



EQUITAS HOLDINGS PRIVATE LIMITED

6th ANNUAL REPORT 2012 – 2013

CORPORATE INFORMATION

Board of Directors	Registered Office
<ol style="list-style-type: none"> 1. Rangachary N Chairman 2. Arun Ramanathan Director 3. Gary Ng Jit Meng Nominee Director 4. Kuppuswamy P T Director 	<p>4th Floor, Temple Tower, 672, Anna Salai, Nandanam, Chennai - 600 035 Tel: +91 44 4299 5000 Fax: +91 44 4299 5050 Email: corporate@equitas.in Website: www.equitas.in</p>
<ol style="list-style-type: none"> 5. Nanda Y C Director 6. Paolo Brichetti Nominee Director 7. Rajaraman P V Director 8. Raman N Nominee Director 9. Srinivasan N Director 	<p>Auditors</p> <p>Deloitte Haskins & Sells 8th Floor, ASV'N, Ramana Towers, 52, Venkatnarayana Road T.Nagar, Chennai 600017 Tel: +91 44 6688 5000 Fax: +91 44 6688 5100</p>
<ol style="list-style-type: none"> 10. Viswanatha Prasad Subbaraman Nominee Director 11. Vasudevan P N Managing Director 	<p>Banker</p> <p>Axis Bank Limited HDFC Bank Limited ICICI Bank Limited State Bank of India</p>

TABLE OF CONTENTS

Chairman's Speech	1
Directors' Report	5
Management Discussion and Analysis	11
Corporate Governance Report	22
Auditors' Report - Standalone	34
Financial Statements - Standalone	38
Auditors' Report-Consolidated	69
Financial Statements-Consolidated	72

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FROM THE CHAIRMAN'S DESK

Dear Members,

Less than six years ago, on a December morning, Equitas disbursed its first loan. The company has done well to grow into a healthy group of finance companies – powered by the steady large microfinance arm and ably supported by rapidly growing smaller arms of vehicle finance and housing finance.

Microfinance: Looking within!

In the past year, microfinance has been characterized by an operating environment that has turned distinctly steady from the rocky period after the AP crisis of 2010. In the previous couple of years, the company's performance was pivoted on external factors, especially the regulatory scenario. RBI introduced a new category of NBFC-MFI in December 2011 and specified microfinance-specific regulations. These regulations have also helped drive microfinance institutions to enrol and participate in credit bureau initiatives. This has strengthened the operating environment of the sector as a whole. In August 2012, RBI has also indicated that margin caps may be reduced from 12%.

All these regulatory interventions have ensured that only genuine and long term players remain in the sector. The earlier regime of passing on the high cost of operations of MFIs to their borrowers is now no more possible. Today MFIs need to be very efficient and use technology to control cost significantly if they are to create sustainable models. These developments have validated the approach of Equitas which has been to pass on only steady state cost to clients and ensure profitability through efficiency and productivity. It is a matter of great pride for the Company that the lending rate adopted by the Company, in 2007, at 25.5% all inclusive cost is today the rate adopted by the Regulator while fixing 26% as the ceiling on lending rates by MFIs.

The company has initiated an internal Business Process Re-engineering exercise to identify and implement processes that will further help in improving the productivity of the company. The company hopes to be able to squeeze cost by a further 1% during the coming year and continue to set benchmarks for the industry to follow.

With the NBFC-MFIs well regulated, the next step is to bring in suitable regulation for the NGO-MFIs so that the entire micro finance sector becomes cohesive. The Micro Finance Development and Regulation Bill pending in Parliament seeks to do just this by bringing the NGO-MFIs also within the regulatory ambit of RBI.

Financial Inclusion:

The Central Government and RBI continue to push for higher levels of financial inclusion of the unbanked. The Business Correspondent model rolled out by RBI seeks to enable non-bank entities which have existing reach in rural and unbanked areas, provide banking services on behalf of banks. However unfortunately this has met with limited success. NBFC-MFIs, which are much better regulated than these non-bank entities and having a significant reach already, present a very good

medium to reach banking services, especially the liability services to the masses. Representations have been made to RBI to include NBFC-MFIs within the Business Correspondent landscape. If this is permitted, Equitas would be able to reach millions of unbanked people with a full bouquet of banking services, benefiting them immensely. We await this day.

Vehicle Finance: Rapid growth amid macro-economic questions

The vehicle finance company has grown at an impressive rate to close the year with a loan portfolio of over Rs 300 Crores, while starting the year at Rs. 92 Crores. The growth has been powered primarily by leveraging its existing branch network and has been coupled with a close monitoring on collections. The company has empowered select field staff with higher credit authority. The company has also deployed an in-house state of the art on-line MIS portal for the business team to monitor its performance on a continuous basis.

The commercial vehicle industry is closely linked with the macro-economic scenario and with the India Growth story taking a beating in the recent past, questions have been raised in some quarters regarding the strength of the vehicle finance sector as well. However, market for used Commercial Vehicles in contrast was not unduly affected. The company will continue to closely monitor the market developments and its own portfolio performance and adapt its model suitably, as required.

Housing Finance: Evolving a model for a large untapped market

The Housing Finance Company is unique among the Equitas group because it is developing a new model to service a large untapped market. In such an achievement, this Company has followed the Equitas tradition. In its first full year of operations, the Housing Finance Company has increased its portfolio size to around Rs 45 crores and has achieved monthly break-even. Apart from extending operations into Karnataka, the Company also expanded its product portfolio by introducing a Loan against Property product.

A key thrust area for the housing finance company has been to leverage the large base of microfinance members of its sister concern. While home ownership is a huge aspiration for all microfinance members, only a small part of them may be in a financial position to bear the responsibility of repaying a long-term housing loan. A pilot launched during January 2013 saw around 120 microfinance members being given housing loans while about 700 more members have received sanctions. The housing finance company is working closely with the microfinance company to develop a scalable model for this segment.

Social Initiatives:

The company continues to expand its bouquet of social initiatives, suitably guided by its eminent Board of Trustees. To further strengthen these activities, the Micro Finance Subsidiary's Board has appointed a CSR Committee of the Board to support the Trust in achieving its goals.

A snapshot of cumulative beneficiaries across each initiative is given in the table below.

Social Initiative*	FY 12-13	Cumulative
Health Camp	5,28,333	13,17,816
Skill Development	20,547	2,75,175
Food Security	43,089	67,591
Telemedicine	4,861	6,807
Health Helpline	3,266	15,055
Placements	1,782	9,745

*Values mentioned represent number of member beneficiaries for each initiative. Placements are provided to members' children.

Governance & Values:

The company has incorporated its core values of Fairness & Transparency in every aspect of its operations, across all its businesses. The company has also adopted high levels of corporate governance. CRISIL has assigned its 'CRISIL GVC Level 2' rating to the company. As per the rationale provided by CRISIL, "The rating reflects Equitas' high level of transparency in operations, its broad-based board, with a majority of independent directors, and the very good quality of board across the group." I am also happy to note that CRISIL has specifically complemented the company's CSR focus- "Equitas has very strong commitment towards CSR initiatives, supported by regular contribution of funds and a strong organisation structure. The financial commitment is demonstrated through allocation of 5 per cent of profits for CSR initiatives. The group has dedicated employees, who are well-experienced professionals, to manage the CSR operations, both at the senior management and operational levels."

Amongst the highest Governance rated Organisation:

I am proud to note that within a very short period of 5 years, Equitas has been rated Level 2 on Governance by CRISIL and there are only 6 other corporate in India, in operation for many decades, who are Level 1 rated. This achievement has been possible only because of the strong governance framework established by the company right from its inception and fully subscribed and adhered to by all its stakeholders.

Financier to the unbanked:

In the past year, the company conducted an extensive exercise (involving multiple stakeholders including the investors, independent directors and management team) to develop a joint vision for the Equitas group. Through this exercise, the company reaffirmed its focus towards becoming a 'Financier to the unbanked'.

The company would continuously identify those financial needs of the unbanked which are not serviced by the Banks, and seek to extend the same in a mutually beneficial and sustainable manner.

And so long as we continue to be guided by our core philosophy of fairness and transparency to all our stakeholders, especially our vulnerable customers, I am confident we will set high benchmarks which would be a guide to regulators and worthy of emulation by others.

We at Equitas continue to remain committed to high principles of equity and transparency and such a commitment is being passed on to its employees, as we grow expanding our activities to different fields. We are thrilled to see that as we expand our horizon, we see others joining us to carry on this committed vision into the future. As I look back to the early days in Equitas, I feel that what we started with as a small endeavour, is taking deep roots and I should feel proud at the legacy which the pioneers at Equitas are leaving behind.

I wish all of you a Great Year ahead. God Bless You.

N Rangachary

Chairman