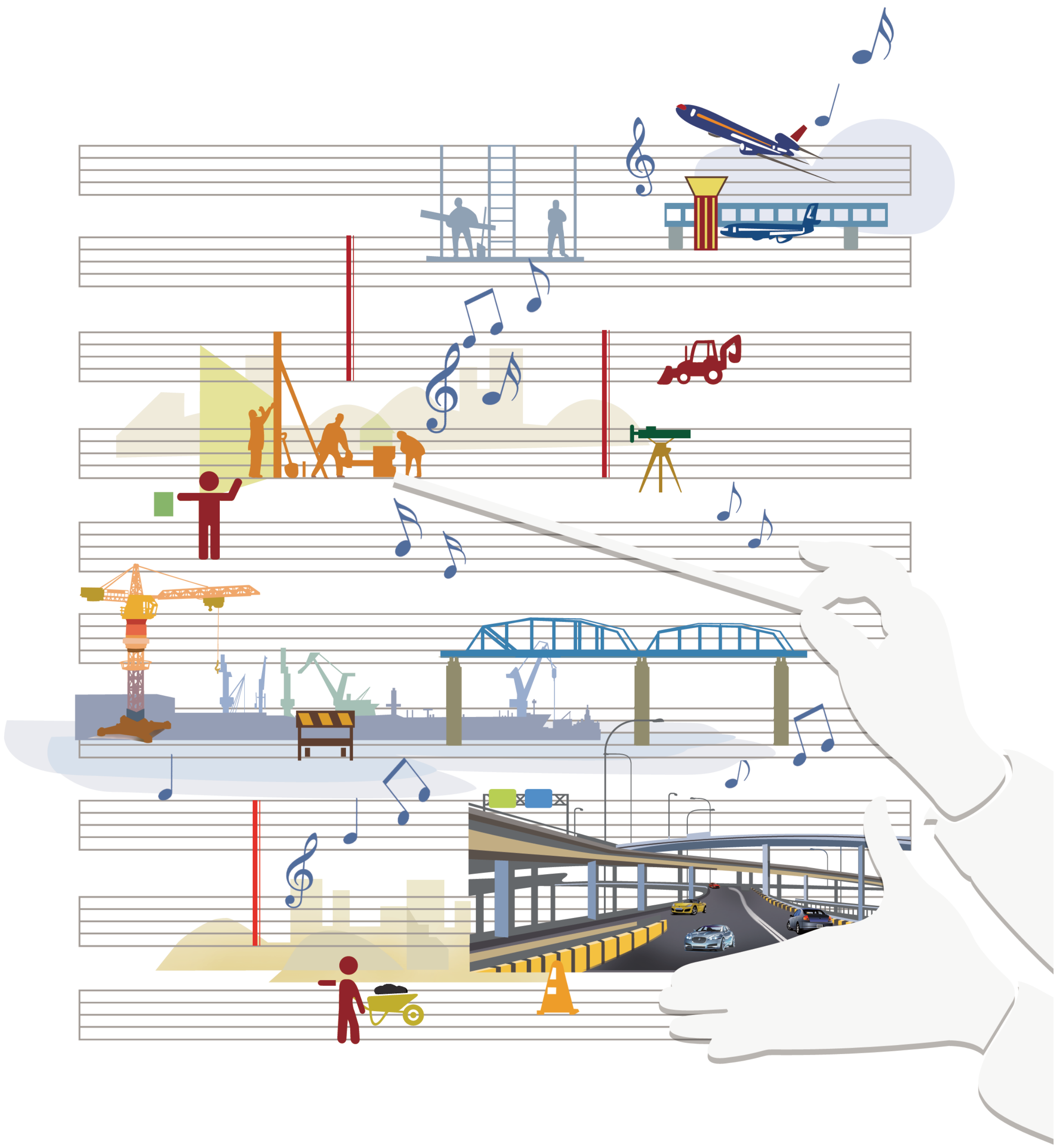
Invisible hand



Srei Equipment Finance Private Limited

Annual Report 2011-12

Board of Directors

Bertrand Gousset Chairman	Hemant Kanoria Vice Chairman & Managing Director	Sunil Kanoria Joint Managing Director
Thierry Bonetto	Kora Ipe Puthenpurockal	Anjan Mitra

Chief Executive Officer	Chief Financial Officer
D. K. Vyas	C. R. Sudharsanam

Company Secretary	Auditors
Sanjay Chaurasia	S. R. Batliboi & Co. Chartered Accountants

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DIRECTORS' REPORT

Dear Shareholders,

The Board of Directors of your Company has pleasure in presenting the Sixth Annual Report together with the Audited Accounts of your Company for the year ended 31st March, 2012.

FINANCIAL RESULTS AND OPERATIONS

The summarised financial performance of your Company for the year ended 31st March, 2012 is as under:

(₹ in lakhs)

Particulars	Consolidated		Standalone	
	Year ended 31st March, 2012	Year ended 31st March, 2011	Year ended 31st March, 2012	Year ended 31st March, 2011
Total revenue	182,116	124,172	181,852	123,915
Total expenditure (including depreciation and other expenses etc.)	125,589	80,531	125,329	80,293
Profit before Bad Debts, Provisions & Tax	40,860	35,588	40,857	35,570
Bad Debts written off (Net of recovery), Provision for Non Performing Assets and Contingent Provision against Standard Assets	10,395	14,245	10,395	14,245
Profit Before Tax	**30,465**	**21,343**	**30,462**	**21,325**
Total Tax expense	10,768	8,253	10,739	8,246
Profit After Tax	**19,697**	**13,090**	**19,723**	**13,079**
Profit brought forward from earlier year	16,260	9,785	16,234	9,770
Profit available for Appropriation	35,957	22,875	35,957	22,849
Paid up Equity Share Capital	5,322	5,000	5,322	5,000
Amount transferred to Reserves	11,547	6,615	11,547	6,615
Net Worth	139,967	110,206	139,967	110,176

OPERATIONAL REVIEW

Your Company continues to maintain its market leadership in the infrastructure equipment financing business. Some of the key highlights of your Company's performance during the year under review are:

- The gross profit (before depreciation, bad debts, provision and tax) grew to ₹ 56,523 lakhs from ₹ 43,622 lakhs last year.
- Profit before taxation increased to ₹ 30,462 lakhs as against ₹ 21,325 lakhs in the last year.
- Net profit after taxation increased to ₹ 19,723 lakhs as against ₹ 13,079 lakhs in the last year.
- The total asset under management increased to ₹ 16,867.37 Crore as against ₹ 11,647.60 Crore last year.

The Capital Adequacy Ratio (CAR) of your Company stands at 16.92 per cent as on March 31, 2012, well above the regulatory minimum level of 15 percent prescribed by the Reserve Bank of India for systemically important non-deposit taking NBFCs (NBFCs-ND-SI) of this, the Tier I CAR was 11.08 per cent.

Your Company has complied with all norms prescribed by the Reserve Bank of India (RBI) including Fair practices, Anti Money Laundering (AML) & Know your customer (KYC) guidelines and also all the mandatory accounting standards notified by the Central Government under the Companies (Accounting Standards) Rules, 2006.

CAPITAL

During the year under review, the Authorised Share Capital of your Company was increased to ₹ 53,22,00,000 (Rupees Fifty Three Crore Twenty Two lakhs only) divided into 5,32,20,000 Equity Shares of ₹ 10/- each fully paid up by creation of 32,20,000 Equity shares of ₹ 10/- each fully paid-up.

Both Srei Infrastructure Finance Limited (Srei) and BNP Paribas Lease Group (BPLG), the Shareholders of your Company expressed their keen interest and commitment to the growth and development of your Company and accordingly during the year under review, both Srei and BPLG infused fresh capital by way of equity contribution of ₹ 49.91 Crore each total aggregating to ₹ 99.82 Crore at a price of ₹ 310/- (including a premium of ₹ 300/-) per share in order to enhance the Capital Adequacy Ratio and the long term resources of your Company. Hence, the paid-up Equity share capital of your Company stands increased to ₹ 53.22 Crore.

In order to augment Tier I Capital of your Company, your Company also issued and allotted 375 (Three hundred seventy five) Unsecured Subordinated Non Convertible Perpetual Debentures (Perpetual Debt Instruments - PDIs) of ₹ 10,00,000/- each on private placement basis total aggregating to ₹ 37.50 Crore (Rupees Thirty Seven Crore Fifty lakhs only). The entire amount of PDIs issued during the year under review forms part of Tier I Capital of your Company. The interest on such PDI is payable annually and the first such interest shall fall due for payment on 31st December, 2012.

ECONOMIC REVIEW

a. Global Outlook

The International Monetary Fund (IMF) predicts that global GDP growth will be 3.5 per cent in 2012 and is likely to improve to 4.1 per cent in 2013. The developed economies will grow the slowest vis-à-vis Emerging Market Economies (EMEs) and developing nations.

Amongst the developed nations, the Euro Zone will fare the worst. Sovereign debt problem in Europe had been simmering for quite a while, but last autumn the European crisis became acute. Strong policy measures were taken and to alleviate immediate pressure on the financial markets in the Euro Zone, the European Central Bank had to inject liquidity of more than € 1 trillion through two long-term refinancing operations. Also, the European Union adopted a tough fiscal pact. The proposed fiscal correction, tightening of credit conditions and persistently high unemployment would limit the growth prospects in the Euro Zone in the short to medium term. While economies like Germany and France will have very low but positive growth in 2012, other debt-ridden economies like Spain and Italy will register negative growth thereby dragging down growth of the entire region. As per IMF projections, euro area is likely to grow at minus 0.3 per cent in 2012 and 0.9 per cent in 2013.

The US economy, on the other hand, is showing signs of a gradual recovery from the 2008 crisis with consumer spending picking up and declining unemployment. However, with hardly any pick-up in industrial growth and mixed signals from housing data, there are still some lingering concerns over the sustainability of recovery in the US. Federal Reserve has not ruled out the possibility of further fiscal stimulus through a third round of quantitative easing (QE3). IMF projects a 2.1 per cent growth in the US in 2012 and 2.4 per cent in 2013.

The EMEs and developing nations encounter challenges mostly external in nature. Low demand from developed economies leads to lower exports from EMEs and developing nations. The liquidity injection in the US after the 2008 crisis had fuelled commodity prices across the world driving up inflation in EMEs and developing nations. In addition, these nations are exposed to volatile capital flows leading to sharp changes in their exchange rates. With demand in developed nations not likely to pick up anytime soon and with a fresh round of liquidity injection (this time in Europe), the EMEs and developing nations are likely to remain exposed to the above-mentioned challenges. Since last year, many of them had already resorted to monetary tightening, capital controls and exchange rate intervention in order to curb inflationary trends and limit the adverse impact of excess capital inflows on their economies. The impact of the policies in these economies has been varied. While inflation has started moderating in Brazil and Russia, China still faces problems of overheating and trying for a soft-landing. Policy making in these nations is likely to be tested for one more year. As per IMF, in 2012 China is likely to grow at 8.2 per cent, Russia at 4 per cent and Brazil at 3 per cent.

International crude oil prices have been rising since January 2012 fuelled by geo-political tensions and abundant global liquidity. Any disruption in supply can lead to a sharp hike in oil price and this will have a cascading impact across industries and make inflation management difficult, especially in EMEs where demand is still buoyant.

b. Indian Scenario

The year under review was a particularly difficult year for doing business in India. Wholesale Price Index (WPI) inflation remained above 9 per cent from April to November, 2011. To rein in inflation, the Reserve Bank of India resorted to raising the interest rate. After raising repo rate by 150 basis points in FY11, RBI increased it by another 125 basis points in FY12. While inflation has started moderating since December, 2011, it is still around 7 per cent mark which is way above RBI's comfort level. The higher interest rate regime, however, slowed down the economy and GDP growth averaged 6.9 per cent in the first three quarters of FY12. The Index of Industrial Production (IIP) figure reflects how the high interest rate has affected economic activity. IIP registered a growth of only 3.5 per cent between April - February FY12 vis-à-vis 8.1 per cent during the corresponding figure in FY11. With capital goods and intermediate goods registering negative growths during this phase, it is quite likely that GDP growth in FY12 will be less than the forecast of 6.9 per cent. The slowdown in growth has also been mirrored in the deceleration of non-food credit growth. Also liquidity conditions remained in deficit mode throughout FY12.

India's infrastructure deficit and the resultant supply bottlenecks have played a role in fuelling inflation. However, our economy is saddled with the twin problems of a high and sustained fiscal deficit and a growing current account deficit (CAD), and this limits government's ability to boost demand through pump-priming the economy. CAD for FY12 is expected to be at a record high of 3.5 to 4 per cent of GDP. India's CAD has usually been bridged with capital account inflows. However, overall capital inflows have declined sharply in April - December FY12 with portfolio flows far lower vis-à-vis previous year. The consequent drawdown of forex reserves worth USD 7.1 billion during April - December FY12 also sharply depreciated the rupee. Sections of India Inc. who accessed foreign funding suddenly found themselves exposed to foreign exchange risk.

In addition, if we factor in the uncertainty that has been created amongst investors and potential investors from the Union

Budget announcements on General Anti Avoidance Rules (GAAR) and retrospective taxation, further capital flight from India is very much a possibility if Government does not quickly take steps to allay investor concerns. Thus, the rupee is likely to remain under pressure going forward.

To ease liquidity situation and to improve the investment climate, RBI cut the Cash Reserve Ratio (CRR) by 125 basis points from January 2012 onwards and followed it up with a 50 basis point cut in repo and reverse repo rates each in April 2012. The cut in repo rate comes after a gap of 3 years. It is easy to pull a string, pushing it is difficult. Thus, while raising policy rates did ultimately lead to moderation in inflation by curbing investment, it remains to be seen how long it takes for the repo rate cut to trigger fresh investments.

Another concern area is the front-loading of Government's borrowing programme. It envisages a borrowing of USD 75 billion in the first half of FY13. Even if RBI cuts policy rates, lack of liquidity in the market will ensure that end interest rates remain high. Thus, government borrowing can crowd out private investment.

A recent CRISIL report shows that non-performing assets (NPAs) are on the rise with default rates at a ten year high. Tight liquidity scenario and elevated interest rates imply that banking system's capability to lend will be tested in FY13.

Rating agency Standard & Poor's has downgraded India's outlook from stable to negative. This is likely to push up borrowing cost from overseas markets.

To sum it up, FY13 is likely to be an extremely challenging year for India's policy makers.

NBFIs IN INDIA

The year under review witnessed further relaxation of the external commercial borrowing (ECB) window for IFCs. RBI has allowed IFCs to avail of credit enhancement under the automatic route for domestic debt raised through issue of capital market instruments like debentures and bonds from eligible direct/indirect foreign equity holder(s), which as per extant guidelines could be availed only from multilateral/regional financial institutions and Government owned development financial institutions, under the approval route.

RBI, while laying down guidelines on Credit Default Swaps (CDS) for corporate bonds, has stipulated that NBFCs shall only participate in CDS market as users and will be allowed to buy credit protection only to hedge their credit risk on corporate bonds held by them. NBFCs are not allowed to sell protection and hence cannot enter into short positions in CDS contracts. NBFCs can unwind their CDS position with the original counterparty or by assigning them in favour of buyer of the underlying bond.

NBFCs are to maintain a minimum capital adequacy ratio based on risk weights assigned to both on and off balance sheet items. They, however, recognise only six categories as off balance sheet items which have linkages to NBFC activities. To expand the off balance sheet regulatory framework, RBI has now stipulated that NBFCs will need to calculate the total risk weighted off balance sheet credit exposure as the sum of the risk-weighted amount of the market related and non-market related off balance sheet items.

RBI has instructed NBFCs to strictly adhere to issuance of non-convertible debentures (NCDs) with a tenor of 90 days to 1 year.

REVIEW OF OPERATIONS

Your Company, a joint venture between Srei Infrastructure Finance Limited and BNP Paribas Lease Group, is registered with the Reserve Bank of India (RBI) as a non-deposit taking Non-Banking Finance Company (NBFC) (Category - Asset Finance) and is in the business of equipment financing with a wide spectrum of asset finance business which includes Technology and Solutions, Healthcare, Captive financing solutions for leading manufacturers like Volvo and Logistic Solutions. Infrastructure is the sector, which contributes to a majority, and client profile includes the best names in the country today. Some of the large names have been in a stress but the superior risk mitigation and relationship that your Company enjoys with the customers help keep all major accounts regular.

Your Company has been able to maintain its position as one of the leading equipment financier in India in the last financial year in continuation to its previous year with a disbursement of asset cost of over ₹ 15,000 Crore, which has been far higher than the growth in the equipment sales. The industry grew at an average of 35 per cent and this year witnessed entry of new buyers especially in the entry segment. The market share of your Company is at a dominant 30 per cent amongst all financiers in this business vertical.

In the year under review, the total disbursements in terms of asset cost of your Company grew by 50 per cent from ₹ 10,010 Crore to ₹ 15,016 Crore, with an increase in portfolio by 45 per cent, and the profit before tax from ₹ 213 Crore to ₹ 305 Crore.

During the year under review, your Company made a start in Logistics, pre-owned equipment and farm equipment. These new businesses will help in diversification of portfolio, and open new vistas for future. New branches have been added and the geographical footprint has increased.

The prognosis for the year ahead is positive, but circumspect in certain geographies and sectors. Investments in Infrastructure sector will grow, both in public and private sector, and the contribution of new business like logistics and pre-owned will add to the business volumes. The relationship between both the shareholders, Srei Infrastructure Finance Limited and BNP

Paribas Lease Group, continues to be at the best terms and best practices and cross selling opportunities are being exploited. Your Company will have a cautious approach and watch policy decisions with strong focus on relationship with customers and assisting in their business as partners.

In order to improve the Capital Adequacy Ratio and infuse fresh Capital for growth, both the shareholders of your Company subscribed to 16,10,000 Equity shares respectively of your Company in June, 2011 at a price of ₹ 310/- per Equity share aggregating to ₹ 99.82 Crore.

BUSINESS OUTLOOK AND FUTURE PLANS

India has stepped into the Twelfth Five Year Plan (2012-17) where the total investment figure for infrastructure is envisaged at USD 1 trillion and within that 50 per cent of that is expected to come from the private sector. However, the prolonged high interest regime has affected the infrastructure verticals and today the sector is saddled with depleting order books, broken cash cycles, high leveraging, debt restructuring and a rising NPAs.

Union Budget FY13 was expected to come up with initiatives that would set the in motion infrastructure activities. Some of the welcome announcements were:

- Allowing ECB window to the cash-starved power and aviation sectors
- Increasing the scope for Viability Gap Funding (VGF) to new areas like irrigation, oil & gas pipelines, agriculture market terminals, etc.
- Allowing infrastructure public sector undertakings (PSUs) to raise tax-free bonds worth USD 12 billion
- Allowing import duty exemptions for equipment imports in solar power, energy-saving devices, safety equipment for railways, aircraft maintenance equipment, specified road construction equipment, coal mining machinery, etc.
- Providing incentives for affordable housing.

While plan outlay for FY13 registered an increase of 22 per cent over previous year, outlay for infrastructure for FY13 stands increased to almost USD 30 billion, an increase of 32 per cent over previous year. The budget also announced that the first infrastructure debt fund (IDF) will be launched soon.

Government is also committed towards implementing a Direct Tax Code (DTC) and introducing a Goods & Services Tax (GST). The micro-issues on these fronts are being ironed out.

However, to get the private sector enthused about investing in infrastructure projects, attention has to be given to regulations which would ensure project viability. Regulations need to be fully thought through to avoid frequent changes in policies as those pose a risk for private investment by leading to time and cost overruns. The issue of land acquisition remains a sensitive issue with different states adopting different policies regarding resettlement, rehabilitation and compensation of the displaced. Clarity on guidelines for environmental clearances is also a must for speedy project implementation. Shortage of skilled and semi-skilled manpower is emerging as a serious issue. This is one area where private sector has to partner the government for expeditious scaling up of human capital. Planning Commission Chairman Mr. Montek Singh Ahluwalia has gone on record saying Twelfth FYP will focus on skill upgradation of human capital. These issues, once addressed, will result in greater investment flow into India's infrastructure.

However, the budget proposals on GAAR and taxation on retrospective basis has put a huge question mark on the future of the India Growth Story. The principal motive for GAAR is to plug any loophole that would allow an entity to go without paying capital gains tax or withholding tax while conducting any transaction (sale or purchase) of an asset based in India. But applying it on a retrospective basis and that too for 50 years, has made investors nervous. Government is trying to address these investor concerns.

Clarity in policy and regulations is the need of the hour. On the policy front, your Company has established a regular channel of communication and feedback with relevant Ministries and government agencies. This is because the management of your Company is upbeat and confident about India's prospects among its global peers. Your Company believes the recent problems on the policy front are temporary in nature and will get addressed in due course. India will continue to remain an attractive investment destination.

RBI has started lowering its policy rates and it is expected that CRR will be cut further to inject more liquidity into the system. And once Government succeeds in bringing in some clarity on the policy front, investment will ultimately pick up, and with that investment in infrastructure too. And when that happens, your Company with its in-depth knowledge of the infrastructure business, strong financial position, prudent risk management techniques and its knack for innovation, will be all set to take advantage of the opportunities that would unfold. Even if the business environment remains tough, your Company is adequately geared to meet the challenges.

RESOURCES

The treasury department of your Company, contributed to the influencing growth and profitability, along with responsibility for funds availability at best possible market rate to support the business to enable them to offer competitive rates to the customers. While managing its asset-liability maturity profile, your Company raised substantial funds at competitive rates from its lenders, comprising of one of the country's largest consortium of banks and domestic & international financial institutions. In spite of continuing hike in interest rate, liquidity stress and lost opportunity of interest arbitrage due to regulatory restrictions your Company has been able to maintain average cost of funds very competitive in the market.

The Working Capital fund based limit of your Company enhanced from ₹ 3,884 Crore to ₹ 6,300 Crore during the financial year and the entire limit is tied-up completely from a consortium of 35 banks. Your Company is also enjoying non-fund based limit of ₹ 816 Crore. The fresh sanction and / or enhancement of Working Capital limits during the year amounted to ₹ 2,680 Crore, while fresh Term Loans mobilised during the year amounted to ₹ 1,175 Crore.

Your Company was also able to mobilise USD 32.50 million (equivalent of ₹ 157 Crore) of External Commercial Borrowings (ECBs) during the year. Sanctions and approval for USD 100 million is also in hand at the close of financial year.

Your Company sells its portfolio of loan assets through direct assignment of receivables and securitisation, which remain an important source of funds and liquidity. The treasury department of your Company managed to cross a new milestone by off-loading its assets from Balance Sheet amounted to ₹ 4,334 Crore, releasing capital for additional business. Your Company monitors about 30 pools securitised and live as at the end of financial year, which account for about 27 per cent of the total Assets under Management.

Though the interest arbitrage opportunity is now lost with regulatory restrictions, still the cost of funds was managed through the issue of Commercial Papers and Short Terms Loans from Banks and Institutions. Total short term funds mobilised throughout the year was ₹ 21,093 Crore.

The mobilisation of Tier-II Capital in the form of Subordinated Debt was ₹ 293 Crore, to augment the capital fund base of your Company. Moreover, your Company also issued Perpetual Bonds qualifying for Tier I Capital, for the first time, aggregating to ₹ 37.50 Crore, which supported to improve the Capital Adequacy Ratio of your Company.

CORPORATE SOCIAL RESPONSIBILITY

Recognising its social responsibility, your Company has contributed ₹ 50 lakhs (Rupees Fifty lakhs only) to 'Srei Foundation' during the financial year 2011-12. 'Srei Foundation' is a public charitable trust established with the objective of granting financial assistance to deserving and talented candidates. The Foundation also supports setting up of schools, colleges, medical and scientific research institutions.

Your Company is fully aware of the fact that as a Corporate citizen, it is also entrusted with the responsibility to contribute for the betterment of the community at large. During the year under review, your Company supported a variety of charitable projects & social welfare activities and has contributed a sum of ₹ 387.34 lakhs (Rupees Three hundred eighty seven lakhs thirty four thousand only) to several welfare and charitable organisations.

TRANSFER TO INVESTOR EDUCATION & PROTECTION FUND

During the year under review, your Company transferred a sum of ₹ 47,400/- (Rupees Forty seven thousand four hundred only) to the Investor Education & Protection Fund being the principal amount of debentures and interest accrued thereon which was due & payable and remained unclaimed and unpaid for a period of seven years, as provided in Section 205A(5) of the Companies Act, 1956.

SUBSIDIARY COMPANY

During the year under review, pursuant to the approval granted by the Insurance Regulatory and Development Authority (IRDA), the entire Equity shares of Srei Insurance Broking Private Limited (SIBPL) held by your Company was disposed off and consequently SIBPL ceased to be a subsdiary of your Company w.e.f. 31st March, 2012.

DIVIDEND

In order to conserve the resources of your Company, the Board of Directors of your Company does not recommend any dividend for the year ended 31st March, 2012.

PUBLIC DEPOSITS

During the year under review, your Company, being a Non deposit taking Non Banking Financial Institution (NBFI), has not accepted any deposits from the public within the meaning of the provisions of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.

PARTICULARS OF EMPLOYEES

As required by the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended, the names and other particulars of the employees are set out in the annexure to the Directors' Report and forms part of the Directors' Report.

PARTICULARS OF CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTFLOW

Your Company has no activity relating to Conservation of Energy and Technology Absorption as stipulated in the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988. However, your Company uses information technology extensively in its operations.

During the year under review, the total foreign exchange earnings and expenditure of your Company was ₹ Nil (previous year

₹ 34 lakhs) and ₹ 6,678 lakhs (previous year ₹ 5,469 lakhs) respectively.

DIRECTORS

During the year under review, Mr. Anjan Mitra was appointed as an Additional Director of your Company w.e.f. 27th July, 2011 and he shall hold office upto the date of the ensuing Annual General Meeting. Your Company has received a notice from a member pursuant to Section 257 of the Companies Act, 1956 signifying his intention to propose the candidature of Mr. Anjan Mitra for the office of Director.

Mr. Kishore Kumar Mohanty stepped down as director of your Company w.e.f. 7th June, 2011 due to his personal preoccupations. The Board wishes to place on record their deep appreciation of the contribution, advice and guidance extended by him during his tenure as Director of your Company.

In accordance with the provisions of the Companies Act, 1956 and pursuant to the Articles of Association of your Company, Mr. Kora Ipe Puthenpurockal, Director of your Company retires by rotation in the ensuing Annual General Meeting and being eligible, offer himself for re-appointment.

AUDIT COMMITTEE

The Audit Committee of your Company comprises of Mr. Sunil Kanoria as Chairman, Mr. Thierry Bonetto, Mr. Anjan Mitra and Mr. Kora Ipe Puthenpurockal, as Members of the Committee.

During the year under review, the Committee met 4 (four) times on 18th May, 2011, 27th July, 2011, 19th October, 2011 and 20th January, 2012.

DIRECTORS' RESPONSIBILTY STATEMENT

In terms of provisions of Section 217(2AA) of the Companies Act, 1956 (Act), your Directors confirm that:

(i) in the preparation of the annual accounts for the year ended 31st March, 2012, the applicable accounting standards have been followed along with proper explanation relating to material departures;

(ii) the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the year and of the profit of the Company for that year;

(iii) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

(iv) the Directors have prepared the annual accounts for the year ended 31st March, 2012 on a going concern basis.

AUDITORS

Messrs S. R. Batliboi & Co., Chartered Accountants, having Registration No. 301003E allotted by The Institute of Chartered Accountants of India (ICAI), retire as Auditors of your Company at the conclusion of the ensuing Annual General Meeting (AGM) and have confirmed their eligibility and willingness to accept the office of Auditors, if re-appointed. Your Company has received a confirmation from Messrs S. R. Batliboi & Co., Chartered Accountants to the effect that their re-appointment, if made, would be within the limits prescribed under Section 224(1B) of the Companies Act, 1956.

The Audit Committee and the Board of Directors of your Company recommend the re-appointment of Messrs S. R. Batliboi & Co., Chartered Accountants, as the Auditors of your Company. Members are requested to consider their re-appointment as Auditors of your Company to hold office from conclusion of ensuing AGM to the conclusion of next AGM on remuneration to be decided by the Board of Directors based on the recommendation of the Audit Committee of your Company.

ACKNOWLEDGEMENT

Your Directors would like to express their grateful appreciation for the excellent support and co-operation received from Srei Infrastructure Finance Limited, BNP Paribas Lease Group, Financial Institutions, Banks, Central & State Government Authorities, Reserve Bank of India, Ministry of Corporate Affairs, Registrar of Companies, Credit Rating Agencies, Depositories, Customers, Manufacturers, Suppliers, Vendors, Business Associates, Shareholders and other Stakeholders during the year under review. Your Directors also place on record their deep appreciation of the valuable contribution of the employees at all levels for the progress of your Company during the year and look forward to their continued co-operation in realisation of the corporate goals in the years ahead.

On behalf of the Board of Directors

Place : Kolkata
Date : 11th May, 2012

Bertrand Gousset
Chairman

PARTICULARS OF EMPLOYEES

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 referred to in the Directors' Report for the year ended 31st March, 2012 and forming part thereof

Sl. No.	Name	Age as on 31.03.2012	Designation	Qualification	Remuneration (₹)	Date of Commencement of Employment	Working Experience (Years) (Total)	Previous Employment (Designation)
1	Mr. Hemant Kanoria	49	Vice Chairman & Managing Director	B. Com (Hons)	34,609,691	02-04-2008	32	-
2	Mr. Sunil Kanoria	47	Joint Managing Director	B. Com (Hons), CA	34,459,433	02-04-2008	27	-
3	Mr. D. K. Vyas	43	Chief Executive Officer	B. Com, CA	17,524,648	01-04-1997	20	G P Agrawal & Co. Chartered Accountants (Partner)
4	Mr. C. R. Sudharsanam#	56	Chief Financial Officer	B. Com, ICWA, CA, CIMA	8,207,460	01-11-2008	30	BNP Paribas, Canada (Finance & Control - Project Manager (A2 System)
5	Mr. Philippe Chabert*&#	46	Head	Maîtrise d'économétrie at Paris I (Econometrics), Licence de sociologie at Paris V (Sociology)	6,655,274	01-08-2011	20	BNP Paribas Leasing Solutions Romania (Administrator and General Manager)
6	Mr. Pradeep Kumar Sahay*	44	VP & Head HR	B E (Civil Eng), Master in Mgt (Gnrl. Mgt Stgy & HR), AIM	1,067,196	18-04-2011	21	Ramky Advisory Services Ltd. (Group Chief Talent Acquisition Officer)

*Employed for part of the year

Notes:

1 The aforesaid appointment is terminable by giving One / Three months Notice by either side excepting in # case where it is on contractual basis for 3 years.

2 Remuneration includes Basic Salary, Commission, House Rent Allowance, Special Allowance, Leave Travel Allowance, Medical, Leave encashment, Employer's contribution to Provident Fund, Incentive and other perquisites.

3 Mr. Hemant Kanoria, Vice Chairman & Managing Director and Mr. Sunil Kanoria, Joint Managing Director of the Company are related to each other.

4 None of the employees hold 2% or more of the Paid-up Share capital of the Company.

AUDITORS' REPORT

To the Members,

Srei Equipment Finance Private Limited

1. We have audited the attached Balance Sheet of Srei Equipment Finance Private Limited ('the Company') as at March 31, 2012 and also the Statement of Profit and Loss and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 (as amended) issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that :
   i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
   ii. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
   iii. The Balance sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this report are in agreement with the books of account;
   iv. In our opinion, the Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.
   v. On the basis of the written representations received from the directors, as on March 31, 2012, and taken on record by the Board of Directors, we report that none of the directors is disqualified as at March 31, 2012 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.
   vi. In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India :
      a) in case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2012;
      b) in case of the Statement of Profit and Loss, of the profit for the year ended on that date; and
      c) in case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For S.R. Batliboi & Co.
Chartered Accountants
(Firm Registration Number: 301003E)

per Bhaswar Sarkar
Partner
(Membership No.55596)

Place: Kolkata
Date : May 11, 2012

SREI BNP PARIBAS

ANNEXURE REFERRED TO IN PARAGRAPH 3 OF OUR REPORT OF EVEN DATE

Re: Srei Equipment Finance Private Limited ('the Company')

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

(b) The Company has physically verified a part of its fixed assets during the year but there is a regular programme of verification of fixed assets in a phased manner to cover all items over a period of three years which, in our opinion is reasonable having regard to the size of the Company and the nature of its assets. As informed, no material discrepancies were noticed on such verification of fixed assets during the year.

(c) There was no substantial disposal of fixed assets during the year.

(ii) The Company does not have any inventory and therefore, clause 4 (ii) of the Order is not applicable.

(iii) (a) As informed, the Company has not granted any loan, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956 and hence, clauses 4 (iii) (b) to (d), of the Order are not applicable.

(e) As informed, the Company has not taken any loan, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956 and hence, clauses 4 (iii) (f) and (g) of the Order are not applicable.

(iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase of fixed assets and for the sale of goods and services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas. During the course of our audit, we have not observed any continuing failure to correct major weakness in internal control system of the company.

(v) According to the information and explanations provided by the management, there has been no transaction that needs to be entered into the register maintained under Section 301 of the Companies Act, 1956. Therefore, clause 4(v) of the Order is not applicable.

(vi) As informed, the Company has not accepted any deposits from the public under the provisions of Section 58A and 58AA of the Companies Act, 1956 and the rules framed thereunder.

(vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

(viii) The Company is not engaged in any manufacturing or mining activities, and thus, the provisions relating to maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956, are not applicable.

(ix) (a) The Company is generally regular in depositing with appropriate authorities undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, service tax, customs duty, cess and other material statutory dues applicable to it. During the year, the Company did not have any dues towards wealth tax, excise duty and investor education and protection fund.

(b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, , employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, cess and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable. During the year, the Company did not have any dues towards excise duty and investor education and protection fund.

(c) According to the records of the Company, the dues outstanding of income-tax, sales-tax, wealth-tax, service tax, customs duty, and cess on account of any dispute, are as follows:

Name of Statute	Nature of dues	Amount (₹ in lakhs)	Period to which the amount relates	Forum where dispute is pending
UP Trade Tax Act, 1948	Sales Tax	7	1995-96–1999-00	Deputy Commissioner (Appeals), A.C Assessment, Trade Tax, Kanpur
Finance Act, 1994	Service Tax on financial and business auxiliary services, interest payments and utilisation of cenvat credit	9,110	2002-03 to 2008-09	High Court at Calcutta
WB-VAT	VAT on sale of fixed assets	29	2007-08	Appellate Authority, West Bengal
Income Tax Act, 1961	Income Tax	27	2007-08-2010-11	CIT (Appeals), Kolkata

(x) The Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and immediately preceding financial year.

(xi) Based on our audit procedures and as per the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to financial institutions, banks or debenture holders.

(xii) Based on our examination of the documents and records, we are of the opinion that the Company has maintained adequate records in respect of loans and advances granted primarily on the security of financial assets and backed by collateral security by way of pledge of shares, debentures and other securities.

(xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Order, are not applicable to the Company.

(xiv) In our opinion, the Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order, are not applicable to the Company.

(xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.

(xvi) Based on the information and explanations given to us by the management, term loans were applied for the purpose for which the loans were obtained.

(xvii) Having regard to management's explanations set out in Note No.2.7(a) to the financial statements and the Company's practice of renewig its Cash Credit/Working Capital Demand Loans of typically up to 12 months duration in order to finance lending/leasing contracts with customers for periods exceeding 12 months and on an overall examination of the Balance Sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment.

(xviii) The Company has not made any preferential allotment of shares during the year to parties or companies covered in the register maintained under Section 301 of the Companies Act, 1956.

(xix) According to the information and explanations given to us and the records examined by us, securities / charges have been created in respect of debentures issued by the Company.

(xx) The Company has not raised any money by public issue during the year.

(xxi) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For S.R. Batliboi & Co.
Chartered Accountants
(Firm Registration No.301003E)

per Bhaswar Sarkar
Partner
(Membership No. 55596)

Place : Kolkata
Date : May 11, 2012

SREI BNP PARIBAS

Balance Sheet as at 31st March, 2012

(₹ in lakhs)

	Note No.	As at 31st March, 2012		As at 31st March, 2011	
EQUITY AND LIABILITIES					
Shareholders' funds					
Share capital	2.1	5,322		5,000	
Reserves and surplus	2.2	134,840	140,162	105,457	110,457
Non - current liabilities					
Long - term borrowings	2.3	351,398		394,734	
Deferred tax liabilities (Net)	2.4	11,133		6,089	
Other long term liabilities	2.5	9,941		6,941	
Long - term provisions	2.6	14,007	386,479	13,160	420,924
Current liabilities					
Short - term borrowings	2.7	466,157		246,078	
Trade payables	2.8	66,134		54,853	
Other current liabilities					
- Current maturities of long term borrowings	2.9	213,679		136,356	
- Other current liabilities	2.9	12,040		6,182	
Short - term provisions	2.10	3,722	761,732	7,489	450,958
TOTAL			1,288,373		982,339
ASSETS					
Non - current assets					
Fixed assets	2.11				
Tangible assets		124,014		52,608	
Intangible assets		1,716		1,767	
Non current investments	2.13	-		250	
Long - term loans and advances					
- Financial assets	2.14	615,792		492,461	
- Other long term advances	2.15	5,579		4,597	
Other non current assets	2.16	83,528	830,629	38,888	590,571
Current assets					
Trade receivables	2.17	2,554		461	
Cash and bank balances	2.18	43,718		18,537	
Short - term loans and advances					
- Financial assets	2.14	81,088		93,130	
- Other advances	2.19	692		1,006	
Other current assets					
- Current maturities of long term financial assets	2.14	317,614		272,797	
- Other current assets	2.20	12,078	457,744	5,837	391,768
TOTAL			1,288,373		982,339
Summary of Significant Accounting Policies	1				

The accompanying notes are an integral part of the financial statements
As per our report of even date.

For S.R. Batliboi & Co.
Chartered Accountants
(Firm Registration No.301003E)

On behalf of the Board of Directors

Bhaswar Sarkar
Partner
(Membership No.55596)

Bertrand Gousset
Chairman

Hemant Kanoria
Vice Chairman &
Managing Director

D. K. Vyas
Chief Executive Officer

Place : Kolkata
Date : 11th May, 2012

CR Sudharsanam
Chief Financial Officer

Sanjay Chaurasia
Company Secretary

Statement of Profit and Loss for the year ended 31st March, 2012

(₹ in lakhs)

	Note No.	Year ended 31st March, 2012	Year ended 31st March, 2011
INCOME			
Revenue from operations	2.21	181,779	123,597
Other income	2.22	73	318
Total revenue		181,852	123,915
EXPENDITURE			
Employee Benefits Expense	2.23	10,098	6,537
Finance cost	2.24	104,392	65,529
Depreciation / Amortisation / Impairment	2.11	15,666	8,052
Administrative and Other expenses	2.25	10,754	7,791
Miscellaneous Expenditure written off		85	436
Total expenditure		140,995	88,345
PROFIT BEFORE BAD DEBTS, PROVISIONS AND TAX		40,857	35,570
Bad debts written off [(Net of Recovery of ₹ 2300 lakhs, (₹ 918 lakhs)]		9,768	10,220
Provision for Non Performing Assets		262	1,943
Contingent provisions against standard assets		365	2,082
		10,395	14,245
PROFIT BEFORE TAX		30,462	21,325
Tax expense :	2.26		
- Current tax		5,387	7,884
- Income tax for earlier years		495	2,118
- Less : MAT credit entitlement for earlier years		(187)	-
Deferred tax charge / (Credit)		5,044	(1,756)
Total Tax Expense		10,739	8,246
PROFIT AFTER TAX		19,723	13,079
Earnings per Equity Share (basic and diluted) (₹)	2.27	37.60	26.16
[Nominal value of Equity Share ₹ 10/- each (31 March 2011: ₹ 10/- each)]			
Summary of Significant Accounting Policies	1		

The accompanying notes are an integral part of the financial statements
As per our report of even date.

For S.R. Batliboi & Co.
Chartered Accountants
(Firm Registration No.301003E)

On behalf of the Board of Directors

Bhaswar Sarkar
Partner
(Membership No.55596)

Bertrand Gousset
Chairman

Hemant Kanoria
Vice Chairman &
Managing Director

D. K. Vyas
Chief Executive Officer

Place : Kolkata
Date : 11th May, 2012

CR Sudharsanam
Chief Financial Officer

Sanjay Chaurasia
Company Secretary

SREI BNP PARIBAS

Cash Flow Statement for the year ended 31st March, 2012

(₹ in lakhs)

	2011-12	2010-11
A. Cash Flows from Operating Activities		
Net Profit Before Tax	30,462	21,325
Non cash adjustment to reconcile profit before tax to net cash flows :		
Depreciation / amortisation / impairment	15,666	8,052
Bad Debts written off (net)	9,768	10,220
Provision for Non Performing Assets	262	1,943
Contingent Provisions against Standard Assets	365	2,082
Profit / Loss on sale of Fixed Assets (net)	146	1,004
Interest & Finance Charges	104,392	65,529
Miscellaneous Expenditure Written off	85	436
Profit on Sale of Investments	(31)	-
Dividend Income from Current Investment (Non Trade)	(34)	(12)
Operating profit before working capital changes	161,081	110,579
Movements in working capital :		
(Increase) / Decrease in Trade Receivables / Others	(20,379)	(3,715)
(Increase) / Decrease in Financial Assets	(165,874)	(221,117)
Increase / (Decrease) in Trade Payables / Others	17,115	6,063
(Increase) / Decrease in Fixed Deposit (Deposits with original maturity period of more than three months)	(49,064)	(7,880)
Cash generated from / (used in) operations	(57,121)	(116,070)
Interest paid (net of foreign exchange fluctuation)	(101,090)	(65,194)
Advance tax paid	(9,030)	(2,925)
Net Cash (used in) / generated from Operating Activities	(167,241)	(184,189)
B. Cash Flows from Investing Activities		
Purchase of Fixed Assets	(87,311)	(23,995)
Purchase of Mutual Funds	(55,000)	(20,000)
Sale of Investments	281	-
Proceeds from Sale of Fixed Assets	51	1,009
Proceeds from Sale of Mutual Funds	55,034	20,012
Net Cash (Used) / Generated in Investing Activities	(86,945)	(22,974)
C. Cash Flows from Financing Activities		
Increase in Equity Share Capital (including Securities Premium)	9,982	-
Increase / (Decrease) in Debentures (net)	12,449	35,075
Increase / (Decrease) in Working Capital facilities (net)	232,723	119,735
Increase / (Decrease) in Other Loans (net)	8,894	54,685
Net Cash (Used) / Generated in Financing Activities	264,048	209,495
Net Increase / (Decrease) in Cash & Cash Equivalents	9,862	2,332
Cash & Cash Equivalents as on 01.04.2011	10,648	8,316
Cash and Cash Equivalents as on 31.03.2012 (Refer Note No. 2.18)	20,510	10,648
Note :		
Components of Cash and Cash Equivalents:		
Cash on hand	222	140
In Current Account	18,314	8,448
Fixed Deposits with original maturity period being three months or less [(Receipts under lien with banks ₹ 874 lakhs (₹ 2,060 lakhs as security)]	1,974	2,060
	20,510	10,648
Cash and Bank Balances are represented by :		
Cash and Cash Equivalents	20,510	10,648
Fixed Deposits with original maturity period exceeding three months	85,203	36,139
(Receipts under lien with banks as security ₹ 84,967 lakhs (₹ 36,079 lakhs))	105,713	46,787
Summary of Significant Accounting Policies (Refer Note No. 1)		

As per our report of even date.

For S.R. Batliboi & Co.
Chartered Accountants
(Firm Registration No.301003E)

On behalf of the Board of Directors

Bhaswar Sarkar
Partner
(Membership No.55596)

Bertrand Gousset
Chairman

Hemant Kanoria
Vice Chairman &
Managing Director

D. K. Vyas
Chief Executive Officer

Place : Kolkata
Date : 11th May, 2012

CR Sudharsanam
Chief Financial Officer

Sanjay Chaurasia
Company Secretary

NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of Preparation

The financial statements have been prepared in conformity with generally accepted accounting principles in India to comply in all material respects with the notified Accounting Standards ('AS') under the Companies (Accounting Standard) Rules, 2006, as amended, the relevant provisions of the Companies Act, 1956 ('the Act') and the guidelines issued by the Reserve Bank of India ('RBI') as applicable to a "Non Deposit Accepting or Holding" Non Banking Financial Company ('NBFC'). The financial statements have been prepared under the historical cost convention on an accrual basis. The accounting policies applied by the Company are consistent with those used in the previous reporting year except stated otherwise.

Presentation and disclosure in financial statements

During the year ended March 31, 2012, the revised Schedule VI notified under the Companies Act, 1956 has become applicable to the Company for preparation and presentation of its financial statements. Except accounting for dividend on investment in subsidiary, the adoption of revised Schedule VI does not impact recognition and measurement principles followed for preparation of financial statements. However, it has significant impact on presentation and disclosures made in the financial statements. The Company has also reclassified the previous year figures in accordance with the requirements of revised Schedule VI applicable in the current year.

Operating cycle

'An operating cycle' is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. The normal operating cycle for the company is assumed to have duration of 12 months..

1.2 Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in India requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting year end. Although these estimates are based upon the management's best knowledge of current events and actions, actual results could differ from these estimates. Any revisions to the accounting estimates are recognised prospectively in the current and future years.

1.3 Fixed Assets and Depreciation / Amortisation

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation / amortisation and impairment losses, if any. Cost comprises the purchase price and any directly attributable cost of bringing the asset to its working condition for its intended use.

Intangible Assets expected to provide future enduring economic benefits are stated at cost less amortisation. Cost comprises purchase price and directly attributable expenditure on making the asset ready for its intended use.

Depreciation / Amortisation

Depreciation/Amortisation is provided on Straight Line Method ('SLM'), which reflects the management's estimate of the useful lives of the respective fixed assets and the rates derived from such useful lives are greater than or equal to the corresponding rates prescribed in Schedule XIV to the Act.

Fixed Assets costing up to ₹ 5,000/- are depreciated fully over a period of 12 months from the date of purchase.

Lease hold assets including improvements are amortised over the period of the lease.

Depreciation on assets purchased / sold during the year is recognised on a pro - rata basis.

Impairment of assets

The carrying amount of assets is reviewed at each Balance Sheet date to determine if there is any indication of impairment based on internal/external factors. An impairment loss is recognised to the extent, the carrying amount of an asset exceeds its recoverable amount.

After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.

A previously recognised impairment loss is increased or reversed depending on changes in circumstances. However the carrying value after reversal is not increased beyond the carrying value that would have prevailed, had usual depreciation been charged and no impairment provision recognised.

NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

Borrowing Costs

Borrowing costs relating to the acquisition / construction of qualifying assets are capitalised until the time all substantial activities necessary to prepare the qualifying assets for their intended use are complete. A qualifying asset is one that necessarily takes substantial period of time to get ready for its intended use. All other borrowing costs including exchange differences to the extent they are regarded as an adjustment to interest costs are charged to revenue.

Ancillary costs of borrowings are amortised over the life of the underlying borrowings.

1.4 Operating Leases

Assets given on operating leases are included in fixed assets. Lease income is recognised in Statement of Profit and Loss on a straight - line basis over the lease term. Costs, including depreciation are recognised as an expense in the Statement of Profit and Loss. Initial direct costs incurred for execution of operating lease arrangements are recognised immediately in Statement of Profit and Loss.

1.5 Investments

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long - term investments. Current investments are carried at lower of cost and market value/ buy back price determined category wise. Long - term investments are carried at cost. However, provision for diminution in the value is recognised in case of a decline, other than temporary, in the value of a long term investment.

1.6 Financial Assets

(i) Financial Assets include assets under loan / hypothecation facility. These are shown net of assets securitised / assigned.

(ii) Financial Assets are carried at net investment amount including installments fallen due and are net of unmatured / unearned finance charges etc. and include interest accrued and assets acquired in satisfaction of debt.

1.7 Provisioning / Write - off of assets

The Company recognises provision for standard and non - performing Assets (NPAs) as per the Non - Banking Financial (Non Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, as amended from time to time. The Company also makes additional provision against financial assets, based on the management's best estimate.

Financial assets overdue for more than four years, as well as those, which, as per the management are not likely to be recovered, are considered as bad debts and written off in the accounts.

1.8 Foreign currency transactions and balances

Initial recognition

Foreign currency transactions are recorded in the reporting currency by applying to the foreign currency amount the prevailing exchange rate between the reporting currency and the foreign currency at the date of the transaction.

Conversion

Year - end foreign currency monetary items are reported using the year - end foreign exchange rate. Non - monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and non - monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates prevailing at the date when the values were determined.

Exchange differences

Exchange differences arising on the settlement or reporting of monetary items at rates different from those at which they were initially recorded during the year or reported in previous financial statements and / or on conversion of monetary items, are recognised as income or expenses in the year in which they arise unless such differences are considered as an adjustment to interest cost and recognised in accordance with para 1.3 above.

Forward Exchange Contracts (not intended for trading or speculation purpose)

The premium or discount arising at the inception of a forward exchange contract is amortised as expense or income over the life of the contract and any charge payable in respect of such foreign exchange contracts are recognised when such charges become due under the terms of the contract. Exchange differences on such contracts are recognised in the Statement of Profit

NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

and Loss in the period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognised as income or expense for the year.

Derivatives and Hedges

In terms of the announcement made by the Institute of Chartered Accountants of India, the accounting for derivative contracts entered into to cover the risk of foreign exchange fluctuation (other than those covered under AS-11) is done based on the "marked to market" principle on a case - to - case basis, and net loss after considering the offsetting effect on the underlying hedged item is charged to the Statement of Profit and Loss. Net gains are ignored in accordance with aforesaid announcement.

1.9 Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Income from Operations is recognised in the Statement of Profit and Loss on accrual basis as stated herein below except that revenue from non - performing assets is recognised, on realisation as per the Prudential Norms / Directions of RBI, applicable to Non - Banking Financial Companies.

(a) Income from financial assets is recognised based on the internal rate of return to provide a constant periodic rate of return on the net investment outstanding over the period of the contract or as per the terms of the contract.

(b) Income from operating lease is recognised as rentals (net of value added tax), on straight line basis over the period of the lease.

(c) Fees for processing of loans are recognised when a binding obligation for granting loan has been entered into.

(d) Interest for delayed payment and changes into interest payment to Company's benchmark interest rate revision are accrued, due to uncertainty of realisation, only to the extent of probable recovery, as per the best estimate of the management.

(e) Gains arising on securitisation/assignment of assets are recognised over the tenure of agreements as per guideline on securitisation of standard assets issued by RBI, and included under income from financial assets, while loss, if any is recognised upfront.

(f) Interest income on fixed deposits / margin money is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

(g) Referral income is recognised when it becomes due under the term of relevant mutually agreed arrangement.

(h) Income from dividend is recognised when the company's right to receive such dividend is established by the Balance Sheet date.

1.10 Retirement and other employee benefits

(a) Employee benefits in the form of Provident Fund and Employee State Insurance are defined contribution plans and related contributions are charged to Statement of Profit and Loss, when they become due for payment to respective authorities.

(b) Gratuity liability is a defined benefit obligation and is provided for on the basis of actuarial valuation under projected unit credit method at the Balance Sheet date.

(c) Short term compensated absences are provided for based on estimates. Long term compensated absences are provided for based on actuarial valuation as per projected unit credit method at the Balance Sheet date.

(d) Actuarial gains/losses are immediately taken to the Statement of Profit and Loss and are not deferred.

1.11 Income tax

Tax expense comprises of current (net of Minimum Alternate Tax (MAT) credit entitlement) and deferred tax.

Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act, 1961. Deferred income tax reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the Balance Sheet date. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to the taxes on income levied by the same governing taxation laws. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient

NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

future taxable income will be available against which such deferred tax assets can be realised. In situations where the company has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that these can be realised against future taxable profits.

At each Balance Sheet date, the Company re - assesses unrecognised deferred tax assets. It recognises unrecognised deferred tax assets to the extent that it has become reasonably certain or virtually certain, as the case may be that sufficient future taxable income will be available against which such deferred tax assets can be realised.

MAT credit is recognised as an asset only when and to the extent there is convincing evidence that the Company will pay normal income tax during the specified period. In the year in which the MAT credit becomes eligible to be recognised as an asset in accordance with the recommendations contained in Guidance Note issued by the Institute of Chartered Accountants of India, the said asset is recognised by crediting to Statement of Profit and Loss and shown as MAT Credit Entitlement. The Company reviews the same at each Balance Sheet date and writes down the carrying amount of MAT Credit Entitlement to the extent there is no longer convincing evidence to the effect that Company will pay normal income tax during the specified period.

1.12 Segment reporting

The Company's operating businesses are organised and managed separately according to the nature of facilities provided, with each segment representing a strategic business unit that offers different facilities and serves different markets. The analysis of geographical segments is based on the areas in which customers of the Company are located.

1.13 Earnings per share

Basic earnings per share is calculated by dividing the net profit or loss for the year attributable to Equity Shareholders by the weighted average number of Equity Shares outstanding during the year.

For the purpose of calculating diluted earnings per share, the net profit or loss for the year attributable to Equity Shareholders (after deducting attributable taxes) and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential Equity Shares.

1.14 Provisions, Contingent Liabilities and Contingent Assets

A provision is recognised when the Company has a present obligation as a result of past event and it is probable that outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to their present value and are determined based on the best estimates required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates. A disclosure for a contingent liability is also made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Contingent Assets are neither recognised nor disclosed in the financial statements.

1.15 Cash and cash equivalents

Cash and cash equivalents in the Cash Flow Statement comprise of cash on hand and balances with banks, cheques on hand, remittances in transit and short - term investments with an original maturity of three months or less.

1.16 Debt Redemption Reserve

As a matter of prudence, the Company, as per the management's discretion, creates debt redemption reserve for redemption of subordinated debentures / loans qualifying for Tier I / Tier II Capital.

1.17 Assets under Management

Contracts securitised or assigned or co - branded are derecognised from the books of account. Contingent liabilities, if any, in respect of such contracts are disclosed separately.

1.18 Miscellaneous Expenditure (to the extent not written off / adjusted)

Miscellaneous expenses incurred on issue of Equity shares and Global Depository Receipts (GDRs), Long Term Bonds and Debentures, are amortised as follows:

i) Expenses on issue of Equity shares and GDRs are amortised over a period of ten years.

ii) Expenses incurred on issue of Bonds and Debentures are amortised over the tenure of the respective Bonds and Debentures.

NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

2. NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012

2.1 SHARE CAPITAL

(₹ in lakhs, except number of shares)

Particulars	As at 31st March, 2012	As at 31st March, 2011
Authorised		
Equity shares, ₹ 10/- par value 53,220,000 (31st March, 2011: 50,000,000) Equity Shares	5,322	5,000
Total	5,322	5,000
Issued, subscribed and fully paid - up		
Equity shares, ₹ 10/- par value 53,220,000 (31st March, 2011: 50,000,000) Equity Shares	5,322	5,000
Total	5,322	5,000

2.1.1 Reconciliation of Equity Shares

The reconciliation of the number of Equity Shares outstanding and the corresponding amount thereof as at Balance Sheet date is set out below:

(₹ in lakhs, except number of shares)

Equity Shares	As at 31st March, 2012		As at 31st March, 2011	
	No. of Shares	₹ in lakhs	No. of Shares	₹ in lakhs
At the beginning of the year	50,000,000	5,000	50,000,000	5,000
Add: Issued as fully paid during the year	3,220,000	322	-	-
At the end of the year	53,220,000	5,322	50,000,000	5,000

2.1.2 Terms / rights attached to Equity Shares

The Company's authorised capital consists of only one class of shares referred to as Equity Shares having a par value of ₹ 10/- each. Each holder of Equity Shares is entitled to one vote per share.

The dividend, if any, proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting.

In the event of liquidation of the Company, the holders of Equity Shares will be entitled to receive any of the remaining assets of the Company, after distribution of all preferential amounts. The distribution will be in proportion to the number of Equity Shares held by the shareholders.

2.1.3 The details of shareholders holding more than 5% shares are set out below:

Class of shares and names of shareholders	As at 31st March, 2012		As at 31st March, 2011	
	No. of Shares	% held	No. of Shares	% held
Equity shares, ₹ 10/- par value				
Srei Infrastructure Finance Limited	26,610,000	50	25,000,000	50
BNP Paribas Lease Group	26,610,000	50	25,000,000	50

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NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

2.2 RESERVES AND SURPLUS

(₹ in lakhs)

Particulars	As at 31st March, 2012	As at 31st March, 2011
Capital reserve		
Opening balance	31	31
Add / Less: Transferred to / from Surplus	-	-
Closing balance	**31**	**31**
Securities premium account		
Opening balance	75,000	75,000
Add: Received on Issue of Equity Shares during the year	9,660	-
Closing balance	**84,660**	**75,000**
Debt redemption reserve		
Opening balance	8,105	4,106
Add: Transferred from Surplus for the year	8,234	4,606
Less: Transferred to Surplus on redemption	632	607
Closing balance	**15,707**	**8,105**
Special reserve as per RBI Guidelines		
Opening balance	6,087	3,471
Add: Transferred from Surplus	3,945	2,616
Closing balance	**10,032**	**6,087**
Surplus in the Statement of Profit and Loss		
Opening balance	16,234	9,770
Add: Net profit after tax transferred from Statement of Profit and Loss	19,723	13,079
Amount available for appropriation	35,957	22,849
Appropriations:		
Less: Amount transferred to Special reserve	3,945	2,616
Less: Amount transferred to Debt redemption reserve	8,234	4,606
Add: Amount transferred from Debt redemption reserve	632	607
Closing balance	**24,410**	**16,234**
Total Reserves and Surplus	134,840	105,457

NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

2.3 LONG TERM BORROWINGS

(₹ in lakhs)

Particulars	As at 31st March, 2012 Long - term			As at 31st March, 2011 Long - term		
	(a) Total	(b) Current maturities (refer note no. 2.9)	(c)= (a)-(b) Non-current portion	(a) Total	(b) Current maturities (refer note no. 2.9)	(c)= (a)-(b) Non-current portion
A. Secured						
Bonds / debentures						
Non - convertible debentures (refer note 2.3.1)	115,732	59,139	56,593	104,432	24,330	80,102
Foreign guaranteed local currency bonds (refer note 2.3.2)	-	-	-	375	375	-
Term loans (refer note 2.3.3)						
From banks						
- Rupee loans	202,328	110,215	92,113	218,936	83,229	135,707
- Foreign currency loans	131,976	36,610	95,366	123,682	22,811	100,871
From Financial institutions						
- Rupee loans	5,732	1,212	4,520	8,318	2,586	5,732
- Foreign currency loans	18,619	1,379	17,240	17,755	1,250	16,505
Other loans from banks						
Buyer's credit in foreign currency (refer note 2.3.4)	8,578	4,173	4,405	6,959	96	6,863
(A)	482,965	212,728	270,237	480,457	134,677	345,780
B. Unsecured						
Debentures						
Subordinated perpetual debentures (Tier I Capital) [refer note 2.3.5]	3,750	-	3,750	-	-	-
Subordinated redeemable debentures (Tier II Capital) [refer note 2.3.6]	51,800	-	51,800	42,500	-	42,500
Term loans (refer note 2.3.7)						
Subordinated loans (Tier II Capital)						
- From banks (Rupee loans)	25,000	-	25,000	5,002	2	5,000
- From financial institutions (Foreign currency loans)	340	340	-	948	632	316
Other loans (refer note 2.3.8)						
Foreign currency loans						
- From banks	-	-	-	540	540	-
- From financial institutions	1,222	611	611	1, 643	505	1, 138
(B)	82,112	951	81,161	50,633	1,679	48,954
Total (A+B)	565,077	213,679	351,398	531,090	136,356	394,734
Less: Amount disclosed under the head "other current liabilities" (refer note 2.9)		213,679	-		136,356	-
Net amount		-	351,398		-	394,734

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NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

2.3.1 Non - convertible debentures

Date of Allotment	Face Value Per Debenture (₹)	Amount outstanding (₹ in lakhs)*		Interest rate (%)	Earliest redemption date
		As at 31st March, 2012	As at 31st March, 2011		
19 December 2011	1,000,000	2,500	-	11.35%	18 December 2014 #
1 December 2011	1,000,000	2,500	-	11.35%	15 December 2014
5 December 2011	1,000,000	2,500	-	11.35%	11 December 2014 #
1 December 2011	1,000,000	3,000	-	11.35%	25 November 2014 #
1 November 2011	1,000,000	1,000	-	11.00%	23 October 2014
2 November 2011	1,000,000	300	-	11.00%	23 October 2014
27 August 2009	100,000	279	279	10.75%	26 August 2014
27 August 2009	100,000	2,475	2,475	11.00%	26 August 2014
1 December 2011	1,000,000	5,000	-	11.35%	30 April 2014
17 February 2012	1,000,000	690	-	10.40%	17 February 2014
7 September 2011	1,000,000	250	-	10.55%	14 February 2014
8 March 2011	1,000,000	500	500	11.25%	16 January 2014
24 October 2011	1,000,000	2,000	-	11.35%	20 December 2013
24 October 2011	1,000,000	2,000	-	11.35%	20 November 2013
7 September 2011	1,000,000	250	-	10.55%	13 September 2013
26 August 2011	1,000,000	1,500	-	10.60%	6 September 2013
27 August 2009	100,000	209	209	10.75%	26 August 2013
13 August 2010	1,000,000	18,500	18,500	9.15%	13 August 2013
8 December 2011	1,000,000	500	-	10.75%	12 June 2013
15 June 2011	1,000,000	2,700	-	10.90%	12 June 2013
19 December 2011	1,000,000	440	-	10.52%	6 June 2013 #
25 May 2011	1,000,000	1,500	-	10.95%	13 May 2013
24 October 2011	1,000,000	6,000	-	11.35%	15 April 2013
30 March 2010	1,000,000	3,500	3,500	9.00%	29 March 2013
10 March 2010	1,000,000	3,340	3,340	7.24%	10 March 2013
9 March 2011	1,000,000	180	180	10.70%	6 March 2013
10 March 2011	1,000,000	1,000	1,000	11.00%	9 February 2013
8 March 2011	1,000,000	500	500	11.25%	30 January 2013
17 January 2011	1,000,000	200	200	9.75%	10 January 2013
6 January 2010	1,000,000	500	500	9.00%	2 November 2012
15 June 2011	1,000,000	1,000	-	10.90%	5 October 2012
27 August 2009	100,000	25,150	25,150	10.50%	26 August 2012**
27 August 2009	100,000	209	209	10.75%	26 August 2012
29 March 2011	1,000,000	2,500	2,500	10.85%	2 July 2012
14 March 2011	1,000,000	3,000	3,000	11.00%	2 July 2012
10 March 2011	1,000,000	3,000	3,000	10.90%	14 June 2012
14 March 2011	1,000,000	2,600	2,600	11.00%	6 June 2012
19 April 2010	1,000,000	3,000	3,000	8.50%	28 May 2012
14 March 2011	1,000,000	6,200	6,200	11.00%	18 May 2012
4 November 2010	100,000	1,500	1,500	9.75%	2 May 2012
24 February 2011	1,000,000	1,760	1,760	10.70%	24 April 2012
12 May 2010	1,000,000	-	500	8.00%	28 March 2012
1 October 2010	1,000,000	-	1,000	9.00%	22 March 2012
10 March 2010	1,000,000	-	3,330	7.24%	10 March 2012
15 January 2010	1,000,000	-	3,500	9.00%	26 December 2011
10 October 2008	1,000,000	-	3,000	13.25%	10 October 2011
10 October 2008	1,000,000	-	2,000	13.25%	10 October 2011
16 September 2008	1,000,000	-	5,000	13.50%	16 September 2011
25 March 2010	1,000,000	-	3,000	8.30%	15 September 2011
25 March 2010	1,000,000	-	1,500	8.30%	6 September 2011
4 January 2010	1,000,000	-	1,500	8.00%	25 July 2011
Total		115,732	104,432		

* It includes current maturities.

** Put/Call Option is exercisable on 26 August 2012 while the original maturity date is 26 August 2014.

All the above debentures are redeemable at par except those marked # which are redeemable at premium.

Security: The above non-convertible debentures are secured by way of pari passu charge on the Company's immovable property located at Pune and exclusive first charge on receivables from financial assets of the Company.

NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

2.3.2 Foreign guaranteed local currency bonds

These bonds were repayable at par on quarterly basis, with an original tenure of 10-11 years. These bonds were secured by assets covered by lease / hypothecation loan agreements with customers. These bonds have been repaid in full during the year.

2.3.3 Term loans from banks and financial institutions

Particulars	Outstanding* (₹ in lakhs) As at 31st March, 2012	Repayment terms (₹ in lakhs)				Tenure (years)	Nature of Security
		Monthly	Quarterly	Half yearly	Single installment		
Rupee term loans							
From banks	202,328	161,699	30,629	-	10,000	3-5	Hypothecation of specific assets covered by hypothecation loan agreements and operating lease agreements with customers and receivables arising there from.
	(218,936)	(163,070)	(45,866)	-	(10,000)	(2-5)	
From financial institutions	5,732	-	5,732	-	-	7-10	
	(8,318)	(1,364)	(6,954)	-	-	(7-10)	
Total (A)	208,060**	161,699	36,361	-	10,000	-	
	(227,254)	(164,434)	(52,820)	-	(10,000)	-	
Foreign currency term loans							
From banks	131,976	2,703	-	129,273	-	3-7	Hypothecation of specific assets covered by hypothecation loan agreements and operating lease agreements with customers and / or receivables arising there from.
	(123,682)	(6,426)	-	(117,256)	-	(3-7)	
From financial institutions	18,619	-	-	18,619	-	7-10	
	(17,755)	-	-	(17,755)	-	(7-10)	
Total (B)	150,595	2,703	-	147,892	-	-	
	(141,437)	(6,426)	-	(135,011)	-	-	

*It includes current maturities. **Includes ₹ 15,844 lakhs (₹ 34,872 lakhs) guaranteed by two of the directors of the Company. Figures in bracket indicate previous year's figures.

2.3.4 Buyer's credit from banks

These foreign currency loans from banks are repayable by single installment and have tenures ranging from 1-3 years. These loans are secured by import documents covering title to capital goods and extension of pari passu charge as for working capital facilities.

2.3.5 Unsecured subordinated perpetual debentures (Tier I Capital)

During the year ended 31st March, 2012, the Company has raised subordinated perpetual debenture qualifying for Tier I capital amounting to ₹ 3,750 lakhs (31st March, 2011: ₹ Nil). As at 31st March, 2012, the amount outstanding in respect of subordinated perpetual debenture is ₹ 3,750 lakhs (31st March, 2011: ₹ Nil) which is 2.65% (Nil) of total Tier I Capital as on Balance Sheet date. The coupon rate of these perpetual debentures is 12.50%. These perpetual debentures have call option which is exercisable after 10 years from the date of its issue (i.e. 30th December, 2011), with prior approval of RBI.

2.3.6 Unsecured subordinated redeemable non-convertible debentures (Tier II Capital)

During the year ended 31st March, 2012, the Company raised subordinated redeemable non-convertible debentures qualifying for Tier II Capital amounting ₹ 9,300 lakhs (31st March, 2011: ₹ 42,500 lakhs). The following table sets forth, the detail of the bonds outstanding as at the Balance Sheet date:

NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

Date of Allotment	Face Value Per Debenture (₹)	Amount Outstanding (₹ in lakhs) As at 31st March, 2012	As at 31st March, 2011	Coupon rate (%)	Earliest redemption date
31 March 2010	1,000,000	7,450	7,450	10.00%	31 March 2020
19 March 2010	1,000,000	2,550	2,550	10.00%	19 March 2020
24 December 2009	1,000,000	10,000	10,000	10.00%	24 December 2019
27 September 2011	1,000,000	6,800	-	12.00%	27 September 2018
31 March 2011	1,000,000	5,000	5,000	11.50%	31 March 2018
3 August 2007	1,000,000	10,000	10,000	12.00%	3 August 2017
30 December 2011	1,000,000	2,500	-	12.60%	30 July 2017
31 March 2011	1,000,000	2,500	2,500	11.00%	30 September 2016
26 October 2010	1,000,000	5,000	5,000	9.15%	26 April 2016
Total		51,800	42,500		

All the above are redeemable at par by single installment.

2.3.7 Unsecured subordinated term loans (Tier II Capital)

Particulars	Outstanding* (₹ in lakhs) As at 31st March, 2012	Repayment terms (₹ in lakhs) Monthly	Quarterly	Half yearly	Single installment	Tenure (years)
Subordinated term loans (Tier II Capital)						
Rupee loan from banks	25,000	-	10,000 **	5,000 #	10,000	5-7
	(5,002)	-	-	-	(5,002)	(5-6)
Foreign currency loan from financial institutions	340	-	-	340	-	10
	(948)	-	-	(948)	-	(10)
Total	25,340	-	10,000	5,340	10,000	
	(5,950)	-	-	(948)	(5,002)	

*It includes current maturities.** Payable after moratorium of 63 months. # Payable after moratorium of 69 months.
Figures in bracket indicate previous year's figures.

2.3.8 Other unsecured long - term loans

Particulars	Outstanding* (₹ in lakhs) As at 31st March, 2012	Repayment terms (₹ in lakhs) Monthly	Quarterly	Half yearly	Single installment	Tenure (years)
Other foreign currency loans						
From banks	-	-	-	-	-	-
	(540)	-	-	(540)	-	(6-7)
From financial institutions	1,222	-	-	1,222		8
	(1,643)	-	-	(1,643)	-	(8-9)
Total	1,222			1,222	-	
	(2,183)	-	-	(2,183)		

*It includes current maturities.
Figures in bracket indicate previous year's figures.

NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

2.4 DEFERRED TAXES

In terms of AS 22 'Accounting for Taxes on Income' during the year ended 31st March, 2012, net deferred tax liability (DTL) of ₹ 5,044 lakhs (31st March, 2011: net deferred tax asset ₹ 1,756 lakhs) has been recognised in Statement of Profit and Loss and consequently, the net DTL as at 31st March, 2012 stands at ₹ 11,133 lakhs (31st March, 2011: ₹ 6,089 lakhs).

The break - up of major components of such net DTL is as follows:

(₹ in lakhs)

Particulars	As at 31st March, 2012 Asset / (Liability)	As at 31st March, 2011 Asset / (Liability)
Deferred tax liability		
Depreciation on Fixed Assets	(11,979)	(6,730)
Deferred Revenue Expenditure	(2,140)	(2,446)
Gross deferred tax liability	(14,119)	(9,176)
Deferred tax asset		
Provisions for Standard assets and NPAs	2,883	2,990
Others	103	97
Gross deferred tax asset	2,986	3,087
Net Deferred Tax Asset / (Liability)	(11,133)	(6,089)

2.5 OTHER LONG-TERM LIABILITIES

(₹ in lakhs)

Particulars	As at 31st March, 2012	As at 31st March, 2011
Acceptances	972	3,096
Others		
Trade Deposits	8,657	3,235
Forward contract payable	312	610
Total	9,941	6,941

2.6 LONG-TERM PROVISIONS

(₹ in lakhs)

Particulars	As at 31st March, 2012	As at 31st March, 2011
Provision for employee benefits (refer note no. 2.31)		
Gratuity	320	291
Leave benefits	568	412
	888	703
Less: Current portion of provision for employee benefits (refer note no. 2.10)		
- Gratuity	100	100
- Leave benefits	76	57
(A)	712	546
Other provisions		
- Provision for NPAs (refer note no.2.6.1)	10,848	10,532
- Contingent provision against standard assets (refer note no.2.6.1	2,447	2,082
(B)	13,295	12,614
Total (A+B)	14,007	13,160

NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

2.6.1 Movement of other provisions

Provision for Non - Performing Assets (NPAs) has been recognised in the financial statements according to the Prudential Norms prescribed by RBI. Further, financial assets overdue for more than four years, as well as those, which, as per the management are not likely to be recoverable, are written off as bad debts in the accounts. The Company has recognised additional provision towards financial assets, based on the management's best estimates as stated below:

(₹ in lakhs)

Particulars	Balance as at 1st April, 2011	Charge / (Credit) to Statement of Profit and Loss	Balance as at 31st March, 2012
Provision for NPAs as per RBI Prudential norms	1,286	(37)	1,249
Contingent provision against standard assets as per RBI Prudential norms	2,082	365	2,447
Additional provision for NPAs as per management estimate	9,304	299	9,603
Bad debts written off during the year	-	12,068	-
Bad debts recovery during the year	-	(2,300)	-
Total	12,672	10,395	13,299
Previous year	8,647	14,245	12,672

2.7 SHORT - TERM BORROWINGS

(₹ in lakhs)

Particulars	As at 31st March, 2012	As at 31st March, 2011
A. Secured		
Other loans		
Working capital facilities from banks (Rupee loan) [Note (a) below]	412,053	198,535
Debentures [Note (b) below]	-	10,000
Short - term loan from banks [Note (c) below]	20,200	4,001
Buyer's credit foreign currency loans from banks [Note (d) below]	22,307	4,721
(A)	454,560	217,257
B. Unsecured		
Deposits		
Inter - corporate deposits	-	300
Other loans		
Debentures	-	1,900
Rupee term loan from banks	-	25,000
Commercial papers		
- From banks	-	963
- From others	11,597	658
(B)	11,597	28,821
Total (A+B)	466,157	246,078

Notes:

(a) Working capital facilities including working capital demand loans (earmarked against cash credit limits) from banks are secured by hypothecation of underlying assets (both short - term and long - term financial assets) covered by hypothecation loan agreements and operating lease agreements with customers and receivables arising therefrom ranking pari passu (excluding assets specifically charged to others). As per the prevalent practice, these facilities are renewed on a year to year basis and therefore, are revolving in nature. As at 31st March, 2012 working capital facilities from banks include working capital demand loans amounting to ₹ 261,710 lakhs (31st March, 2011: ₹ 101,669 lakhs).

(b) Debentures are secured by pari passu charge on the Company's immovable property located at Pune and exclusive first charge on receivables from financial assets of the Company.

NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

(c) Short - term loans from banks are secured by hypothecation of specific assets covered by hypothecation loan agreements with customers and receivables arising therefrom.

(d) Buyer's credit in the form of foreign currency loans from banks are secured by import documents covering title to capital goods and extension of pari passu charge as for working capital facilities.

2.7.1 Income from Financial Assets in note no. 2.21 includes interest income aggregating ₹ 140,130 lakhs (₹ 102,746 lakhs)

2.8 TRADE PAYABLES

(₹ in lakhs)

Particulars	As at 31st March, 2012	As at 31st March, 2011
Due to Micro and Small enterprises (refer note no. 2.36)	-	-
Due to others		
Trade payables	47,123	43,894
Acceptances	19,011	10,959
Total	66,134	54,853

2.9 OTHER CURRENT LIABILITIES

(₹ in lakhs)

Particulars	As at 31st March, 2012	As at 31st March, 2011
Current maturities of secured long-term borrowings (for detail refer note no.2.3)	213,679	136,356
(A)	213,679	136,356
Interest accrued but not due on borrowings	8,759	5,457
Other payables		
Trade deposits	521	10
Forward contracts payable	966	190
Advances from customers for operating leases	148	67
Employees payables	1,155	258
Commission payable to Directors	197	130
Other liabilities	294	70
(B)	12,040	6,182
Total (A + B)	225,719	142,538

2.10 SHORT - TERM PROVISIONS

(₹ in lakhs)

Particulars	As at 31st March, 2012	As at 31st March, 2011
Current portion of provision for employee benefits (refer note no. 2.6)		
Gratuity	100	100
Leave benefits	76	57
(A)	176	157
Other provisions		
For Income taxes [net of Advance tax / Tax deducted at source of ₹ 1,841 lakhs (31st March, 2011: ₹ 2,295 lakhs)]	3,546	7,332
(B)	3,546	7,332
Total (A+B)	3,722	7,489

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NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

2.11 FIXED ASSETS

(₹ in lakhs)

Particulars	Gross block				Depreciation / amortisation / impairment					Net book value	
	As at April 01, 2011	Additions	Deductions / Retirement	As at March 31, 2012	As at April 01, 2011	For the year	Impairment Charge	Less on Deductions	As at March 31, 2012	As at March 31, 2012	As at March 31, 2011
I. Tangible assets:											
Assets for Own use											
Land - Freehold	4	-	-	4	-	-	-	-	-	4	4
Buildings	72	-	-	72	5	1	-	-	6	66	67
Furniture and fixtures	1,525	463	44	1,944	388	200	-	27	561	1,383	1,137
Motor vehicles	155	6	8	153	49	19	-	2	66	87	106
Computers and office equipments	870	309	18	1,161	382	147	-	8	521	640	488
(A)	**2,626**	**778**	**70**	**3,334**	**824**	**367**	**-**	**37**	**1,154**	**2,180**	**1,802**
Assets given on Operating lease											
Aircrafts	806	-	-	806	160	49	-	-	209	597	646
Earthmoving Equipments	8,651	16,230	81	24,800	2,925	2,090	1,192	52	6,155	18,645	5,726
Motor vehicles	20,723	26,158	11	46,870	9,782	4,924	923	11	15,618	31,252	10,941
Plant & Machinery	11,642	8,492	-	20,134	1,088	1,344	803	-	3,235	16,899	10,554
Wind Mills **	15,474	24,803	-	40,277	2,814	869	-	-	3,683	36,594	12,660
Computers	9,693	9,323	182	18,834	1,184	2,260	30	47	3,427	15,407	8,509
Furniture and fixtures	2,067	904	-	2,971	297	223	11	-	531	2,440	1,770
(B)	**69,056**	**85,910**	**274**	**154,692**	**18,250**	**11,759**	**2,959**	**110**	**32,858**	**121,834**	**50,806**
Total for Tangible assets (C)= (A+B)	71,682	86,688	344	158,026	19,074	12,126	2,959	147	34,012	124,014	52,608
II. Intangible assets:											
Assets for Own use											
Softwares	554	121	-	675	269	131	-	-	400	275	285
Tenancy right	8	-	-	8	6	2	-	-	8	-	2
(D)	**562**	**121**	**-**	**683**	**275**	**133**	**-**	**-**	**408**	**275**	**287**
Assets given on operating lease											
Software	1,932	409	-	2,341	452	448	-	-	900	1,441	1,480
(E)	**1,932**	**409**	**-**	**2,341**	**452**	**448**	**-**	**-**	**900**	**1,441**	**1,480**
Total for Intangible assets (F)= (D+E)	**2,494**	**530**	**-**	**3,024**	**727**	**581**	**-**	**-**	**1,308**	**1,716**	**1,767**
Total for Fixed Assets (C+ F)	**74,176**	**87,218**	**344**	**161,050**	**19,801**	**12,707**	**2,959**	**147**	**35,320**	**125,730**	**54,375**
Previous year	52,691	24,088	2,603	74,176	12,339	8,052	-	590	19,801	54,375	

**Additions to Wind Mills includes borrowing costs for qualifying asset capitalised during the year ended 31st March, 2012 amounting ₹ 878 lakhs (31st March, 2011: ₹ Nil) as per "AS- 16 Borrowing Costs".

NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

2.12 LEASES

a. In the capacity of Lessee

(i) The Company has certain cancellable operating lease arrangements for office premises which generally, range between 11 months to 9 years, and are usually renewable by mutually agreeable terms. For the year ended 31st March, 2012, lease payments charged to the Statement of Profit and Loss with respect to such leasing arrangements aggregate to ₹ 1,885 lakhs (31st March, 2011: ₹ 1,431 lakhs).

(ii) In addition to the above, the Company also has certain non - cancellable operating lease arrangements for office premises which, generally range between 2 to 9 years, and are usually renewable by mutually agreeable terms. For the year ended 31st March, 2012 total lease payments aggregating to ₹ 216 lakhs (31st March, 2011: ₹ 42 lakhs) in respect of such arrangements have been recognised in the Statement of Profit and Loss. The future minimum lease payments in respect of the above non - cancellable operating leases are as follows:

(₹ in lakhs)

Particulars	As at 31st March, 2012	As at 31st March, 2011
Not later than one year	161	149
Later than 1 year but not later than 5 years	229	335
Later than five years	-	-
Total	390	484

None of the operating lease agreements entered into by the Company provides for any contingent rent payment and hence, the Company has not paid any contingent rent in the current and previous year.

(iii) Sub lease payments received (or receivable) recognised in the Statement of Profit and Loss for the year ended 31st March, 2012 is ₹ Nil lakhs (31st March, 2011: ₹ 283 lakhs).

b. In the capacity of Lessor

The Company has given assets on operating lease (refer note no. 2.11) for periods ranging between 1 to 12 years. These agreements for operating leases do not have a clause for contingent rent and hence, the Company has not recognised any contingent rent as income in the current and previous year.

The future minimum lease receivables in respect of non - cancellable operating leases are as follows:

(₹ in lakhs)

Particulars	As at 31st March, 2012	As at 31st March, 2011
Not later than one year	32,156	14,860
Later than 1 year but not later than 5 years	75,181	34,958
Later than five years	22,984	8,492
Total	130,321	58,310

2.13 NON - CURRENT INVESTMENTS

(₹ in lakhs, except number of shares)

Particulars	As at 31st March, 2012	As at 31st March, 2011
Non - trade investments		
Long - term investments - 'at cost' (unquoted)		
Investment in Equity shares of subsidiary company		
Srei - Insurance Broking Private Ltd.		
Nil (31st March, 2011: 2,500,000) Equity Shares of ₹ 10 each, fully paid	-	250
Total	-	250
Aggregate book value of unquoted investments	-	250

NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

The Company has disposed off entire 25,00,000 Equity shares of Srei Insurance Broking Private Limited (SIBPL) held by the Company and consequently SIBPL ceased to be subsidiary of the Company with effect from 31st March, 2012.

2.14 FINANCIAL ASSETS (GROSS)

(₹ in lakhs)

Particulars	As at 31st March, 2012			As at 31st March, 2011		
	Long-term		Short-term	Long-term		Short-term
	Non-current	Current maturities		Non-current	Current maturities	
(Secured, considered good, unless otherwise stated)						
Financial assets	615,792	317,614	81,088	492,461	272,797	93,130
Total ** ##	615,792	317,614	81,088	492,461	272,797	93,130

**At 31st March, 2012 it includes non-performing assets ₹ 36,076 lakhs (31st March, 2011: ₹ 27,934 lakhs).

The above financial assets are secured by underlying hypothecated assets and in certain cases, are additionally secured by immovable properties and pledge of Equity Shares of the borrowers by way of collateral security. Securities, created / to be created by the borrowers, against financial assets are based on the valuation of the underlying assets, where applicable, carried out by an external valuer which has been relied upon.

As at 31st March, 2012 financial assets include assets aggregating ₹ 3,964 lakhs (31st March, 2011: ₹ 4,740 lakhs) pending to be given on finance and assets aggregating ₹ 2,773 lakhs (31st March, 2011: ₹ 4,387 lakhs) acquired in satisfaction of debt.

2.15 OTHER LONG-TERM ADVANCES

(₹ in lakhs)

Particulars	As at 31st March, 2012	As at 31st March, 2011
Unsecured, considered good		
Capital advances	3,762	2,808
Security deposits	1,476	1,394
Other loans and advances		
Advances to employees	32	44
Advance income tax [net of Income tax provision of ₹ 295 lakhs (31st March, 2011: ₹ 162 lakhs)]	309	351
Total	5,579	4,597

2.16 OTHER NON-CURRENT ASSETS

(₹ in lakhs)

Particulars	As at 31st March, 2012	As at 31st March, 2011
Unsecured, considered good		
Balances with Service Tax / VAT Authorities etc.	20	20
Miscellaneous expenditure to the extent not written off or adjusted	111	195
Non-current portion of other bank balances		
Fixed deposit with banks (refer to note no. 2.18)	61,995	28,250
Interest accrued on Fixed deposits	-	8
Prepaid expenses	4,105	4,870
Gain receivable on forward exchange contract	17,246	5,460
Others advances	51	85
Total	83,528	38,888

NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

2.17 TRADE RECEIVABLES (OPERATING LEASE)

(₹ in lakhs)

Unsecured considered good unless otherwise stated)	As at 31st March, 2012	As at 31st March, 2011
Debts outstanding for a period exceeding six months from the date they became due		
Considered good	105	56
Considered doubtful	37	68
	142	124
Less: Provision for bad and doubtful debts	4	58
	138	66
Other debts	2,416	395
Total	2,554	461

2.18 CASH AND BANK BALANCES

(₹ in lakhs)

Particulars	As at 31st March, 2012	As at 31st March, 2011
A. Cash and cash equivalents		
Cash on hand	222	140
Balances with banks - In current accounts	18,314	8,448
Fixed deposits with banks (having original maturity of 3 months or less) *	1,974	2,060
(A)	20,510	10,648
B. Other Bank balances		
Fixed deposit with banks (having original maturity of more than 3 months) **	85,203	36,139
Less: Non-current portion of other bank balances (refer note no 2.16)		
- Fixed deposit with banks (having remaining maturity of more than 12 months)	61,995	28,250
(B)	23,208	7,889
Total (A+B)	43,718	18,537

* At 31st March, 2012 it includes deposits under lien with banks as security amounting ₹ 874 lakhs (31st March, 2011: ₹ 2,060 lakhs).

** At 31st March, 2012 it includes deposits under lien with banks as security amounting ₹ 84,967 lakhs (31st March, 2011: ₹ 36, 079 lakhs).

2.19 OTHER SHORT TERM LOANS AND ADVANCES

(₹ in lakhs)

Particulars	As at 31st March, 2012	As at 31st March, 2011
(Unsecured, considered good)		
Advances to employees	164	105
Security deposits	418	377
Advances to vendors	110	115
Advance income tax [net of income tax provision of ₹ Nil (31st March, 2011: ₹ 2,422 lakhs)]	-	409
Total	692	1,006

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NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

2.20 OTHER CURRENT ASSETS

(₹ in lakhs)

Particulars	As at 31st March, 2012	As at 31st March, 2011
Balances with Service Tax / VAT Authorities etc.	2,100	1,978
Interest accrued on Fixed deposits	434	171
Miscellaneous expenses to the extent not written off or adjusted	84	86
Prepaid expenses	2,903	3,521
Gain receivable on forward exchange contracts	6,476	-
Other advances	81	81
Total	12,078	5,837

2.21 REVENUE FROM OPERATIONS

(₹ in lakhs)

Particulars	For the year ended 31st March,	
	2012	2011
Income from Financial Assets**	154,553	109,928
Income from Operating Lease	22,321	11,939
Interest on Fixed Deposits	4,905	1,730
Total	181,779	123,597

**It includes interest income, fee income and income attributable to financial assets.

2.22 OTHER INCOME

(₹ in lakhs)

Particulars	For the year ended 31st March,	
	2012	2011
Profit on sale of long - term investments	31	-
Dividend income from current investments	34	12
Rental income	-	283
Other income	8	23
Total	73	318

2.23 EMPLOYEE BENEFIT EXPENSES

(₹ in lakhs)

Particulars	For the year ended 31st March,	
	2012	2011
Salaries and bonus	8,572	5,453
Contribution to provident fund and other funds	353	270
Gratuity (refer note no. 2.31)	113	177
Staff welfare	369	193
Managerial remuneration	691	444
Total	10,098	6,537

NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

2.24 FINANCE COST

(₹ in lakhs)

Particulars	For the year ended 31st March,	
	2012	2011
Interest expense	87,567	58,119
Other borrowing costs	15,067	7,396
Other Finance charges		
Applicable net loss / (gain) on foreign currency transaction and translations *	1,758	14
Total	104,392	65,529

*includes foreign exchange loss to the extent considered as an adjustment to borrowing cost aggregating to ₹ 1,057 lakhs (₹ 14 lakhs).

2.25 ADMINISTRATIVE AND OTHER EXPENSES

(₹ in lakhs)

Particulars	For the year ended 31st March,	
	2012	2011
Communication expenses	276	224
Legal and professional fees	1,537	1,307
Electricity charges	230	195
Rent	2,101	1,473
Rates and taxes	14	21
Brokerage and service charges	1,632	975
Auditor's remuneration (refer note no 2.25.1)	114	71
Repairs to machineries	446	312
Repairs to Others	866	269
Travelling and conveyance	1,979	1,262
Director's sitting fees	1	1
Insurance	27	28
Printing and stationery	125	97
Advertisement and subscription	218	104
Conference and seminar	296	160
Charity and donations	387	69
Loss on sale of Fixed assets (net)	146	1,004
Miscellaneous expenses	359	219
Total	10,754	7,791

2.25.1 AUDITOR'S REMUNERATION

(₹ in lakhs)

Particulars	For the year ended 31st March,	
	2012	2011
As Auditor	35	35
For other services (Half - yearly review, certification etc.)	74	33
For reimbursement of expenses	5	3
Total	114	71

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NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

2.26 TAX EXPENSE

(₹ in lakhs)

Particulars	For the year ended 31st March,	
	2012	2011
Current taxes		
Income taxes for current year	5,387	7,884
Income taxes for earlier years	495	2,118
	5,882	10,002
Less: MAT credit entitlement	187	-
	5,695	10,002
Deferred tax charge / (credit)	5,044	(1,756)
Total	10,739	8,246

2.27 EARNINGS PER SHARE

Particulars	For the year ended 31st March,	
	2012	2011
Net Profit after tax attributable to Equity Shareholders (₹ in lakhs)	19,723	13,079
Weighted average number of Equity Shares Basic (Nos.)	52,454,590	50,000,000
Weighted average number of Potential Equity Shares (Nos.)	-	-
Weighted average number of Equity Shares Diluted (Nos.)	52,454,590	50,000,000
Nominal Value of Equity per share (₹)	10	10
Basic and Diluted Earnings per share (₹)	37.60	26.16

2.28 CONTINGENT LIABILITIES AND COMMITMENTS (TO THE EXTENT NOT PROVIDED FOR)

(₹ in lakhs)

Particulars	As at 31st March, 2012	As at 31st March, 2011
Contingent liabilities		
Claims against the company not acknowledged as debt		
Disputed demands		
- Sales tax	7	557
- Service tax	9,110	8,578
- Value added tax (VAT)	29	-
- Income tax	586	559
(A)	9,732	9,694
Guarantees		
Bank guarantees*	786	786
Guarantees against receivables assigned	-	9
Guarantees against co-branded arrangements	-	22
Bank Guarantees against receivables securitised / assigned	8,648	13,669
(B)	9,434	14,486
Total (A+B)	19,166	24,180
Commitments		
Estimated amount of capital contracts remaining to be executed [Net of advances of ₹ 3,762 lakhs (31st March, 2011: ₹ 2,802 lakhs)]	4,182	7,059
Other commitments (refer note no. 2.28.1)		

*At 31st March, 2012, it excludes ₹ 892 lakhs (31st March, 2011: ₹ 1,017 lakhs) issued on behalf of the Joint Venturer to give effect to the Scheme of Arrangement, against which the Company holds counter guarantee.

NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

2.28.1 The Company has entered into Options / Swaps / Forward contracts which are not intended for trading or speculation, for the purpose of hedging currency and interest rate related risks. Option, Swap and Forward contracts outstanding as at the Balance Sheet date are as follows:

i) Currency Options and Swaps

(Amount in lakhs)

Sl. No.	Currency	As at 31st March, 2012		As at 31st March, 2011	
		No. of Contracts	Amount in Foreign Currency	No. of Contracts	Amount in Foreign Currency
1	USD/INR	24	USD 2,556	23	USD 2,650
2	YEN/USD	1	YEN 38,401	1	YEN 50,259
3	EUR/INR	3	EUR 73	4	EUR 108
4	SGD/USD	1	SGD 349	1	SGD 349

ii) Interest rate swaps

(Amount in lakhs)

Sl. No.	Currency	As at 31st March, 2012		As at 31st March, 2011	
		No. of Contracts	Amount in Foreign Currency	No. of Contracts	Amount in Foreign Currency
1	USD	7	USD 1,573	2	USD 410
2	EUR	1	EUR 50	-	-

iii) Forward contracts

(Amount in lakhs)

Sl. No.	Currency	As at 31st March, 2012		As at 31st March, 2011	
		No. of Contracts	Amount in Foreign Currency	No. of Contracts	Amount in Foreign Currency
1	USD/INR	44	USD 299	41	USD 224
2	EUR/INR	41	EUR 223	22	EUR 84
3	SGD/INR	1	SGD 6	-	-
4	CHF/INR	1	CHF 4	-	-

Foreign currency exposures, which are not hedged by derivative instruments, as at 31st March, 2012 amounted ₹ 10,835 lakhs (31st March, 2011: ₹ 12,574 lakhs).

2.29 C.I.F VALUE OF IMPORTS

(₹ in lakhs)

Particulars	For the year ended 31st March, 2012	2011
Capital goods (for operating lease)	13,163	5,975
Total	**13,163**	**5,975**

2.30 EXPENDITURE IN FOREIGN CURRENCY

(₹ in lakhs)

Particulars	For the year ended 31st March, 2012	2011
Finance charges	6,559	5,397
Others	119	72
Total	**6,678**	**5,469**

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NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

2.31 EMPLOYEE BENEFITS

The trustees of the gratuity scheme for the employees of the Company have entrusted the administration of the scheme to the Life Insurance Corporation of India (LIC).

(a) Expenses recognised in the Statement of Profit and Loss are as follows:

(₹ in lakhs)

Particulars	Gratuity		Leave	
	Year ended 31st March, 2012	Year ended 31st March, 2011	Year ended 31st March, 2012	Year ended 31st March, 2011
Current service cost	123	87	204	228
Interest cost	39	23	18	11
Expected return on plan assets	(20)	(13)	-	-
Past Service Cost	-	15	-	-
Net actuarial losses / (gains)	(29)	65	78	94
Net benefit expense	**113**	**177**	**300**	**333**
Actual return on plan assets	9.25%	9.25%	N.A.	N.A.

(b) Net Liability recognised in the Balance Sheet is as follows:

(₹ in lakhs)

Particulars	Gratuity		Leave	
	As at 31st March, 2012	As at 31st March, 2011	As at 31st March, 2012	As at 31st March, 2011
Defined benefit obligation	586	468	568	412
Fair value of plan assets	(266)	(177)	-	-
Net liability	**320**	**291**	**568**	**412**

(c) Changes in the present value of the defined benefit obligations are as follows:

(₹ in lakhs)

Particulars	Gratuity		Leave	
	Year ended 31st March, 2012	Year ended 31st March, 2011	Year ended 31st March, 2012	Year ended 31st March, 2011
Opening defined benefit obligation	468	283	412	194
Interest cost	39	23	18	11
Current service cost	123	87	204	228
Benefit paid	(15)	(5)	(144)	(115)
Actuarial losses / (gains)	(29)	65	78	94
Plan Amendments	-	15	-	-
Closing defined benefit obligation	586	468	568	412

(d) The details of fair value of plan assets at the Balance Sheet date are as follows:

(₹ in lakhs)

Particulars	Gratuity	
	As at 31st March, 2012	As at 31st March, 2011
Opening fair value of plan assets	177	107
Expected return on plan assets*	20	13
Contribution by the Company	84	62
Benefits paid	(15)	(5)
Actuarial (losses) / gains	-	-
Closing fair value of plan assets	266	177

*Determined based on government bond rate

NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

(e) The principal assumptions used in determining the gratuity and leave liability are as shown below:

Particulars	As at 31st March, 2012	As at 31st March, 2011
Discount rate (%)	8.70%	8.40%
Return on Plan Assets (Gratuity Scheme)	9.25%	9.25%
Mortality Rate	LIC(1994-96)	LIC(1994-96)
	Ultimate	Ultimate

(f) The amounts for the current and previous years are as follows:

(₹ in lakhs)

Particulars	Gratuity					Leave	
	31st March, 2012	31st March, 2011	31st March, 2010	31st March, 2009	31st March, 2008	31st March, 2012	31st March, 2011
Defined benefit obligation	586	468	283	185	117	568	412
Fair value of plan assets	266	177	107	57	47	-	-
Deficit	320	291	176	128	70	568	412
Experience adjustments on plan liabilities – gains / (losses)	3	(72)	21	(5)	(15)	(92)	(95)
Experience adjustments on plan assets – gains / (losses)	-	1	(1)	-	7	-	-

(g) The estimate of future salary increase, considered in actuarial valuation, takes account of inflation, seniority, promotion and other relevant factors such as supply and demand in the employee market.

(h) The Company expects to contribute ₹ 100 lakhs to gratuity fund in the year 2012-2013.

(i) The amount provided for defined contribution plan is as follows:

(₹ in lakhs)

Particulars	For the year ended 31st March,	
	2012	2011
Provident fund	386	289
Employee state insurance	10	10
Total	396	299

2.32 RELATED PARTY DISCLOSURES

Related party disclosures, as stipulated by "AS 18: Related Party Disclosures" are given below:

List of related parties:

Enterprises having joint control over the Company	Nature of Relationship
Srei Infrastructure Finance Limited	Joint Venturer
BNP Paribas Lease Group	Joint Venturer

Subsidiary	Country of Origin
Srei Insurance Broking Private Limited (ceased to be subsidiary w.e.f. 31st March, 2012)	India

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NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

Key management personnel (KMP)

Name	Designation
Mr. Hemant Kanoria	Vice Chairman & Managing Director
Mr. Sunil Kanoria	Joint Managing Director
Mr. D K Vyas	Chief Executive Officer
Mr. CR Sudharsanam	Chief Financial Officer

Enterprise over which KMP is having significant influence
Viom Networks Limited (with effect from 18th November, 2011)

Summary of Transactions with Related Parties:

(₹ in lakhs)

Name of the related party	Nature of relationship	Nature of Transactions	2011-12		2010-11	
			For the Year	As at 31st March, 2012	For the Year	As at 31st March, 2011
BNP Paribas Lease Group	Joint Venturer	Issue of Equity Shares including securities premium	4,991	-	-	-
Srei Infrastructure Finance Limited	Joint Venturer	Issue of Equity Shares including securities premium	4,991	-	-	-
		Sale of shares of subsidiary company	143	-	-	-
		Advance received	-	-	270	-
		Refund of Advance	-	-	270	-
		Rent payment	1,388	-	999	-
		Security Deposit paid for Leased Premises	54	1,425	699	1,421
		Refund of Security Deposit paid for Leased Premises	50	-	-	-
		Rental income	-	-	211	-
		Security Deposit received on sub - letting of Leased Premises	-	-	7	7
		Refund of Security Deposit received on sub-letting of Leased Premises	7	-	96	-
Srei Insurance Broking Private Limited	Subsidiary Company	Rental income	-	-	29	8
		Inter Corporate Deposit Received	-	-	18	-
		Repayment of Inter Corporate Deposit	-	-	18	-
Viom Networks Limited	Enterprise over which KMP is having significant influence	Interest income	732	39	N/A	N/A
		Loan given	-	12,501	N/A	N/A
Mr. Hemant Kanoria *	Vice Chairman and Managing Director	Managerial Remuneration	346	99	221	65
Mr. Sunil Kanoria *	Joint Managing Director	Managerial Remuneration	345	99	223	65
Mr. D K Vyas	Chief Executive Officer	Salary and Allowances	175	-	117	-
		Loan Given / (Repayment)	(21)	35	67	56
		Interest Income on loan given	5	-	2	-
Mr. CR Sudharsanam	Chief Financial Officer	Salary and Allowances	82		67	-
Mrs. Sangeeta Vyas	Spouse of Chief executive officer	Rent paid for leased premise	8	-	-	-
		Security deposit paid for leased premise	4	4	-	-

NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

*Apart from the transactions referred above, Mr. Hemant Kanoria, Vice Chairman & Managing Director and Mr. Sunil Kanoria, Joint Managing Director of the Company have extended their personal guarantees in favour of financial institution / banks, the outstanding amount of which as at 31st March, 2012 is ₹ 15,844 lakhs (31st March, 2011: ₹ 34,872 lakhs) and ₹ 10,112 lakhs (31st March, 2011: ₹ 27,928 lakhs) respectively for the loans taken by the Company from such institutions / banks.

2.33 ASSETS UNDER MANAGEMENT

2.33.1 Securitisation

In terms of Reserve Bank of India Guidelines on securitisation of assets issued on 1st February, 2006, details of financial assets securitised by the Company during the year are as under:

(₹ in lakhs, except in respect of total number of contracts)

Particulars	2011-12	2010-11
Total number of contracts securitised	367	369
Book Value of contracts securitised	19,555	27,367
Sales consideration	19,555	27,367
Gain / (Loss) (net) on securitisation	-	-
Subordinated assets as on Balance Sheet date	-	-

The aggregate amount of collateral security provided by the Company against the above securitisation stands as follows on the Balance Sheet date:

	As at March 31st, 2012	As At March 31st, 2011
Bank / Other deposits provided as collateral as on Balance Sheet date	2,837	5,127
Credit enhancements provided by third parties;		
- First loss facility	1,580	2,925
- Second loss facility	1,703	5,379

2.33.2 Assignment of Receivables

During the year ended 31st March, 2012, the Company has assigned financial assets to the extent of ₹ 413,798 lakhs (31st March, 2011: ₹ 144,318 lakhs) for purchase consideration of ₹ 413,798 lakhs (₹ 144,318 lakhs). Assets assigned are derecognised from the books of account. At 31st March, 2012 the Company has provided corporate guarantee of ₹ Nil (31st March, 2011: ₹ 9 lakhs) as separately stated in Note no. 2.28 and bank deposits of ₹ 78,474 lakhs (31st March, 2011: ₹ 31,063 lakhs) as collateral against these contracts outstanding at the year end.

2.33.3 Co - branded arrangements

During the year ended 31st March, 2012, there were no new agreements with Bank / Financial Institutions to make disbursement on their behalf. Hence, no such disbursement was made by the Company during the year ended 31st March, 2012 and 31st March, 2011.

2.33.4 The Aggregate amount of assets derecognised / loans originated in terms of paragraphs 2.33.1 to 2.33.3 above that are assets under management of the Company are as under :

(₹ in lakhs)

Particulars	Amount outstanding as at	
	31st March, 2012	31st March, 2011
Securitisation	15,603	27,258
Assignment of Receivables	443,635	187,734
Co - branded arrangements	-	434
Total	459,238	215,426

NOTES TO FINANCIAL STATEMENTS AS ON AND FOR THE YEAR ENDED 31st MARCH, 2012 (Contd.)

2.34 SEGMENT REPORTING

The Company is engaged in providing asset finance to customers in India. Consequently, it has one reportable business segment i.e. asset financing and one reportable geographical segment, i.e. India.

2.35 IMPAIRMENT OF ASSETS

The Company has tested for impairment purposes the carrying value of certain plant & machineries, motor vehicles, furnitures, computers and earth moving equipments redeployed to customers during the Year ended 31st March, 2012 or thereafter under highly competitive market conditions. Based on the above, impairment losses aggregating to ₹ 2,959 lakhs (31st March, 2011: ₹ Nil) have been recognised in the Statement of Profit and Loss for the year ended 31st March, 2012.

2.36 MICRO, SMALL AND MEDIUM ENTERPRISES

No interest was payable by the Company during the year ended 31st March, 2012 and 31st March, 2011 to the 'Suppliers' covered under the Micro, Small and Medium Enterprise Development Act, 2006. The above information takes into account only those suppliers who have responded to enquiries made by the Company for this purpose.

2.37 Information as required by Non - Banking Financial (Non - Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 is furnished vide Annexure – I attached herewith.

2.38 COMPARATIVE FIGURES

The previous year figures have been re - grouped/re - classified, wherever necessary to conform to the current year presentation

Signatories to Note no. 1 and 2.1 to 2.38

For S.R. Batliboi & Co

Chartered Accountants
(Firm Registration No. 301003E)

On behalf of the Board of Directors

Bhaswar Sarkar
Partner
(Membership No. 55596)

Bertrand Gousset
Chairman

Hemant Kanoria
Vice Chairman &
Managing Director

D. K. Vyas
Chief Executive Officer

Place : Kolkata
Date : 11th May, 2012

CR Sudharsanam
Chief Financial Officer

Sanjay Chaurasia
Company Secretary

ANNEXURE – I TO NOTES TO ACCOUNTS

I. Disclosures of details as required in terms of paragraphs 10 of Non Banking Financial (Non - Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007

1. Capital to Risk Assets Ratio (CRAR)

Sl. No.	Items	Current year	Previous year
i	CRAR (%)	16.92	15.82
ii	CRAR – Tier I Capital (%)	11.08	10.97
iii	CRAR – Tier II Capital (%)	5.84	4.85

2. Exposure to Real Estate Sector

		Category	Current year	Previous year
a)	Direct exposure			
	(i)	Residential Mortgages		
		Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented; (Individual housing loans up to ₹ 15 lakhs may be shown separately)	-	-
	(ii)	Commercial Real Estate		
		Lending secured by mortgages on commercial real estates (office buildings, retail space, multipurpose commercial premises, multi - family residential buildings, multi - tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure would also include non - fund based (NFB) limits;	-	-
	(iii)	Investments in Mortgage Backed Securities (MBS) and other securitised exposures		
		a. Residential,	-	-
		b. Commercial Real Estate	-	-
b)	Indirect exposure			
	Fund based and non - fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs)		-	-

3. Asset Liability Management

Maturity pattern of certain items of assets and liabilities as at 31st March, 2012 are as follows;

(₹ in lakhs)

	1 day to 30 / 31 days (one month)	Over 1 month to 2 months	Over 2 months to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total
Liabilities									
Borrowings from Banks	67,706	36,328	22,414	65,800	149,089	320,087	125,866	10,152	797,442
Market Borrowings	3,132	11,493	6,796	15,547	11,821	99,956	3,401	756	152,902
Assets									
Advances	73,904	48,193	31,259	84,217	193,285	528,686	149,902	35,369	1,144,815

Notes:

1. The borrowings indicated above do not include unsecured subordinated perpetual debentures and unsecured subordinated debentures / loan amounting to ₹. 80,890 lakhs since the same forms part of Tier I / Tier II Capital.
2. The maturity pattern of working capital facilities sanctioned by the banks has been apportioned in proportion to the maturity pattern of the financial assets.

ANNEXURE – I TO NOTES TO ACCOUNTS

II. Disclosure of details as required in terms of paragraph 13 of Non Banking Financial (Non - Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007

(₹ in lakhs)

Sl. No.	Particulars	As at 31st March, 2012		As at 31st March, 2011	
		Amount Outstanding	Amount Overdue	Amount Outstanding	Amount Overdue
	Liabilities side:				
1)	Loans and advances availed by the NBFC inclusive of interest accrued thereon but not paid:				
	a) Debentures				
	- Secured	119,299	-	117,124	-
	- Unsecured	58,218	-	45,786	-
	(Other than falling within the meaning of public deposits)				
	b) Deferred Credits	-	-	-	-
	c) Term loans	382,280	-	401,518	-
	d) Inter - corporate loans and borrowings	-	-	309	-
	e) Commercial paper	11,597	-	1,622	-
	f) Other Loans	468,599	-	216,267	-

(₹ in lakhs)

Sl. No.	Particulars	As at 31st March, 2012 Amount Outstanding	As at 31st March, 2011 Amount Outstanding
	Assets side:		
2)	Break-up of Loans and Advances including bills receivables [other than those included in (4) below]:		
	a) Secured	-	-
	b) Unsecured	38,944	20,857
	Total (a) + (b)	38,944	20,857
3)	Break-up of Leased Assets and Stock on Hire and other assets counting towards AFC activities		
	(a) Financial assets	1,010,530	853,648
	(b) Assets on operating Lease	125,833	52,805
	(c) Repossessed Assets	3,964	4,740
	Total (a) + (b) + (c)	1,140,327	911,193
4)	Break up of Investments		
	Long term Investments		
	1) Unquoted		
	i) Shares: (a) Equity	-	250
	Total	-	250

ANNEXURE – I TO NOTES TO ACCOUNTS

5) Borrower group-wise classification of assets financed as in (2) and (3) above

(₹ in lakhs)

Sl. No.	Related Parties	Amount net of provisions					
		As at 31st March, 2012			As at 31st March, 2011		
		Secured	Unsecured	Total	Secured	Unsecured	Total
1.	Related parties						
	a) Subsidiaries	-	-	-	-	-	-
	b) Companies in the same group	-	-	-	-	-	-
	c) Other related parties	-	-	-	-	-	-
2.	Other than related parties	1,129,475	-	1,129,475	900,603	-	900,603

6) Investor group wise classification of all investments (current and long term) in shares and securities (both quoted and unquoted):

(₹ in lakhs)

Sl. No.	Related Parties	As at 31st March, 2012		As at 31st March, 2011	
		Market Value / Break up or Fair value or NAV	Book value (net of provision)	Market Value / Break up or Fair value or NAV	Book value (net of provision)
1.	Related parties				
	a) Subsidiaries	-	-	281[1]	250
	b) Companies in the same group	-	-	-	-
	c) Other related parties	-	-	-	-
2.	Other than related parties	-	-	-	-

1.Break up value

7) Other information:

(₹ in lakhs)

Sl. No.	Particulars	As at 31st March, 2012	As at 31st March, 2011
i.	Gross Non - Performing Assets		
	(a) Related Parties	-	-
	(b) Other than related Parties	36,113	28,002
ii.	Net Non - Performing Assets		
	(a) Related Parties	-	-
	(b) Other than related Parties	25,261	17,412
iii.	Assets acquired in satisfaction of debt	2,773	4,387

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