

JANALAKSHMI FINANCIAL SERVICES PRIVATE LIMITED

SCHEDULES ANNEXED TO AND FORMING PART OF THE ACCOUNTS

SCHEDULE 17: SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

A. SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Accounting

The financial statements are prepared under the historical cost convention on accrual basis and in accordance with provisions of the Companies Act, 1956, and Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956.

The Company follows the prudential norms for income recognition, asset classification and provisioning as prescribed by the Reserve Bank of India for Systemically Important Non-deposit taking Non-Banking Finance Companies (NBFC-ND-SI) or more stringent norms as indicated in Note A.13 below.

2. Revenue Recognition

Interest on loans granted: Interest income from Loan for Financial Assistance granted to Self Help Groups (SHGs), Mutual Guarantee Groups (MGGs), Individuals and others including income arising out of securitization, are recognized on accrual basis. Interest income included in the Equated Monthly Installments from Self Help Groups and Individuals (Family Loans) is determined on Monthly rest based on the principal outstanding. Interest income is not recognized on loan accounts that are overdue for more than 180 days in view of the uncertainty in recovering the sums and are recognized in the year of receipt of such income.

Income/ loss arising out of discounting future receivables of loan assets are recognized over the life of receivable in accordance with the Guidelines for Securitisation issued by the Reserve Bank of India.

In respect of bilateral assignment of receivables the difference between the Proceeds of securitization and the Cost (apportioned carrying amount) of the securitised component of loan is taken to revenue on assignment after netting off the expenses to be incurred, as per the Guidance Note issued by the Institute of Chartered Accountants of India.

Loan Processing & Registration Charges: Loan Administration & Registration charges are recognized on registration of the Groups and Individuals with the Company.

Penal Interest & Other Charges: Penal interest and other charges due on loans granted to Groups and Individuals are recognised when received, in view of significant uncertainty in recovery of such dues.

Interest on Fixed Deposits: Interest income on fixed deposits with banks is recognized on a time proportionate basis at the applicable interest rates.

3. Fixed Assets and Depreciation

Fixed assets are carried at cost less depreciation. Cost includes purchase price and other costs incurred towards acquisition and installation of the asset. Specific grant received for acquisition of fixed assets are reduced from the cost of the asset.



Fixed assets are depreciated under the written down value method at the rates specified in Schedule XIV of the Companies Act, 1956 except leasehold improvements which are amortized over the period of Lease.

### **Intangibles**

Acquired intangibles are capitalized and amortised as follows.

Marketing and Distribution Network - 5 years  
Software - 3 years

### **4. Employee Benefits**

Payments to defined contribution plans, such as provident fund, are charged as an expense as they fall due.

For defined benefit schemes, the cost of providing benefits is determined using Projected Unit Credit Method, with actuarial valuations being carried out at the year end.

Actuarial gains and losses are recognized in full in the Profit and Loss Account for the period in which they occur. Past Service Cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Short Term Employee benefits:

Short - term employee benefits expected to be paid in exchange for the services rendered by the employees is recognized during the period when the employee renders service.

Liability for encashment of leave, considered to be short term liability is accounted for on the basis of estimation.

### **5. Investments**

Long-term Investments are carried at cost. Provision for diminution in value of long term investments is made to recognize a decline, which is other than temporary. Current investments are carried at lower of cost or fair value. Any reduction in the carrying amount and any reversals of such reductions are charged or credited to the Profit and Loss Account.

### **6. Income Taxes**

Income tax comprises the current tax provision and the net change in the deferred tax asset or liability during the year.





Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying values of the assets and liabilities and their respective tax bases. Deferred tax assets are recognized subject to the management's judgment that realization is virtually certain.

Deferred tax assets and liabilities are measured using enacted tax rates applicable on the Balance Sheet date. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the income statement in the period of enactment of the change.

#### **7. Foreign Currency Transactions**

Foreign currency transactions are recorded at the rate of exchange prevailing, on the date of the transaction. Outstanding foreign currency monetary assets and liabilities are restated at year end rates. Gains/Losses arising on restatement / settlement are adjusted to the profit and loss account as applicable.

#### **8. Provisions, Contingent liabilities and Contingent Assets**

A provision is recognized when the Company has a present legal or constructive obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which reliable estimate can be made. Provisions (excluding retirement benefits) are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balances sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

Contingent liabilities are not recognised and, if any, are adequately disclosed in the notes to accounts.

Contingent assets are not recognized in the financial statements since they may result in the recognition of income that may never be realized.

#### **9. Use of Estimates**

The preparation of the financial statements in conformity with GAAP requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of income and expenditure during the year reported. Actual results could differ from those estimates. Any provision to accounting estimates is recognized prospectively in the current and future periods.

#### **10. Service Tax Input Credit**

Service Tax input credit is accounted for in the books in the period when the underlying service received is accounted and when there is no uncertainty in availing or utilizing the same.

#### **11. Prepaid Loan Processing and Syndication Charges**

Prepaid Loan Processing and Syndication charges represent ancillary costs incurred in connection with the arrangement of borrowings and is amortized on straight line basis



over the tenure of respective borrowings. Unamortised borrowing cost remaining, if any, is fully expensed off as and when the related borrowing is prepaid / cancelled.

## 12. Earnings per share

Basic earnings per share is calculated by dividing the net profit for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. The number of shares used in computing diluted earnings per share comprises the weighted average shares considered for deriving basic earnings per share and also the weighted average number of equity shares that could have been issued on the conversion of all dilutive potential equity shares.

## 13. Provisioning Norms for Loans

Asset Classification	Provisioning Percentage used by the Company for FY 2010-11	Provisioning Percentage used by the Company for FY 2009-10
Standard Assets	0.5%	--
Non Performing Assets		
Overdue for 90 days and more but less than 179 days	25%	25%
Overdue for 180 days and above	100%	100%

Also refer notes 17 & 18 to Schedule 17.B

## 14. Accounting for Lease

Finance Lease : Assets under finance lease are capitalized at fair market value or present value of minimum lease payments, whichever is lower. Finance lease payments are apportioned between finance charges and reduction of the lease liability, so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as an expense in the Profit & Loss account.

Operating Lease : Lease rentals on assets under operating lease is charged off to the Profit & Loss account for the year.



## B. NOTES TO ACCOUNTS

1. The Company was incorporated on July 24, 2006 to carry on the business of providing financial services including granting loans, advances, trade credits, etc as may be permitted by the Reserve Bank of India, and the other related activities. The Company has been registered as a Non-Banking Financial Company with the Reserve Bank of India from 4<sup>th</sup> March 2008.

### 2. Details of Security for Loans availed :

Loans availed from Small Industries Development Bank of India (SIDBI), Standard Chartered Bank, HDFC Bank Limited, ING Vysya Bank Ltd, State Bank of India, Development Bank of Singapore Ltd, Union Bank of India, Development Credit Bank Ltd and Ananya Finance for Inclusive Growth Pvt. Ltd., Central Bank of India, Axis Bank, Syndicate Bank, Maanveeya Holdings and Investments Pvt. Ltd, Muthhoot Fincorp Ltd. and Non Convertible Debentures are secured by exclusive charge on receivables arising out of loans disbursed.

In respect of loans from SIDBI, Standard Chartered Bank, Union Bank of India, Development Credit Bank, Axis Bank, Ananya Finance for Inclusive Growth Pvt. Ltd., HDFC Bank Ltd. and Syndicate bank cash margin is retained in the form of fixed deposits.

### 3. Investments in Mutual Funds:

Scheme Name	FY 10-11		FY 09-10	
	No. of Units	Value Rs.	No. of Units	Value Rs.
Reliance Interval Fund (Reliance Monthly Interval Fund - Series II - Institutional Growth Plan • Purchase /(sale)	(6,442,002)	(80,000,000)	6,442,002	80,000,000
Reliance Money Manager Fund - Institutional option-Daily dividend Plan • Purchase /(sale)	80,798 (80,798)	80,909,209 80,909,209	--	--
SBI Premier Liquid Fund • Purchase /(sale)	26,421,874 (26,421,874)	265,077,447 (265,077,447)	--	--
SBI SHF Ultra Short Term Plan - Inst Plan - DDR • Purchase /(sale)	56,307,747 (74,395,512)	563,415,311 ( 744,401,496)	41,073,974 (22,986,208)	410,986,185 (230,000,000)
UTI Fixed Maturity Plan (UTI Fixed Income Interval Fund - Monthly Plan Series I Institutional - Dividend Payout Plan • Purchase /(sale)	(6,998,740)	(70,000,000)	6,998,740	70,000,000





4. **Related Party Disclosures:**

Related Party Relationships:

Persons with Significant Influence

Mr. Ramesh Ramanathan – Chairman and Director  
Janalakshmi Social Services

Relative of Person with significant influence

Mrs. Radha Ramnathan

Key Managerial Personnel

Mr. R. Srinivasan – Managing Director and CEO

Relative of Key Managerial Personnel

Mrs. Nita Srinivasan

Nature and amount of transactions during the year:



Nature of Transactions	31st March 2011 (Rs.)	31st March 2010 (Rs.)
<u>With Mr. Ramesh Ramanathan</u>		
Interest Paid	6,000,001	4,372,603
Loan Received	--	50,000,000
Loan Re-paid	--	--
Balance Payable	50,000,000	50,000,000
<u>With Mrs. Radha Ramnathan</u>		
Interest Paid	479,999	210,411
Loan Received	--	4,000,000
Loan Re-paid	--	--
Balance Payable	4,000,000	4,000,000
<u>With Mr. R. Srinivasan -</u>		
Interest Paid	492,920	1,152,370
Remuneration for the period	1,920,000	1,920,000
Loan Received	8,000,000	33,000,000
Loan Re-paid	24,800,000	(16,200,000)
Balance Payable	--	16,800,000
<u>With Mrs. Nita Srinivasan</u>		
Interest Paid	89,753	113,425
Loan Received	--	3,000,000
Loan Re-paid	3,000,000	--
Balance Payable	--	3,000,000
<u>Janalakshmi Social Services (JSS)</u>		
Amounts receivable from JSS	41,437,944	29,361,594

Related Party relationship is as identified by the company and relied upon by the auditors.

#### 5. Segment Information:

The Company is a loan company as per the RBI guidelines and there is no other reportable primary business segment information. There is no reportable secondary geographical segment information since the Company's operations are only in India.



## 6. Earnings Per Share

### Basic & Diluted

Particulars	31 <sup>st</sup> March 2011 (Rs.)	31 <sup>st</sup> March 2010 (Rs.)
Net Profit / (Loss) as per Profit and Loss Account	(21,773,173)	(22,928,176)
Weighted Average Number of Equity Shares outstanding Basic (Face Value of Rs 10)	698,490	457,639
Basic / Diluted Earning Per share	(31.17)	(50.10)

## 7. A. Terms of 0.01% Preference Shares Conversion

During the Financial Year 2008-2009 the company issued 800 number of 0.01% Compulsorily Convertible Preference Shares of face value Rs 10/- each amounting to Rs 8,000 at a premium of Rs 99,990/- per share. The Preference Shares are convertible upon future capital expansion at a conversion price equal to 80% of the price at which further capital would be issued.

During the previous year these preference shares were converted into 55,505 equity shares of Rs. 10 each upon which Rs. 547,050/- has been utilized from the previously received share premium for issue of equity shares.

## B. Terms of 0.02% Preference Shares Conversion

During the Financial Year 2009-2010 the company issued 1396 number of 0.02% Compulsorily Convertible Preference Shares of face value Rs 10/- each amounting to Rs 13,960 at a premium of Rs 99,990/- per share. The Preference Shares were convertible from three months from the date of issue at a conversion rate of 52 equity shares for each preference share held. Share premium received during the previous year was inclusive of Rs. 406,287,880/- on issue of these preference shares of which Rs. 712,490 was to be utilized for issue of equity shares upon conversion.

During the period, the 0.02% Compulsorily Convertible Preference Shares were converted into 72,645 equity shares of Rs. 10 each upon which Rs. Rs. 712,490 has been utilized from the previously received share premium for issue of equity shares.

## 8. Redeemable Non Convertible Debentures

During the current financials year the company issued 25 non - convertible debentures of Rs. 5,000,000/- each on March 9<sup>th</sup> 2011. These debentures are redeemable at par in three equal installments in 16<sup>th</sup>, 20<sup>th</sup> and 24<sup>th</sup> month from the date of allotment.

## 9. A. As per the RBI guidelines on securitization of Standard Assets issued on 1<sup>th</sup> February 2006, the details of Assets De -Recognised by way of Securitisation is as under.

Particulars	March 31, 2011 (Rs.)
Total Number of Loan Assets Securitized during the period	5,474
Book value of Loan Assets Securitized during the period	36,808,606
Sale Consideration for Loan Assets Securitized during the period	38,980,004





Total Gain on account of securitization to be amortised over the life of receivables	21,71,398
Quantum of Credit Enhancement during the period in the form of deposits	5,897,000

B. The company has entered into certain bilateral assignments with Banks / NBFCs and the transactions have been accounted for in accordance with the Guidance note on Securitisation issued by the Institute of Chartered Accountants of India. The details of these assignment transactions are given below.

Particulars	March 31, 2011 (Rs.)
Total Number of Assets De-Recognised during the year	74,540
Consideration Received during the year	656,338,515
Cash Collaterals provided	115,260,537
Total Gain on assignment	49,442,214
Gain on account of assignment to be amortized over the life of the receivable	3,724,657
Upfront income on assignment of receivables	45,717,557
Unamortized income at the year end	21,344,127

In 2008-09 the Gujarat High Court, in the case of Kotak Mahindra Bank Vs. O.L. of M/s. APS Star India Limited, held that Banks are prohibited from transferring or purchasing the debts. Consequent to above, a Special Leave Petition (SLP) has been filed with the Supreme Court. In its interim order, the Supreme Court has held that in the event of dismissal of the SLP, the assignment deals entered into by Banks would be deemed not to have materialized. The SLP is pending before the Supreme Court as at 31<sup>st</sup> March, 2011.

However, the company is hopeful of a favourable outcome of the aforesaid Special Leave Petition (SLP) filed in the Supreme Court given that such deals are widely prevalent in the banking and financial service industry and the Reserve Bank of India has itself issued specific guidelines in respect of Securitization transactions and hence, no adjustments to the financial statements have been considered necessary at this stage by the Management.

#### 10. Operating Lease

The company has taken on operating lease premises for a period ranging from 36 to 108 months which are non-cancelable for the period as referred in the agreement.

Total minimum lease payment for the current financial year in respect of these recognized in the Profit and Loss account amounts to Rs. 19,107,273/- (31<sup>st</sup> March 2010: Rs. 6,609,580/-)

Total future lease payments under operating lease:

Future Minimum Lease Payments	31 <sup>st</sup> March 2011 (Rs.)	31 <sup>st</sup> March 2010 (Rs.)
Not later than 1 year	27,518,586	66,49,880
Later than 1 year but not later than 5 years.	52,161,079	14,839,197
Later than 5 years.	1,095,030	1,095,030

There are no rents which are contingent in nature.



