide us the same.

Our work commenced on 31st March 2015 and was completed on 8th April 2015.

Therefore, our report does not take account of events or circumstances arising after the completion date. We have no responsibilities to update this report for events or circumstances occurring after the completion date. This report is issued on 8th April 2015. However, NAV computation of Fund is also based on Fund's unaudited financial statements for the period ended on 31st March 2015 as available on 8th April 2015. We have not updated this report for any events, trends or transactions relating to Investee Companies or the market/economy in general and occurring subsequent to 8th April 2015. The contents of our report have been reviewed in detail by the Management who have also confirmed to us the factual accuracy.

We have taken a general representation from Management of Fund confirming that you have provided us with all the relevant information, knowledge, and confirmations completely and correctly. If you have any questions or require additional information, please do feel free to contact us.

Yours sincerely,
For MSPR & Co.,
Chartered Accountants
M Sudhakar
Partner
Membership No.213216

Valuation Report as on 31st March 2015

IFMR FImpact Investment Fund

Background of the Fund:

IFMR FImpact Investment Fund is a Scheme of IFMR Finance for Freedom Social Venture Fund and is registered with SEBI as a Category 1 AIF under the SEBI (AIF) Regulations, 2012.

Scope and Purpose:

Scope of this valuation report is to value the portfolio of investments and to arrive at the Net Asset Value (NAV) of the Fund as on 31st March 2015. This valuation report is required under the SEBI (AIF) Regulations, 2012 for Category I AIFs to be submitted by the Fund to its investors on half-yearly basis.

Portfolio Valuation:

We have undertaken the valuation of the investments made by the Fund for computation of NAV of the Fund. The details of investments made on 31st March 2015 are as follows:

Name of the Investee Company	Amount in INR	Nature	Rating	Coupon Rate	Tenure
Suryoday Micro Finance Private Limited	100,000,000	Sub-ordinated NCD	BBB from ICRA	17.50%	69 Months
Fusion Micro Finance Private Limited	100,000,000	Senior Secured NCD	BBB- from CARE	15.00%	69 Months
Grama Vidiyal Micro Finance Limited	120,000,000	Sub-ordinated NCD	BBB from ICRA	18.00%	69 Months
Satin Creditcare Network Limited	130,000,000	Sub-ordinated NCD	BBB+ from ICRA	17.75%	69 Months
TOTAL	**450,000,000**				

Normally, the process would involve preparing an interest rate base yield curve and then adjusting for the credit spreads for the sector to get a yield curve for the sector across various rating levels. Then, a credit spread between the actual coupon rate of every investment and the yield for that rating in the yield curve based on the credit rating is obtained. This is then used for arriving at the market yield on the valuation date using the yield curve on the valuation date unless any credit event has happened which will then alter the credit spread itself. This yield done on clean basis is used as market value for that investment and the difference is taken as un-realised gains or losses as the case maybe.

In this case, all the above investments were made on 31st March 2015 being the last working day. Given that the investments made during the day has no market value due to the illiquid nature of the instruments invested and cannot be valued as per the valuation methodology given above as it uses the date of investment as a the base for doing the mark to market. Hence in this case where date of investment and the base date for calculating the credit spread is the same, cost of investment is taken as the market value as on 31st March 2015.

Computation of Net Asset Value (NAV):

Net Asset Value of the Fund and its various classes is summarized as follows:

Particulars	Fund	Class A	Class B
	Amount in INR	Amount in INR	Amount in INR
Market Value of Investments	450,000,000.00	148,351,648.35	301,648,351.65
Income Received and Accrued	3,386,438.36	1,116,408.25	2,270,030.11
Expenses Paid and Accrued	1,716,616.56	568,072.34	1,148,544.22
Value of Assets under Management	454,394,821.79	149,814,964.67	304,579,857.12
No. of Units issued & outstanding	4,527.25	1,492.50	3,034.75
Net Asset Value per Unit	100,368.8380	100,378.5358	100,364.0686

Note – Since no commitments were received for Class C as on 31st March 2015, computation of NAV is not applicable and hence not provided. Kindly refer to key factors affecting valuation.

Key factors affecting Valuation:

The valuation is based on the term sheet of investments and the provisional unaudited financials of IFMR FImpact Investment Fund as at 31st March 2015. We have not undertaken any due diligence or similar verification procedures on the provisional financials for the purpose of this valuation and have considered them as true and fair.

As informed to us by the Management, the Fund has three classes of AIF units viz., Class A units, Class B units and Class C units. During the period ended 31st March 2015, commitments were signed for Rs.15 Crores in Class A and for Rs.70 Crores in Class B and no commitments has been signed for Class C.

The Management has represented to us that there are no outstanding stock options / warrants / convertible instruments issued or granted by the Fund as of the valuation date.

Status of Unit Capital:

The details of commitments signed, commitments drawn-down and pending as well as face value of units allotted are given below:

Type of Classes	Capital Commitments	Amount Drawn-down	Units Allotted
Class A	Rs.15.00 Crores	Rs.15.00 Crores	1,492.50
Class B	Rs.70.00 Crores	Rs.30.50 Crores	3,034.75
Class C	Nil	Nil	Nil
Total	Rs.85.00 Crores	Rs.45.50 Crores	

Sources of Information:

The following sources of information have been utilized in conducting the valuation analysis:

- Portfolio Companies specific information – The following Portfolio Companies specific information, as provided by Fund, verbally or in written form have been, inter-alia used in the valuation
  - Term sheet of the transaction
  - Rating letter and rating rationale

- Information Memorandum prepared by the Portfolio Company in containing the Financial Statement, background information etc.
- Industry and economy information – The following sources were utilized for analysing the industry and the competitors:
  - Discussion with the Fund
  - Publicly available information

In addition to the above, we have also obtained such other information and explanations from the Fund as were considered relevant for the purpose of the valuation.

It may be mentioned that the Fund has been provided opportunity to review factual information in our report (and confirmed with the Portfolio Companies, where relevant) as part of our standard practice to make sure that factual inaccuracies/omissions/etc. are avoided in our final report.

STATUTORY REPORTS

STATUTORY INVESTOR REPORTING FOR Q4 – FY 2014-15

This report is prepared in accordance with SEBI (AIF) Regulations, 2012 which requires AIF to disclosure to investors as follows:

"22. Transparency

(g) Alternative Investment Fund shall provide at least on an annual basis, within 180 days from the year end, reports to investors including the following information, as may be applicable to the Alternative Investment Fund:-

A. financial information of investee companies

B. material risks and how they are managed which may include:

- (i) concentration risk at fund level;
- (ii) foreign exchange risk at fund level;
- (iii) leverage risk at fund and investee company levels;
- (iv) realization risk (i.e. change in exit environment) at fund and investee company levels;
- (v) strategy risk (i.e. change in or divergence from business strategy) at investee company level;
- (vi) reputation risk at investee company level;
- (vii) extra-financial risks, including environmental, social and corporate governance risks, at fund and investee company level."

Investee Companies Profile

The brief profile of each investee company is given below:

Suryoday Micro Finance Private Limited

Suryoday Micro Finance Private Limited (Suryoday) was set up in October 2008 as an NBFC. The company started microfinance operations in April 2009 in Pune (Maharashtra). The Company received their NBFC-MFI registration on 9th December 2013. Suryoday is promoted by Mr. Baskar Babu, an Engineering and Management Graduate with over 19 years of experience. Suryoday operates in 7 states and 38 districts in Gujarat, Karnataka, Maharashtra, Odisha, Rajasthan, Madhya Pradesh and Tamil Nadu through 142 branches with a portfolio size of Rs. 5,392 mn as of 28th February 2015. Key shareholders in Suryoday are Aavishkar Goodwell, Lok Capital, International Finance Corporation (IFC), Developing World Markets (DWM), Mr. Surendra Pai and Promoter. Promoter holds 4.5% stake in Suryoday.

Satin Creditcare Network Limited

Satin Creditcare Network Limited (Satin) established in 1990 is promoted by Mr. H.P. Singh and Mr. Satvinder Singh. Mr. HP Singh has more than 20 years of microfinance experience, apart from expertise in auditing, accounting, project financing and legal matters. Mr. Satvinder Singh has expertise in finance and consumer marketing and has been associated with all activities of the company since inception. The company received their NBFC-MFI license on 6th November 2013. Satin operates in 11 states and 121 districts which include Uttar Pradesh, Madhya Pradesh, Bihar, Uttrakhand, Delhi, Punjab, Rajasthan, Haryana, Maharashtra and Jammu & Kashmir through 265 branches with a portfolio size of Rs.15,440 mn as of 28th February 2015. The majority shareholders after the promoters in Satin are Danish Microfinance Partners, Shore Capital and Micro Vest. Promoters hold 33% stake in Satin.

Fusion Micro Finance Private Limited

Fusion Micro Finance Private Limited (Fusion) is based in Delhi and was originally incorporated as Ambience Fincap Private Limited (Ambience) in 1994. In May 2009, Ambience Fincap Private Limited, renamed as Fusion Micro Finance Private Limited, was acquired by the current promoters Mr. Devesh Sachdev and Mr Ashish Tewari, starting microfinance operations in January 2010. Fusion received its NBFC-MFI Registration from RBI on 28th January 2014. Mr. Devesh is an XLRI Graduate with 16 years of experience in the services Industry. Mr. Ashish Tewari is an Economics, Law and Management Graduate with over a decade of leadership experience in financial services organisations. Fusion operates through 5 states and 32 districts in Haryana, Uttar Pradesh, Madhya Pradesh, Uttrakhand and Delhi with a portfolio size of Rs. 2,636 mn as of 28th February 2015. Majority of Fusion's shares are held by Incofin and Norwegian Microfinance Initiative. Promoters hold 16% stake in the entity.

Grama Vidiyal Micro Finance Limited

Grama Vidiyal Microfinance Limited (GVMFL) is a Non-Deposit accepting NBFC registered with the RBI and is promoted by Mr. Sathianathan Devaraj. Mr. Devaraj set up the Grama Vidiyal Trust (GVT) in 1996, and its microfinance activities were transferred to GVMFL upon its establishment. The company received its NBFC-MFI license on 4th October 2014. Mr. S. Devaraj is also the Chairman and Managing Director of the Company and has over 33 years of experience in the development sector. GVMFL operates in 4 states and 50 districts in Tamil Nadu, Madhya Pradesh, Pondicherry & Maharashtra through 267 branches with a portfolio size of Rs. 8,436 mn as of 28th February 2015. Major external shareholders are Mr. Vinod Khosla, Unitus Equity Fund & Micro Vest Capital Fund. Promoters together with the Grama Vidiyal Mutual Benefit Trust (MBT) hold 45% of total shares.

A. Financial Information of Investee Companies

Please find below the summary financial information of each investee company:

Suryoday Micro Finance Private Limited

Balance Sheet **Amount in INR million**

Particulars	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Dec-14
Net Worth	66	276	285	638	872	1,264
Share Application money pending allotment (incl. ESOP/ESOS and warrants)	-	1	2	3	3	3
Tier II Capital	-	-	-	-	-	-
Deferred Tax Liability	-	-	-	-	-	-
Other Borrowings	139	302	354	1,299	2,988	4,415
Loan Loss Provisions	2	5	4	13	29	48
Other Long Term Liabilities	-	-	-	-	3	14
Current Liabilities	1	10	103	79	101	105
TOTAL LIABILITIES & NET WORTH	**207**	**594**	**748**	**2,032**	**3,997**	**5,848**
Net Fixed Assets (own)	2	5	4	7	10	21
Deferred Tax Asset	-	3	3	6	12	12
Gross Loan Portfolio / Net SOH	156	487	923	1,524	3,267	4,806
Less: Off-Balance Sheet Loans & SOH	-	4	548	244	354	167
Loan Portfolio (net of Off balance sheet items)	156	482	375	1,280	2,913	4,639
Total Investments (net)	-	-	-	21	9	90
Cash and Bank Balances	36	97	270	617	754	914
Other Assets (Total)	13	7	97	101	298	173
TOTAL ASSETS	**207**	**594**	**748**	**2,032**	**3,997**	**5,848**

Income Statement **Amount in INR million**

Particulars	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Dec-14 (9 Months)
Income						
Total Interest Income	20	122	112	175	504	712
Total Other Income from Operations	6	26	14	17	36	42
Total Income from Operations	**27**	**148**	**126**	**192**	**540**	**754**
Total Financial Costs	4	46	51	94	282	409

Particulars	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Dec-14 (9 Months)
Gain on Assignment / Securitisation	-	1	27	39	32	24
Net Interest Income	**22**	**103**	**102**	**137**	**290**	**369**
Total Other Income	1	5	10	25	44	57
Total Income	**23**	**108**	**113**	**162**	**334**	**426**
Less: Total Operating Expenditure	28	83	96	124	189	233
Net Income from Operations	**(5)**	**26**	**17**	**38**	**145**	**193**
Total Credit Costs	2	14	9	10	16	11
Profit before taxes (before exceptional items)	**(6)**	**11**	**8**	**29**	**129**	**182**
Exceptional items (net)	-	-	-	-	-	-
Profit before taxes (after exceptional items)	**(6)**	**11**	**8**	**29**	**129**	**182**
Total Tax Expense	-	2	2	9	41	62
Profit After Tax	**(6)**	**10**	**5**	**20**	**88**	**120**

Satin Creditcare Network Limited

Balance Sheet **Amount in INR million**

Particulars	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Dec-14
Net Worth	238	787	799	1,237	1,384	1,897
Share Application money pending allotment (incl. ESOP/ESOS and warrants)	39	-	-	-	-	-
Tier II Capital	-	-	-	-	60	532
Deferred Tax Liability	-	-	-	-	-	-
Other Borrowings	1,842	2,074	2,155	5,898	9,087	13,752
Loan Loss Provisions	5	10	11	20	78	115
Other Long Term Liabilities	-	-	-	-	-	-
Current Liabilities	83	89	206	306	607	779
TOTAL LIABILITIES & NET WORTH	**2,207**	**2,960**	**3,171**	**7,461**	**11,217**	**17,075**
Net Fixed Assets (own)	57	81	80	83	120	138
Deferred Tax Asset	3	5	5	7	25	39
Gross Loan Portfolio / Net SOH	1,691	2,296	3,201	5,800	10,561	13,970
Less: Off-Balance Sheet Loans & SOH	413	469	1,291	1,259	2,712	2,518
Loan Portfolio (net of Off balance sheet items)	1,278	1,827	1,911	4,541	7,848	11,452
Total Investments (net)	7	7	7	7	1	1
Cash and Bank Balances	829	998	1,072	2,705	2,152	4,841
Other Assets (Total)	33	42	97	118	1,071	605
TOTAL ASSETS	**2,207**	**2,960**	**3,171**	**7,461**	**11,217**	**17,075**

Income Statement **Amount in INR million**

Particulars	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Dec-14 (9 Months)
Income						

Particulars	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Dec-14 (9 Months)
Total Interest Income	281	476	369	700	1,470	1,736
Total Other Income from Operations	15	25	29	55	112	107
Total Income from Operations	**296**	**501**	**398**	**755**	**1,582**	**1,843**
Total Financial Costs	158	283	268	543	1,061	1,205
Gain on Assignment / Securitisation	44	38	106	88	116	187
Net Interest Income	**182**	**257**	**236**	**300**	**637**	**825**
Total Other Income	20	46	58	100	219	206
Total Income	**202**	**303**	**294**	**400**	**856**	**1,032**
Less: Total Operating Expenditure	152	257	263	324	531	664
Net Income from Operations	**50**	**46**	**31**	**76**	**325**	**368**
Total Credit Costs	10	12	10	23	91	61
Profit before taxes (before exceptional items)	**40**	**34**	**21**	**54**	**234**	**306**
Exceptional items (net)	-	-	-	-	-	-
Profit before taxes (after exceptional items)	**40**	**34**	**21**	**54**	**234**	**306**
Total Tax Expense	15	11	7	15	79	94
Profit After Tax	**25**	**23**	**14**	**39**	**156**	**213**

FUSION MICRO FINANCE PRIVATE LIMITED

Balance Sheet **Amount in INR million**

Particulars	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Dec-14
Net Worth	13	120	124	373	403	452
Share Application money pending allotment (incl. ESOP/ESOS and warrants)	-	-	-	-	-	-
Tier II Capital	-	-	-	-	-	30
Deferred Tax Liability	0	-	-	-	-	-
Other Borrowings	4	85	193	388	949	2,158
Loan Loss Provisions	0	1	2	1	8	21
Other Long Term Liabilities	-	-	-	-	-	-
Current Liabilities	4	6	10	41	88	157
TOTAL LIABILITIES & NET WORTH	**21**	**211**	**328**	**804**	**1,448**	**2,817**
Net Fixed Assets (own)	1	4	4	3	13	12
Deferred Tax Asset	-	0.1	0.6	1	5	9
Gross Loan Portfolio / Net SOH	17	122	372	568	1,378	2,376
Less: Off-Balance Sheet Loans & SOH	0	7	155	153	350	308
Loan Portfolio (net of Off balance sheet items)	17	115	218	414	1,027	2,068
Total Investments (net)	0	74	25	208	23	121
Cash and Bank Balances	2	16	74	161	351	510
Other Assets (Total)	0.4	2	7	16	29	98
TOTAL ASSETS	**21**	**211**	**328**	**804**	**1,448**	**2,818**

Income Statement **Amount in INR million**

Particulars	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Dec-14 (9 Months)
Income						
Total Interest Income	0.8	23	47	87	194	309
Total Other Income from Operations	0.1	3	3	10	16	24
Total Income from Operations	**0.9**	**26**	**50**	**97**	**210**	**333**
Total Financial Costs	0.1	6	19	55	98	183
Gain on Assignment / Securitisation	0	1	13	4	21	25
Net Interest Income	**1**	**21**	**44**	**46**	**133**	**172**
Total Other Income	0.1	4	5	8	18	16
Total Income	**1**	**25**	**49**	**54**	**151**	**191**
Less: Total Operating Expenditure	4	28	48	51	107	127
Net Income from Operations	**(3)**	**(2)**	**1**	**3**	**44**	**64**
Total Credit Costs	0.3	-	-	0.3	-	10
Profit before taxes (before exceptional items)	**(4)**	**(2)**	**1**	**3**	**44**	**54**
Exceptional items (net)	-	-	-	-	-	-
Profit before taxes (after exceptional items)	**(4)**	**(2)**	**1**	**3**	**44**	**50**
Total Tax Expense	0	(0.2)	(0.2)	(0.1)	14	17
Profit After Tax	**(4)**	**(2)**	**2**	**3**	**30**	**36**

Grama Vidiyal Micro Finance Limited

Balance Sheet **Amount in INR million**

Particulars	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Dec-14
Net Worth	719	897	900	931	965	1,078
Share Application money pending allotment (incl. ESOP/ESOS and warrants)	-	-	-	-	-	-
Tier II Capital	-	-	-	-	-	15
Deferred Tax Liability	7	8	1	-	-	
Other Borrowings	4,889	3,471	3,330	4,509	5,675	6,159
Loan Loss Provisions	40	67	13	12	42	53
Other Long Term Liabilities	-	-	-	-	-	27
Current Liabilities	422	563	671	627	839	435
TOTAL LIABILITIES & NET WORTH	**6,077**	**5,006**	**4,915**	**6,080**	**7,548**	**7,761**
Net Fixed Assets (own)	135	155	157	91	73	45
Deferred Tax Asset	-	-	-	4	17	27
Gross Loan Portfolio / Net SOH	6,051	5,200	5,211	5,332	7,188	8,023
Less: Off-Balance Sheet Loans & SOH	2,050	2,459	3,067	2,293	2,987	2,735
Loan Portfolio (net of Off balance sheet items)	4,001	2,741	2,143	3,039	4,201	5,289
Total Investments (net)	-	-	-	79	-	-

Particulars	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Dec-14
Cash and Bank Balances	1,696	1,980	2,444	2,600	2,865	1,971
Other Assets (Total)	245	129	171	267	391	429
TOTAL ASSETS	**6,077**	**5,006**	**4,915**	**6,080**	**7,548**	**7,761**

Income Statement **Amount in INR million**

Particulars	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Dec-14 (9 Months)
Income						
Total Interest Income	1,026	1,476	871	962	1,161	987
Total Other Income from Operations	88	-	67	100	142	104
Total Income from Operations	**1,114**	**1,476**	**937**	**1,062**	**1,304**	**1,090**
Total Financial Costs	403	600	457	540	704	644
Gain on Assignment / Securitisation	-	240	267	131	106	221
Net Interest Income	**710**	**1,116**	**748**	**653**	**705**	**667**
Total Other Income	8	57	131	85	114	101
Total Income	**718**	**1,173**	**879**	**738**	**819**	**768**
Less: Total Operating Expenditure	464	882	699	700	736	568
Net Income from Operations	**254**	**291**	**180**	**38**	**83**	**200**
Total Credit Costs	29	29	6	6	3	11
Profit before taxes (before exceptional items)	**225**	**262**	**174**	**31**	**80**	**189**
Exceptional items (net)	-	-	(172)	16	(32)	
Profit before taxes (after exceptional items)	**225**	**262**	**2**	**47**	**48**	**65**
Total Tax Expense	80	89	(1)	17	15	
Profit After Tax	**145**	**173**	**3**	**31**	**33**	**124**

B. Material Risks

Please find below the various risk factors at Fund level and at investee company as applicable and how they are managed currently:

Concentration Risk at Fund Level

As per regulations, the Fund cannot invest more than 25% in any single entity. The Fund adheres to even stricter exposure limit guidelines.

Broadly, debt investment are made in MFIs across tiers – ranging from small to large entities, with a proposed equal mix of senior secured and subordinate debt. The investee companies represent a mix of microfinance lending methodologies (JLG/ SHG), mix of customer segments (rural/ urban) and mix of strategies (credit-only vs. multi-product offerings).

Apart from the above soft guidelines, the hard concentration limits which the Fund adheres to is as follows:

Fund Exposure Norms

- Maximum exposure to a single entity is capped at 15%
- Funding as a proportion of gross portfolio outstanding is capped at 25%
- Funding as a proportion of total debt outstanding is capped at 35%
- Funding as a proportion of net worth is capped at 60%
- Sub Debt (including Fund's proposed exposure) eligible for Tier II capital shall not exceed 50% of Tier I capital
- Fund will not invest in any IFMR Group entities

Exposure limits at the time of investment:

Investee Company	Investment Amount in INR	Percentage of Target Fund Corpus	as % of Gross Portfolio Outstanding	as % of total debt outstanding	as % of net worth	Tier II Capital as % of Tier I Capital	Is it IFMR Group Entity
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
Suryoday Micro Finance Private Limited	10,00,00,000	10%	2.1%	2.3%	7.9%	4.4%	No
Satin Creditcare Network Limited	13,00,00,000	13%	0.9%	0.9%	15.6%	33.3%	No
Fusion Micro Finance Private Limited	10,00,00,000	10%	4.2%	4.6%	22.1%	11.6%	No
Grama Vidiyal Micro Finance Limited	12,00,00,000	12%	1.5%	2.1%	12.4%	22.0%	No

*Percentages calculated above under (D), (E), (F) and (G) are as of 31st December 2014

Accordingly, the exposure limits for each of the investee companies is well within the stipulated limits at Fund level.

Foreign Exchange Risk at Fund Level

For the period ended 31st March 2015, the Fund does not have any foreign exchange risk as both investments into the Fund, investments from the Fund, income, expenses and distributions, are all denominated in the same currency, the Indian Rupee (INR).

Leverage Risk at Fund and Investee Company Level

At the Fund Level

As per the SEBI (AIF) Regulations, 2012, Category I Alternative Investment Funds shall not borrow funds directly or indirectly or engage in any leverage except for meeting temporary funding requirements for not more than thirty days, on not more than four occasions in a year and not more than ten percent of the corpus.

During the period, the Fund has not sought any borrowing limits and consequently does not have any borrowings. Also, neither has the Fund borrowed in the past even for meeting any temporary funding requirements.

At the Investee Companies Level

At present, The Reserve Bank of India has mandated that all NBFC-MFIs shall maintain a minimum capital adequacy ratio consisting of Tier I and Tier II Capital of 15% of its aggregate risk weighted assets which has been covenanted as part of all transactions. The total of Tier II Capital at any point of time shall not exceed 100% of Tier I Capital with a current minimum Tier I Capital Requirement of 12%. With all NBFC-MFIs required to comply with this requirement, a cap is always maintained on borrowings. An assessment of leverage risk at a company level is provided below:

1. Suryoday Micro Finance Private Limited (Suryoday)
   Suryoday's gearing ratio was at 3.5 times and 3.6 times excluding and including off balance sheet portfolio respectively as on 31st December 2014. As a strategy, Suryoday always seeks equity funding when the gearing crosses 3 times. To mitigate any leverage risks involved, as a part the fund's financial covenants, Suryoday shall at all times until the redemption of all outstanding debentures maintain a gearing ratio of not less than 6 times. Capital Adequacy Ratio as on 31st December 2014 was at 24.4% and this ratio has never at any point fallen below 22% since inception. The company has had frequent equity infusions with the most recent round of equity infusion in June 2014 with IFC investing Rs. 150 mn in Suryoday while Developing World Markets (DWM) acquired 9.95% of Aavishkaar Goodwell's stake in the company in January 2015. Projected leverage ratios of Suryoday are in line with the company's strategy indicating low overall leverage risk in the company.

2. Satin Creditcare Network Limited (Satin)
   While Satin's Capital Adequacy Ratio as on 31st December 2014 was at 18.2% (Tier I 13.64% and Tier II 4.53%), the gearing was at 7.6 times, while the gearing ratio including off balance-sheet portfolio was at 8.9 times during the same period. Satin has followed a strategy to be leveraged to the maximum limit and to look for an equity infusion when the capital adequacy ratio nears 16%-17%. As a protection against the leverage risk posed by the company, the Fund has stipulated a covenant that Satin shall at all times until the redemption of all outstanding debentures, maintain a gearing ratio of not greater than 8 times where gearing is defined as Net Debt divided by Tangible Net Worth. Though gearing is on a higher side, the company is currently looking for an equity raise which is likely to reduce gearing to around 6 times. Projected leverage of the company is likely to be around 5 to 8 times depending on the equity infusion in relations to growth.

3. Fusion Microfinance Private Limited (Fusion)
   Fusion's Capital Adequacy Ratio was at 17.5% as of 31st December 2014. Though the gearing has historically been around 3 times, it has increased to 5.5 times (incl off-book) as of 31st December 2014. Fusion has not had any equity infusion since 4QFY13. The company is looking for equity raise of around Rs. 550mn. The fresh investment will help the company to improve its capital adequacy, while the gearing will also come down significantly to 3 times. To protect against any form of leverage risks, the Fund has stipulated a covenant that the gearing ratio should not be greater than 6 times until the redemption of all outstanding debentures. Projected leverage of the company is likely to be around 4 to 6 times.

4. Grama Vidiyal Micro Finance Limited (GVMFL)
   While GVMFL's outstanding debt increased by 35% during FY13 and 26% during FY14, it has declined by about 10% as a conscious decision to bring down the portfolio to manage the capital adequacy. The capital adequacy ratio was bordering at 15.8% as of 31st March, 2014, which was slightly boosted up to

around 16.3% as on 31st December 2014 after it received preference capital of Rs. 15mn from UNIFI Capital. The gearing is at 6 times on tangible net worth (net worth net off tangible assets), while the debt (including off balance-sheet portfolio) to tangible net worth is at 8.3 times. The company has not raised equity over the last 4 years and this has impacted their overall leverage ratio. However, GVMFL is currently looking for an equity raise and is in discussions with various investors at different levels. To protect against leverage risk, it has been the Fund has specifically stipulated a covenant that the GVMFL shall at all times until the redemption of all outstanding debentures, maintain a gearing ratio at not more than 8 times. Projected leverage of the company is likely to be around 5 to 8 times depending on the equity infusion in relations to growth.

Realization Risk at Fund and Investee Company Level

At Fund level

The Investment Strategy of the Fund is to invest in debt instruments with specific redemption / maturity dates or periodic repayments based on credit risk perception as well as put options for senior secured NCDs through a detailed process of investment as briefly described below:

a) Screening
   Entities are screened based on preliminary information obtained and publicly sourced information against the eligibility norms.
b) In-principle approval
   In principle approval is accorded to entities which meet the eligibility norms and areas for further evaluation during the detailed due diligence are identified.
c) Detailed due diligence
   Entities meeting the eligibility criteria are taken up for detailed due diligence and evaluated based on the underwriting guidelines.
d) Investment Recommendation and Approval
   After the detailed due diligence, based on the risk perceived, the terms and conditions of the investment are analysed and then recommended. Subsequently, investments are made post approval after execution of the requisite documentation

The above process has been put in place to minimize realization risk at the Fund level. Based on the current outlook on the microfinance sector and the investee companies, the Fund does not perceive any material realization risk.

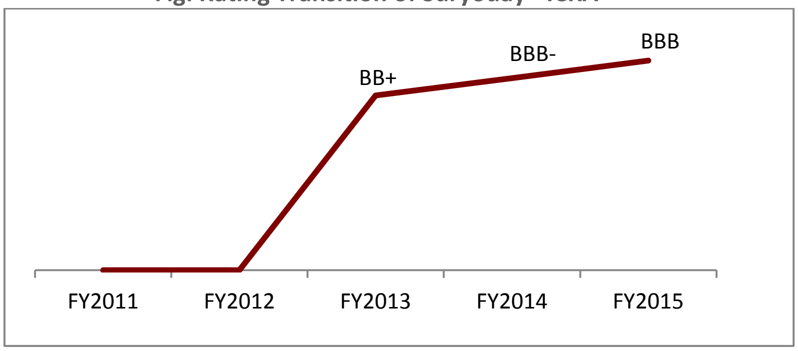
At Investee Company level

All the investee companies have proven track record in terms of repayment history with access to diversified lenders and atleast investment grade rating from one of the approved rating agencies. The realization risk is discussed for each investee company as follows:

1. **Suryoday Micro Finance Private Limited (Suryoday)**
   Suryoday was established in 2008 and over the last 6 years has established good vintage of clean debt repayment track record. The company has been profitable at least for the last 5 years of operations with an average growth in net profits of over 70% over the last 4 years. ROA as on 31st December 2014 was 4% and has

hovered at the 3%-4% mark since January 2013. The company has maintained an investment grade rating since July 2013 and witnessed an upgrade to [ICRA] BBB in June 2014. Suryoday currently has 4 other NCD transactions outstanding albeit carrying a shorter tenure on 3 of these NCDs. The company has however not raised any subordinated debt in the recent past but has raised other forms of unsecured borrowings. The company's business plan shows growth in profitability over time which will help in continuing to support their good repayment track record.

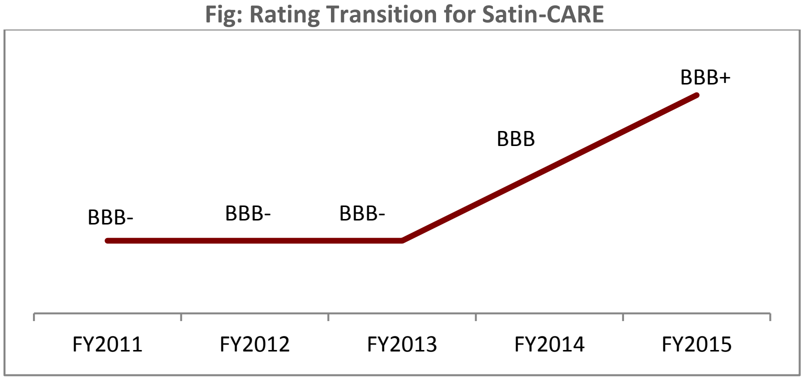
Fig: Rating Transition of Suryoday - ICRA



2. **Satin Creditcare Network Limited (Satin)**

Realization risk for Satin is low as evidenced by the company's unblemished track record of debt repayments so far. Satin has been operational since 1990 and has carried on microfinance business through group lending business model since 2008. The company has a sufficiently long vintage of profitable operations with periodical equity infusion from promoters and other external investors. The company has been profitable since inception with an average growth in profits of around 50%. ROA has been at 2% since March 2010. Satin's portfolio has been growing at over 70% with the portfolio increasing from Rs. 2,296 mn as on 31st March 2011 to Rs. 13,970 mn as on 31st December 2014. The company has maintained an investment grade rating since 2010 with a current rating of BBB+ from ICRA Ltd and CARE Ratings. Overall borrowings of the company has grown from Rs. 795 mn as on 31st March 2009 to Rs.13,852 mn as on 31st December 2014. The company has diversified range of funding through Term Loans, Subordinated Debt, Senior NCDs and External Commercial Borrowings. Past experiences have shown that Satin's repayment capacity has not been affected by any adversities and their strong asset base and profitability will support debt repayments.

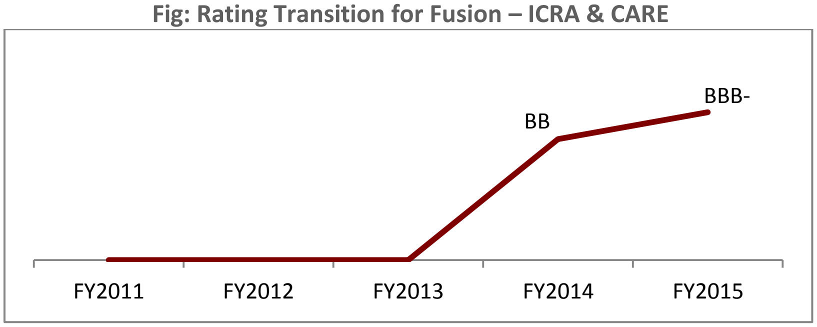
Fig: Rating Transition for Satin-CARE



3. Fusion Micro Finance Private Limited (Fusion)

Fusion has been operational since 2010 and has maintained a good repayment track record over the past 5 years. The company has been profitable for the last 4 years of operations with significant growth in overall asset base. The company has maintained an investment grade rating since June 2014 of BBB- from ICRA Ltd and CARE Ratings. The company had total debt outstanding of Rs. 2,158 mn as on 31st December 2014. Overall funding to the company has shown healthy growth over time with timely repayment of all debts. The company has received funds from a limited mix of public and private banks. The company currently has no other NCDs outstanding but is has participated in 3 CBO[1] transactions as an issuer. Past performance has shown that the financial and liquidity position of the company is quite comfortable for its current scale of operations and planned growth.

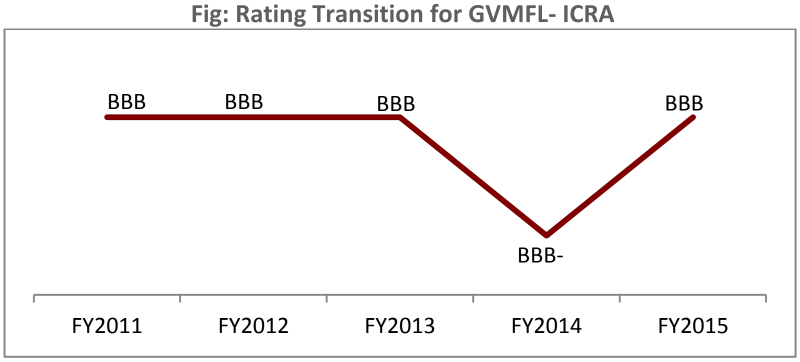
Fig: Rating Transition for Fusion – ICRA & CARE



4. Grama Vidiyal Micro Finance Limited (GVMFL)

The company has received debt funding commensurate to its size at Rs. 6,142 mn outstanding as on 31st December 2014. GVMFL has been operational as an NBFC since 2007 but has been engaged in microfinance activities for more than 15 years, operating as a Trust. The company has been profitable since the start of their operations with an ROA of 2.8% as on 31st December 2014 with this ratio being around 2%-3% over the last few years. GVMFL has maintained an investment grade rating of BBB since 2009 signifying the company's good credit standing. The company last raised subordinated debt in December 2013. All other debt of the company is secured as on date. The company has not raised equity in the recent past which has resulted in a relatively high leverage position. Nonetheless, with the company set to raise equity in the near future and given its market standing and internal accruals, gearing is likely to remain within prescribed levels while enabling the company to grow its business as planned. The company has not defaulted on any debt repayments so far.

Fig: Rating Transition for GVMFL- ICRA



[1] Collateralised Bond Obligations

Strategy Risk at Investee Company Level

A common strategy across all investee companies being microfinance institutions (NBFC-MFIs) is the possibility of divergence towards the Business Correspondent (BC) and Small Finance Bank Model. The Reserve Bank of India in the first half of 2014, introduced draft guidelines for licensing of Small Finance Banks, thereafter releasing applications to apply for this license. Small Finance Banks will be allowed to take deposits and lend money, the same way as other commercial banks do, but the focus will be on small ticket size lending. This has attracted the attention of many NBFC-MFIs with the likes of Suryoday Micro Finance Private Limited, Satin Creditcare Network Limited and Grama Vidiyal Micro Finance Limited being among the list of Microfinance Institutions who have applied for the license. Many NBFC-MFIs are keen on acquiring the license as this will enable them to bring down their cost of funds substantially and allow them to lend at more reasonable rates which will further boost their scale of operations as well as profitability. The RBI is yet to release the final list of Small Finance Banks. Another strategy which has gained traction among MFIs is the Business Correspondent (BC) Model. Under this model Banks and other Financial Institutions can use MFIs as 'Business Correspondents' to enable disbursement of loans and recovery of principal and interest. MFI's would provide this service at a fee and the loans disbursed would form a part of the 'Off-Balance Sheet' portfolio. It has been seen in a few NBFC-MFIs that they either provide cash collateral or a corporate guarantee by which they either bear the loss or the loans at PAR 90 are transferred back to the MFIs books. An assessment of strategy risk at an entity level is provided below:

1. **Suryoday Micro Finance Private Limited (Suryoday)**

   Suryoday has a moderate growth strategy with a projected gross loan portfolio of Rs. 26,525 mn by 31st March 2018 at an average growth of over 70% year on year supported by an increase in borrowings with a projected debt raise from Rs. 2,988 mn to Rs. 21,441 mn by 31st March 2018 and a projected equity raise which is set to increase to Rs. 427 mn as on 31st March 2015 and to Rs. 539 mn by 31st March 2017 with gearing at all times being below the 5 times mark. Suryoday is in conversation with few banks for partnership on BC model, but while most of the banks are interested in building the assets side products, Suryoday is keen to work with them on savings products. With the strategy to scatter out and also to defend against heating pockets, Suryoday is restricting the client size managed by branch to 3,000 member's vis-à-vis average clients/branch being around 5,000-6,000. Total no. of branches does not increase substantially from 120 to 270 as of FY18. Stress scenarios were conducted on the company's business plan considering a delay in disbursements as a result of a delay in the equity raise, reduction in yield on portfolio by 25-50 bps yoy, a cost of funds increase by 25 bps yoy and an increase in PAR by 50 bps yoy. In all the stress scenarios, Suryoday continues to be considerably profitable and this will enable it to keep servicing the investment by the Fund. The company has also applied for a small bank license.

2. **Satin Creditcare Network Limited (Satin)**

   Satin's projected gross loan portfolio is set to increase to Rs. 80,542 mn as of 31st March 2019, with a CAGR of around 50% year on year with an increase in debt from Rs. 9,087 mn to Rs. 60,300 mn by 31st March 2019. With the company applying for a small finance bank license, the promoter group looks to maintain their shareholding at 33% and not dilute their stake as the requirements post conversion is that the promoter group maintains a 40% stake in the company. Thus with a planned Rs. 800 mn raise, further equity infusion from the promoter group is also expected. Post the expected equity investment, the gearing ratio is expected come down to 6 times. As per the projections in the business plan, though Satin expects the operating expenses to decline year on year, it does not expect the borrowing cost to go down as much. Satin will continue to be highly leveraged and bear high interest expense as it attracts further Tier II Capital which comes at a higher coupon rate. The interest coverage ratio improves quite slowly from 1.3 times to 1.4 times over the 5-yr projection period. Branches are projected to increase substantially from around 259 as of 31st March 2015 to 724 branches as of 31st March 2019 with productivity ratios also increasing. Stress scenarios were conducted on the company's business plan with a drop in yield on portfolio by 75 bps year on year, increase in cost of borrowing by 25 bps year on year and an increase in PAR by 50 bps year on year. The PAR tolerance level required to continue being profitable is at least 5% for all years during till 31st March 2019. In all the stress scenarios, the company continues to be considerably profitable and this will enable it to keep servicing the investment by the Fund.

3. **Fusion Micro Finance Private Limited (Fusion)**

Fusion's gross loan portfolio is projected to increase from Rs. 3,000 mn in FY15 to Rs. 20,000 mn by 31st March 2019 with an average CAGR of around 61% supported by equity share capital raise to Rs. 2,678 mn by 31st March 2019 and total projected borrowings increase to Rs. 11,900 mn by 31st March 2019. The company's staff cost per employee is expected to rise by around 10%-15% year on year from FY 2014-15. Over the next 4-5 years, average outstanding per client is expected to increase from Rs. 12,500/- to Rs. 18,000/-, while the average portfolio managed per field staff may increase from around Rs. 7.6 mn to Rs. 13.7 mn. In terms of expansion into new states, as a part of the new growth strategy Fusion looks to focus on expansion to Haryana, Madhya Pradesh, Bihar and Jharkhand. While this is a good strategy, several other existing players are also expanding aggressively in these states including Satin Creditcare Network Limited, Janalakshmi Financial Services Private Limited (in urban areas), and S V Creditline Private Limited. However, considering that several MFIs have started operations in Madhya Pradesh, Fusion will continue operations in rural and semi-urban areas within this state as there are fewer lenders here. Stress scenarios were conducted on the company's business plan with a drop in yield on portfolio by 75 bps year on year, increase in cost of borrowing by 25 bps year on year and an increase in PAR by 50 bps year on year. In all the stress scenarios, the company continues to be considerably profitable and this will enable it to keep servicing the investment by the Fund.

4. **Grama Vidiyal Micro Finance Limited (GVMFL)**

GVMFL does not look to increase their gross loan portfolio rapidly with a projected growth from Rs. 9,665 mn in FY15 to Rs. 34,095 mn in FY20 with a CAGR of 30% year on year. With no equity infusions in the recent past the promoter planned to dilute his equity stake with the entry of external investors. However, with the application for a Small Finance Bank License, the equity raise & dilution has been delayed until the outcome of the application is known. As per the requirements of Small Finance Banks promoter stake needs to be more than 40% with the promoters of GVMFL currently holding an equity stake of 50% including MBT shareholding. As per the projections equity will increase marginally to Rs. 72 mn by FY20. As of December 2014, GVMFL has already surpassed the expected profitability for entire financial year of 2015. Going forward, GVMFL expects the yield on portfolio to decline year on year from 30% to 24% (incl fees) to keep in line with the declining borrowing cost while maintaining the lending spread at 8.5%-9% over the next 5-6 years. GVMFL will continue to be highly leveraged and bear high interest expense as it attracts further Tier II Capital which comes at a high coupon rate. Stress scenarios were conducted on the company's business plan with a drop in yield on portfolio by 75 bps year on year, increase in cost of borrowing by 25 bps year on year and an increase in PAR by 50 bps year on year. In all the stress scenarios, the company continues to be considerably profitable and this will enable it to keep servicing the investment by the Fund.

Reputation Risk at Investee Company Level

All the investee companies have proven track record in this sector and are various levels of vintage and loan portfolio. The reputation risk is discussed for each investee company as follows:

1. **Suryoday Micro Finance Private Limited (Suryoday)**
   Suryoday has reputable directors on their board with a good past track record and no charges or lawsuits against them. The promoter Mr. Baskar Babu has 19+ years of experience which includes working for companies such as Cholamandalam Group, HDFC Bank and GE Capital. Suryoday has 2 independent directors, Dr. Sheela Bhide who has 36 years of experience working in various positions for the Government of India and Mr. R. Ramachandran who has held high profile positions in the past which includes Chairman and Managing Director of Andhra Bank and Executive Director at Syndicate Bank. He is currently a Non-Executive Director at SIDBI. Suryoday is rated BBB by ICRA and last received a rating in March 2015. Suryoday has maintained an investment grade rating since 2013 at BBB-. Suryoday however has a lower grading at MFR3 from CRISIL.

2. **Satin Creditcare Network Limited (Satin)**
   Satin's directors have a good reputation with relevant industry experience and a clean track record. Satin is promoted by Mr. H.P. Singh, a law graduate and a fellow of The Institute of Chartered Accountants of India since 1984. He has over two decades of microfinance experience and pioneered the unique concept of daily collection of repayments of loans. Satin has 4 independent directors on their board including Ms. Sangeeta Khorana a former Indian Civil Service Officer and Mr. Sujan Singh Chawla who served in the Lok Sabha Secretariat for 32 years most recently as Deputy Secretary. Satin is rated BBB+ by ICRA & CARE with its most recent rating received in March 2015. Satin has a grading of MFI 2+ from CARE. Satin has received several awards in the past including 2011 Social Performance Reporting Award for reporting social indicators to MIX at the Silver Level and MF Transparency Seal of Pricing Transparency for the period of August 2013 to August 2014.

3. **Fusion Micro Finance Private Limited (Fusion)**
   Fusion has maintained a good reputation over time with experienced directors and management. Fusion is promoted by Mr. Devesh Sachdev and Mr. Ashish Tewari. While Mr. Devesh is an XLRI Post Graduate with 16 years of experience in the Service Industry, Mr. Ashish is an Economics, Law and Management Graduate with over a decade of experience in financial services and has earlier worked with Development Credit Bank, General Electric (GE) and ICICI in various leadership positions. Mr. Vishwanath Seshadri, an independent director on the Fusion's board currently heads Risk and Strategy function in Gammon India, a leading construction and engineering company. He retired from ICICI Bank as general manager after working for nearly 12 years across various functions within retail banking. Fusion is rated BBB- by CARE with the most recent rating in March 2015. Fusion has maintained an investment grade rating since March 2014. Fusion recently received the Microfinance India Awards 2014 under the small and medium sized MFI category.

4. **Grama Vidiyal Micro Finance Limited (GVMFL)**
   Mr. Sathianathan Devaraj, promoter of GVMFL, has considerable microfinance experience having learnt the Grameen model directly under Dr. Muhammad Yunus. GVMFL has 2 independent directors on the board which includes Mr. A. Krishnamoorthy who has four decades of banking experience starting with tenure in Reserve Bank of India. He has held several territorial and functional jurisdictions as senior executive in Andhra Bank.

GVMFL is rated BBB by ICRA with the most recent rating in March 2015. GVMFL has had an investment grade rating since 2009. GVMFL became the first microfinance institution in the country to receive ISO 9001:2008 from the TUV of the American National Accreditation Board for standardised systems and processes.The Srijan Microfinance Forum, a national-level platform that recognizes emerging and innovative business initiatives in microfinance awarded GVMFL with the most prestigious Srijan Award for 2009 for the transparent MF operation. Microcredit Rating Internationals Ltd (MCril), a global leader in rating microfinance industries across the world in association with the Microrate Washington, USA had given 'α' (alpha) rating for GVMFL for two consecutive years and GVMFL is one of the very few organisations in country to receive this highest rating by MCril.

EXTRA-FINANCIAL RISKS, INCLUDING ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE RISKS, AT FUND AND INVESTEE COMPANY LEVEL

While identifying various risks at an entity level, we have also identified potential risks using an Social Performance Assessment Tool developed in house which involves an assessment of 7 categories namely Mission Alignment, Governance, Responsibility to Clients, Responsibility to Staff, Responsibility to Community, Responsibility to Environment and Outreach. Each category comprises a set of questions and every question consists of subcategories based on which the entity is rated. Each question carries a maximum of 3 points and a minimum of zero points. A weightage of 20% has been assigned to Responsibility to Clients and Responsibility to Staff, a weightage of 15% to Mission Alignment and Governance and 10% for other categories has been assigned. Below is an individual assessment of risks that have been identified using the tool as well as other potential risks that the entity faces.

1. **Suryoday Micro Finance Private Limited (Suryoday)**

An overall assessment of the social performance using the SPA tool places Suryoday at a reasonable position with a score of 72.3%. No substantial risks have been posed with regard to these aspects with Suryoday scoring comparatively lesser with regard to mission alignment and outreach. Efforts towards ensuring and tracking of adherence of the entire organization to Suryoday's mission have not been pursued effectively, with the company falling short on some indicators in this regard.

Social Performance Assessment Tool - Summary	
Mission Alignment	49.3%
Governance	92.0%
Responsibility to Clients	92.4%
Responsibility to Staff	81.9%
Responsibility to Community	66.7%
Responsibility to Environment	60.0%
Outreach	33.3%
TOTAL	72.3%

Suryoday performs exceedingly well with regard to corporate governance with representation on their board by many social investors including Aavishkaar Goodwell and Lok Capital. All directors on the board have a sound reputation with relevant industry experience thus ensuring that informed decisions are taken at the board level. Suryoday is audited by a globally recognised auditor namely M/s B.S.R. & Company LLP (KPMG). Independent directors play an active role on the board as well as various committees. Risks relating to corporate governance in Suryoday are low with risks arising only incase of out of the ordinary circumstances. Even in such cases Suryoday's strong corporate governance mechanism is likely to remain un-displaced.

Suryoday does not face any substantial financial risks with a good CRAR and Gearing ratio. With the new investments coming in in the last quarter from Developing World Markets (DWM), this is likely to improve. As in the case of any other MFI, Suryoday's attrition rates are high at 17% especially at the field level given the nature of the business. However, the attrition rates are relatively lower than other institutions. Besides, Suryoday offers one of the highest fixed salaries and have an active HR team that frequently interact with staff to ensure satisfaction. Adequate insurance is provided at the staff level besides various employee engagement programmes to ensure staff retention.

Risks are also posed by client dropouts. To counter high dropouts between cycles, Suryoday is now making efforts to ensure client retention by conversion from one cycle to another in the form of express loans. Suryoday also ensures adequate transparency to clients by educating them on product terms and conditions using both verbal and written modes. Suryoday follows the unified code of conduct and fair practice codes of RBI to ensure fair treatment of clients. Suryoday has a detailed grievance policy with clear escalation process and multiple channels to address customers' concerns through a toll free number at the HO. The grievance redressal centre is also manned by personnel who can speak local languages. There is also adequate flexibility in repayment options.

Suryoday is exposed to regulatory risks due to constant changes in the regulatory environment. However, Suryoday is currently compliant with all regulatory requirements.

2. Satin Creditcare Network Limited (Satin)

An overall assessment of the social performance using the SPA tool places Satin at a reasonable position with a score of 73.2%. No substantial risks have been posed with regard to these aspects with the company scoring above 60% in all aspects. Some of the main aspects identified which resulted in lower scores include non-tracking of performance of vision and mission statement across the entity, occurrence of on the job fatalities and lack of adequate education to clients on opening of bank accounts.

Social Performance Assessment Tool – Summary	
Mission Alignment	68.0%
Governance	82.7%
Resp. to Clients	89.5%
Resp. to Staff	69.5%
Resp. to Community	62.2%
Resp. to Environment	60.0%
Outreach	62.2%
TOTAL	73.2%

Satin's board comprises of a good mix of social and financial investors which includes representation on the board by Danish Microfinance, Microvest Mauritius, Norwegian Microfinance Initiative (NMI) and Shore Capital. Satin is one of the few entities to have an equal representation of independent directors on the board ensuring that all decisions are taken fairly and with adequate discussion at the board level. Satin however is not audited by a global recognized auditor but by an Indian Delhi based firm namely M/s A.K Gangaher & Co.

While Satin's client dropout figures are quite high at 25% due to credit bureau rejections, there still remains a risk of retention of customers over time. Satin does not conduct any feedback surveys from clients which might lead to dissatisfaction of clients incase products are not altered to suit their requirements. However Satin has designed six Client Protection Principles wherein Responsible and Transparent Pricing is one of the principles for the benefit of the clients. A significant part of the staff day is spent on soft skills pertaining to client interaction and overdue recovery methods in terms of dos and don'ts. Satin also has a grievance redressal mechanism namely 'Sparsh'.

Satin's leverage ratio is high at 7.5 times as of 31st December 2014 but this is likely to fall with a planned equity raise shortly. A risk also arises out of the individual loan origination agreement with Reliance Capital where, any arrears beyond 90 days will move to the company's books. Risks of default are however minimized through the involvement of Branch Manager and Territory Manager at an early stage in terms of being involved in the Group Retention Test (GRT) process that is the Branch manager conducts the mini-GRT and the Territory manager conducts the final GRT which adds another layer to initial filtering process. Though Satin's attrition rate is at 24%, majority of attrition occurs during the first three months during training. In order to retain staff Satin provides various incentives to employees including additional holidays during festivals. The company however does not have a whistle blower policy in place as yet and has minimum safety mechanisms in place.

Fraud risks are being suitably managed through substantial on-site visits by the Internal Audit team and adequate supervisory control through frequent centre visits by Area Managers and Branch Managers. Fidelity insurance has been availed to cover this risk adequately. Cash related risks are adequately covered through checks and balances

Satin is exposed to regulatory risks due to constant changes in the regulatory environment. However, Satin is currently compliant with all regulatory requirements.

3. Fusion Micro Finance Private Limited (Fusion)

An overall assessment of the social performance using the SPA tool places Fusion at a reasonable position with a score of 71%. The company has scored lower points with regard to mission alignment and responsibility to community with very few initiatives in this regard.

Social Performance Assessment Tool – Summary	
Mission Alignment	58.7%
Governance	86.7%
Resp. to Clients	87.6%
Resp. to Staff	77.1%
Resp. to Community	44.4%
Resp. to Environment	53.3%
Outreach	62.2%
TOTAL	71.0%

Fusion's board consists of representation by 2 social investors namely Incofin and Norwegian Microfinance 'Initiative (NMI). However the company has only one independent director on the board. The company also does not have any representation by a women director on the board but are in the process of hiring a woman independent director on the board. This aspect must be complied with by the company in order to come in line with the new provisions of the Companies Act. However all directors have rich experience in the microfinance and financial service industry and all decisions at the board level are taken after adequate discussions. The company's accounts are audited by a global recognized auditor namely M/s BSR & Co LLP (KPMG).

Though the company is exposed to default risk feedback from the internal audit findings provides a good barometer with regard to level of default risk. To restrain certain issues, Fusion has taken various corrective measures like stopping disbursements in the area and eventually closing branches with widespread problems. While staff attrition is high at 27%, Fusion has started a programme called Sampark Sutra, wherein field officers are called on their mobiles either before or after office hours. They are asked to speak in private and give their perspectives on strengths and challenges in their role. This has resulted in a lot of positive feedback and insightful inputs for the HR team which may help reduce attrition in the long run.

Fusion requires members to form groups of 5, so if there is any dropout the group has to compulsorily replace its members – this takes time and may dilute joint liability as members may feel pressurized to take on new joinees to avail the next loan. In order to reduce client dropout a substantial amount of time is spent on soft skills training while the HR manual strongly endorses good behaviour with clients at all times. Fusion also has a client grievance redressal mechanism in case of any problems faced by clients. Though the company's credit risk is relatively low the company ensures focus on compliance, monitoring, centre discipline, training and 100% KYC verification. The company also needs to develop an adequate second line of management to ensure business continuity. Though the company has adequate personnel, the second line of management is thin and adequate support needs to be provided in all departments.

Fusion is exposed to regulatory risks due to constant changes in the regulatory environment. However, Fusion is currently compliant with all regulatory requirements.

4. Grama Vidiyal Micro Finance Limited (GVMFL)

An overall assessment of the social performance using the SPA tool places GVMFL at a reasonable position with a score of 71.7%. The company has scored lower points with regard to mission alignment and outreach with presence in areas where many other MFI's are operating. Though the mission and vision has good coverage and forward looking outlook of the company does not have any defined social goals with any commitment to environmental stewardship. There is also no active evaluation of business or employees against performance on vision and mission.

Social Performance Assessment Tool – Summary	
Mission Alignment	53.3%
Governance	88.0%
Resp. to Clients	82.9%
Resp. to Staff	76.2%
Resp. to Community	73.3%
Resp. to Environment	73.3%
Outreach	37.8%
TOTAL	71.7%

GVMFL's board consists of a representative from one social investor namely Micro Vest Equity Fund. There is a strong representation of promoter group on the board which includes Mr. S.Devaraj, Ms. Shirley Devaraj and Mr. Rajasekar who represents the Mutual Benefit Trust (MBT). The MBT structure is transparent with no identifiable risk. There are currently 2 independent directors on the board. An underlying risk lies in promoter concentration on the board. The accounts of the company are audited by a global recognized auditor, Walker Chandiok & Co. LLP (Grant Thornton).

Though GVMFL's default and credit risk is very low, as there is no induction or training of new members who join a group in subsequent cycles, an inherent risk lies in the knowledge that the clients have when they enter a group without being briefed about the terms and conditions of the loan. There are also some ghost loans prevailing within GVMFL where centre leaders used loans of the entire group. Attrition at the field staff level has been quite high at 35%. However, HR have designed various incentive programmes such as new member incentives and portfolio quality incentives for staff motivation.

GVMFL's Qualifying Assets as of 31st December 2014 is at 85.7% which is just above the RBI Requirement of 85%. This was primarily due to high disbursement of seasonal loans and this has declined in the final quarter with qualifying assets close to 90%. Another identifiable risk of the company is the company's relatively high operating expenditure which was at 10.7% as of 31st December 2014. GVMFL's operating expenditure has been around 10%-11% since inception primarily due to high staff expenses but has not in any way affected the company's profitability levels.

GVMFL is exposed to regulatory risks due to constant changes in the regulatory environment. However, GVMFL is currently compliant with all regulatory requirements.

IFMR FImpact Investment Fund
(represented by IFMR Investment Managers Private Limited)

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