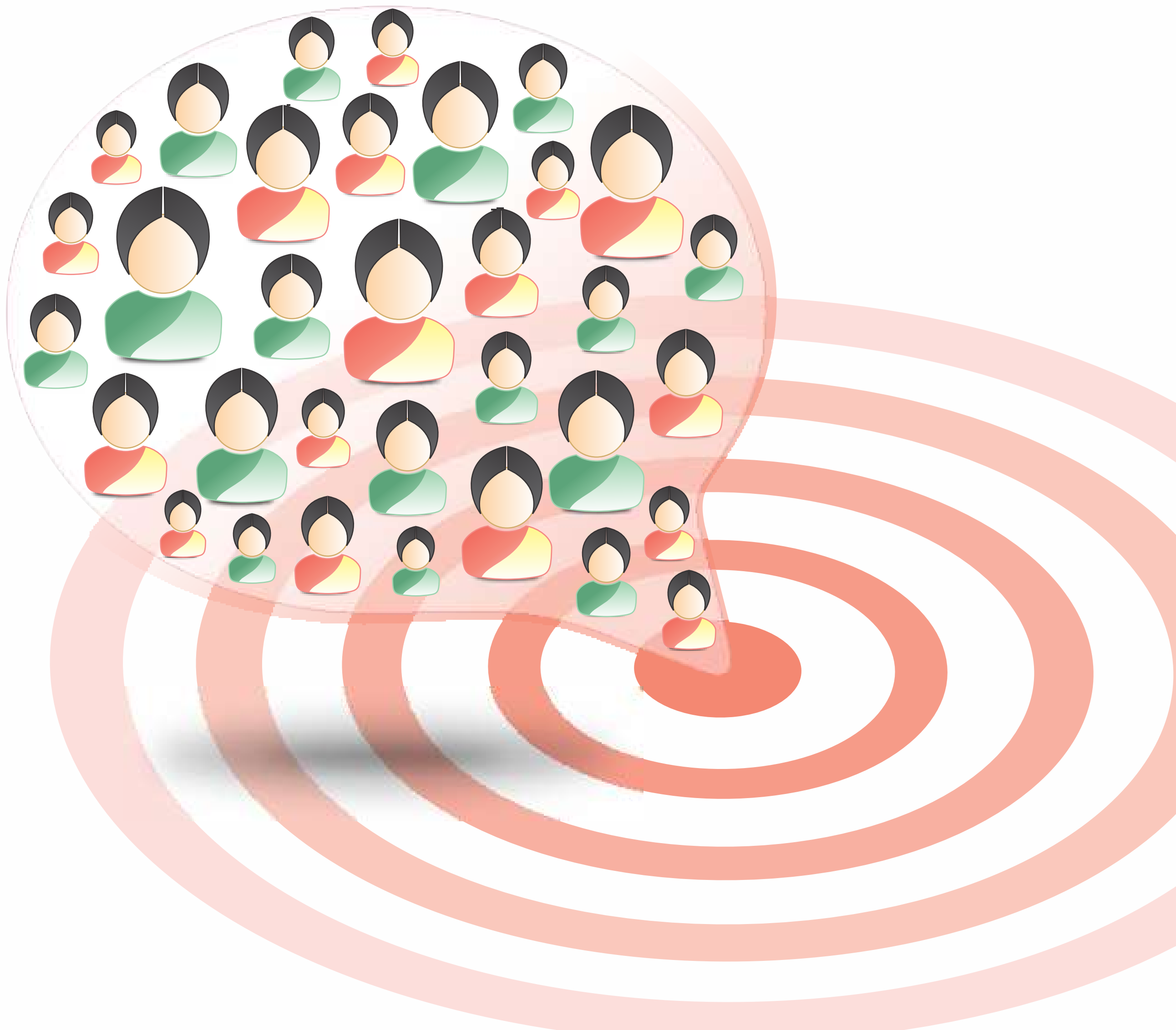
ANNUAL REPORT

2012-2013



Ujjivan Ranks #7
India's Best Companies To Work For 2013

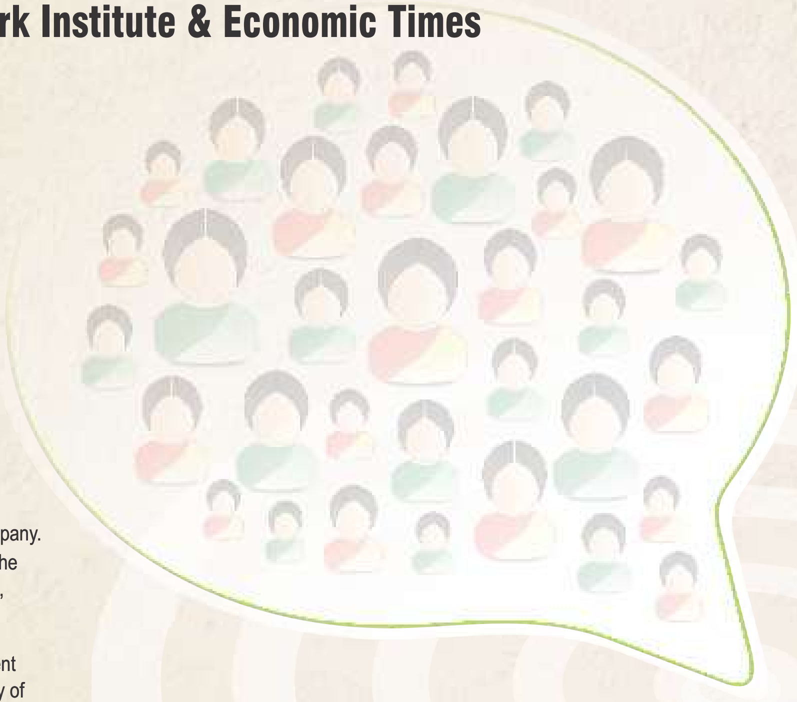
Ujjivan Ranks # 2
in Financial Services

Ujjivan Ranks # 2
in Rewards & Recognition Practice

Ujjivan Ranks # 3
in Engaging Frontline Staff

Awarded by

The Great Place to Work Institute & Economic Times



Legal & Regulatory Framework
Ujjivan Financial Services Pvt. Ltd. is registered as a Non Banking Financial Company. The Company has a valid Certificate of Registration dated 31-10-2005 issued by the Reserve Bank of India (RBI) under section 45 1A of the Reserve Bank of India Act, 1934.

However, the RBI does not accept any responsibility or guarantee about the present position as to the financial soundness of the company or for the correctness of any of the statements or representations made or opinions expressed by the company and for repayments of deposits / discharge of liabilities by the company.

Printed in India

Board of Directors

Mr. K. R. Ramamoorthy
Independent Director

Mr. Sunil.V. Patel
Independent Director

Ms. Vandana Viswanathan
Independent Director

Mr. K. Natarajan
Nominee Director
SIDBI

Ms. Mona Kachhwaha
Nominee Director
India Financial Inclusion Fund

Mr. Christopher Miles Brookfield
Nominee Director
Mauritius Unitus & Elevar Equity

Mr. Mohit Bhatnagar
Nominee Director
Sequoia Capital

Mr. Venkatesh Natarajan
Nominee Director
Lok Capital

Mr. Sanjiv Kapur
Nominee Director
WCP Holdings III

Ms. Christina Juhasz
Nominee Director
Women's World Banking Isis Fund

Mr. Samit Ghosh
Chief Executive Officer and Managing Director

Auditors

Deloitte Haskins & Sells (Statutory)
V. Nagarajan & Co. (Internal)

Legal Counsels

Universal Legal

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Ujjivan

Letter from Managing Director

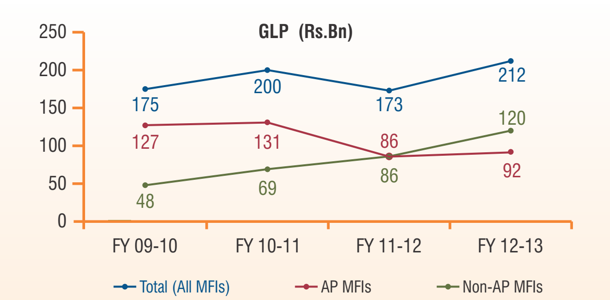
The Industry Environment

Thirty-two months have passed since the 2010 industry crisis enveloped Andhra Pradesh. How is the industry faring today? How may we define the climate of the MFI sector at present?

- The three key parameters to consider are: Gross Portfolio Growth, Customer Base and Profitability. The following charts demonstrate this data:
    - In 2012-13 the Gross Portfolio rebounded to Rs.212 Billion surpassing 2010-11's peak of Rs.200 Billion. This was achieved after a major dip in 2011-12
    - The customer base for the same period grew from 23 million to 24 million
    - Looking at the select number of MFIs whose financials are available, profitability improved significantly for those not based in Andhra Pradesh in 2012-13

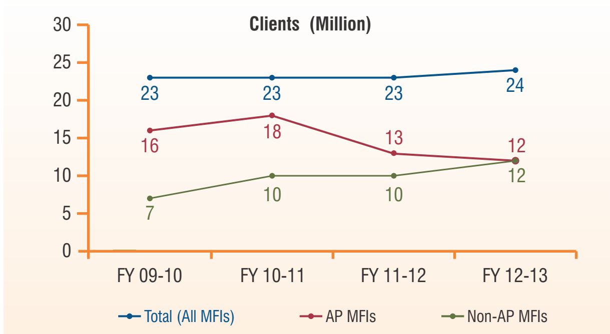
The numbers testify to a revival of the industry outside Andhra. The disconcerting news is that studies indicate that in the state of Andhra Pradesh customers have no choice but to return to money lenders due to Government legislation that virtually bans MFIs from operating there.

Gross Loan Portfolio



- Non-AP MFIs witnessed 39% growth in FY 12-13 against only 25% in FY 11-12
- The AP MFIs saw growth mainly in their non-AP portfolio in FY 12-13

Customers



- Non-AP MFIs: 22% increase in client base over FY 11-12
- AP MFIs: 4% decrease in client base over FY 11-12
- Large MFIs (GLP>Rs.5 Bn) account for 82% of the total client base

Profit Before Taxes of Key Non-Andhra Based MFIs

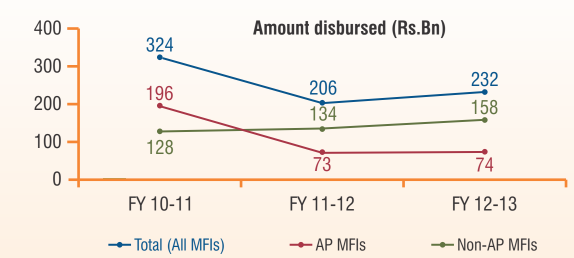
PBT (Rs.Million)	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Bandhan	1,139	1,780	2,889	
SKS	2,677	1,709	-13,237	-2,971
Ujjivan	119	177	22	492
Equitas	348	456	278	407
Janalakshmi	-23	-22	12	236
Grameen	19	38	-17	94*
ESAF	15	19	62	90*

- All major players have registered growth in their profits over FY 2011-12
- *Indicates estimated numbers
- Historical data sourced from Mix Market

- The environment has emerged more stable as over-exuberant lending practices of the years culminating in 2010-11 have given way to a more disciplined approach. This is guided by the Reserve Bank of India (RBI) rules that limit the number of MFIs lending to a particular customer to two and restrict the total exposure per customer to Rs.50,000. The lower level and gradual increase of loan disbursements shown below indicate a more disciplined approach by the MFIs. Along with this, the table on Portfolio Quality indicates an excellent state of portfolio outside Andhra with portfolio at risk at only 1%. There has been an impressive implementation by NBFC-MFIs, led by Micro Finance Institutions Network (MFIN), of credit bureau integration. Within just two years, the MFIs have provided the credit bureaus with 70 million loan records. The credit bureau data is updated monthly and utilized as a tool for approving all loans made by NBFC-MFIs. We welcome this current industry snapshot, featuring a more graduated growth in loan disbursements outside Andhra and improvements in portfolio quality.

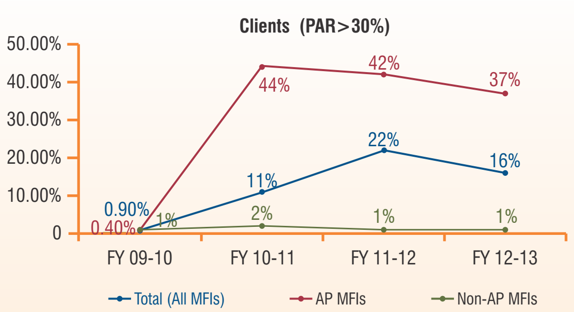
- The industry is going through a period of consolidation - not in terms of MFI mergers and acquisitions, but through

Amount of Loan Disbursed



- In FY11-12 Non-AP MFI disbursements were at pre-crisis levels, followed by 18% growth in FY12-13
- Marginal increase in volume for AP MFIs in FY12-13 after a huge fall during crisis and post-crisis

Portfolio Quality



- PAR 30 (%) figures for the industry have increased considerably as a consequence of AP crisis
- Non-AP MFIs have maintained high level of portfolio quality with PAR 30 figures around 1%

consolidation at customer level. The ceilings imposed by RBI through margin and interest rate caps are forcing MFIs to become more efficient. In order to remain viable, each must bring in economies of scale. This is marginalizing the smaller MFIs, which are not able to raise adequate levels of debt or capital. The market is now being dominated by medium and large MFIs along with a number of banks which have recently entered the microfinance arena.

- There is debate among experts over whether the single product line business that is the industry's bread and butter - group-based installment loans - has reached a saturation point. Government's planned ten-state roll-out of the National Rural Livelihood Scheme (highly subsidized Self Help Group loans funded by the World Bank) is likely to adversely impact the sector. Such initiatives are populist palliatives which are politically motivated. Over the last 60 years they have actually had very limited impact on poverty alleviation. They are, unfortunately, likely to create tensions between the State-run programs and the Microfinance industry.

- The future of the Microfinance industry lies in its resolve and capability to reinvent itself and become a full-service financial provider for the poor. This most critical step will lead to real financial inclusion of the poor. This will demand the customization of loan products to meet the specific needs of the customer: micro-enterprise loans, housing loans, higher education loans etc.; reliable savings and investment products for the poor; wider range of insurance products, along with safe and economical remittance services; pension and financial literacy programs. The urgent need for reliable savings and investment products has been highlighted by the recent collapse of the 'Ponzi schemes' in East, which have lured and devastated the poor and lower middle class, especially in the rural and semi-urban areas.

- Why did the crisis happen and what can we learn from it? The unorganized money lending is a hugely lucrative business; the government-sponsored programs have political dividends. The unorganized deposit-taking business is also massive and produces extraordinary profits. Powerful businessmen, politicians, bureaucrats, celebrities and media organizations are involved in these businesses. As one followed what transpired during the collapse of the Saradha Group of Companies in West Bengal, this fact became immediately apparent. The tentacles of these types of businesses reach right across India at a much larger scale than what is visible. If the Microfinance industry is to seriously take on such competitors, we must first become recognized providers of financial services and, hence, receive appropriate regulatory protection. We have come a long way with our recognition as NBFC-MFIs by the RBI. Secondly, we need to ensure that the MFI legislation, currently stalled, is passed by the Parliament. Finally, we cannot operate naïvely or in the throes of self-centered greed. We must fight the competition with maturity and unity. In our sails, we need the wind of support from our vast customer base.

Highlights of Financial & Business Performance

We are breathing the fresh air of a new day, post-industry crisis. We have worked hard since the advent of new regulations to operate more efficiently. We have enhanced our relationships with customers by being the only MFI to launch a Customer Care division, reflecting our dedication to protecting our most important stakeholders. We have risen to re-invent ourselves as a provider of the full range of financial services necessary to enable the attainment of true financial inclusion of the poor. While we could barely break-even last year, in 2012-13 we are the second most profitable company among the NBFC - MFIs; fifth in terms of loan book and we serve the sixth largest customer base. With presence in 20 states, Ujjivan has the widest geographical reach of any MFI in India.

Key Parameters	FY 12-13	FY 11-12
Borrowers	1,006,052	819,400
OSP (Rs.Million)	11,260.0	6,912.0
PBT (Rs.Million)	491.5	21.9
Net worth (Rs.Million)	3,143.3	2,369.6
Debt Raised during the year (Rs.Million)	7160.0	4670.0
Return on Equity	12.0%	1.0%
Return on Assets	3.0%	0.2%
Cumulative Repayment Rate	99.73%	98.32%
Operating Expense Ratio	10.6%	13.5%
No. of employees	3,656	3,449

- Financial year 2012-13 has been a major turnaround year for Ujjivan, closing with a loan book of Rs.11260 Million (63% growth over previous year) and a profit before taxes of Rs.491.5 Million compared to an almost break-even situation in 2011-12 (an aftermath of the Industry crisis).
- Significantly, Ujjivan, since 2010, has undertaken numerous business process re-engineering programs, branch consolidations, technology upgrades and product rationalizations. We have improved field staff efficiency and maximized economies of scale. The result is a reduction in Operating Expense Ratio from over 17% in 2010-11 to 10.6% in March 2013, signifying that Ujjivan remains a viable business in the regime of interest and margin caps.
- Ujjivan now serves over 1 million active borrowers spread over 20 states (Ujjivan has never had operations in Andhra Pradesh) through a network of 301 branches (reduced from 350 prior to the crisis).
- All through the crisis Ujjivan maintained a healthy portfolio quality through prudent risk management techniques. The cumulative repayment rate has moved up to 99.73% as of March 31st, 2013.
- Ujjivan has enjoyed healthy liquidity through the support of banks and financial institutions in the last three years. We have diversified source of funding from term loans from banks and financial institutions to Non-Convertible Debentures. Without resorting to any asset sale or securitization, Ujjivan increased funds raised by 134% during this period to Rs.7160 Million.
- Even during the crisis period Ujjivan was able to raise capital twice through private placements of Rs.1279 Million in January 2012 and Rs.473 Million in September 2012. The capital raise was not only subscribed by existing investors but inducted new investors like IFC, FMO and Wolfenshon. During this period Ujjivan facilitated the exit of two of the earliest investors: Bellwether (July 2012) and Michael & Susan Dell Foundation (September 2012).

We are pleased to note that even during such a difficult period the investments in Ujjivan were able to generate a healthy IRR of 20-24% per annum.

- Since before the crisis, our focus has been on customer service & protection. We are proud to be among the world's first MFIs to meet the SMART Campaign's global standards of customer protection.
- Our most precious resource at Ujjivan is our employees. We are pleased to be ranked second among all financial institutions and seventh overall in India in the Great Place to Work competition. We use this to benchmark ourselves for our people practices and employee satisfaction.

Conclusion

At the behest of the previous Finance Minister, applications are being sought by the RBI for fresh banking licenses in the endeavour to promote financial inclusion. If regular commercial banks could be the vehicle used to achieve this goal, the problem would have been resolved long ago. Being a banker for over thirty years, I can assure you that they neither have the inclination nor the capacity to provide financial services to the poor. The Governor of RBI has stated in the latest Credit Policy announcements that a study will be conducted to determine the ideal organization to serve the poor. Perhaps the choice will be the 'small banks' recommended by the Raghuram Rajan Committee a few years ago, or limited license banks which successfully provide financial services to the poor in regions around the world, including our neighbouring SAARC countries. Let us hope we get the answer soon. The obliteration of the savings of millions of poor in the eastern states during the collapse of 'Ponzi schemes' only underlines the urgency for a solution. This problem is not just in East but is all pervasive. Meanwhile, we will soldier on through the myriad regulations to provide these services through various legal entities.

The light at the end of the tunnel has appeared to us at Ujjivan through an independent impact assessment survey, conducted with customers across 9 states over a period of three years. In February 2013 we returned to the nearly 1500 customers from the original 2010 sample of 3200 who are still active Ujjivan borrowers. 87% defined their current state of well-being as "Positive" vs. 60% three years ago. 96% percent of this group reported that they believe that their lives will continue to improve in the next three years. There has been remarkable progress in income growth, especially among our self-employed/small business owners. Monthly incomes for this group rose by 85%. Looking at other quality of life indicators, 63% now have bank accounts and 57% hold Aadhar cards. Validating women's tendency to invest in the family's future welfare, 40% have now enrolled their children in private schools compared to 28% three years ago.

We could not be more delighted to be a part of our customers' journeys as they improve the quality of their lives.

Samit Ghosh
May 28, 2013.