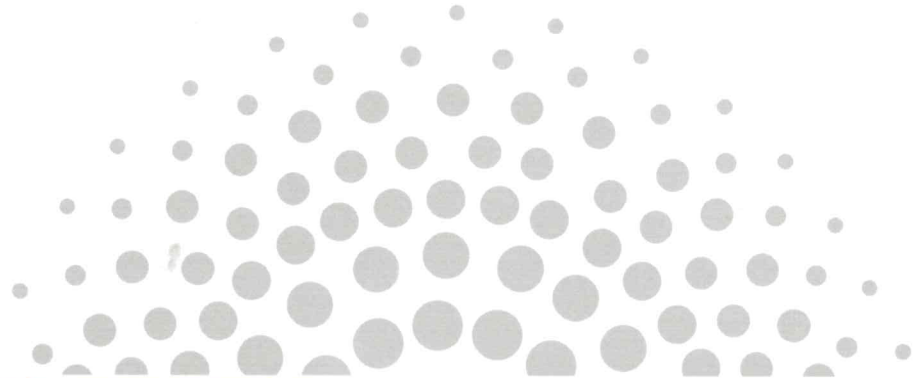




Aavishkaar India Micro
Venture Capital Fund



Annual Social and Environment Performance Report 2009

Agenda

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Organization of the Report

This report presents the social dimension of each of our portfolio companies. A company's social report starts with a narrative of its social mandate. This is followed by a table of some key social indicators and a case study.

Methodology

- **Key Social Beneficiaries:** We have quantified our outreach in terms of the number of the disadvantaged beneficiaries of our investees. We have collaborated data over the period since our investment to arrive at a tracked value. This would represent the aggregate impact that our investees have made since the time of our investment.
- **Economic Benefits:** We believe that enhanced economic activities have a way of increasing opportunities and uplifting the wellbeing of the people. In this segment, the report quantifies the benefits (eg: cost savings, wages earned) from the economic opportunities provided by each company. Again we have tracked these values since the time of investment in our portfolio companies.
- **Environmental Benefits:** We look to invest in companies that reduce carbon emissions, provide waste management, or produce alternative products and practices such as organic and herbal products or neutral businesses. In this report we try and quantify these benefits where possible.

AAVISHKAAR's Investee Outreach has totaled over 1 million disadvantaged people in India as on March 31, 2009.

Over **65%** of the investee outreach comprises of **women**.



Our Investees have created an aggregate **economic value benefit** of over INR 3.0 billion (**>US\$ 60 million**) since the time of our investment.



For **every rupee invested** our investees have generated an economic value benefit of nearly **17 times**



Channeling India's Entrepreneurial Energy

Aavishkaar's Social Mission is to unleash entrepreneurial energy in the bottom quartile to foster inclusive economic development. We believe that sustainable development can be achieved through growth of entrepreneurial initiatives amongst the poorest socio-economic groups at the bottom of the pyramid. Aavishkaar, through its various initiatives in micro equity and micro finance space, is pioneering the approach of building an ecosystem that would nurture entrepreneurs by providing risk capital for scalable rural focused enterprises

Social Value Creation

Inclusive Growth: Our various portfolio companies strive toward creating sustainable business opportunities that benefit the disadvantaged sections of society. Some of the activities include sourcing goods from remote regions (*Craftsbridge, DAH, Rangсутra*), offering basic services at low fees (*Vaatsalya*), and introducing new technology to reach rural India (*Servals, Vortex, SKEPL*).

Women Leadership and Empowerment:

The investees have made varying inroads in empowering women through women employee-ownership (*Rangсутra*), corporate governance policies and actively assisting women self-help groups (*DAH, Rangсутra, Servals*).

New employment and ownership opportunities:

Each of our investees in its own way has attempted to transcend the social and economic divide. Some of have also offered the socially deprived a chance to own their businesses and propagate their craft (*Rangсутra, DAH*).

Penetrating new markets:

Some of our investees offer innovative products at low costs that have revolutionized rural banking (*Vortex*) and milk collection systems (*SKEPL*).

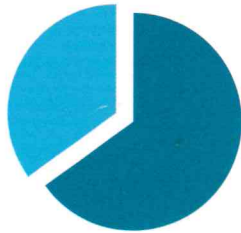


Aavishkaar's Investees

Social Indicators

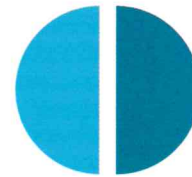
Outreach and Empowerment

Total Beneficiary Outreach
1,003,076



Women
>65%

Total Disadvantaged Owners
3,376



Women
est. 50%

Since our inception to Mar-09 we have reached 1,003,076 beneficiaries, *est. 65% are women. As on Mar-09 our investees owners include 3,376 disadvantaged owners, *est. 50% are women

Total Economic Enhancement

Tracked Value¹ - March 31 2009

Total Economic Enhancement (in millions)
(Assuming 1 USD = Rs.50)

INR 3,164
USD 63

Economic Leverage Impact

(Weighted Economic Impact /Equity invested by Aavishkaar)

17x

* Note: The pool of economically disadvantaged owners is applicable only to SRC Investees.
i.e. it is the cumulative number for DAH (Bhuj, Jaipur, Faridabad) and RangSutra

Carbon Emission

Carbon emission reduction

100 MT

Number of (Certified) Emission Reductions generated
[Co2 emission saved in a 10 year crediting period.]

5,026,050

¹Tracked Value: Aggregates our cumulative impact since our time of investment to 31-Mar-09

* All metric exclude Vortex as its ATMs are not commercially deployed

AN EXAMPLE OF OUR SOCIAL DUE DILIGENCE



Rajeev Kher,
Founder, Saraplast

“ We (Saraplast) are committed to our cause of hygiene and sanitation. We wish to make a difference in India and promote (Mahatma) Gandhi's dream of a toilet for all. ”

This year Aavishkaar invested in **SARAPLAST**, a company that provides portable toilet cabins (PTC). The main users of the company's services are real estate developers (migrant workers and laborers who use the toilets at construction sites) followed by tourism Corporations and event organizers (for events such as large seminars, award functions, exhibitions, religious gatherings etc.)

SARAPLAST

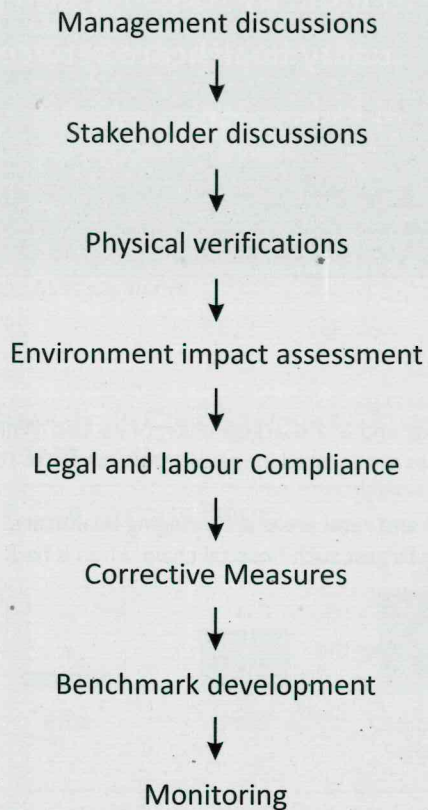
Hygiene Redefined

Saraplast is particularly relevant to women users, as it allows them dignity and privacy.

The use of a private toilet, carries with it significant positive environmental implications as well.

Additionally, Saraplast employs its cleaning staff from socially backward communities who otherwise would have had very limited access to education, housing and employment.

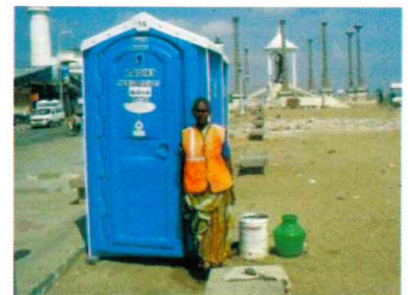
THE SOCIAL DUE DILIGENCE PROCESS



How We Carried Out Our Due Diligence in the Case of Saraplast

We started by holding in depth discussions with Saraplast's directors, who pointed out how various business practices were socially and environmentally inclined. We then spoke directly with the employees, workers (toilet cleaners), users (construction labor) and indirect users (real estate companies). The investment manager made physical verifications of the worker safety and hygiene conditions by visiting the parking bays, testing the Work gear, and scanning the toilet installations. The investment manager also took care to witness that the toilets were being cleaned in an effective manner. He also got confirmation that the waste dumping locations were as per the environmental guidelines.

As part of our social due diligence we also ensured that the company is in full compliance with legal and tax matters as well as Indian labour laws (wages, equality, work hours). Once we felt confident that the company creates positive impact on several social and environmental parameters, we developed a social benchmarking matrix in consultation with the company's management. The benchmark was the basis of the matrix that is being presented in this report. The management of the company is committed to tracking these indicators on a quarterly basis.





Dr. Ashwin Naik (right) & Dr. Veerendra Hiremath (left), Co-founders, Vaatsalya

“ Our goal is to revolutionise the existing healthcare system in India by focusing primarily on providing high quality healthcare services to semi-urban and rural India. ”

Quality Healthcare for Remote Locations

Vaatsalya provides affordable primary and secondary healthcare services in Karnataka, and is the largest chain of its kind. While 70% of India is living in semi-urban and rural areas, 80% of India's healthcare facilities are located in urban/metro areas.

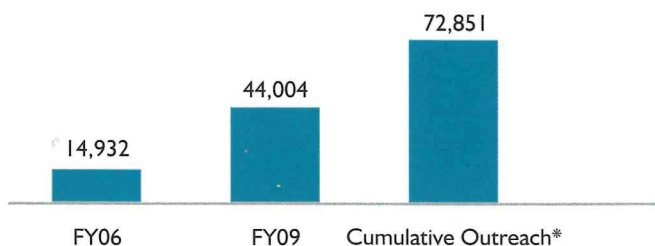
Vaatsalya is bridging this gap by building and managing hospitals/clinics in semi-urban and rural areas and bringing healthcare services where it is needed most. Aavishkaar invested in Vaatsalya's vision to be the largest such hospital chain when it had just 14 beds.

Today Vaatsalya is targeting the establishment of 24 new hospitals, totaling 1200 beds over the next 3 years.

Social Indicators

Vaatsalya's Rural Patient Outreach

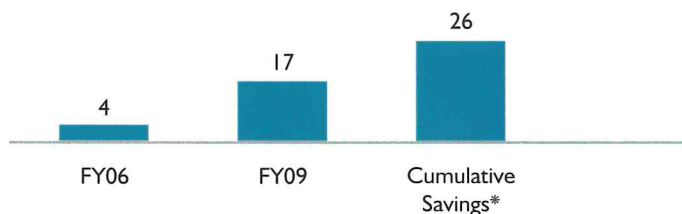
■ Patients



Since our investment in Aug-06 Vaatsalya has reached 72,851 patients of which an *est. 65% are women

Vaatsalya's Cost Savings to Rural Patients (in INR millions)

■ Cost Savings to Patients



*Since our investment in Aug-06, Vaatsalya's cumulative economic impact totals INR 126 (US\$0.5) million in cost savings to rural patients.

Whenever the residents of the Bijapur district in Karnataka needed to avail of dialysis treatment, they would need to travel 60 kms. Apart from the cost of the commute, the patient would have to forgo a day of work.

Today, these residents are able to receive their dialysis treatment at the recently established Vaatsalya healthcare unit. Since its establishment, the Bijapur unit has treated 20 dialysis patients and has also brought in a full-time nephrologist.

The unit also launched a NICU (Neonatal intensive care unit) and recently tended to 8 critically-ill new born, who might have succumbed to their illnesses in the absence of Vaatsalya's healthcare unit.





Sulax Shah,
Promoter & CEO,
Shree Kamdhenu Electronics

“ The manual milk collection process is quite labourious and non-transparent. With a very simple but appropriate solution we integrate the entire milk collection process using either a computer or microprocessor based system. ”

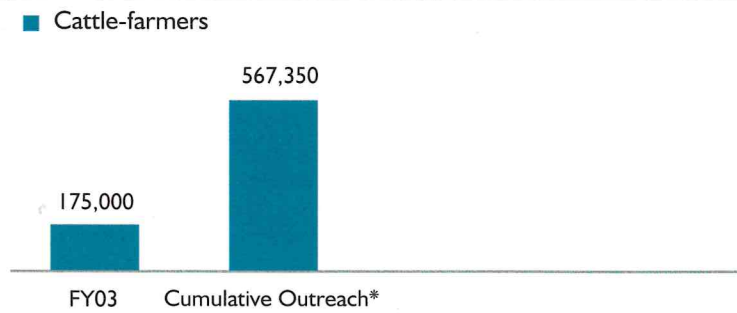
Building Transparency And Efficiency

SKEPL develops computerized collection and testing equipment for rural milk cooperatives. Its "Auto Milk Collection Systems AMCS" accurately and quickly measure and record various quality parameters in milk.

Aavishkaar's extensive handholding support post investment has enabled the company to expand its reach outside its home state (Gujarat) and add products to its portfolio. With Aavishkaar's encouragement, SKEPL has entered and won many award competitions, for the impact it creates in the Indian dairy industry. As of March 2009 the automation solutions were installed in over 1400 villages of India, spread across 8 states.

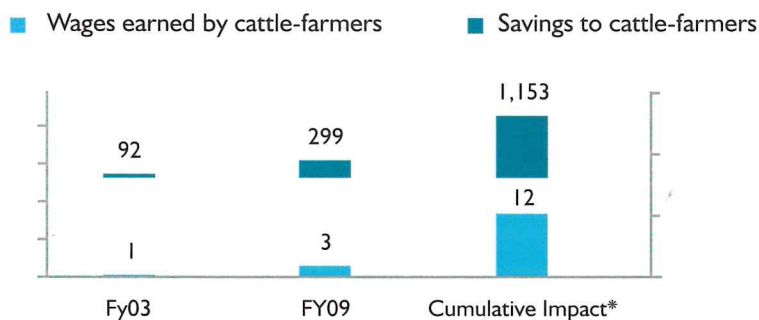
Social Indicators

SKEPL's Cattle-Farmers Outreach



Since our investment in Apr-03 SKEPL has reached 567,350 cattle-farmers of which an *est. 50% are women

SKEPL's Economic Impact (in INR millions)



*Since our investment in Apr-03, SKEPL's cumulative economic impact totals INR 1,164.1 (US\$23.3) million in savings and wages to the cattle-farmers

A case study conducted by the Ford foundation on the beneficiaries of SKEPL revealed the following:

- Specifically, 73% of dairy farmers on average increased the number of animals owned. Many of these people did not own any animals prior to the installation of SKEPL's computerized milk collection system, but felt that after the installation, there was much more transparency in the operations of the cooperative and therefore purchased cows.
- 42% less time waiting in line following installation of the machine. The average was 25 minutes, which went down to 9 minutes.
- There was an 88% increase in the amount of milk sold to the dairy collection centre following installation. This was due to the increase in animals owned by dairy farmers.
- Year-end bonuses paid out to members of the cooperative increased from 3.4% to 5.2%.





P Mukundan, Founder,
Servals Automation

“ My aim is to touch as many lives as possible while making my firm a successful and profitable entity. I believe in production by masses, not mass production. So, there's more employment potential. ”

Energy Solutions For The Poor

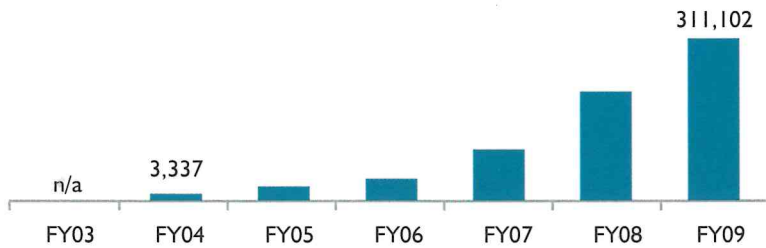
Servals encourages rural innovations that contribute towards energy self-sufficiency. Its flagship products include a stove burner that saves up to 27% kerosene and a straight vegetable oil stove.

Over 80% of Servals burner manufacturers are unskilled or semi-skilled; nearly 50% are women. 3 nonprofit community-based organizations work with Servals to help employ women in remote areas.

Social Indicators

Servals's Outreach

■ Rural households purchasing burners



*Since our investment in Nov-07 Servals has reached 311,102 households, nearly 100% of the users are women. (FY03 figures n/a- Servals was a start-up at the time)

Carbon Emission reduction from Servals burners

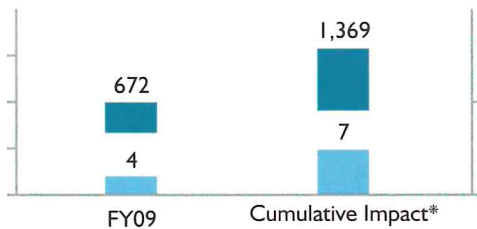
FY09 ended: Mar-31-09 - 48MT

Tracked Value¹: Mar-31-09 - 100MT

¹ Tracked Value: Aggregates our cumulative impact since our time of investment (Nov 2002) to 31-Mar-09

Servals's Economic Impact (in INR millions)

■ Product Wages ■ Consumer Fuel savings



*Since our investment in Nov-02, Servals's cumulative economic impact totals INR1,375.9 (US\$27.5) million in fuel savings and wages to the consumers & producers of its burners. (FY03 figures are n/a as Servals was a start-up at the time)

Pooranima lives in Koovilambakkam, a small village in Tamil Nadu. She is a 25 year old mother of two. Her husband Muthu is a local painter.

Until two years ago, Pooranima was supplementing her husband's income by washing clothes for other households.

Not only were the hours and income highly irregular, the task of washing was so physically arduous that she was too exhausted to properly take care of her two children.

In 2007, Servals supported a local community based organization to manufacture its burners. Pooranima joined this organization as a laborer. Today, Pooranima has a stable income of approximately Rs. 2,200 a month with her job at the production unit.

Her working shifts are predictable. The job itself is, by comparison, not physically taxing. As a result, she is able to care for her family to her satisfaction.

(Contact Pooranima at +919444937859, in Tamil)





Sumita Gosh,
CEO, RangSutra

“ RangSutra’s core value is respect for both the customer and the producer... down to the bottom of the supply chain. ”

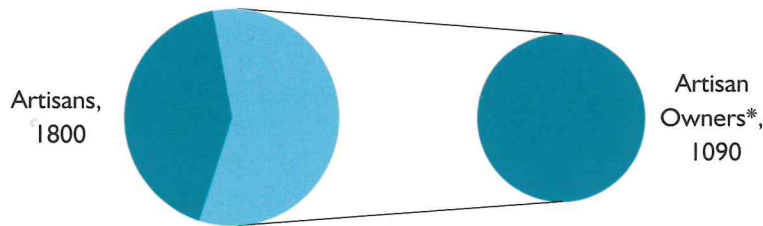
Empowering Rural Artisans

RangSutra supports a widely dispersed network of crafts-artisans through design & product development, production planning, financial assistance and sales & marketing.

Besides providing assured market and fair remuneration to its producers, it empowers its artisans through significant shareholding and representation on its board. For two decades, RangSutra has been working to champion the cause of marginalized artisans and empower rural women.

Social Indicators

Rangasutra reaches over 1800 artisans (*est. 50% women) organized as small producer groups, based in villages and small towns in remote regions of Western Rajasthan.



*As on 31 March 2009, 1090 artisans were shareholders, with a claim to 25% of the company's profits

Rangasutra's Income benefit to artisans (in INR millions)



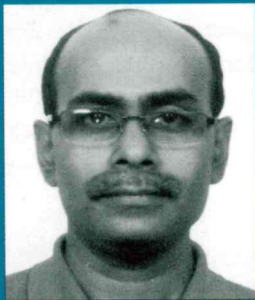
*Since our investment in May-07, Rangasutra's cumulative economic impact totals INR 30.4 (US\$0.6) million in income earned by its artisans. (FY07 figures are n/a as Rangasutra was a start-up at the time)

Rangasutra works with various NGOs to reach the remotest parts of India. In these secluded parts, local settlers, who are masters of exquisite embroideries and weaving techniques, lack the means to carry on the legacy of their skills. URMUL Seemant Samiti is one such NGO that works with Rangasutra to reach out to these artisans.

Paro Bai was forced to leave her home in Tharparkar, Sind, Pakistan, following the 1971 war. Living the life of a refugee in Barmer for 18 years, Paro Bai maintained the embroidery skills she learned from her mother.

When she was resettled in Bajju, she joined the artisan group URMUL Seemant Samiti. "To me, joining this artisan group not only meant the opportunity to better provide for my family. Equally important, it has earned me respect within my community," artisan Paro Bai explains.





L Kannan,
Founder, Vortex

“ We wanted to build an ATM Machine which can operate in areas where there is no bank branch and can break even at much lower values of transactions. ”

Taking Banking To Rural India

Vortex Engineering designs and manufactures low cost ATMs, aiming at delivering the cheapest ATM in the world and yet one that functions efficiently in no-frills locations across remote regions of India. The ATM needs no air-conditioning, offers similar functionality as any other ATM, yet consumes the lowest power for its operation (as low as 20W in its stand-by mode and only about 70 W in peak operation) and is the most environment-friendly ATM by lending itself to function only thru solar power. The ATM is biometric enabled to better secure transactions and prevent misuse among user base.

The ATM enables financial inclusion, in a country where < 20% of the populace has access to formal credit systems and has to rely on usurious unorganized local players. Mainstream institutions have been traditionally hampered by the high cost of delivery of financial services, a lacuna the ATM seeks to overcome due to its very low capital and operational costs.

The partnership that Vortex has forged with the State Bank of India (SBI, India's largest bank) for delivering cash to the poor beneficiaries of the National Rural Employment Guarantee scheme (NREGS) is a good example of this. Vortex is a prime candidate for delivering low-cost ATMs for SBI's rural foray. The company is also engaging other multiple banks, has secured orders from 10 of them and has 20 machines on the field.

The design and testing phase is now over and Vortex has now begun participating in commercial tenders and is progressing into the commercial phase of actual field deployment; after which it shall become possible for us to provide you with a more micro-analysis of the actual number of beneficiaries and how life has changed for them.

“There is a child-like wonder in 65-year-old P Erusammal’s face as she walks into the ATM with her swipe card (in Periyakankanakuppam village of Cuddalore district, about 190 km from Chennai). As an NREGS (National Rural Employment Guarantee Scheme) worker, she clears mud and silt from a river canal, and has come to collect her wages (Rs 80 per day). Previously, she used to collect it from the village panchayat. Now, she presses her thumb on the biometric slot on the ATM machine—”cash box”, she calls it—and simply collects her money. In this village, NREGS wages are released on a weekly basis, and on the big day, about 40-50 villagers throng this ATM.”



The above story is derived from Business Outlook “Low-cost cash box”, March 2009.



**Note: As of Mar’09, ATMs had not been commercially deployed hence metrics are not captured*



Shilpi K Kedia,
Promoter, Net Systems

“ We need to ensure that persons with disabilities are provided equal opportunity to become economically independent by providing them access to education, technology, employment. ”

Shilpi was awarded the India Helen Keller Award 2009 from Shell foundation and she is also drafting national regulations on accessibility.

Creating A Disabled Friendly Virtual World

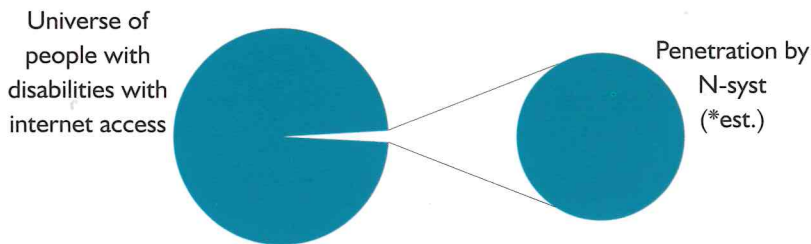
Net Systems social mandate is to create an inclusive society where people with disabilities have equal access to professional and social opportunities.

Net System works to make websites, software and products more 'accessible' to approximately 6 million disabled users in India and nearly 70 million users world-wide; these users gain disproportionately when these tools/products are made more accessible.

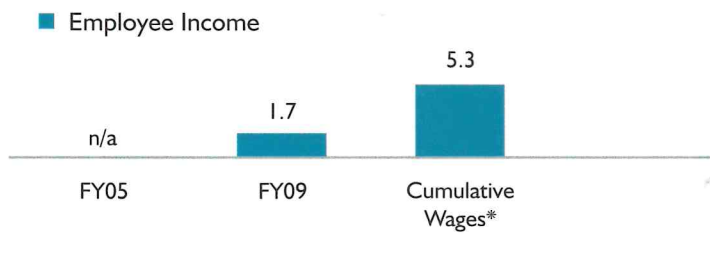
Net - Systems

Social Indicators

N-syst reaches est. 40,000 disabled web users globally (est. 50% women)



N-syst's income benefit to employees with disabilities (in INR millions)



*Since our investment in Mar-05, Net-systems cumulative economic impact totals INR 5.3 (US\$0.1) million in income earned by its employees with disabilities. As on 31 March 2009, Net-systems had 12 employees with disabilities. (FY05 figures are n/a as Net-syst was a start-up at the time)

Parag Shah, 24, is hearing-impaired. From the small town of Jalgaon, Maharashtra, Parag moved to Pune in search of employment. In Pune, he found a job in a data-entry position.

While he worked for 15 hours a day, the position lacked training, mentoring support, or prospects for professional growth.

A year ago, Parag heard about Net Systems and how it trains and employs people with disabilities. He moved to Net Systems and got trained in HTML and XML.

Today, Parag is glad for his decision to join Net Systems. Instead of working 15 hours in an mundane data-entry job, he is able to be creative as a webdesigner. Not to mention, with a regular 8 hours job, his quality of life has improved tremendously.

As he is being trained in more programs such as Abby Fine Reader and Pdf, Parag is filled with optimism about his future prospects.



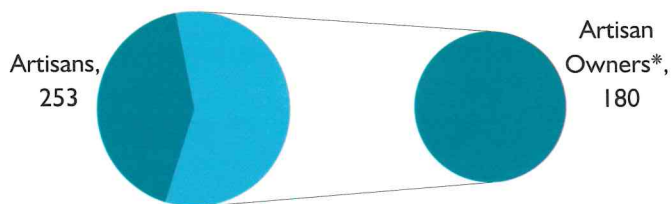
Empowerment Through Ownership

Formed as a Supply Region Chain company that sells to Fab India, Desert Artisan Handicraft (DAH) promotes ownership by artisans and supports them by way of an assured market, design & product development, production planning and financial assistance.

DAH stands out under the leadership of a dynamic woman entrepreneur who has played a vital role in its rapid scale and profitability in a short span

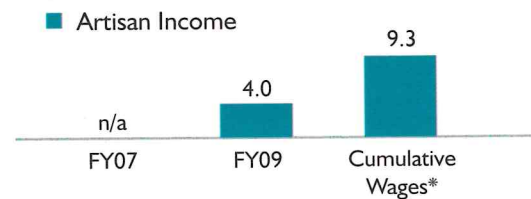
Social Indicators

DAH-Bhuj reaches 253 artisans (est.36% women)



*As on 31 March 2009, 180 artisans were shareholders, with a claim to 29.5% of the company's profits

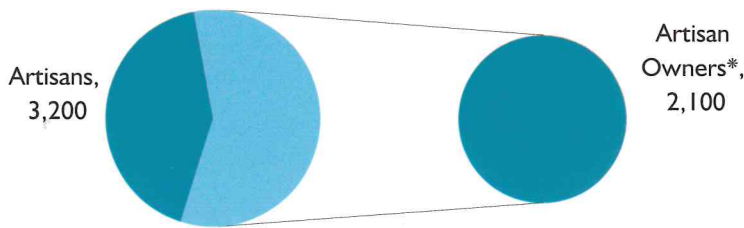
DAH-Bhuj's Income benefit to artisans (in INR millions)



*Since our investment in May-07, DAH-Bhuj's cumulative economic impact totals INR 9.3 (US\$0.2) million in income earned by its artisans. (FY07 figures are n/a as DAH-Bhuj was a start-up at the time)

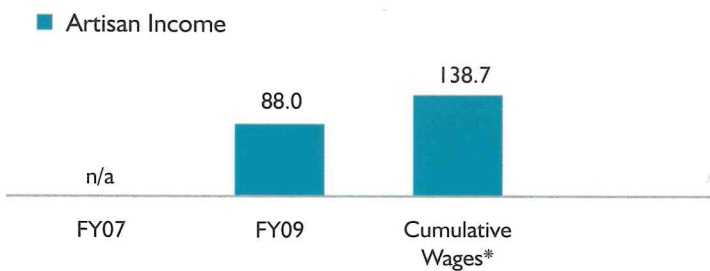
Social Indicators

DAH-Jaipur reaches over 3200 artisans (est.50% women) associated with several key artisans/suppliers in Rajasthan



*As on 31 March 2009, 2100 artisans were shareholders, with a claim to 26% of the company's profits

DAH-Jaipur's Income benefit to artisans (in INR millions)



*Since our investment in Apr-07, Rangasutra's cumulative economic impact totals INR 138.7 (US\$1.8) million in income earned by its artisans. (FY07 figures are n/a as DAH-Jaipur was a start-up at the time)

R.K. Derawala, "the grand old man of vegetable dye hand-block prints" from Bagru, Rajasthan belongs to a family of textile printers. He began supplying garment fabric to Fabindia in 1989 and got aligned with DAH Jaipur since its incorporation in 2006. His early years were spent at the printing table and dye units at home where 'Fardah' the traditional block printed fabric was printed for sale at the weekly haat in neighbouring towns and cities.

Over the years, the product range Fabindia procures from R.K. evolved from yardage to printed bedcovers, garments & garment accessories. The increase in income over the years has helped the family invest in design and production. The family now has ten printing tables, five 'chowkies' (as the women prefer to sit when printing) and dyeing and washing facilities, at home. Though the family home at Bagru is now equipped with modern gadgetry and the children are well educated, R.K. is clear that the only profession the new generation of family members will opt for is printing and dyeing.

He currently serves as an Artisan Director on DAH Jaipur's board and was recently awarded the "Padma Shree" in recognition for his contribution to sustaining exquisite crafts forms.



CONCLUSION

Lessons

The journey from claiming we are a social fund to demonstrating the same has been one full of learning.

We found that it was difficult to communicate the social motivation and social output of our portfolio companies to audiences who have not met the promoters, or have not seen on-ground activities. Not surprisingly, it has been said that social impact is impossible to define, and that 'you will know it when you see it'. However, as a fund with a social mandate, knowing we are social is not enough. We need to be able to communicate the same. For this, we need cooperation and valuable time with the portfolio companies. These companies, most of which are in their early stages are coping with survival and sustainability issues. Sometimes, it is difficult to put 'social communication' on the top agenda. Even when we have the full cooperation of the promoters, it is at times difficult to communicate the social story in a quantifiable manner.

There are a multitude of challenges. However, as noted in the introduction, we are optimistic that the field of social impact measurement and reporting will continue to get more robust over time.

As we are on a collective learning curve, we welcome further interaction and feedback from you. We remain committed to the social investment space and are excited about continuing to make impactful gains towards inclusive development.

Future Plans

Going forward, in the spirit of continuous learning, we are undertaking a two-tier strategy:

- While we continue to learn from our own experience, it is also important for us to share lessons and resources with others in this field. Many of our challenges require a response at the industry level. For example, we have joined the Global Impact Investment Network (GIIN), which is pioneering many efforts, such as bringing congruence in social investment terminology and social measurement matrix.
- We are looking to establish a dedicated in house Social Specialist who would manage a social team comprising of consultants and social auditors. The social team would streamline the Social Framework into our investing, monitoring and reporting process. The nature of this exercise would require a sizeable investment in terms of cost and we are seeking grant support to this end.



The ultimate success of the social mandate would require collaboration and cooperation from all of Aavishkaar's wellwishers. We hope you will continue to engage us. We invite you to share your views and comments with us by email (social@aavishkaar.org).



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