



S.M.I.L.E. MICROFINANCE LIMITED

Registered Office: 4/22, Dr. Natesan Road, Ashok Nagar, Chennai 600083

CHAIRMAN'S SPEECH

15TH ANNUAL GENERAL MEETING OF THE COMPANY-3rd September 2010

Ladies and Gentlemen,

It gives me great pleasure to welcome you all to the fifteenth Annual General Meeting of your Company. The Company's Annual Report and Audited Accounts for the Financial Year ended 31st March 2010 have been with you for some time now and with your permission, I shall take them as read.

Economy

In India, the economic recovery, which began around the second quarter of 2009-2010, has since shown sustained improvement. Industrial recovery has become more broad-based and is expected to continue in the wake of rising domestic and external demand. Flow of credit from both bank and non-bank sources have picked up and overall business sentiment has turned distinctively positive. India's GDP growth in 2009-10 has been estimated at 7.4%, driven by growth in the Industrial and Services Sectors. The abundance of liquidity in the system ensured that interest rates remained reasonable for most part.

The current Financial Year has started off on a strong note. GDP growth for the financial year 2010-11 is projected at 8.5%, based on strong growth in the manufacturing sector, expansion in exports, sharp upturn in the capital goods sector and a reasonable expectation of a favorable monsoon.

The developments on the inflation front are, however, far from encouraging.

Wholesale price index (WPI), the most closely watched inflation gauge in India, climbed steeply from 1.5% in October 2009 to 10.55% in June and is at 9.97% in July 2010, hovering near the 10% mark for the sixth month, though expected to fall to 6% by end of this fiscal year

Private Equity (PE) Infusion through Foreign Direct Investment (FDI)

During the year, Your Company achieved a successful closure in infusion of private equity of Rs 50 crores through automatic route, by DWM Investments (Cyprus) Limited and the first tranche of Rs 25 crores was infused in January 2010, and the second tranche of Rs 12.5 crores in June 2010 upon achieving the agreed mile stones. The augmented capital base will propel your Company to a higher growth orbit and to take its place as a Tier I player in Microfinance Sector.

Working Results

Your Company also achieved 69% year-on-year growth in disbursement of Micro Finance of Rs. 222 crores to 2.7 lakh poor women. Microfinance portfolio receivables of the Company, including assets sold or securitised stood at Rs.141.86 crores as of 31 March 2010, as against Rs.67.65 crores in the previous year. The net profit for the year was Rs.176.94 lakhs as against Rs.115.20 lakhs in the previous year, registering a growth of 54%. The company's net worth stood at Rs.34.28 crores as on 31 March 2010, compared to Rs.8.34 crores as at 31 March, 2009. The company's continuing

focus on 'asset quality' and its finely-honed system of 'credit appraisal' and 'collection mechanism' have ensured that the portfolio is possibly 'Best in Class' and net NPAs are 0.06% of the loan portfolio.

The net accretion to borrowings from Banks and Financial Institutions during the year 2009-10, was Rs.74.02 crores with four new Banks/Financial Institutions joining the league of Funders.

I am happy to inform you that the total number of Branches has crossed 120, with a significant number of them in semi urban and rural areas. This will ensure last mile delivery to large number of microfinance clients and represents your company's continuing commitment to the larger national goal of 'Financial Inclusion'.

Regulatory Matters

Your Company has now graduated into a Systemically-Important NBFC (Non-Deposit taking) entity having surpassed the Rs 100 crore mark in assets-size. The capital to risk-weighted assets (CRAR) ratio stands at 23.90% as on 31 March 2010 against the norm of 12% laid down by Reserve Bank of India.

Prospects

Microfinance model capitalizes on social collateral (pioneered by Grameen Bank). India's estimated demand for micro-credit was Rs 2,40,000 crores in 2008

Delivered by Dr. N. Sethuraman, CHAIRMAN.

Note: This does not purport to be a record of the proceedings of the Annual General Meeting of the Company.

(Intellectcap). By FY2010, Self Help Groups and MFIs had outstanding portfolio of just Rs 45,200 crores, indicating more than 80% unmet demand. Your Company lends exclusively to Joint Liability Groups of women from low-income households who use the loan for running their family-run household business. In an industry growing at 30%+, we expect larger MFIs like ours further gain market share on the back of scalable best practices and comparably low lending rates for 'bottom of the pyramid'.

Looking to the funding side, introduction of the Base Rate and hardening of the policy rates are likely to exert upward pressure on interest rates. The RBI has raised key interest rates four times by a total of 100 to 125 basis points (bps) since March 2010.

Acknowledgements

On behalf of the Board of Directors and on my own behalf, I place on record my sincere appreciation and gratitude to our member clients, DWM Investments (Cyprus) Limited and other shareholders, Funders and Bankers for their continued support and the confidence they have reposed in the Company. I record my special appreciation of the sterling efforts and untiring commitment of the vibrant band of employees who make up Team SMILE.

I thank you for your attention.