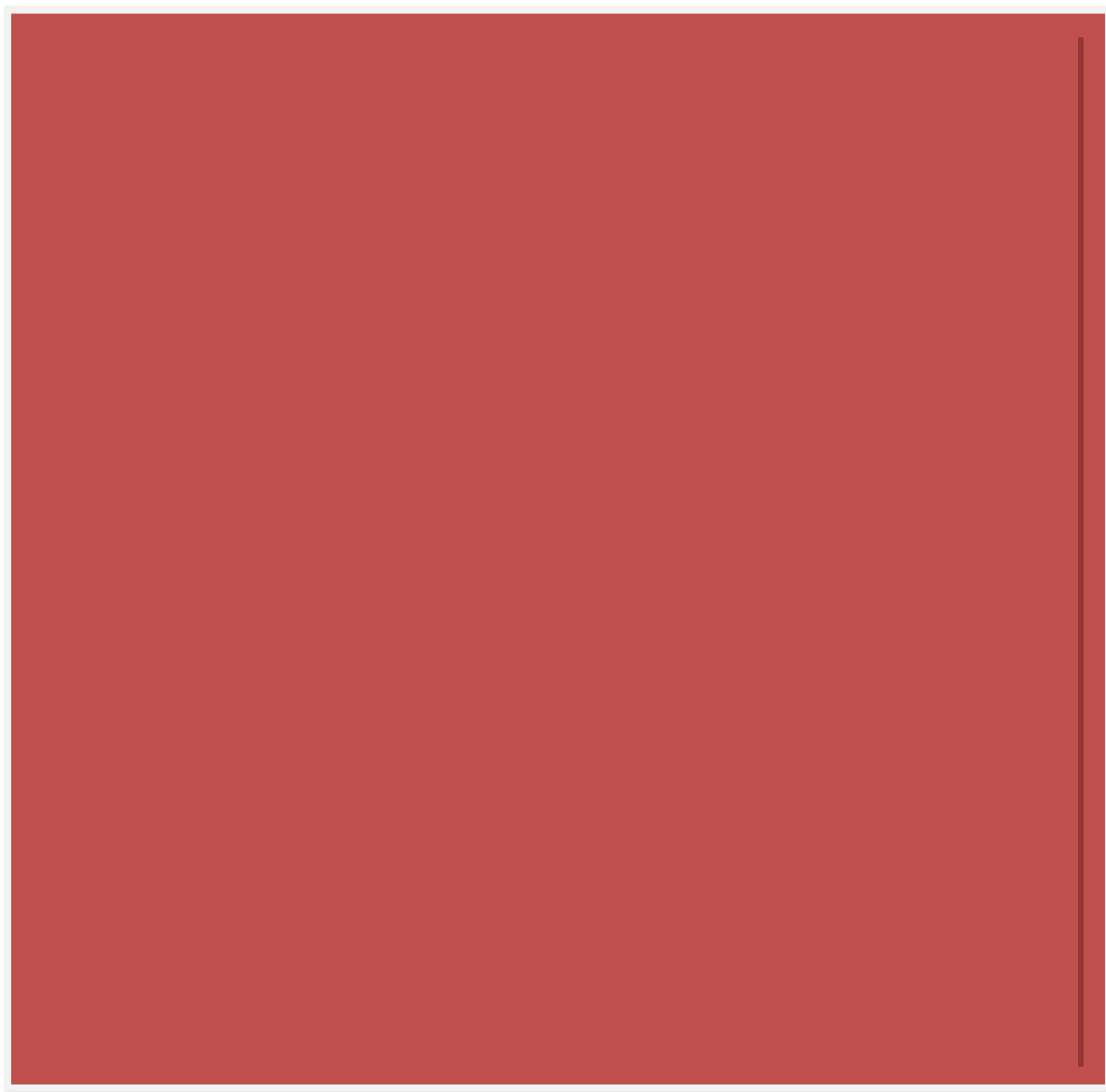


Sonata Finance Private Limited

Annual Report 2010





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From the Desk of Chairman

I firmly believe that Corporates in India have the capability, the vision and the entrepreneurial skill to forge a more prosperous future for the nation, even as they sharpen their competitiveness and grow their business globally. Mahatma Gandhi said and I quote- "The difference between what we do and what we are capable of doing would suffice to solve most of the world's problems."

We need to pay heed to this message to realize our fullest potential.

India has one of the most extensive banking infrastructures in the world. However, millions of poor people in India do not have access to basic banking services like saving and credit. However, it was not until early 1980's, that the Indian government realized the need for microfinance to provide the poor with savings and micro-credit services.

Regarding performance of the company, despite adverse circumstances and challenges, the company could achieve excellent working results. The company posted a net profit of approx Rs. 66.90 Lakhs for the FY 2009-10 recording a growth.

It is a matter of pride for us to report that despite the adverse climate, our Company could beat the trend and become successful in infusing equity worth of Rs. 21.56 Crores namely from India Financial Inclusion Fund and Michael and Susan Dell Foundation.

The commendable progress the company has made during the year is significantly on account of the patronage, guidance & dedicated hardwork of its shareholders & employees.

Let me take this opportunity to express my sincere gratitude to all the stakeholders of the company. With their continued support and co-operation the Company is confident of scaling greater heights in the years to come. Once again I thank each member for the trust and confidence reposed in the Management.

*With warm regards,
Anup Kumar Singh
Chairman*



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Mission:
- *“To Identify and motivate poor women in a cost effective way and deliver them microfinance services in an honest, timely & efficient manner, while committing itself to be professionally managed operationally sustainable and financially profitable.”*

Vision:
- *“To help building a society in which there is an opportunity to develop the minimal socioeconomic conditions needed to live a life of dignity.”*



Anup Kumar Singh:

Anup Kumar Singh has a vast experience in the field of Microfinance and his contributions are bringing glory to Sonata. He strives hard to increase the volume of loan portfolio in coordination with its mission & vision. His able leadership & guidance when added with zeal and enthusiasm with which he is bringing in new ideas and concept, the company will reach the zenith soon.

Before starting SONATA, Mr. Singh was associated for more than 8 years with the CASHPOR group of Companies, since its inception. At the time of leaving CASHPOR, he was an ex-officio Chief Executive and the second most senior executive in the CASHPOR group of companies. He holds a Masters degree in Economics & Sociology, a Postgraduate Diploma in Rural Development and Management, and a MBA in Finance.

Ajit Surendra Verma:

Ajit Surendra Verma, being a social activist, is associated with Sonata due to its noble cause and is giving his best in Human Resource.

Mr. Verma is an Executive Director of Operation Smile India acting as Independent Director. Alumni of the Madras Christian College, he brings with him more than 25 years of experience in Advertising and Brand building. His leadership skills and passion for people have showed his excellence in various capacities from an account manager on Unilever at Lintas Mumbai (now Lowe) to Business head and 'Owner of the people process' at Bates Mumbai. He now runs an International medical NGO called 'Operation Smile' which focuses on the issue of Clefts. Sonata is proud to have him in its Board.



Vishal Bharat:

Vishal Bharat is an expert in finance. He has brought in novelty in the methods of remuneration and compensation.

He has over 14 years of corporate banking experience in multinational banks in three continents. Most recently, he was with JP Morgan Chase's commercial bank for 9 years, relocating from Dallas, TX to Mumbai, India to launch the Commercial Bank in India. Vishal started with Citibank as an FX Trader followed by a stint as the Operations Manager in the Global Transactions Group. After that, Vishal launched the Global Cash Management Services for Standard Chartered Bank in India. He worked with a Rural Cooperative Bank in rural Rajasthan during his high school days and more recently he started, managed and eventually sold a "Fair Trade" business in Dallas, TX.

Geeta Dutta Goel:

Geeta Dutta Goel has recently joined the Board as a Nominee Director. She is an expert in joint ventures, amalgamation and the like. The company looks forward to her for her ideas which will help the company move to a larger profile.

Geeta Dutta Goel manages the MSDF's (Michael and Susan Dell Foundation) microfinance initiative in India. She has spent over 12 years with the Corporate Finance Group of Price Waterhouse Coopers in India, advising large Indian and multi-national clients on joint ventures, mergers & acquisitions, equity investments and financing, and valuations. Geeta has also advised clients in capital structuring and raising private equity.





FUNDING PARTNERS

Our work would not have been possible without the support of corporate entities.

We thank you for this unending support.





CONSOLIDATING THROUGH OWNERSHIP



25 year Sunita Desai of village Mowaiyya, Allahabad district married at the age of 15 has taken loan from Sonata twice. Sunita has 3 children eldest being 9 years of age. Her husband picks up sand from river and sells it to the construction company earning a daily wage of Rs. 150/-. Their earning came to a halt when the boat suffered wreckage. Sonata's loan came to rescue. Now they have their own boat and the whole of earning comes to their house only.

Sunita says, "I joined Sonata & took loan from them. That's how our work resumed.

I took the second loan and made our boat. Earlier we had to hire somebody else's boat & work.

We had to share the earning with the owner of the boat. That is why we have got our own boat made.

Now the whole earning comes home."





CREDIT

Another success story is that of Kamla living in the city cluster of Allahabad. She has taken loan thrice for cattle business. Before this loan Kamla had only 3 cattle's which did not yield milk enough for the whole family. Now she has 26 cattle's. Her husband and 3 out of 6 children are in this business earning a sum of ` 20,000/- to ` 25,000/- per month.

Kamla says, "We sell cow milk and buffalo milk separately. Some buy 2 litres and others one and half litre.

The total monthly income sums up to ` 20,000/- to ` 25, 000/-. That's what our whole family lives on."

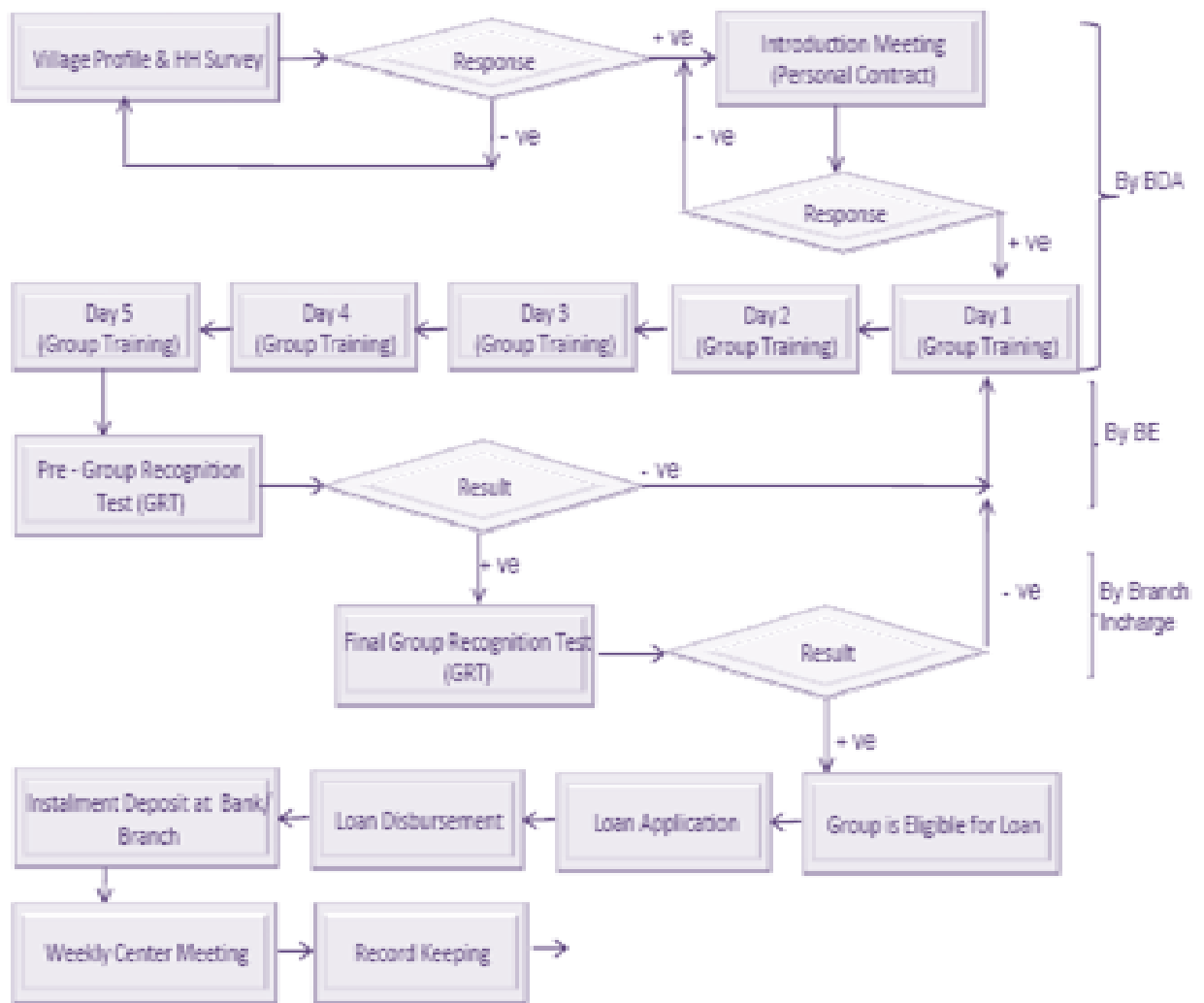
Our children are also engaged in the same trade."

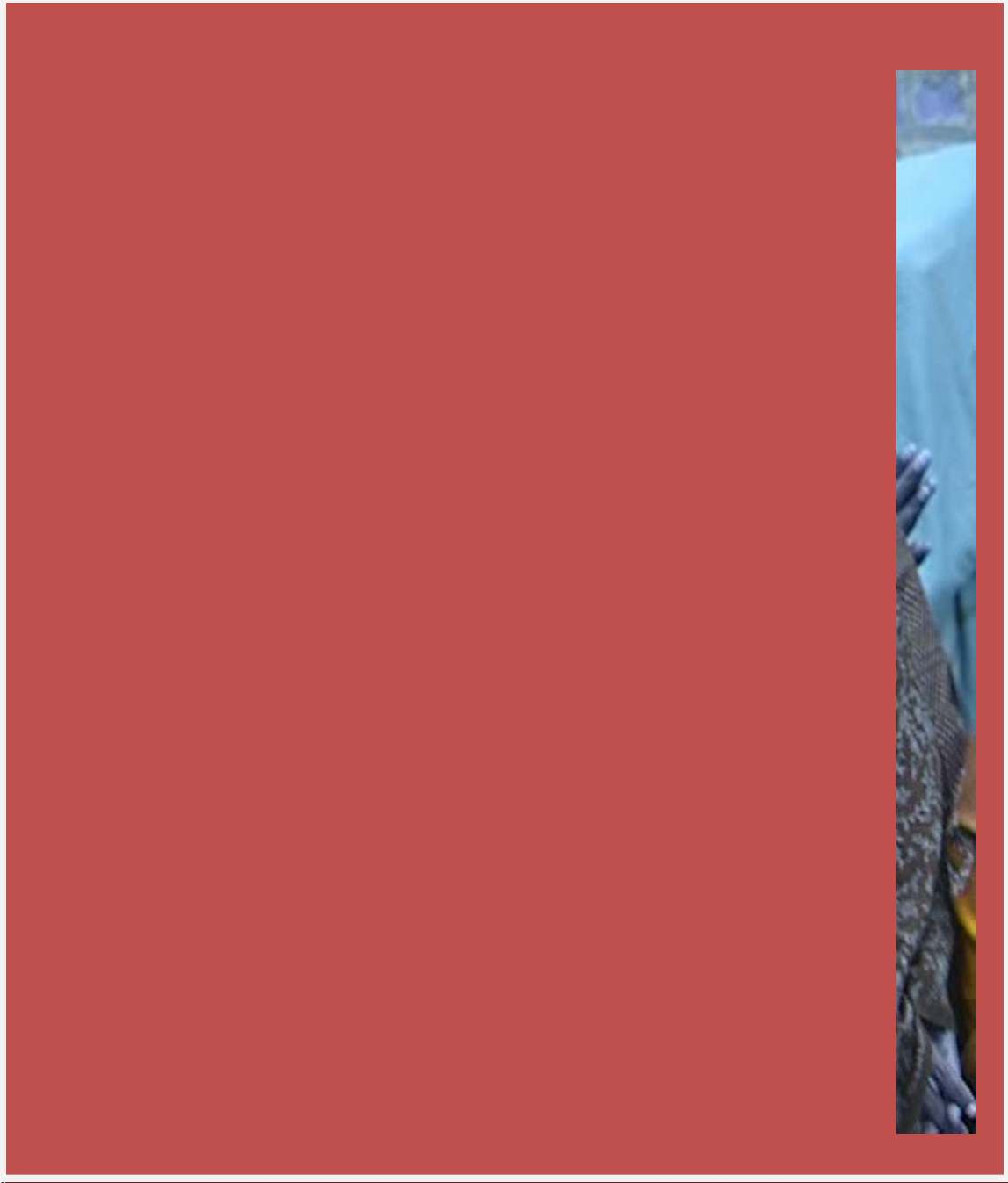


Sonata



Operational Flow Chart

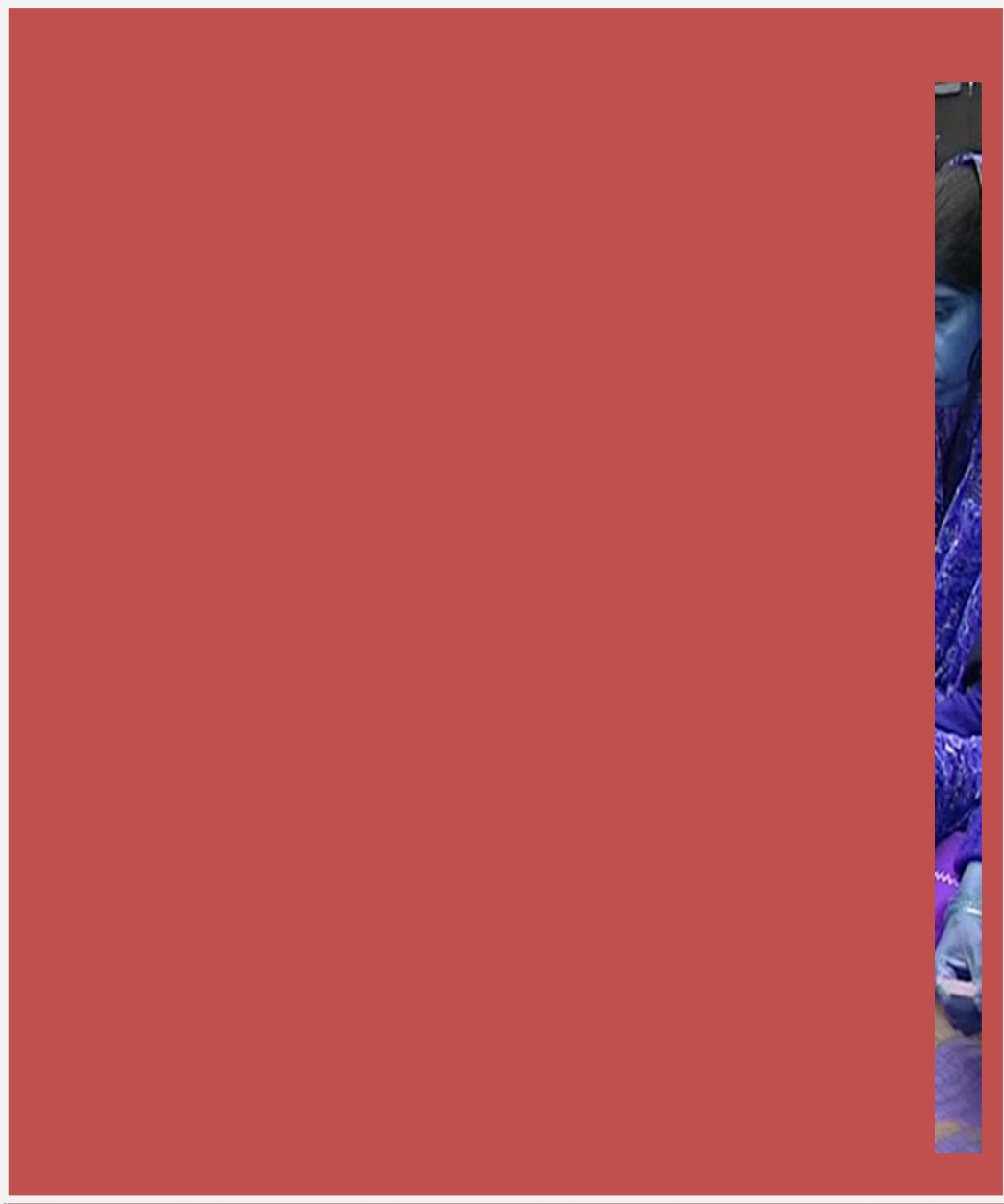




Good socioeconomic values makes Credit Disciple

Pre- Group Recognition Test

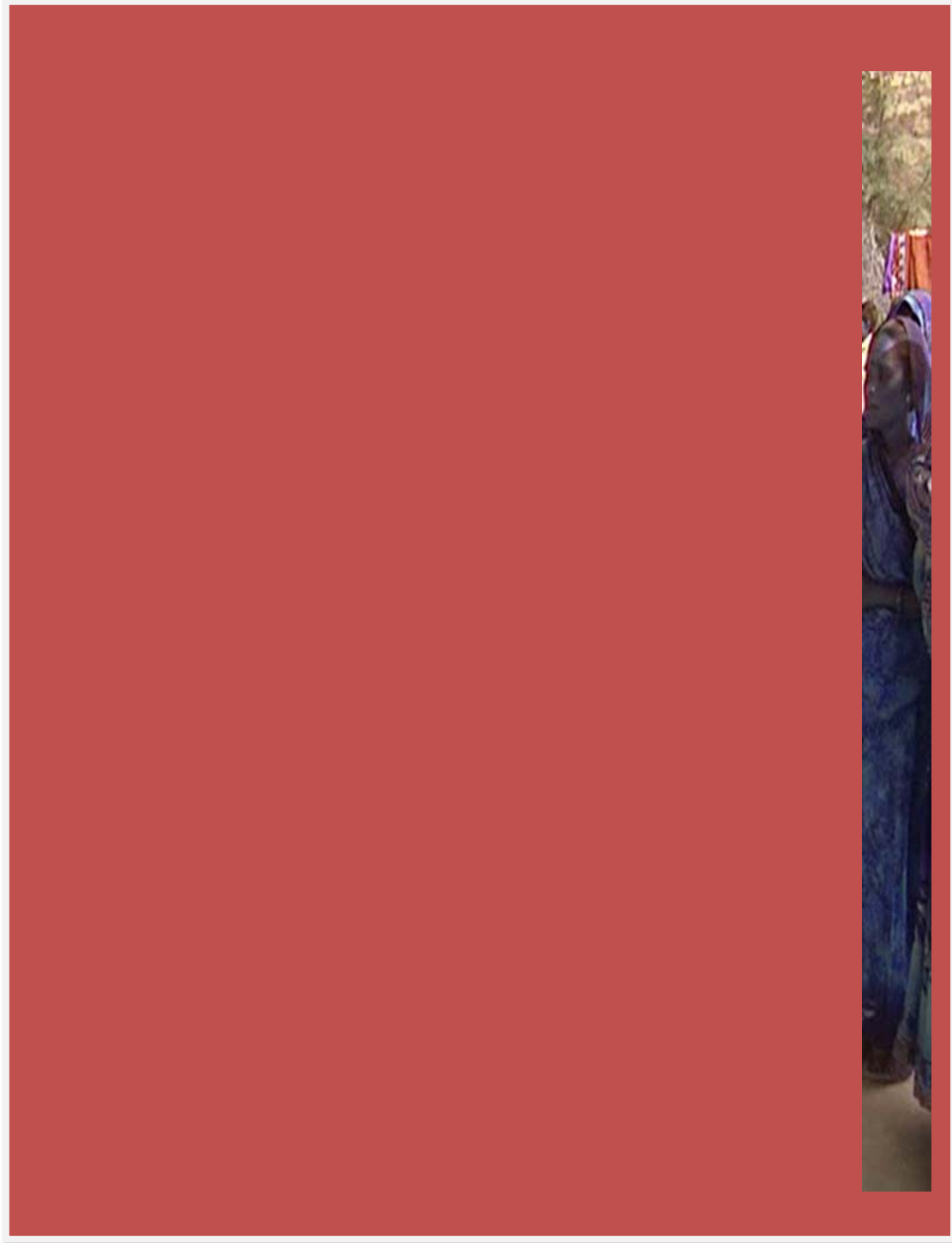
SONATA FINANCE PRIVATE LIMITED



Promulgating growth through Teaching & Learning

Group Recognition Test

SONATA FINANCE PRIVATE LIMITED



Willful Participation inculcates discipline

SONATA FINANCE PRIVATE LIMITED



Centre Meeting Attendance

SONATA FINANCE PRIVATE LIMITED Director's Report, 2010

To,
The Members
SONATA Finance Private Limited.

The Directors have pleasure in presenting their **Annual Report** and the Audited statement of accounts of the company for the year ended on March, 2010.

Financial Results:

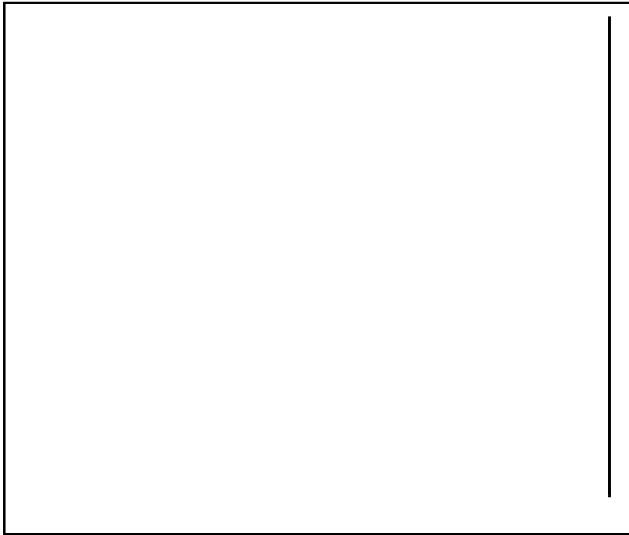
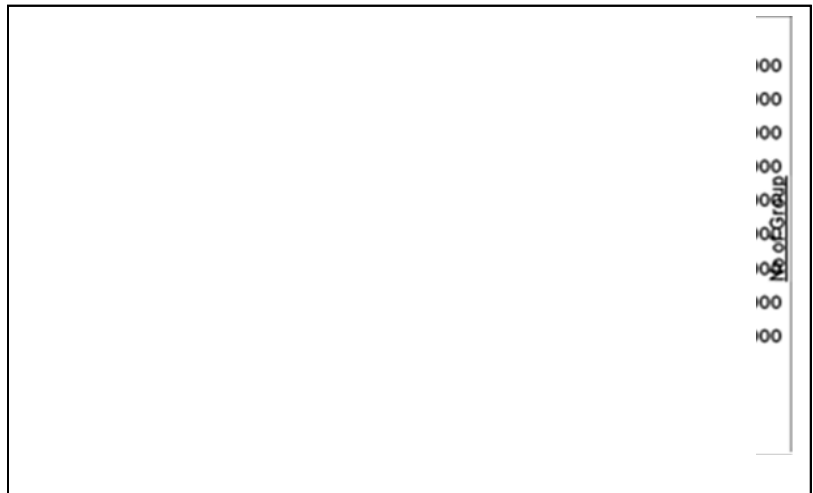
	31 st March 2010 Amt(In Rupees)'000	31 st March 2009 Amt(In Rupees)'000
Interest & fees on Loans and Advances	139,523,823.37	106,426,616.10
Interest on Investment & other Income	5,542,530.72	2,847,764.66
Gain on portfolio sale	0	7,575,816.00
Total Income	145,066,354.09	116,850,196.76
Total Administrative Cost	83,672,846.12	43,516,840.75
Total Financial Cost	50,221,036.08	38,238,018.70
Total Cost	133,893,882.20	81,754,859.45
Profit Before Tax	11,172,471.89	35,095,337.31
Fringe Benefit Tax	9,500.00	82,569.00
Provision For Taxation (Including Deferred Tax)	4,472,312.95	10,847,802.00
Profit After Tax	6,690,658.94	24,164,966.31
Fixed Asset	6,159,500.40	4,290,105.00
Investment in Fixed Deposit	152,358,547.23	47,932,138.12
Loan Outstanding	498,996,233.40	313,784,985.00
Net Current Asset	597,206,509.55	22,109,006.71
P&L Dr. Balance and Misc Exp	610,766.83	1,195,438.36
Total Asset	756,335,324.01	389,311,673.19

SONATA FINANCE PRIVATE LIMITED



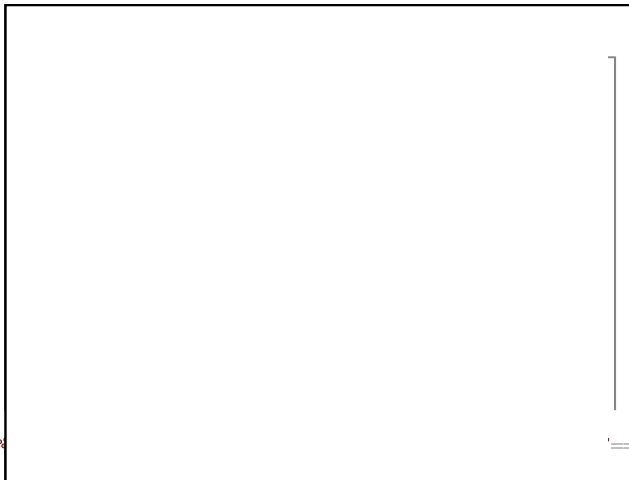
Represented by Share Capital	290,337,328.00	63,200,000.00
Loan from Bank & Financial Institution	440,714,164.88	307,518,501.00
P&I Cr. Balance and Reserves and Surplus	25,283,831.13	18,593,172.19
Total Liabilities	756,335,324.01	389,311,673.19

The cumulative disbursements were ₹ 243.945 Crore and the loan book was ₹ 56.27 Crore with 99.37% of them as classified standard assets as of March 31st 2010. PAR remained at 1.2%.



While comparing the results as of 31st March 2010 in terms of Members, Active Loan Clients, Loan Book and Operations Self Sufficiency we see improvement as per approved Business Plan.

There has been 54% achievement in the members, which resulted into 55 % growth for Active Loan clients. Against Business Projection target there was a shortfall. We maintained near perfect repayment rate which was 99.6%



All the Loans have been extended to poor Woman for income generation.

Loans for trading accounted for 48.65% of the loan outstanding. Agri-allied loans accounted for 0.82%, 4.30% for Transportation,



35.14% for Animal Husbandry, 6.87% for Production and rest 4.22% on other activities. Thus as Financial Year 09-10, the thrust for loan was on Trading Activities.

Business Operations:

The company performed as per the target laid down. As Micro Finance is the core business of the company, we were able to open five more branches in this current year. As on March 2010 we are operating with 41 branches in 13 districts of U.P. and M.P.

Over all demand is huge and requires the vast area coverage and good penetration of the served market. For that more aggressive plans have been worked out to take the quantum jump in the following year.

Company entered into Madhya Pradesh to have more impact on poverty. In order to do that we did acquisition of Micro Finance Operations of Jeevika Livelihood Support Organization, Jabalpur, Madhya Pradesh in 2007, now approximately 23.75% of total loan book is generated by Madhya Pradesh.

Most of the planned expansion of further outreach to the poor in the next Fiscal year will be of the vertical form in the Branches of SONATA and acquisition of existing Business of small Micro Finance Institution. Outreach to the poor is expected to reach 167122 by the end of the Fiscal year, with a portfolio of ₹ 92.42 Crore.

Information Communications Technology:

Sonata Microfin is getting web based. The data is getting centralized through server. Now it takes lesser time in data generation. In future we are planning to make SONATA paperless thus saving both time and money.

Insurance:

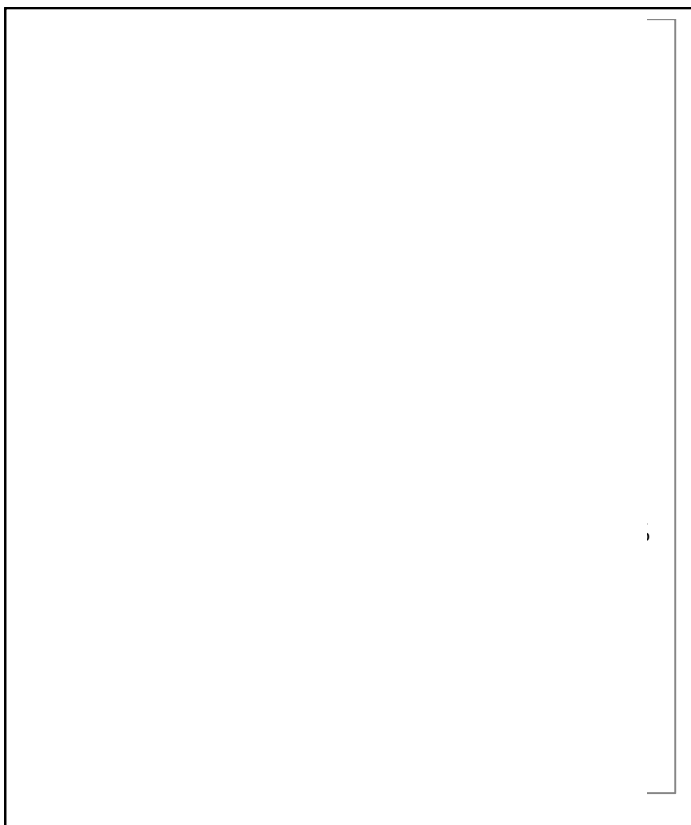
The assets of your company have been adequately insured through United India Insurance Company Ltd.

Non Acceptance of Public Deposits



The Company is not accepting public deposits, and it will not accept public deposits in future, without the written permission of the Reserve Bank of India.

Resources:



The company's Business model has been recognised widely and enjoys supporting relationship with all the leading Financial Institution.

As on March, 2010 Company attracted loan funds and raised ` 132.29 Crore from Banks and Financial Institutions. Among them Reliance Capital happened to be biggest lender who has a share of 21.70% , apart from that HDFC Bank and SIDBI's share being in the borrowing pool 20.3%, and 14.9% respectively,

Directors are happy to share that required payments were made on time with appropriate interest and the resources raised during the year have been utilised for the purpose as stated in the terms and condition of the loan document.

Capital:

During the year, the Company has attracted risk capital from existing investors of ` 22.37 Crore to maintain comfortable capital adequacy ratio to leverage required on lending funds from Financial Institution to expand company outreach to unserved market in FY 10-11



The total net worth at the end of financial year 2009-10 is ₹ 31,50,10,392 (Rupees Thirty-one Crores, Fifty Lakhs, Ten Thousand, Three Hundred and Ninety Two Only).

Management Team:

The management team is comprised of Microfinance Professionals, Professional Accountants and IT Industries.

As of 31st March, 2010 the company has permanent staff of 519 including Head Office and branches. We have 268 trainees on different positions in addition with 69 Associate Agents. The company has trained all the field staff under its comprehensive training program. It has also deputed employees at all levels to various microfinance training programs.

Corporate Governance:

The Company is committed to the principal of Corporate Governance viz, transparency, accountability, ethical operating practices and professional management.

Directors

The Board has following Directors as on date.

1. Anup Kumar Singh
2. Ajit Surendra Varma
3. Vishal Bharat
4. Geeta Dutta Goel

On 12th of January, 2010 Geeta Dutta Goel was inducted as Nominee Director from Michael and Susan Dell Foundation (One of our investors). On 26th of March, 2010, Mr. B.V. Narasimham have stepped down from his directorship.

The board has met seven times in the year. The proceeding of the meeting are properly recorded and signed including the resolutions passed through circulation which have been duly incorporated in the minute's book. The details of the Board Meeting held during the year ending 31st March, 2009 and attended are also appended here.

Director	No. of Meetings Held	No. of Meetings attended
1. Anup Kumar Singh	7	7
2. B.V. Narsimham	7	4
3. Ajit Surendra Verma	7	7
4. Vishal Bharat	7	7



5. Geeta Goel

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During the absence from the Meeting the particular Directors had taken Leave of Absence from the Meeting.

Audit Committee:

The Audit Committee meets to review the accounts as well as the report of Statutory Auditors. The Audit Committee constituted has met 2 times in the FY 2009-10.

It has the following Directors:

1. Anup Kumar Singh
2. Ajit Surendra Verma
3. Vishal Bharat

Compensation Committee:

The Compensation Committee has been constituted. The Compensation Committee meets to set appropriate and supportable pay programs that are in the organization's best interests and aligned with its business mission and strategy. The committee has met 2 times in FY 2009-10

It has the following Directors as its members:

1. Anup Kumar Singh
2. Ajit Surendra Verma
3. Vishal Bharat

Related Party Disclosure:

A. Details of Related party are Given below:

1. Holding Companies: Nil
2. Subsidiary Companies: Nil
3. Key Management Personnel:

a) Anup Kumar Singh, Managing Director

Antara Bhattacharya, Company Secretary Antara Bhattacharya is a Company Secretary by profession. She has looked after the compliance of limited companies like Bharat Yantra Nigam Limited, Bharat Pumps and Compressors Limited and Shyam Biri and the like. She has recently joined Sonata as a Company Secretary.

b) **Sandeepan Gupta, DVP Finance and Accounts**

Sandeepan is a Chartered Accountant by profession and has 2 years of experience as a practicing Chartered Accountant prior to joining Sonata. He has been associated with Sonata for the last two years and heads the Finance and Accounts Department.

c) Bramhanand, AVP Finance



Bramhanand is heading the finance department of Sonata . He is M.Com, LLB, & CA(Intermediate). He has to his credit 8 years of experience in the microfinance sector. He has worked with MFIs like Cashpor and Vardan Microfinance, Gujrat and is presently looking after Finance at the Head Office in Sonata.

Abhay Singh, AVP Administration & Training :- He has done MBA in Finance, PGDMM, LIII in Non Life. and has about 14 years of Asset Finance experience in the industry. He has worked with companies like Shriram Group, L& T Finance Ltd (Larsen & Toubro Group). At Sonata he is heading Admin & Training Department.

- d) Tarun Srivastava, AVP Audit Tarun Srivastava has done his Masters in Social Welfare and is also an LLB. He has more than 6 years of microfinance experience and has been working with Sonata since its inception. He heads the Audit department at Sonata.

Saif Khan, AVP PMECD Saif Khan has done MBA Finance. He has 8 years of experience and has worked with Cashpor and Trust Microfin Network. He has recently joined Sonata as AVP PMECD .

Ashish Singh, AVP Operations, IL, Allahabad Ashish Singh has more than 8 years of microfinance experience. He has been associated with Sonata for the last 4 years and is managing and leading the operations of the Allahabad region.

e) Vinay Pratap Singh, AVP Operation, Allahabad
Anil Singh, AVP Operations, Kanpur Anil Singh has more than 10 years of experience in microfinance operations. He had earlier worked with CASHPOR and has recently joined Sonata . He is responsible for managing and extending operations of Sonata in the Kanpur region.

f)
Anil Gupta, AVP Operations, Sultanpur Anil Gupta is an MBA Finance with more than 4 years of microfinance experience behind him. He has been working with Sonata for past 4 years and is heading the operations of the Sultanpur region.

g)
Shyam Kanhaiya, AVP Information Technology Shyam Kanhiya has done his masters in Computer Application . Has more than 3 years of experience in the field of microfinance and had been associated with Sonata since a very long time. He heads the IT Department.

h) Sanjay Singh, AVP Operations, Jabalpur

i) Priyanka Srivastava, AVP Human Resource



B. Summary Of transactions with Related Party during the year is as below. All the figures pertain to Financial Year 09-10:

1. Anup Kumar Singh
No. of Shares Held 6, 38,950
2. During the year the company obtained loan from Holding Company Bellwether Microfinance Fund Ltd amounting to ` 4,00,00,000/- (Rupees Four Crores Only), the interest amounting to Rs 17,05,206/- (Rupees Seventeen Lakhs Five Thousand Two hundred and Six Only) accrued on such loan during the period.
3. During the year the company had advanced a loan amounting to ` 1, 70, 00,000/- (Rupees One Crore Seventy Lakhs Only) to 'Sonata Employee Welfare Trust'. The Balance outstanding as on date on such loan is ` 1, 34, 33,300/- (Rupees One Crore Thirty Four Lakhs Thirty Three Lakhs Three Hundred Only).

Conservation of Energy:

Energy consumed by the Company during this period is only in the form of electricity consumption in the course of operating administrative offices. Hence the company is not required to make any particular step for conservation of energy, and its disclosure in this Report, as required under section 217(I)(e) of the companies Act 1956.

Foreign Exchange Earnings and Outgo:

There were no foreign exchange earnings and outgo during the Financial year ended 31 March 2010.

Particulars of Employees U/S 217 (2A) of the Companies Act:

In terms of provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, the names and other particulars of employee are set out in the Annexure to the Directors Report. However, having regard to the provisions of Section 219 (1)(b)(iv) of the Companies Act, 1956, the Annual Report excluding the aforesaid information is being sent to all the members of the Company and others entitled thereto. Any member interested in obtaining such particulars may write to the Company Secretary at the Registered Office of the Company.

Auditors Report and Appointment:



The statutory **Auditors report of the Company is attached here with** and M/s Vinay Kumar & Co., Chartered Accountants, the retiring auditors, is eligible for reappointment.

Awards and recognition:

As we pursue excellence relentlessly, we are delighted to receive several global recognitions and awards. Our achievements were:

- ✓ Social Performance Reporting Award, 2009 – Category Silver
- ✓ Ranked in India Top 50 Microfinance Institutions in CRISIL Report Oct - 2009
- ✓ Rated as 3rd fastest growing MFI in our segment in Asia (ADB Report) in 2008
- ✓ Microfinance Process Excellence Award (MPEA), 2008 in Northern Region for its repayment process
- ✓ Sonata Featured in Business Today, February 24, 2008 Issue

Directors Responsibility Statement:

Pursuant to Section 217 (2AA) of the Companies Act 1956, as amended by the Companies (Amendment) Act 2000 , your Directors would like to inform you that the audited accounts containing the financial statements for the financial year ended March 31, 2010 and

The Directors confirm that:

- i) In the preparation of the annual accounts for the financial year ended March 31, 2010, the applicable accounting standards have been followed;
- ii) Appropriate accounting policies have been selected and applied them consistently and made judgments and estimates that are considered reasonable and prudent so as to give a true and fair view of the affairs of the Company at the end of the Financial Year on 31st March, 2010, and of the profits of the Company for the period from 1st April 2009 to 31st March 2010
- iii) Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies act of 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities. And
- iv) The annual accounts for the financial year ended March 31, 2010 have been prepared on "Going Concern Basis".

Acknowledgement:

SONATA FINANCE PRIVATE LIMITED



Your Directors would like to convey their deep appreciation of the co-operation extended by the bankers of the Company with respect to the funding requirements. Deep appreciation is also expressed to all the employees of the Company who worked hard, showed their commitment to our Vision & Mission, and helped the Company to attain its Business Plan targets. Your Directors are thankful to our esteemed shareholders for their support and encouragement, and to our clients for their business.

For and On behalf of Board of Directors

-Sd-

Anup Kumar Singh
(Chairman & Managing Director)

Place: Allahabad
Date: 9th July, 2010



Auditor's Report, Balance sheet, P & L Statement, Annexures



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