# annual report 2011-12

MICRO HOUSING FINANCE
CORPORATION LIMITED

Micro Housing Finance Corporation Limited

# annual report

# 2011-12

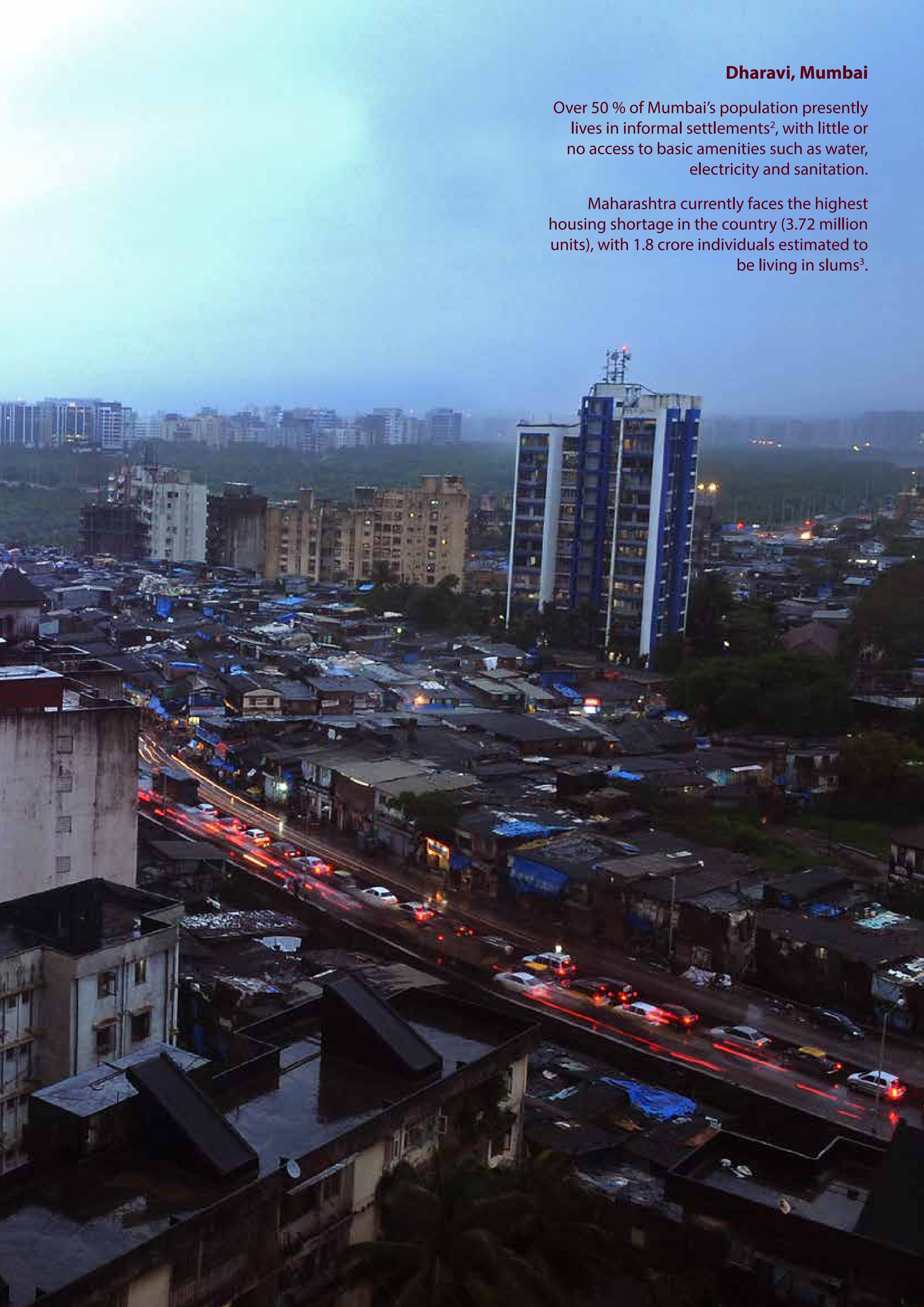
According to the Government of India[1], there is currently a housing shortfall of 25 million units in the country, and the number keeps growing. Over 90% of this demand comes from low income group families, primarily employed in the informal sector, and with no access to formal housing finance options.

This is MHFC's target market.

[1] Report of the Technical Group, MoHUPA [11th Five Year Plan: 2007-2012] - on the Estimation of Urban Housing Shortage

[2] Registrar General and Census Commissioner, 2001 Census of India

[3] RICS Research Report: Making affordable housing work in India, November 2010



**Dharavi, Mumbai**

Over 50 % of Mumbai's population presently lives in informal settlements[2], with little or no access to basic amenities such as water, electricity and sanitation.

Maharashtra currently faces the highest housing shortage in the country (3.72 million units), with 1.8 crore individuals estimated to be living in slums[3].

# “Staying socially relevant and financially sustainable

Over the past 3 years, MHFC has built a portfolio worth

₹ 59.5 crores

across

9 tier 1 and tier 2 cities

in which

1,416 financially excluded families

have purchased homes in

72 affordable housing projects

# CHAIRMAN'S LETTER

The year that went by in a blur, was punctuated with many milestones. Close to 7,000 proud first time home owners, over 1,400 well performing loans, the first year of profitability, raising of debt financing from three new sources, stability in the credit and operations processes, system enhancements and many more. But the single major accomplishment of the year was the demonstration of the credit worthiness of informal sector families from urban India, who build our cities, keep them functioning, but are excluded from its facilities.

That there was a huge demand was never in doubt. The challenges were always in stimulating the supply side of affordable homes, connecting customers to the limited supply, evaluating their credit worthiness without relying on documentation, while simultaneously putting in place a low cost operation for sourcing, processing and collecting on loans. Today, we can proudly benchmark ourselves to the best in the Industry in terms of growth rates, turnaround times and credit quality.

We owe a lot to our customers. They lead difficult lives, in deplorable conditions, and yet behave as responsible borrowers. This puts the onus on us as a company to respond with sensitivity and responsibility. In an uncertain interest rate environment, we could have easily raised our interest rates. We could have fast forwarded our growth by going retail and financing second sales. Yet we chose to remain narrowly focused on the low ticket sized new homes coming up in the peripheries of our cities. We have compromised on some potential growth and profitability opportunities so as to stay socially relevant. But this is a small price to pay to establish a long term sustainable eco system for affordable housing where developers, customers and financiers can operate with confidence.

On the supply side we now see a lot more traction with a pipeline of more than 20,000 homes in just the few cities that we operate in. We have built the foundations for a long term relationship with these developers, and they in turn see the value addition that we can bring in terms of opening up an entirely new segment of customers, with financial backing, for completing a sale. We have built a reputation with the developers as an efficient organisation with very fast turnaround time on loans and disbursals. The projects team within MHFC is on the radar screen of most developers who are planning low cost housing projects.

The credit and operations team has now set up processes and procedures which are scalable and are capable of competing with the best in class on turnaround times. Today the whole process from origination to sanction takes less than seven days for cases which have absolutely no income documentation. The fact that we have nil past dues, leave alone NPAs , is testimony to the fact that our customer selection and approval process is robust.

We continue to invest in technology and platforms that will help us in cost savings and efficiencies both in origination and servicing. All our customers use bank accounts and monthly repayment is through the Electronic Clearing System. Many of our customers who had inactive bank accounts are now truly financially included, in the sense that they now actively use these bank accounts to accumulate savings and fund their monthly payments to us. We are now in the process of adding business intelligence and communication pieces to our technology platform to improve our credit judgment and servicing capabilities respectively.

All said and done it has been a very satisfying year. Yet there is a lot that remains to be done. We have to expand our regional reach, further improve on our credit behavior forecasting, and improve on the blended capital costs. We have to enhance our product portfolio to include fixed interest rate options to our customers. As many of our customers have daily income streams, we still need to find a micro payment platform to accumulate daily earnings to fund monthly repayments.

I would like to end by thanking everyone who made this exciting journey for MHFC possible. The investors who remained steadfast in their belief in the company, the regulator, the National Housing Bank, who supported and encouraged us every step of the way, HDFC Ltd and ING Vysya Bank who backed their faith in our business model with credit lines, the developers who despite the uncertain times continue to deliver affordable quality, and the team within MHFC who stayed focused and sensitive to the cause of the un-served and the under-served. But in many ways it is the customers, who may not read this annual report, who made this journey worthwhile.

Madhusudhan Menon, Chairman

Mumbai
June 13, 2012

"I started this business 3 years ago, after working as an assistant for 7 years at another pump repair shop. I currently live with my family at my parental home 40 km away. After moving in to my new flat in Anandgram, I'll be within walking distance from work - I can even go home for lunch."

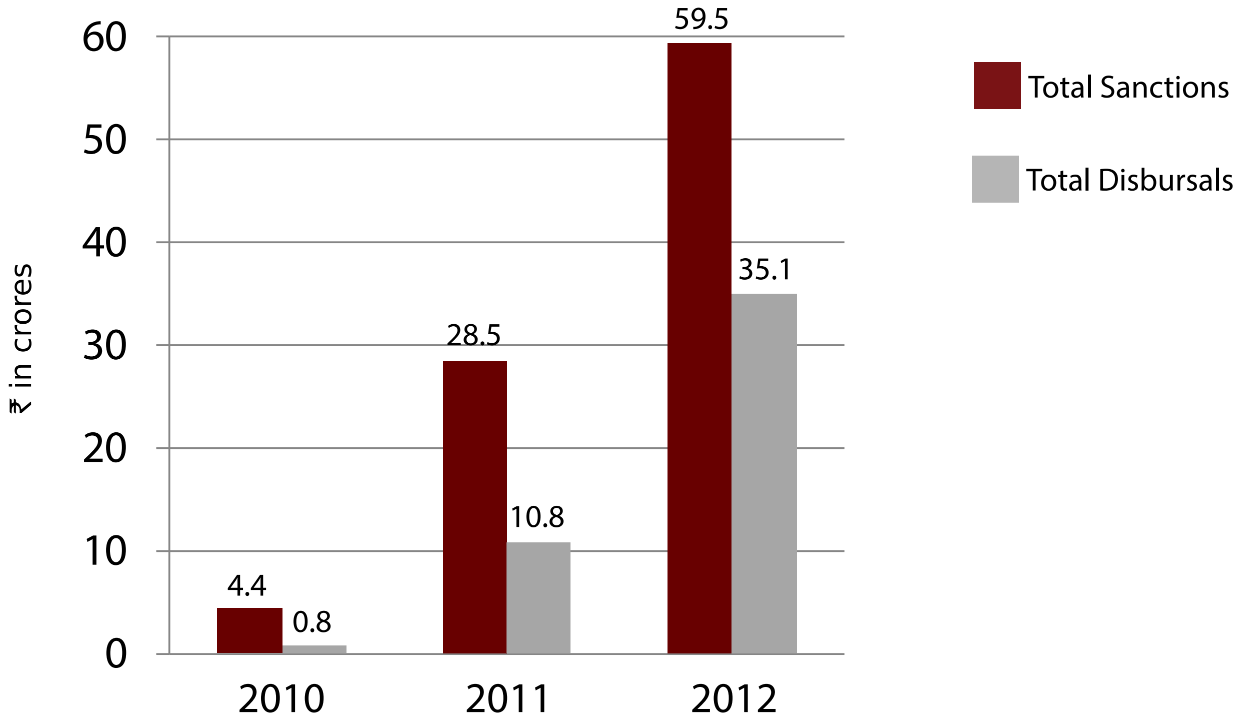
SHAHAJI BANKAR
Submersible Pumps and Motors Mechanic
Yavat, Pune

# OUR PORTFOLIO

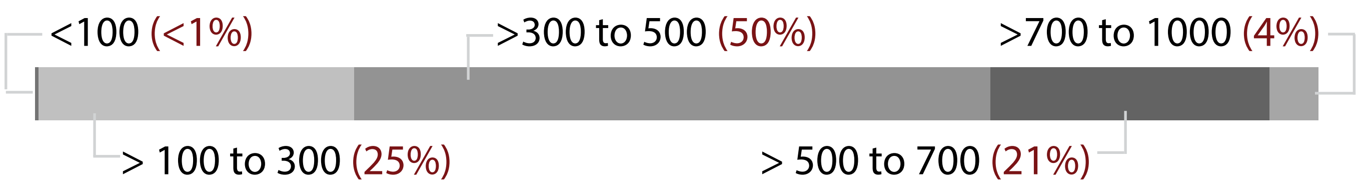
Total Loans Sanctioned:

**1,416**

Sanctions vs. Disbursals:




Break-up of Loans Sanctioned by Loan Amount:




Loan Amount in ₹ thousands

( ) - Percentage of Total Portfolio

# DIRECTORS' REPORT

The Members,

**Micro Housing Finance Corporation Limited**

The Board of Directors is pleased to present the Fourth Annual Report of your Company together with the Audited Accounts and Auditors' Report for the financial year ended 31st March, 2012.

## Performance

This has been a significant year for your Company as during the financial year under review, it made its first ever annual profit – ₹155.85 lakhs – and in the process, effectively wiped out all start up accumulated losses.

In terms of lending operations, cumulative housing loan sanctions aggregated ₹60 cr (growing over 100% from ₹28 cr at end of the previous financial year) to lower income, urban families who are generally excluded from the mainstream banking sector. The housing loans outstanding figure was ₹35 cr (250% growth over approx ₹10 cr at end of the previous financial year). The Company currently operates in 4 states – Maharashtra, Gujarat, Madhya Pradesh and West Bengal.

Importantly, there are no overdue loan accounts. However, the Company has provided 0.4% on all standard assets, which is in line with the NHB mandated provision.

In terms of funding, the Company did not raise any equity but for the first time, it raised long term debt, ₹16 cr, including refinance from the regulator, NHB and the premier housing finance provider, HDFC Ltd. The Company's entire loan portfolio is under the priority sector as defined by the RBI, and hence during this year, the Company expects to partner with more commercial banks for its financing requirements.

The Company's capital adequacy ratio stood at 86.5% of the risk weighted assets, as against the minimum requirement of 12%.

## Fixed Deposits

The Company has not accepted any deposit within the meaning of Section 58A of the Companies Act, 1956, since incorporation.

## Particulars under Section 217 of the Companies Act, 1956

1. **Particulars of Employees:**

   MHFC had 35 employees as of March 31, 2012. The Company does not have any employee whose particulars are required to be furnished under Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975.

2. **Conservation of Energy & Technical Absorption:**

   The Company is not a manufacturing company, hence, the particulars relating to conservation of energy and technology absorption stipulated in the Companies (Disclosures of Particulars in the Report of Board of Directors) Rules, 1988 are not applicable.

3. **Foreign Exchange:**

   During the year under review, there were no foreign exchange earnings or outgo.

## Dividend

Your Directors feel that it is prudent to plough back the profits for future growth of the Company and do not recommend any dividend for the year ended 31st March, 2012.

## Directors

In accordance with the provisions of the Articles of Association of the Company, Mr. Nachiket Shelgikar, is liable to retire by rotation at the ensuing Annual General Meeting and, being eligible, offers himself for re-appointment.

The Board recommends the re-appointment of Mr. Nachiket Shelgikar.

# DIRECTORS' REPORT

### Auditors' Report

The Auditors' Report is unqualified. The notes to the Financial Statements, read with the Auditors' Report, are self-explanatory and hence, do not call for further clarifications under Section 217(3) of the Companies Act, 1956.

### Directors' Responsibility Statement

In terms of Section 217(2AA) of the Companies Act, 1956, we, the Directors of Micro Housing Finance Corporation Limited, state in respect of Financial Year 2011-12 that:

i. in the preparation of the Annual Accounts for the financial year ended 31st March 2012, the applicable Accounting Standards have been followed along with proper explanation relating to material departures from the same, if any;

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 financial year and of the profit of the Company for that period;

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; and

iv. the Directors have prepared the annual accounts on a "going concern" basis.

### Regulations

In terms of regulatory requirements, the Company complies with the Housing Finance Companies (NHB) Directions, 2010 prescribed by the NHB. The Company has already issued comprehensive Know Your Customer ("KYC") Guidelines and Anti Money Laundering Standards, and adopted the Fair Practices Code framed by the NHB which seeks to promote good and fair practices in dealing with customers.


### Acknowledgement

Your Directors would like to express their grateful appreciation for the assistance and co-operation received from all its stakeholders - shareholders, borrowers, lenders and the authorities, especially the National Housing Bank. Your Directors look forward to their continued support in the future as well.

The Directors are also thankful to the employees of the Company for their hard work and commitment in building an institution for a hitherto excluded market segment.


For and on behalf of the Board of Directors of

**Micro Housing Finance Corporation Limited**

| | |
|---|---|
| **Rajnish Dhall** | **Nachiket Shelgikar** |
| Managing Director | Director |

Mumbai, June 13 2012

Tanaji Borane at Pramod Cold Drinks
Angriwadi, Mumbai

# CUSTOMER FEATURE

## TANAJI BORANE

Tea & Cold Drinks Shop
Angriwadi, Mumbai

> "Tanaji also realized that even if he used his savings to finance a portion of the cost of a flat, it would be difficult, if not impossible for him to get a loan to finance the rest of it – given that he had no formal documentation supporting his business income.

Tanaji Borane's tea and cold drinks shop, Pramod Cold Drinks, is tucked away in Angriwadi, one of Mumbai's historical wadis (low-rise, high-density residences) located in Girgaum.

Approximately 80 sq ft in size, Tanaji's shop is split into a kitchen that includes a stove, a large vat and various other cooking utensils, and a small serving area comprising two tables and a few accompanying chairs. The menu, displayed on the outside wall of the shop, offers customers a choice of 4 different kinds of teas, filter coffee, and cold drinks.

At 2:30 pm on a Thursday afternoon, the sleepy Angriwadi neighborhood is quiet compared to the manic rush of traffic outside. This is a good time to chat with Tanaji – post the morning stream of regulars and just before the afternoon shift kicks in. "By about 3:00 – 3:30 pm, I start preparing the tea," he says, "All the shops around this area come to me for their afternoon tea."

They have been coming to Pramod Cold Drinks for almost 20 years now.

Tanaji moved to Mumbai at the age of seventeen, from his hometown in Raigad district, in search of employment. After a finding a space to rent in Angriwadi in the early 1990s, he decided to start his own business and set up a tea-shop, Pramod Cold Drinks, in this space. Since the rent Tanaji had to pay for the shop was a hefty amount (currently ₹5,000 per month), he decided to forgo finding a place to live, and chose instead to stay in the shop itself.

Over the past 20 years, Tanaji has built up a sizeable client base, serving approximately 200 cups of chai every day, and earning an average income of ₹20,000 per month. He also got married shortly after moving to the city, to his wife Sangeeta Borane, with whom he now has four children – three sons and a daughter, all students. He returned frequently to Raigad to visit his family, but continued to grow his business in Mumbai. It was not until 2 years ago that Tanaji's family moved from Raigad to Mumbai to live with him.

Tanaji soon found that the make-shift living space he had created adjoining the tea shop was enough for himself, but difficult for a family of five to live in. He began to search for housing options in Mumbai – but everything seemed to be well out of his range of affordability. Tanaji also realized that even if he used his savings to finance a portion of the cost of a flat, it would be difficult, if not impossible for him to get a loan to finance the rest of it – given that he had no formal documentation supporting his business income.

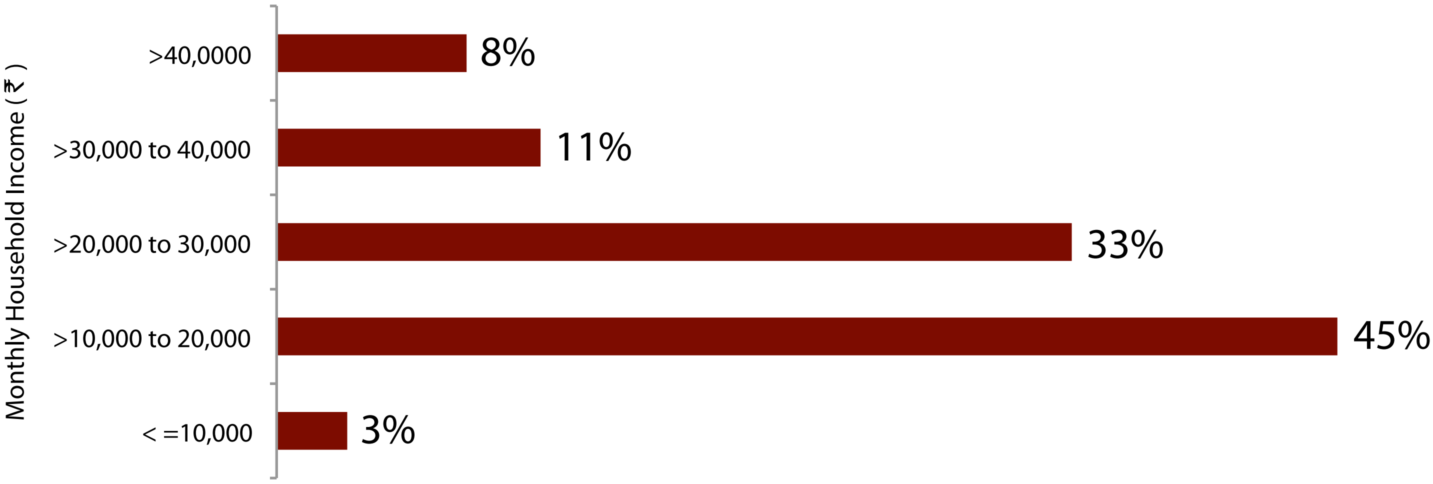
In 2011, Tanaji heard about a housing project in Virar that a friend who worked down the street on V.P. Road had recently purchased a flat in. When he approached the builder, he was told that he could apply to MHFC for a loan. Initially apprehensive about his eligibility for applying for a loan, Tanaji was pleasantly surprised by how effectively his loan officer, Gulabrao Patil, was able to put forward his application. Within a week, Tanaji was able to buy his own home, MHFC sanction letter in hand.

When asked if he is concerned about the lengthy commute he will soon have to face from Virar to Angriwadi for work, Tanaji laughs and says, "I'll have to wake up earlier." After reflecting for a moment, he adds, "But it doesn't matter. Eventually, my wife and I will return to Raigad. What's important now is that we have a home in Mumbai for our kids."

Amarnath Ray, Ladies Shoe Vendor
Fashion Street, Mumbai

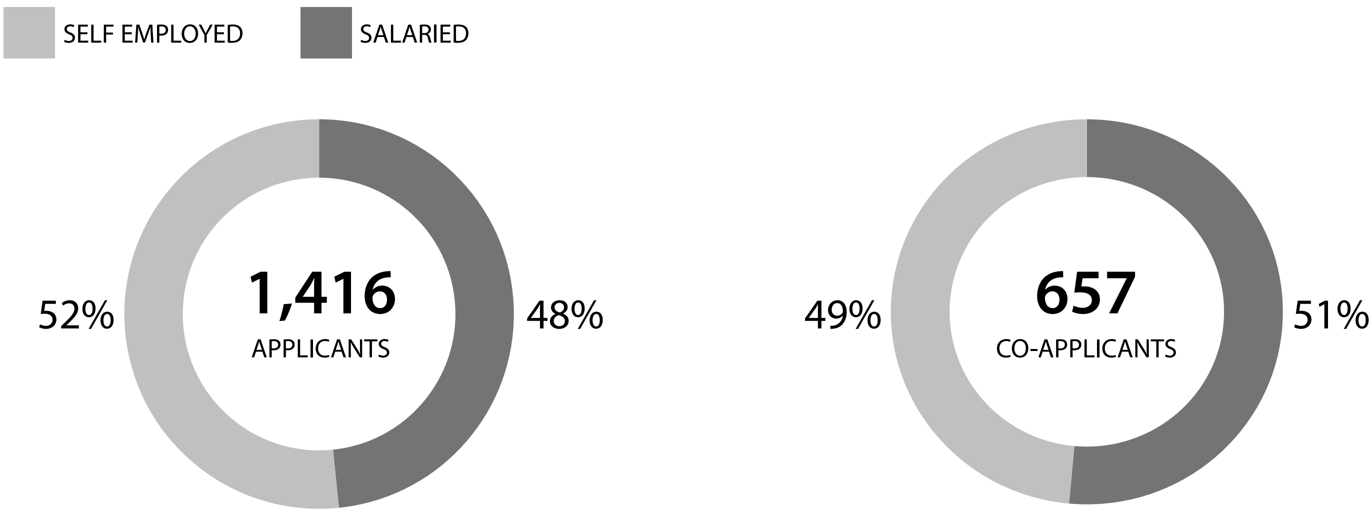
# CUSTOMER PROFILE

## Average Monthly Household Income




Total Customers / Households as a percentage of the total portfolio

## Occupation: Self Employed vs Salaried




**informal sector**

**self employed**

micro-entrepreneurs who have set up their own small businesses selling products as traders / vendors (e.g. vegetable vendors, street-food vendors, etc.), or providing specific services (e.g. auto-drivers, barbers, mechanics, etc.).

**salaried**

occupations such as drivers, housemaids, shop assistants - that earn regular salaried incomes, which are undocumented.

# AUDITORS' REPORT

To,

The Members of Micro Housing Finance Corporation Limited

1. We have audited the attached Balance Sheet of Micro Housing Finance Corporation Limited ('the Company'), as at 31 March 2012, and also the Statement of Profit and Loss and the Cash Flow Statement for the year ended on that date annexed thereto (collectively referred as the 'financial statements'). 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 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 ('the Order') (as amended) issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 ('the Act') , we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.

4. Further to our comments in the Annexure referred to above, we report that:

    a. 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;

    b. 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;

    c. The financial statements dealt with by this report are in agreement with the books of account;

    d. On the basis of written representations received from the directors, as on 31 March 2012 and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2012 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;

    e. In our opinion and to the best of our information and according to the explanations given to us, the financial statements dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act and give the information required by the Act, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, in the case of:

        (i) the Balance Sheet, of the state of affairs of the Company as at 31 March, 2012;

        (ii) the Statement of Profit and Loss, of the profit for the year ended on that date; and

        (iii) the Cash Flow Statement, of the cash flows for the year ended on that date.

For **Walker, Chandiok & Co**
Chartered Accountants
Firm Registration No. : 001076N

per **Khushroo B. Panthaky**
Partner
Membership No. : 42423

Mumbai, June 13 2012

# ANNEXURE

**Annexure to the Auditors' Report of even date to the members of Micro Housing Finance Corporation Limited on the financial statements for the year ended 31 March 2012**

Based on the audit procedures performed for the purpose of reporting a true and fair view on the financial statements of the Company and taking into consideration the information and explanations given to us and the books of account and other records examined by us in the normal course of audit, we report that:

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

(b) The fixed assets have been physically verified by the management during the year and no material discrepancies were noticed on such verification. In our opinion, the frequency of verification of the fixed assets is reasonable having regard to the size of the Company and the nature of its assets.

(c) In our opinion, a substantial part of fixed assets has not been disposed off during the year.

(ii) (a) The Company does not have any inventory. Accordingly, the provisions of clause 4(ii) of the Order are not applicable.

(iii) (a) 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 Act. Accordingly, the provisions of clauses 4(iii)(b) to 4(iii)(d) of the Order are not applicable.

(e) The Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly, the provisions of clauses 4(iii)(f) and 4(iii)(g) of the Order are not applicable.

(iv) Owing to the nature of its business, the Company does not maintain any physical inventories or sells any goods. Accordingly, clause 4(iv) of the Order with respect to purchase of inventories and sale of goods is not applicable. In our opinion, 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 services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas.

(v) (a) The Company has not entered into any contracts or arrangements referred to in Section 301 of the Act. Accordingly, the provisions of clause 4(v) of the Order are not applicable.

(vi) In our opinion, the Company has not accepted any deposits from the public within the meaning of sections 58A and 58AA of the Act and the Companies (Acceptance of Deposits) Rules, 1975. Accordingly, the provisions of clause 4(vi) of the Order are not applicable.

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

(viii) To the best of our knowledge and belief, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Act, in respect of Company's products/ services. Accordingly, the provisions of clause 4(viii) of the Order are not applicable.

(ix) (a) In our opinion, the Company is regular in depositing the undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income tax, sales tax, wealth tax, service tax, custom duty, excise duty, cess and other material statutory dues, as applicable, with the appropriate authorities. Further, in our opinion, no undisputed amounts payable in respect thereof were outstanding at the year-end for a period of more than six months from the date they become payable.

(b) In our opinion, there are no amounts in respect of sales tax, income tax, customs duty, wealth tax, service tax, excise duty and cess, as applicable, that have not been deposited with the appropriate authorities on account of any dispute.

# ANNEXURE

(x) The Company has been registered for a period of less than five years. Accordingly, the provisions of clause 4(x) of the Order are not applicable.

(xi) In our opinion, the Company has not defaulted in repayment of dues to a financial institution or a bank or debenture-holders during the year.

(xii) In our opinion, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Accordingly, the provisions of clause 4(xii) of the Order are not applicable.

(xiii) The Company is not a chit fund or a nidhi/ mutual benefit fund/ society. Accordingly, the provisions of clause 4(xiii) of the Order are not applicable.

(xiv) 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.

(xv) The Company has not given any guarantees for loans taken by others from banks or financial institutions. Accordingly, the provisions of clause 4(xv) of the Order are not applicable.

(xvi) The Company has applied the term loans for the purpose for which these loans were obtained.

(xvii) In our opinion, no funds raised on short-term basis have been used for long-term investment.

(xviii) During the year, the Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under Section 301 of the Act. Accordingly, the provisions of clause 4(xviii) of the Order are not applicable.

(xix) The Company has neither issued nor had any outstanding debentures during the year. Accordingly, the provisions of clause 4(xix) of the Order are not applicable.

(xx) The Company has not raised any money by public issues during the year. Accordingly, the provisions of clause 4(xx) of the Order are not applicable.

(xxi) In our opinion, no fraud on or by the Company has been noticed or reported during the period covered by our audit.

For **Walker, Chandiok & Co**
Chartered Accountants
Firm Registration No.: 001076N

per **Khushroo B. Panthaky**
Partner
Membership No. F-42423

Mumbai, June 13 2012

Nanda Dorge
Anganwadi teacher and Xerox shop owner
Pune



*This Page - Clockwise from Top Left:*

1. Madhuri Raikar, General Store Owner
2. Santosh Kharade, Chinese Food Stall Owner
3. Nathulal Gurjar, Auto Rikshaw Driver
4. Babi Borawake, Auto-Hardware Store Owner
5. Bhanwarlal Chaudhary, Indian Sweets Shop Owner
6. Jaffar Tamboli, Tobacco Stall Owner

*Facing Page - Clockwise from Top Left:*

1. Bajirang Jangid, Pump Servicing and Repairs Shop
2. Lokendrasingh Gaur, Colour Contractor
3. Sagar Aavte, Barber Shop
4. Vivek Pandit, Tailor

# financials
# 2011-12

# BALANCE SHEET

| | Notes | As at 31 March 2012<br>In ₹ | As at 31 March 2011<br>In ₹ |
|---|---|---|---|
| Equity and liabilities | | | |
| **Shareholders' funds** | | | |
| Share capital | 3 | 230,429,590 | 230,429,590 |
| Reserves and surplus | 4 | 138,200,746 | 122,614,996 |
| | | **368,630,336** | **353,044,586** |
| **Non-current liabilities** | | | |
| Long-term borrowings | 5 | 132,354,904 | 0 |
| Long-term provisions | 6 | 2,155,197 | 1,234,149 |
| | | **134,510,101** | **1,234,149** |
| **Current liabilities** | | | |
| Short-term borrowings | 5 | 25,111,277 | 0 |
| Account payables | 7 | 633,074 | 773,227 |
| Other current liabilities | 8 | 428,334 | 7,856,266 |
| | | **26,172,685** | **8,629,493** |
| **TOTAL** | | **529,313,122** | **362,908,228** |
| Assets | | | |
| **Non-current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 9 | 557,600 | 761,813 |
| Deferred tax assets (net) | 10 | 64,714 | 2,232 |
| Long-term loans and advances | 11 | 356,245,380 | 136,657,105 |
| | | **356,867,694** | **137,421,150** |
| **Current assets** | | | |
| Cash and bank balances | 12 | 127,071,259 | 215,948,155 |
| Short-term loans and advances | 11 | 33,536,591 | 5,700,605 |
| Other current assets | 13 | 11,837,578 | 3,838,318 |
| | | **172,445,428** | **225,487,078** |
| **TOTAL** | | **529,313,122** | **362,908,228** |

**Summary of significant accounting policies** **2.1**

The accompanying notes are an integral part of the financial statements.

This is the Balance Sheet referred to in our report of even date.

**For Walker, Chandiok & Co**
Chartered Accountants

per **Khushroo B. Panthaky**
Partner

Mumbai, June 13 2012

**For Micro Housing Finance Corporation Limited**

**Rajnish Dhall**
Managing Director

**Nachiket Shelgikar**
Director

**Avani Shah**
Company Secretary

Mumbai, June 13 2012

# STATEMENT OF PROFIT & LOSS

| | Notes | Year ended 31 March 2012 | Year ended 31 March 2011 |
|---|---|---|---|
| | | In ₹ | In ₹ |
| **Revenue** | | | |
| Revenue from operations (gross) | 15 | 33,671,930 | 7,715,854 |
| Other income | 16 | 12,920,480 | 5,673,963 |
| **Total revenue** | | **46,592,410** | **13,389,818** |
| **Expenses** | | | |
| Employee benefit expenses | 17 | 15,310,706 | 9,516,598 |
| Finance costs | 18 | 3,305,693 | 37,815 |
| Contingent Provisions against Standard Assets | | 356,101 | 1,052,314 |
| Depreciation expense | | 270,100 | 217,815 |
| Other expenses | 19 | 10,300,518 | 8,771,435 |
| **Total expenses** | | **29,543,118** | **19,595,977** |
| **Profit / (loss) before tax** | | **17,049,292** | **(6,206,159)** |
| **Tax expense:** | | | |
| Current tax (MAT) | | 3,426,504 | - |
| Less: MAT credit Entitlement | | 1,900,480 | - |
| Net Current tax | | 1,526,024 | - |
| Deferred tax charge / (benefit) | | (62,482) | (2,232) |
| | | **1,463,542** | **(2,232)** |
| **Profit / (loss) for the year from continuing operations** | | 15,585,750 | (6,203,927) |
| **Profit / (loss) for the year** | | **15,585,750** | **(6,203,927)** |
| **Earnings per equity share** | 21 | | |
| **From continuing operations** | | | |
| Basic | | 0.68 | (0.27) |
| Diluted | | 0.68 | (0.27) |

The accompanying notes are an integral part of the financial statements.

This is the Statement of Profit and Loss referred to in our report of even date.

**For Walker, Chandiok & Co**
Chartered Accountants

per **Khushroo B. Panthaky**
Partner

Mumbai, June 13 2012

For **Micro Housing Finance Corporation Limited**

**Rajnish Dhall**
Managing Director

**Nachiket Shelgikar**
Director

**Avani Shah**
Company Secretary

Mumbai, June 13 2012

# CASH FLOW STATEMENT

| | | FYE March 31, 2012 | FYE March 31, 2011 |
|---|---|---|---|
| | | In ₹ | In ₹ |
| (A) | **Cash flow from operating activities:** | | |
| | **Profit before tax** | **15,585,750** | **(6,203,927)** |
| | Non-cash adjustments to reconcile profit before tax to net cash flows | | |
| | Depreciation and amortization | 270,100 | 217,815 |
| | Provision for Standard Assets | 356,101 | 1,052,314 |
| | Provision for Gratuity | 205,504 | 181,835 |
| | Deferred tax charge / (benefit) | (62,482) | (2,232) |
| | Interest Accrued (Home loans) | (3,900,070) | (1,444,775) |
| | Interest Accrued (Fixed Deposits) | (2,615,291) | 2,207,715 |
| | **Operating profit before working capital changes** | **9,839,612** | **(3,991,256)** |
| | **Change in working capital :** | | |
| | Change in Loans & Advances | (552,050) | (37,275,999) |
| | Change in Current Assets | (1,483,900) | - |
| | Change in Liabilities | 317,484 | (1,918,934) |
| | **Cash generated from /(used in) operations** | **8,121,146** | **(43,186,189)** |
| | **Net cash from / (used in) operating activities** | **8,121,146** | **(43,186,189)** |
| (B) | **Cash flow from investing activities:** | | |
| | Purchase of fixed assets (including intangible assets) | (65,887) | (716,117) |
| | **Net cash flow from / (used in) investing activities** | **(65,887)** | **(716,117)** |
| (C) | **Cash flow from financing activities:** | | |
| | Housing Loans disbursed | (246,872,211) | (97,117,202) |
| | Share Capital - Equity | - | 113,762,960 |
| | Share Premium | - | 114,000,000 |
| | Borrowings | 149,940,056 | 7,526,125 |
| | **Net cash flow from / (used in) financing activities** | **(96,932,155)** | **138,171,883** |
| | Net increase/(decrease) in cash and cash equivalents (A+B+C) | **(88,876,896)** | **94,269,577** |
| | **Cash and cash equivalents at beginning of the year** | 215,948,155 | 121,678,578 |
| | **Cash and cash equivalents at end of the year** | **127,071,259** | **215,948,155** |
| | **Components of cash and cash equivalents** | | |
| | Cash on hand | 19,118 | 20,701 |
| | Cheques/ drafts on hand | - | - |
| | With banks on current account | 2,052,141 | 927,454 |
| | With banks on deposit account | 125,000,000 | 215,000,000 |
| | | **127,071,259** | **215,948,155** |

The accompanying notes are an integral part of the financial statements.

This is the Cash Flow Statement referred to in our report of even date.

For **Walker, Chandiok & Co**
Chartered Accountants

per **Khushroo B. Panthaky**
Partner

Mumbai, June 13 2012

For **Micro Housing Finance Corporation Limited**

**Rajnish Dhall**
Managing Director

**Nachiket Shelgikar**
Director

**Avani Shah**
Company Secretary

Mumbai, June 13 2012

# NOTES TO FINANCIAL STATEMENTS

Notes to the financial statements for the year ended 31 March 2012

## 1. Background

Micro Housing Finance Corporation Limited ("MHFC") was incorporated on May 16, 2008 with the objective to provide housing finance for urban financially excluded families, particularly lower income informal sector households.

## 2. Basis of preparation

The financial statements which have been prepared under historical cost convention on the accrual basis of accounting, are in accordance with the applicable requirements of the Companies Act, 1956 (the 'Act') and comply in all material aspects with the Accounting Standards prescribed by the Central Government, in accordance with the Companies (Accounting Standards) Rules, 2006, to the extent applicable. The accounting policies have been consistently applied by the Company. The Company also follows the directions prescribed by the National Housing Bank (NHB) for housing finance companies.

## 2.1 Summary of significant accounting policies

### a. Use of estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Key estimates include estimates of useful life of assets, provision for expenses, retirement benefits, provision on standard assets and income taxes. Actual results could differ from those estimates. Any revision to accounting estimates will be recognised prospectively in the current and future periods.

### b. Fixed assets and depreciation

Fixed assets are stated at cost of acquisition less accumulated depreciation. Cost includes inward freight, duties, taxes and incidental expenses related to acquisition and installation of the assets upto the point the asset is ready for its intended use.

Depreciation is provided under the Written Down Value method on pro- rata basis, at the rates and in the manner prescribed under Schedule XIV of the Companies Act, 1956, which also represent the useful lives of the fixed assets.

Individual assets costing up to ₹5,000 are fully depreciated in the year of purchase.

### c. Impairment of assets

The carrying amounts of assets are reviewed at each Balance Sheet date so as to determine indication of impairment if any, based on internal/external factors. An impairment loss is recognized wherever the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount is greater of the asset's net selling price and value in use. In assessing the value in use, the estimated future cash flows are discounted to the present value using the weighted average cost of capital. After impairment, depreciation is provided on revised carrying amount of the assets over its remaining useful life. Previously recognized impairment loss is further increased or reversed depending on changes. However the carrying value after reversal is not increased beyond the carrying value that would have prevailed by charging depreciation if there was no impairment.

### d. Revenue recognition

Repayment of housing loans is generally by way of Equated Monthly Installments (EMIs) comprising principal and interest. EMIs commence once the entire loan is disbursed. Pending commencement of EMIs, pre-EMI interest is payable every month. Interest on loans is computed on a monthly rest basis.

Income from interest is accounted on time proportion basis, taking into account the amount outstanding and the applicable rate of interest.

Fee income is recognised on the basis of actual receipt.

**e. Borrowing cost**

Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalised as a part of cost of such assets. A qualifying asset is one that necessarily takes substantial period of time to get ready for intended use. All other borrowing costs are charged to revenue.

**f. Taxation**

**Current Taxation**

Provision for current tax is recognized based on the estimated tax liability computed after taking credit for allowances and exemptions in accordance with the Income Tax Act, 1961.

**Deferred Taxation**

Deferred tax assets and liabilities are recognised for the future tax consequences attributable to timing differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates or tax rates that are substantively enacted at the balance sheet dates. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the period that includes the enactment date. Where there is unabsorbed depreciation or carry forward losses, deferred tax assets are recognised only if there is virtual certainty of realisation of such assets supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised in future. Other deferred tax assets are recognised only to the extent there is reasonable certainty of realisation in the future. Such assets are reviewed at each balance sheet date to reassess realisation.

**g. Housing Loans**

Housing loans represents outstanding amount of housing loans disbursed directly to borrowers.

**h. Employee Benefits**

**<u>Defined contribution plan</u>**
**Provident fund:**
Contributions to Provident Fund, a defined contribution scheme, are made to the Regional Provident Fund Authority at prescribed rates and are expensed when due.

**<u>Defined benefit plan</u>**
**Gratuity:**
Gratuity is a post employment benefit and is in the nature of a defined benefit plan. The liability recognized in the balance sheet in respect of gratuity is the present value of the defined benefit/ obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit/ obligation are calculated at or near the balance sheet date by an independent actuary using the projected unit credit method.

Actuarial gains and losses arising from past experience and changes in actuarial assumptions are charged or credited to the Profit and Loss Account in the year to which such gains or losses relate.

**i. Provisions and Contingent Liabilities**

Provision is recognized when the Company has a present obligation as a result of past events and it is probable that an 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 its present value and are determined based on management estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current management estimates.

Contingent Liabilities are disclosed in respect of possible obligations that arise from past events, whose existence would be confirmed by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the Company.

# NOTES TO FINANCIAL STATEMENTS

## 3. Share Capital

| | As at 31 March 2012 | | As at 31 March 2011 | |
|---|---|---|---|---|
| | Number | Amount In ₹ | Number | Amount In ₹ |
| **Authorised Share Capital** | | | | |
| 25,000,000 Equity Shares of ₹10 each | 25,000,000 | 250,000,000 | 25,000,000 | 250,000,000 |
| | **25,000,000** | **250,000,000** | **25,000,000** | **250,000,000** |
| **Issued, subscribed and fully paid up** | | | | |
| 23,042,959 Equity Shares of ₹10 each | 23,042,959 | 230,429,590 | 23,042,959 | 230,429,590 |
| | **23,042,959** | **230,429,590** | **23,042,959** | **230,429,590** |

| | | As at 31 March 2012 | | As at 31 March 2011 | |
|---|---|---|---|---|---|
| | | Number | Amount | Number | Amount |
| a) | **Reconciliation of Share Capital (Equity)** | | In ₹ | | In ₹ |
| | **Balance at the beginning of the year** | **23,042,959** | **230,429,590** | **11,666,663** | **116,666,630** |
| | Add : Issued during the year | - | - | 11,376,296 | 113,762,960 |
| | **Balance at the end of the year** | **23,042,959** | **230,429,590** | **23,042,959** | **230,429,590** |

| | | | | | |
|---|---|---|---|---|---|
| b) | **Shareholders holding more than 5% of the shares** | **Number** | **Amount In ₹** | **Number** | **Amount In ₹** |
| | Equity Shares of ₹10 each | | | | |
| | India Financial Inclusion Fund | 9,733,333 | 97,333,330 | 9,733,333 | 97,333,330 |
| | MHFC Employees Trust | 3,636,296 | 36,362,960 | 3,636,296 | 36,362,960 |
| | MHFC Employees and Business Associates Welfare Trust | 1,400,000 | 14,000,000 | 1,400,000 | 14,000,000 |
| | Nachiket Shelgikar | 4,216,678 | 42,166,780 | 4,223,344 | 42,233,440 |
| | Michael and Susan Dell Foundation | 1,866,666 | 18,666,660 | 1,866,666 | 18,666,660 |
| | | **20,852,973** | **208,529,730** | **20,859,639** | **208,596,390** |

# NOTES TO FINANCIAL STATEMENTS

## 4. Reserves and Surplus

| | As at 31 March 2012<br>In ₹ | As at 31 March 2011<br>In ₹ |
|---|---|---|
| **Securities Premium Reserve** | | |
| Balance at the beginning of the year | 137,333,315 | 23,333,315 |
| Add : Additions made during the year | - | 114,000,000 |
| **Balance at the end of the year** | **137,333,315** | **137,333,315** |
| **Special Reserve (u/s 29C of the NHB Act)** | | |
| Balance at the beginning of the year | - | - |
| Add : Transferred during the year | 3,117,150 | - |
| **Balance at the end of the year** | **3,117,150** | **-** |
| **Surplus / (deficit) in the statement of profit and loss** | | |
| Balance at the beginning of the year | (14,718,319) | (8,514,392) |
| Add : Net Profit for the current year | 15,585,750 | (6,203,927) |
| **Appropriations** | | |
| Transfer to Special Reserve Fund | 3,117,150 | - |
| **Balance at the end of the year** | **(2,249,719)** | **(14,718,319)** |
| | **138,200,746** | **122,614,996** |

## 5. Borrowings

| | As at 31 March 2012<br>In ₹ | | As at 31 March 2011<br>In ₹ | |
|---|---|---|---|---|
| | **Long term** | **Short term** | **Long term** | **Short term** |
| **Secured** | | | | |
| Term Loans | | | | |
| Refinance from National Housing Bank | 59,398,516 | 10,601,484 | - | - |
| Loan from Banks | 33,684,630 | 6,315,370 | - | - |
| Loan from Financial Institution (HDFC Limited) | 39,271,758 | 8,194,423 | - | - |
| **Total Borrowings** | **132,354,904** | **25,111,277** | **-** | **-** |

a) **Details of security for each type of borrowings**

Term loans are secured by Hypothecation of Book Debts (Housing Loans) of the Company.

# NOTES TO FINANCIAL STATEMENTS

## 6. Provisions

| | As at 31 March 2012 In ₹ | | As at 31 March 2011 In ₹ | |
|---|---|---|---|---|
| | Long term | Short term | Long term | Short term |
| Provision for Gratuity (refer note (a) below) | 387,339 | - | 181,835 | - |
| Contingent Provisions against Standard Assets | 1,408,415 | - | 1,052,314 | - |
| Provision for taxation (net of advance tax) | 359,443 | - | - | - |
| | **2,155,197** | **-** | **1,234,149** | **-** |

a) **Employee Benefits**

In accordance with Accounting Standard 15 on Employee Benefits' (Revised) prescribed under the Rules, the information on the Staff benefit costs is given below.

The following table sets out the amounts recognized in the Company's financial statements as at March 31, 2012 for the Defined Benefits Plans:

| | | |
|---|---|---|
| **Change in projected benefit obligation** | | |
| Projected benefit obligation at the beginning of the year | 181,835 | - |
| Service cost | 149,839 | 165,304 |
| Interest cost | 15,001 | 16,531 |
| Actuarial (gain) / loss | 40,664 | - |
| Benefits paid | - | - |
| Projected benefit obligation at the end of the year / period | **387,339** | **181,835** |
| **Reconciliation of present value of obligation on the fair value of plan assets** | | |
| Present value of projected benefit obligation at the end of the year / period | 387,339 | 181,835 |
| Funded status of the plans | - | - |
| Liability / (asset) recognised in the balance sheet | **387,339** | **181,835** |
| **Components of net gratuity costs are** | | |
| Service cost | 149,839 | 165,304 |
| Interest cost | 15,001 | 16,531 |
| Expected returns on plan assets | - | - |
| Recognised net actuarial (gain)/ loss | 40,664 | - |
| **Net gratuity costs** | **205,504** | **181,835** |

| | |
|---|---|
| **Assumptions used** | |
| Interest rate | 8.5% p.a. |
| Salary Growth | 5% p.a. |
| Withdrawal rate | 1% |
| Mortality rate | LIC (1994-96) ultimately mortality rates |
| Retirement age | 60 years |

The Company assesses these assumptions with the projected long-term plans of growth and prevalent industry standards.

# NOTES TO FINANCIAL STATEMENTS

## 7. Account Payables

| | As at 31 March 2012 | As at 31 March 2011 |
|---|---|---|
| | In ₹ | In ₹ |
| **Dues to others** | | |
| Trade Payables | 204,188 | 226,862 |
| **Other accrued liabilities** | | |
| Provision for expenses | 418,782 | 530,865 |
| Provision for employee benefits | 10,104 | 15,500 |
| **Total** | **633,074** | **773,227** |

## 8. Other Current Liabilities

| | As at 31 March 2012 | As at 31 March 2011 |
|---|---|---|
| | In ₹ | In ₹ |
| Bank Overdraft | - | 7,526,125 |
| TDS Payable | 240,755 | 231,418 |
| Profession Tax | 6,400 | 5,200 |
| Provident Fund Payable | 97,176 | 89,616 |
| Interest accrued but not due on borrowings | 73,973 | - |
| **Total** | **418,304** | **7,852,359** |
| **Other Payables** | | |
| Advance from Customers | 10,030 | 3,907 |
| **Total** | **428,334** | **7,856,266** |

## 9. Tangible Assets

| **Gross Block** | Plant and equipment | Furniture and fixtures | Office equipment | Total |
|---|---|---|---|---|
| | In ₹ | In ₹ | In ₹ | In ₹ |
| **Balance as at 01 April 2010** | **281,085** | **37,126** | **6,993** | **325,204** |
| Additions | 502,175 | 196,052 | 17,890 | 716,117 |
| Disposals | - | - | - | - |
| **Balance as at 31 March 2011** | **783,260** | **233,178** | **24,883** | **1,041,321** |
| Additions | 46,610 | 19,277 | - | 65,887 |
| Disposals | - | - | - | - |
| **Balance as at 31 March 2012** | **829,870** | **252,455** | **24,883** | **1,107,208** |
| **Accumulated depreciation** | | | | |
| **Balance as at 01 April 2010** | **57,558** | **3,935** | **200** | **61,693** |
| Depreciation charge | 183,992 | 31,541 | 2,282 | 217,815 |
| **Balance as at 31 March 2011** | **241,550** | **35,476** | **2,482** | **279,508** |
| Depreciation charge | 230,036 | 37,204 | 2,860 | 270,100 |
| **Balance as at 31 March 2012** | **471,586** | **72,680** | **5,342** | **549,608** |
| **Net Block** | | | | |
| Balance as at 31 March 2011 | **541,710** | **197,702** | **22,401** | **761,813** |
| Balance as at 31 March 2012 | **358,284** | **179,775** | **19,541** | **557,600** |

# NOTES TO FINANCIAL STATEMENTS

## 10. Deferred Taxes

| | As at 31 March 2012<br>In ₹ | As at 31 March 2011<br>In ₹ |
|---|---|---|
| **Deferred tax liabilities** | | |
| Timing difference on tangible assets depreciation and impairment | 54,974 | 53,955 |
| **Total** | **54,974** | **53,955** |
| **Deferred tax assets** | | |
| Provision for employee benefits | 119,688 | 56,187 |
| **Total** | **119,688** | **56,187** |
| **Net deferred tax assets** | **64,714** | **2,232** |

## 11. Loans and Advances

| | As at 31 March 2012<br>In ₹ | | As at 31 March 2011<br>In ₹ | |
|---|---|---|---|---|
| | **Long term** | **Short term** | **Long term** | **Short term** |
| **Housing Loans** | | | | |
| **Individuals** | | | | |
| Standard Loans | 304,814,620 | 22,295,528 | 100,236,345 | 4,995,072 |
| **Corporate Bodies** | | | | |
| Standard Loans | 15,000,000 | 9,993,480 | - | - |
| | **319,814,620** | **32,289,008** | **100,236,345** | **4,995,072** |
| **Security deposits** | | | | |
| - Secured, considered good | 67,800 | - | 57,800 | - |
| | **67,800** | **-** | **57,800** | **-** |
| **Loan to MHFC Employees Trust** | | | | |
| - Unsecured, considered good | 36,362,960 | - | 36,362,960 | - |
| | **36,362,960** | **-** | **36,362,960** | **-** |
| Other Advances | - | 665,000 | - | 18,000 |
| Staff Loans and Advances | - | 290,125 | - | - |
| Service Tax Set Off | - | 292,458 | - | 687,533 |
| | **356,245,380** | **33,536,591** | **136,657,105** | **5,700,605** |

# NOTES TO FINANCIAL STATEMENTS

## 12. Cash and Bank Balances

| | As at 31 March 2012 In ₹ | | As at 31 March 2011 In ₹ | |
|---|---|---|---|---|
| | **Current** | **Non-Current** | **Current** | **Non-Current** |
| **Cash and cash equivalents** | | | | |
| Cash on hand | 19,118 | - | 20,701 | - |
| Balances with banks | | | | |
| - in current accounts | 2,052,141 | - | 927,454 | - |
| - in deposit account (with maturity upto 3 months) | 85,000,000 | - | 20,000,000 | - |
| | **87,071,259** | **-** | **20,948,155** | **-** |
| **Other bank balances** | | | | |
| Deposits with maturity more than 3 months but less than 12 months | 30,000,000 | - | 140,000,000 | - |
| Balances with bank held as : | | | | |
| Security against the borrowings / guarantees (Refer Note 24) | 10,000,000 | - | - | - |
| Bank deposits with maturity of more than 12 months | - | - | 55,000,000 | - |
| | **40,000,000** | **-** | **195,000,000** | **-** |
| **Total** | **127,071,259** | **-** | **215,948,155** | **-** |

## 13. Other Current Assets

| | As at 31 March 2012 In ₹ | As at 31 March 2011 In ₹ |
|---|---|---|
| Installments Receivable | 5,434,046 | 1,533,976 |
| Interest Accrued on Fixed Deposits | 3,731,876 | 1,116,585 |
| Prepaid Expenses | 20,176 | 169,673 |
| Prepaid Term Loan Installment | 751,000 | - |
| MAT Credit Entitlement Receivable | 1,900,480 | - |
| TDS Receivable | - | 1,018,084 |
| | **11,837,578** | **3,838,318** |

## 14. Contingent Liabilities and Commitments

| | As at 31 March 2012 In ₹ | As at 31 March 2011 In ₹ |
|---|---|---|
| Bank Guarantees (Refer Note 24) | 10,000,000 | - |

## 15. Revenue

| | FYE 31 March 2012 In ₹ | FYE 31 March 2011 In ₹ |
|---|---|---|
| **Revenue from Operations** | | |
| Fee Income | 4,484,014 | 2,404,182 |
| Interest on Housing Loans | 29,187,916 | 5,311,672 |
| **Revenue from Operations (Net)** | **33,671,930** | **7,715,854** |

# NOTES TO FINANCIAL STATEMENTS

## 16. Other Income

| | FYE 31 March 2012 | FYE March 2011 |
|---|---|---|
| | In ₹ | In ₹ |
| Interest Income on: | | |
| Fixed Deposits | 12,791,530 | 5,624,292 |
| Income Tax Refund | 57,855 | 31,671 |
| Delayed Payment Charges | 63,870 | 14,650 |
| Miscellaneous Income | 7,225 | 3,350 |
| | **12,920,480** | **5,673,963** |

## 17. Employee Benefit Expense

| | FYE 31 March 2012 | FYE 31 March 2011 |
|---|---|---|
| | In ₹ | In ₹ |
| Salaries, Wages and Bonus | 14,546,274 | 9,179,438 |
| Contribution to Gratuity | 205,504 | 181,835 |
| Staff Welfare Expenses | 558,928 | 155,325 |
| | **15,310,706** | **9,516,598** |

## 18. Finance Costs

| | FYE 31 March 2012 | FYE 31 March 2011 |
|---|---|---|
| | In ₹ | In ₹ |
| Interest on Loans and Bank Overdraft | 2,997,268 | 26,987 |
| Bank Charges | 26,695 | 10,828 |
| Bank Guarantee Commission | 44,230 | - |
| Loan Processing Fees | 237,500 | - |
| | **3,305,693** | **37,815** |

## 19. Other Expenses

| | FYE 31 March 2012 | FYE 31 March 2011 |
|---|---|---|
| | In ₹ | In ₹ |
| Power | 243,406 | 209,325 |
| Rent | 780,000 | 715,000 |
| Repairs and Maintenance - Others | 209,003 | 430,138 |
| Insurance | 15,620 | 58,994 |
| Rates and Taxes | 615,307 | 47,870 |
| Payments to Auditors for statutory audit | 300,000 | 300,000 |
| Advertisement & Marketing Expenses | 48,098 | 270,221 |
| Communication | 373,018 | 239,069 |
| Franking Charges | 605,005 | 253,655 |
| Professional, Legal & Consultancy Fees | 4,124,699 | 4,330,413 |
| Printing & Stationery | 520,508 | 365,492 |
| ROC Filing Fee and Stamp Duty | 222,333 | 130,140 |
| Travelling,Conveyance and Boarding Expenses | 2,080,820 | 1,282,696 |
| Books & Periodicals | 13,831 | 4,671 |
| Office Expenses | 73,777 | 73,176 |
| Audit Expenses | 6,580 | 8,516 |
| Computer Expenses | 23,513 | 31,059 |
| Donation | 45,000 | 21,000 |
| | **10,300,518** | **8,771,435** |

# NOTES TO FINANCIAL STATEMENTS

## 20. Related Party Disclosure

Particulars of related party transactions (as certified and confirmed by the management):

| Particulars | FYE 31 March 2012 | FYE 31 March 2011 |
|---|---|---|
| | In ₹ | In ₹ |
| Key Managerial Personnel | | |
| 1. Mr Madhusudhan Menon, Director | | |
| 2. Mr Rajnish Dhall, Managing Director | | |
| 3. Mr Nachiket Shelgikar, Director | | |
| I. Remuneration to Directors | | |
| Mr Madhusudhan Menon, Director | 900,000 | - |
| Mr Rajnish Dhall, Managing Director | 900,000 | - |
| Mr Nachiket Shelgikar, Director | 856,800 | - |
| II. Other transactions | | |
| a. Allotment of shares to directors | - | 254,000 |
| b. Loan to MHFC Employees Trust in which directors of the Company are trustees | - | 36,362,960 |
| III. Disclosure of outstanding balances with related parties: | | |
| Loan to MHFC Employees Trust in which directors of the Company are trustees | 36,362,960 | 36,362,960 |

## 21. Earning Per Share

| Particulars | FYE 31 March 2012 | FYE 31 March 2011 |
|---|---|---|
| | In ₹ | In ₹ |
| Net Profit / (Loss) for equity share holders (₹) | 15,585,750 | (6,203,927) |
| Weighted average number of equity shares outstanding during the year (Basic and Diluted) | 23,042,959 | 23,042,959 |
| Basic and Diluted Profit / (Loss) per share (Equity share of ₹10 each) | 0.68 | (0.27) |

## 22.

Pursuant to the Board Resolutions passed in the meetings dated 15 June, 2010 & 17 January, 2011, the Company provided an interest free loan of ₹36,362,960 to MHFC Employees Trust, who has subscribed an equivalent amount to the share capital of the Company (subscription at par value). Such subscribed shares will eventually be allotted to present and future employees of the Company at par value and the trust will use the subscription proceeds towards repayment of the loan to the Company.

## 23.

The Company has provided ₹1,408,415 (cumulative) towards provision for contingency at the rate of 0.4% of total housing loans outstanding as at March 31, 2012.

## 24.

The company has issued a Counter-Guarantee for a Bank Guarantee issued by Federal Bank Ltd, amounting to ₹1 crore favouring the National Housing Bank for Refinance Facility. The Bank Guarantee is fully secured by a pledge of ₹1 crore Fixed Deposit with Federal Bank Ltd.

## 25. Loan to Value Ratio

| Particulars | FYE 31 March 2012 | FYE 31 March 2011 |
|---|---|---|
| Average LTV at sanction | 68% | 73% |
| Average LTV at current market prices as estimated by management | 62% | 61% |

# NOTES TO FINANCIAL STATEMENTS

## 26. Additional Information

| Particulars | FYE 31 March 2012 |
|---|---|
| | In ₹ |
| a. Capital to Risk Assets Ratio (CRAR) | 86.50 % |
| b. Exposure to real estate sector, both direct and indirect (₹) | 352,103,628 |
| c. Maturity pattern of assets and liabilities | |

| | Liabilities (in ₹) | | Assets (in ₹) | |
|---|---|---|---|---|
| | Borrowings from banks / Financial Institution | Market Borrowings | Advances | Investments |
| 1 day to 30-31 days (one month) | 1,148,064 | - | 1,820,097 | 40,000,000 |
| Over one month to 2 months | 1,158,827 | - | 1,727,848 | 25,000,000 |
| Over 2 months upto 3 months | 3,820,062 | - | 1,846,007 | 50,000,000 |
| Over 3 months to 6 months | 6,225,650 | - | 5,447,475 | 10,000,000 |
| Over 6 months to 1 year | 12,758,683 | - | 11,454,101 | - |
| Over 1 year to 3 years | 55,583,894 | - | 60,836,129 | - |
| Over 3 years to 5 years | 59,778,422 | - | 58,024,641 | - |
| Over 5 years to 7 years | 16,992,580 | - | 49,933,723 | - |
| Over 7 years to 10 years | - | - | 70,488,530 | - |
| Over 10 years | - | - | 90,525,078 | - |
| | 157,466,181 | - | 352,103,628 | 125,000,000 |

## 27. Micro, Small and Medium Enterprises

There are no Micro, Small and Medium Enterprises, to whom the Company owes dues, which are outstanding for more than 45 days as at March 31, 2012. This information as required to be disclosed under the Micro, Small and Medium Enterprises Development Act, 2006 has been determined to the extent such parties have been identified on the basis of information available with the Company and has been relied upon by the statutory auditors of the Company.

## 28. Previous year figures

Until the year ended 31 March 2011, the company was using pre-revised Schedule VI to the Companies Act 1956, for preparation and presentation of its financial statements. During the year ended 31 March 2012, the revised schedule VI notified under the Companies Act 1956, has become applicable to the company. The company has reclassified previous year figures to conform to this year's classification.

**For Micro Housing Finance Corporation Limited**

**Rajnish Dhall**
Managing Director

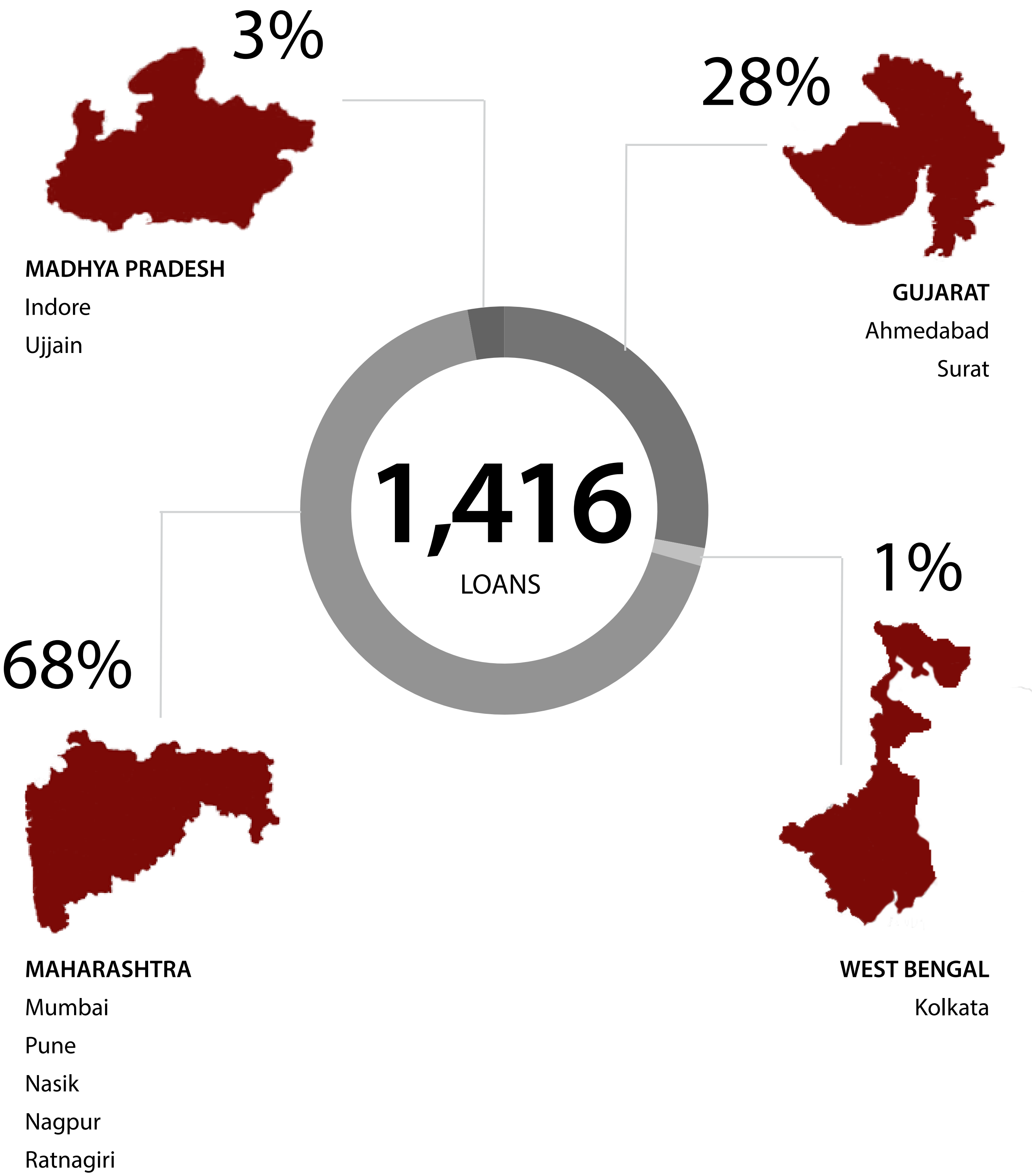
**Nachiket Shelgikar**
Director

**Avani Shah**
Company Secretary

Mumbai, June 13 2012

# LOCATIONS

Geographical Distribution of Portfolio by State



Gokul Galaxy
Naroda, Ahmedabad

Dreams Nivara
Urli Kanchan, Pune


Dream City
Indore

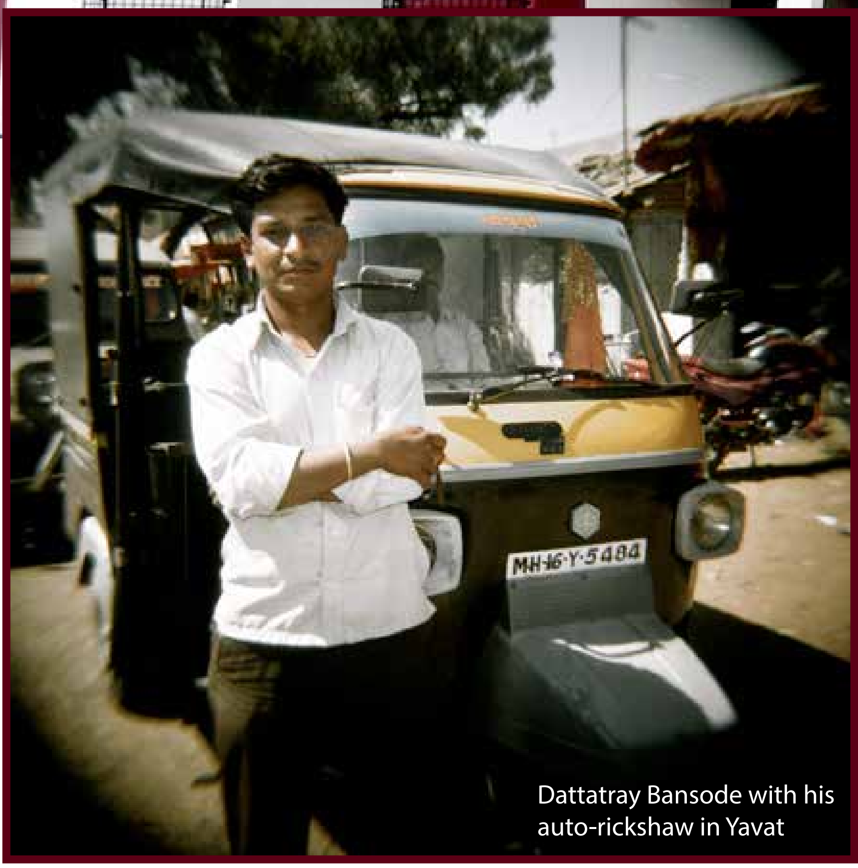
# 72

PROJECTS

Sathyanagar
Boisar, Mumbai

Gyansheela Super City
Indore

Samruddhi Complex
Bhivpuri, Mumbai



Dattatray Bansode with his auto-rickshaw in Yavat

## Dattatray Bansode

Dattatray Maruti Bansode has been transporting commuters in his auto-rickshaw between Yavat and its neighbouring suburb, Kedagaon, for the past 9 years. Averaging approximately 4 trips back and forth from Yavat to Kedagaon ensures that Dattatray earns a minimum income close to ₹400 per day, or ₹12,000 per month, after accounting for petrol costs.

"The nice thing about living in Anandgram," says Dattatray, as he waves to a paan-wala and an auto garage owner, also residents of Anandgram (and also MHFC customers) who work further down the same street, "is that I know all my neighbours. It's a great community. I feel safe there."

# PROJECT FEATURE

# Anandgram
## Yavat

Anandgram Yavat by $S^2$ Realty
Pune

Developer:
**$S^2$ Realty**

Location:
**Yavat, Pune**

MHFC's relationship with $S^2$ Realty began in late 2009, when the developers launched their first affordable housing project under the Anandgram banner, a brand that has grown to become synonymous with providing high quality, low-cost homes for urban families in Maharashtra.

Anandgram Yavat, the first of their micro-townships, offered up to 750 units in the categories of 1 RK, 1 BHK and 2 BHK with sizes between 300 and 550 sq feet, priced from ₹3 lakhs up to ₹7 lakhs for the largest units.

With Anandgram, the developers chose to offer an affordable yet effective housing option located just outside of the city, to urban families living in crowded, sub-standard, informal housing in Pune.

The response to Anandgram Yavat was so tremendous that the builders have since launched another affordable housing township under the Anandgram umbrella in the Talegaon-Dhamdhere suburb of Pune, and has a third project in the pipeline.

The builders believe that a part of Anandgram's success in reaching out to real end-users (i.e. urban poor families that need affordable housing options) can be attributed to its association with MHFC. By tying up with MHFC, $S^2$ Realty has been able to offer buyers employed in the unorganized sector, who have no income documentation, but have a genuine need for housing, mortgage-finance options to purchase their own homes.

As of March 31, 2012, MHFC has financed 138 customers in Anandgram Yavat, and continues to extend its services to buyers in other Anandgram projects as well.


essay
Harvard Kennedy School Review, Vol. XII, pp. 81-83

# Beginning the End of Slums

## *How Micro-Mortgages Serve the Poor*

by Nishant Lalwani

It's a hot Saturday morning in Ahmedabad, India—the last before the monsoons start—and Leeladhar Bhatt Hall is packed with visitors. Hundreds of people have gathered here to attend a two-day customer evaluation session by the Micro Housing Finance Company (MHFC). MHFC has partnered with a builder that is constructing apartments on the outskirts of the city that will sell for as little as US $7,000, and MHFC hopes to provide mortgages to these prospective first-time homebuyers.

Narendrabhai, MHFC's first customer of the day, is a rickshaw driver. He earns between $150 and $200 a month—just $5 to $6 a day—but he has no proof of this income. He has no income tax returns and certainly does not issue himself salary slips. In fact, he does not keep any accounts of his income or expenditure, and while he does have a bank account, he barely uses it. He has about $1,000 of savings and is applying for a loan of $5,000 but has no proof of his current address.

Most housing finance companies would have sent him back out to the street before you could say "bad asset," but MHFC is not one of those companies. MHFC has recognized the critical housing finance need among the urban poor and is attempting to serve it. Although the task is difficult, it is an important one; it holds the potential to change the structure of the mortgage finance industry while also transforming hundreds of millions of lives.

### MORTGAGES FOR THE URBAN POOR

At first glance, Narendrabhai may seem like an unusual candidate for a loan. He is similar to hundreds of millions of urban slum dwellers across the world who live above the abject poverty line in that they earn enough to eat and pay for shelter but are still poor and have no feasible way to leave the slum. But he is also a lot like the vast majority of middle-class homeowners who require outside financing to buy their first homes. Narendrabhai has a regular income that will more than cover the cost of his monthly mortgage, and he is ready to make a down payment worth 20 percent of the cost of the total loan. The only identifiable difference between him and his middle-class counterparts is the amount of money on the line. Yet time and time again, banks say yes to middle-income customers and no to people like Narendrabhai.

Peruvian economist Hernando de Soto has argued that securing property rights is a critical and foundational step for poor communities to fight their way out of poverty and get into the mainstream financial and legal systems of their respective nations. Without a legitimate address, it is nearly impossible to have a legal identity or gain access to the vital economic markets that are prerequisites for services like personal credit. It is ironic that those individuals who most need housing finance—the urban poor—are the very citizens who are excluded from mortgage markets, while those who need it least—the rich and upper-middle classes—often secure the lowest interest rates from lenders.

Historically, housing finance companies have been geared toward people with higher incomes. This is in part explained by transaction costs: it is more expensive to issue lots of small loans than a few larger ones. But since processing fees tend to cover these costs, this cannot explain the entire reason behind the high-income skew. A more important reason for why lower-income customers have remained underserved is that a significant proportion of people in this group do not have documentation of their financial income or assets. This documentation is a prerequisite for every conventional mortgage

It is ironic that those individuals who most need housing finance—the urban poor—are the very citizens who are excluded from mortgage markets, while those who need it least—the rich and upper-middle classes—often secure the lowest interest rates from lenders.

company's loan application process. As the chief managing director of a large Indian bank told me in a research interview, "my staff can only interact with paper, not people."

## A NEW WAY OF MAKING LOANS

How does MHFC overcome these barriers?

Ashish Kothari, a loan officer at the company, begins his assessment of Narendrabhai's application by "storyboarding" his life. Kothari asks him questions about his family, living situation, income, previous loans, and assets, while taking copious notes. While the output of this process is always the same—focused on understanding the customer's ability to meet his or her monthly mortgage commitment—the process itself must be tailored to each applicant. But Kothari has interviewed rickshaw drivers like Narendrabhai before and asks all the right questions: How much are your fares on average? Do you work at night? Do you own your rickshaw or do you rent it?

Even more important than gathering this customer information is verifying that the information is true. Unlike most mortgage loan officers, who rarely leave their branches, Kothari will spend a full day on the street corroborating the data Narendrabhai has provided MHFC. He will visit Narendrabhai's house, speak to his family, and check the condition of his rickshaw. He will go to the road junction where Narendrabhai usually keeps his rickshaw parked and talk to his fellow drivers, investigating whether their average income is in the same ballpark. He will call up the three references that Narendrabhai has given him, including the auto-rickshaw garage where he has his vehicle repaired (to check whether Narendrabhai pays on time). Kothari has similar but distinct procedures to assess the loan applications of customers involved in trade (e.g., grocery stores), the service industry (e.g., tailors), and informal-sector jobs (e.g., domestic servants). MHFC employs many loan officers like Kothari who work in several different cities across India.

The risk associated with Narendrabhai has not decreased as a result of the storyboarding and verification process; it has simply been better understood. Although low-income individuals who work in the informal sector are usually considered "high risk" by conventional mortgage companies, it would be more accurate to consider them as "unknown risk." The process of documenting and quantifying facts about a low-income customer—as MHFC regularly does—helps fill in this information deficit and make it possible for financial companies and others to more accurately evaluate the risk of low-income individuals.

Documenting the incomes and financial status of this group takes time, of course. And it is true that low-income customers may be associated with greater risks in some areas. But usually any extra risk can be accounted for through appropriate pricing. Companies like MHFC often charge rates that are 2 percent to 4 percent higher than conventional mortgage companies that serve primarily higher-income and formal-sector customers.

## ADDRESSING THE DIFFICULTIES

There are certainly some challenges associated with this model. The possibility of default is a long-term risk that is difficult to predict, and there will be little data to aid this assessment until ten or twelve years from now, when the first cohort of micro-mortgage recipients have completed their loan repayments. Another risk is that slum dwellers, unlike most members of the middle class, rarely have financial buffers. In the event of family illness or business problems, the urban poor are likely to be put under significantly greater stress than their middle-class counterparts. Additionally, much of the low-income population earns and saves its income in cash; consequently, converting these customers to the formal banking system and setting up electronic repayments are additional responsibilities for the mortgage company. Nevertheless, several innovative micro-mortgage companies in India have taken on these risks and have now signed on tens of thousands of customers in cities like Mumbai and Ahmedabad for their first housing loans.

Despite the viability of the micro-mortgage model, relatively few established mainstream mortgage companies with operations in emerging markets have adopted it. This is largely due to the fact that in most sizable developing world cities, large financial institutions prefer to serve the large (and often growing) middle-class market rather than populations at the bottom of the economic pyramid.

## HOW GOVERNMENTS CAN HELP

The role of policy makers in markets with high rates of urbanization (e.g., India, Brazil, Indonesia, the Philippines, Kenya, South Africa, and the like) should be to encourage the further development of specialized low-income housing mortgage companies while also enticing large financial institutions into the bottom end of the mortgage market through economic incentives. Of course, the unique political, social, and economic contexts of these countries may mean that the best way to foster the development of low-income housing will differ by region. But as a general rule, governments can help make micro-mortgage transactions less risky and more profitable for private companies. A variety of policies can help achieve this goal, including interest rate subsidies for customers, mortgage guarantee funds for lenders, and low-cost wholesale funds for loans that specifically target the poor.

Interest rate subsidies for low-income customers make loans cheaper to the end user and thus expand the proportion of the market that can afford them. Moreover, by attaching the subsidy directly to the mortgage, it can be assured that if the home is sold, the benefit of the subsidy is lost. This keeps the benefit from being lost through arbitration, which could otherwise happen if eligible homebuyers purchase and then sell their home to make a quick buck.

Establishing financial instruments like mortgage guarantee funds that pool the risk of engaging low-income borrowers is another positive intervention gov-


ernments can make. Such policies may encourage mortgage companies that are worried about high default rates to experiment with lending to the poor. As lenders gain more data about this segment, their ability to gauge real risk will increase, eventually rendering mortgage guarantees unnecessary. If they go down this path, governments would need to structure the guarantee conditionally and share losses in a way that prevents risky or subprime lending.

Lastly, central banks in emerging economies should provide low and submarket cost loans to mortgage companies to use as capital for loans to low-income households. India's National Housing Bank has done this to good effect, and many mortgage companies rely on this source of funds in order to keep loan prices at an affordable level without having to sacrifice profits.

start-ups like MHFC—to enter the low-income market. This, in turn, will result in a large base of customers and a greater understanding of the risks and transaction costs associated with slum-dwelling borrowers. More information and more competition will lead to lower prices for customers, gradually making these loans more affordable.

As urbanization in emerging markets increases at near exponential rates, it will be critical for governments to support the private sector in housing the tens of thousands of low-income migrants who arrive in cities on a daily basis. Without housing finance, owning property is unaffordable, and without property, the poor remain marginalized and vulnerable. At a macro level, instigating and fueling local micro-mortgage markets should be a priority for policy makers who want to prevent the growth of slums while also promoting the a slum and own a home represents a rare opportunity to create wealth. Equally important, such a transition will also mean the end of shared toilets, illegal rentals, and constant anxiety about government intervention. Micro-mortgages from companies like MHFC do not lead to the eradication of slums, but they do provide a viable and permanent alternative. ■

*Nishant Lalwani is an MBA candidate at Harvard Business School, where he is a Fulbright Scholar. He spent eight years working as a consultant in the field of social enterprise in the UK, Africa, and India. Lalwani also sits on the board of directors of Shivia, an Indian microfinance institution.*

*Lalwani, N 2012, "Beginning the End of Slums, How Micro-Mortgages Serve the Poor", Harvard Kennedy School Review, vol. XII, pp. 81-83*

# MANAGEMENT

## Madhusudhan Menon (Chairman)

Madhu is a Chartered Accountant with over 23 years of banking experience, initially with the Reserve Bank of India and then with American Express Bank ("AEB"). Since leaving AEB in 2002 as Senior Director, responsible for Commercial Banking and Capital Market activities in India, he has been an advisor to various business groups in India as a wealth management and capital market specialist. He has a keen interest in using commercially viable business models to stimulate and sustain social change.

## Rajnish Dhall (Managing Director)

Rajnish completed his P.G.D.M from the IIM (Ahmedabad), after which he worked with American Express Bank in a variety of roles for 15 years, the last 10 of which were overseas based. He left the Bank as a Senior Director in 2006 and returned to Mumbai to work in the social sector (advising Aangan, an NGO which works in state run children homes and as a member of the Justice Dhanuka court appointed committee to look into the infrastructure of Mumbai municipal schools).

## Nachiket Shelgikar (Director - Sales and Marketing)

After completing his B.S. from the Carnegie Mellon University, Nachiket worked with Deutsche Bank in M&A for a year in London. He left the Bank in August 2008, and returned to Mumbai to work as a social entrepreneur.

## Ramesh Ogale (Director - Projects)

Ramesh has more than 25 years of experience in the Real Estate sector. He promoted his own construction company for building and marketing housing for low and middle income buyers in the coastal Maharashtra region. Prior to that, he was working with Makers Development Services, where he worked on various turnkey township projects. As a result he is well exposed to construction practices, and project management. He has also interacted with various housing finance companies throughout his career.

## Jayesh Shah (Director - Credit and Operations)

Jayesh joined HDFC, India's leading housing finance company, as a management trainee in June 1987 and over his 22 year career with the firm, he worked across all major departments. In addition, he was on specific local assignments including the development of an online loan processing system and on international assignments (with the ADB and SMF) in Sri Lanka and Indonesia. He also was a regular faculty at the HDFC training centre, where his area of specialization was Credit Risk Management and Loan Process Improvisation. Further, he worked on pilot HDFC social development projects on microfinancing, housing and social infrastructure with agencies like BAIF, KfW, Baroda Citizen's Council and United Way of Vadodara.

## Vilasini Subramaniam (General Manager - Credit)

Vilasini is a Chartered Accountant with over 7 years of banking experience, mostly with Citibank where she worked for 6 years, primarily in the Mortgage division where she was responsible for managing credit risk for loans originated by branches in South India. Prior to joining MHFC, she worked in microfinance for over a year with Janalakshmi Financial Services, where she helped in developing processes around Individual Loan products. She also worked closely with Janaadhar Housing (a sister concern of Janalakshmi focussing on affordable housing) assisting in organising a market survey for ascertaining the demand for affordable housing, and in drafting the housing product & related processes.

# MANAGEMENT

In addition, MHFC is assisted on the Board by:

## Ashish Karamchandani

Ashish - after 7 years of leading The Monitor Group's consulting business in India, Ashish now heads up TMG's social change initiative that is "using market based solutions to create social change". It is working both at a broad sector level, and at the level of individual, specific initiatives. One of the specific initiatives is on low income housing. He has led an in-depth World Bank study for the National Housing Bank that has confirmed the customer demand and buying power and developed innovative solutions to meet this demand using the current market. He and his team are currently in the process of facilitating a number of pilots that will help "make" this market. In terms of educational qualifications, he has a B.Tech from IIT, Bombay, an M.S. from Berkeley and a PhD. from Stanford University.

## Mona Kachhwaha

Mona has over 18 years of financial services industry experience. She has been with Caspian Advisors, an India-based fund manager that invests exclusively in the impact space, since 2007. At Caspian she manages the India Financial Inclusion Fund (IFIF), an equity fund that invests in impact businesses including microfinance, affordable housing, MSME and last mile banking intermediaries. Prior to joining Caspian, Mona worked with the Global Consumer Group of Citibank. While at Citibank, she worked in a range of functions including Business Management, Credit Risk Management and Operations. During her Citi tenure she held various senior positions, the most recent ones being the Business Head of the Microfinance Business and Head of Credit for the Mortgage Business in India. Mona holds a MBA from Xavier Labour Relations Institute (XLRI), Jamshedpur and B.A (Hons.) in Mathematics from Delhi University.

## Geeta Goel

Geeta Goel manages the Michael & Susan Dell Foundation's (MSDF) microfinance initiative in India, which includes a portfolio of over 10 microfinance (and related) institutions. Prior to joining the Foundation, she spent over 12 years with the Corporate Finance Group of PricewaterhouseCoopers in India, advising large Indian and multi-national clients on joint ventures, mergers & acquisitions, business plans and valuations. Geeta has also advised clients in capital structuring and raising private equity. She is an alumni of IIM (Ahmedabad) and Lady Shri Ram College (Delhi).

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## Bankers

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HDFC Ltd
HDFC Bank Ltd
ING Vysya Bank Ltd
Federal Bank Ltd

## Photography

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MICRO HOUSING FINANCE CORPORATION LIMITED

MICRO HOUSING FINANCE CORPORATION LIMITED

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