

ESCORTS FINANCE LIMITED

ELEVENTH ANNUAL REPORT

1997-98

MD	✓				BKC	✓
CS	✓				DPY	✓
RO	✓				DIV	✓
TRA	✓				AC	✓
AGM	✓	✓			SHI	✓
YE	✓	✓	✓	✓		✓

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ESCORTS
FINANCE

We make relationships for life





BOARD OF DIRECTORS

Chairman

Mr. Rajan Nanda

Vice Chairman

Mr. Anil Nanda

Managing Director

Mr. Jayant Dang

Directors

Mr. Ashok Kumar Mahindra

Mr. Lalit Bhasin

Mr. Mantosh Sondhi

Mr. K.M. Mammen

Mr. Umesh Banerji

Mr. Rakesh Chopra

Ms. Nitasha Nanda

Company Secretary

Mr. Paresh Kumar

Registered Office

N-6. Pratap Building,
Connaught Circus,
New Delhi - 110 001.

Auditors

M/s N.D. Kapur & Co.

Bankers

ABN Amro Bank NV

Bank of Baroda

Bank of Punjab Ltd.

Bombay Mercantile Co-Op. Bank Ltd.

Credit Lyonnais

Dena Bank

Indian Overseas Bank

State Bank of India

State Bank of Indore

The Bank of Rajasthan Ltd.

The Jammu & Kashmir Bank Ltd.

The Federal Bank Ltd.

Vijaya Bank



ESCORTS FINANCE LIMITED

REGISTERED OFFICE : N-6, PRATAP BUILDING, CONNAUGHT PLACE, NEW DELHI - 110 001

**NOTICE**

Notice is hereby given that the Eleventh Annual General Meeting of the Company will be held on Wednesday, 23rd September, 1998 at 9:30 A.M. at Air Force Auditorium, Subroto Park, Near Dhaula Kuan, New Delhi - 110 010 to transact the following business:

ORDINARY BUSINESS

- 1) To receive, consider and adopt the audited Profit and Loss Account for the year ended March 31, 1998, the Balance Sheet as at that date and the Reports of Auditors and Directors thereon.
- 2) To declare dividend.
- 3) To appoint a Director in place of Mr. Anil Nanda who retires by rotation and being eligible, offers himself for re-appointment.
- 4) To appoint a Director in place of Mr. Mantosh Sondhi who retires by rotation and being eligible, offers himself for re-appointment.
- 5) To appoint a Director in place of Mr. K.M. Mammen who retires by rotation and being eligible, offers himself for re-appointment.
- 6) To appoint M/s N.M. Rajji & Co., Chartered Accountants, who are eligible for appointment as the Auditors of the Company, in place of retiring auditors who have not opted to seek re-appointment as Auditors, to hold office from the conclusion of this meeting until the conclusion of next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, to pass with or without modification(s), the following resolutions :

7) (AS SPECIAL RESOLUTION)

"RESOLVED THAT in accordance with Section 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification or re-enactment thereof), Memorandum and Articles of Association of the Company, provisions of all other applicable laws and of the listing agreement entered into by the Company with the Stock Exchanges where the shares of the Company are listed (including any amendment to or re-enactment thereof) and subject to the applicable guidelines issued by Reserve Bank of India (RBI), Securities & Exchange Board of India (SEBI), Stock Exchanges and all other concerned authorities and departments, if any, and such other approvals, permissions and sanctions, as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by any of them while granting such approvals, permissions and sanctions, consent of the Company be and is hereby accorded to offer, issue and allot not exceeding 1,00,00,000 (One Crore only) Equity Shares of Rs. 10/- (Rupees Ten) each of the Company, in one or more tranches, to promoter / promoter group / associate companies on preferential basis for cash @ Rs. 13.25 per share, on the following principal terms :

1. The equity shares shall be issued, offered and allotted to promoter / promoter group / associate companies, as mentioned in the explanatory statement annexed to this notice.
2. The equity shares shall be issued for cash payable in one or more calls and subject to the lock in period as prescribed under SEBI guidelines.
3. The equity shares issued and allotted by the Company shall be subject to the Memorandum and Articles of Association of the Company and shall rank pari passu in all respects with the existing equity shares of the Company except that the dividend, if any, declared shall be paid pro-rata from the date of allotment of such new equity shares.
4. The New Equity Shares of the Company shall be listed at all the Stock Exchanges where the shares of the Company are presently listed."

"FURTHER RESOLVED THAT for the purpose of giving effect to the above resolution, the Board of Directors of the Company (hereinafter referred to as the 'Board') is authorised to do all such acts, deeds, matters and things, as it may in its absolute discretion deem necessary, proper or desirable and to settle any question, difficulty or doubt that may arise in regard to the offer/issue, pricing, allotment and utilization of the proceeds of the issue and further to do all such acts, deeds, matters and things and to finalise and execute all such deeds, documents and writings as may be necessary, desirable or expedient as it may deem fit."

"RESOLVED FURTHER THAT the Board be and is hereby authorised to delegate all or any of the powers, authorities and discretions vested in it by virtue of this resolution to any Committee of Directors or Managing Director or any Director or any other officers of the Company to give effect to the aforesaid resolutions as may be required or considered necessary or incidental thereto."

NOTICE CONTD...



8) (AS ORDINARY RESOLUTION)

"RESOLVED THAT in partial modification of the resolution No.9 passed by the shareholders in the eighth Annual General meeting held on 09.09.1995, the Board of Directors of the Company be and is hereby further authorised to reschedule the structure of remuneration payable to Mr. Jayant Dang, Managing Director, for the year 1998-99 and onwards as it may deem fit, however, within the overall limit of 5% of the Net Profits as already approved, subject to ceilings prescribed under Schedule XIII of the Companies Act, 1956."

By Order of the Board,
for **Escorts Finance Limited**

(**PARESH KUMAR**)
Asstt. Vice President &
Company Secretary

New Delhi
August 20, 1998

NOTES :

- 1) A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF. SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXIES MAY BE IN THE FORM ANNEXED HERETO AND TO BE EFFECTIVE MUST BE LODGED AT THE REGISTERED OFFICE OF THE COMPANY NOT LATER THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
- 2) Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, in respect of Special Business is annexed hereto.
- 3) The Register of Members and Share Transfer Books of the Company will remain closed from 21.09.98 to 23.09.98 (both days inclusive).
- 4) Payment of dividend, if declared, will be made to those members whose names appear in the Register of Members of the Company on 23.09.98.
- 5) Members are requested to notify immediately any change in their address (with pin code) to the Company at its registered office, quoting their folio numbers.
- 6) Shareholders / Proxyholders are requested to produce at the entrance the attached admission card duly completed and signed, for admission to the meeting hall.
- 7) Members desirous of obtaining any information concerning the accounts and operations of the Company are requested to address their questions in writing to the Company Secretary atleast ten days before the date of the meeting, so that the information required may be made available at the meeting.
- 8) The documents referred to in the proposed resolutions, Copies of Memorandum & Articles of Association of the Company and Auditors' certificate for preferential allotment will be open for inspection at the Registered Office of the Company between 11.00 A.M. and 1.00 P.M. on all working days except Saturdays, Sundays and other holidays and will also be available at the Meeting.
- 9) Members who have not yet paid their "Allotment Money" are advised to send the same alongwith interest calculated @ 17% p.a. for delayed period i.e. from 07.05.95 till the date of payment, through demand draft / cheque payable at Delhi in favour of "ESCORTS FINANCE LIMITED", to avoid forfeiture.
- 10) Members, who are holding shares in identical order of names in more than one folio, are requested to write to the Registered Office of the Company at N-6, Pratap Building, Connaught Circus, New Delhi - 110001, enclosing their share certificates to enable the Company to consolidate their holdings in one folio.
- 11) Members who have not encashed their earlier Dividend Warrants, may write to the Company Secretary for revalidation. Unclaimed dividend for the year upto 1993-94 has been transferred to the General Revenue Account of the Central Government in terms of Section 205A of the Companies Act, 1956, and shareholders who have not received dividend for that year, may write to the Registrar of Companies, Delhi & Haryana. Unclaimed dividend for the year 1994-95 will be transferred to the General Revenue Account of the Central Government within the prescribed time. Members who have not encashed their dividend warrants for the said period, may please immediately write to the Registered Office of the Company.
- 12) The shareholders may furnish particulars of their Bank Account with the name and address of the Bank in which Dividend Warrant may be sent.
- 13) Members are requested to bring copies of Annual Report to the meeting.

EXPLANATORY STATEMENT**EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956****ITEM NO. 7**

In order to augment long term resources of the Company and improving its Net Owned Fund, Capital Adequacy Ratio, credit rating, other financial parameters and for the better compliance of the RBI directions, it is proposed to increase the paid up Equity share capital of the Company by preferential allotment of Equity shares to the promoters, namely, Escorts Limited, Escorts Finance Investments and Leasing Limited, Escotrak Finance and Investments Limited and Diamond Leasing and Finance Limited, other promoter companies and / or promoter group / associate companies.

While the voting rights of the promoters shall increase to the extent of shares to be allotted to them, however, the proposed allotment of shares will not result in any change in control over the Company or constitution of the Board of Directors and the Company would continue to be managed professionally by the existing management. Presently, promoters are holding 48.58% in the share capital of the Company, which would eventually increase upto 65.59% based on the actual number of equity shares allotted to them.

The Board commends the resolution for approval.

Mr. Rajan Nanda, Mr. Anil Nanda, Mr. Jayant Dang, Mr. Rakesh Chopra, Mr. Mantosh Sondhi and Mr. K.M. Mammen may be deemed to be interested or concerned in the resolution, being the directors of promoter companies also. No other Director is concerned/interested in the resolution.

ITEM NO. 8

Appointment of Mr. Jayant Dang was approved at the Annual General Meeting held on 09.09.1995 as Managing Director of the Company for a period of five years w.e.f. 1st February, 1995, on the terms and conditions including salary, perks and commission as mentioned therein subject to an overall limit of 5% of the Net Profits. Central Govt. had also approved his appointment and payment of remuneration to him as per Section I or Section II of Part II, as the case may be, of Schedule XIII to the Companies Act, 1956.

However, it is thought desirable that Board of Directors may be further authorised to reschedule the structure of remuneration payable to him as it may deem fit from time to time, however, within the overall limit of 5% of the Net Profits as already approved.

The Board commends the resolution for approval.

None of the Directors except Mr. Jayant Dang is concerned or interested in the resolution.

DIRECTORS' REPORT**TO THE MEMBERS**

Your Directors are pleased to present the Eleventh Annual Report, together with the Audited Accounts of the Company for the year ended 31st March, 1998.

FINANCIAL RESULTS

	1997-98 (Rs. in Crores)	1996-97 (Rs. in Crores)
Gross Income	148.66	117.58
Operating Profit	19.06	23.02
Profit before tax & write offs	10.93	23.02
Provision for taxes	0.25	2.75
Bad debts written off (net)	9.53	1.92
Surplus from last year	17.94	16.58
Profit available for appropriation	19.09	34.93

APPROPRIATIONS

Transfer to :				
General Reserve	0.00		1.83	
Delinquency reserve	0.00		3.70	
Special reserve	0.23	0.23	3.67	9.20
Dividend	2.02			7.09
Tax on Dividend	0.20			0.71
Surplus carried forward	16.64			17.93
	19.09			34.93

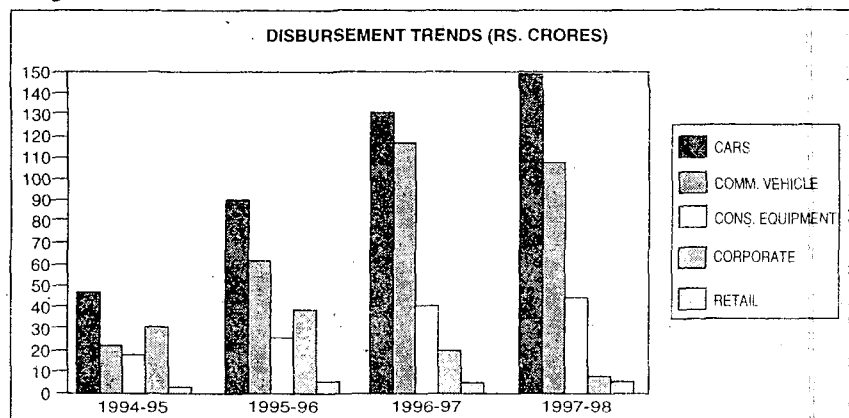
DIVIDEND

In view of the reduced profitability, your Directors recommend a payment of dividend of Rs. 1/- per share (10%) for the year ended on 31st March, 1998 absorbing Rs. 2.22 Crores (inclusive of 10% tax on dividend distributed).

OPERATIONS

The year 1997-98 was difficult year for the industry. During the year under review, GDP growth is down by 2.5% to 5%. Growth in industrial production declined further to 4.2%, compared to 7.1% in 1996-97 and 12.1% in 1995-96. The economic slow down not only led to a demand recession in the truck segment, but also depressed prices of all second hand vehicles. Customers facing repayment difficulties, chose to surrender their vehicles, and we ended up booking a loss on resale. Further our aggressive remedial action on the non-performing portfolio led to a large inventory of repossessed stock, where again we booked losses because of the depressed resale values. In the case of Non Performing Assets (NPAs) in the Corporate lease segment our legal efforts are slowly getting results and in many cases we have started getting payments. The few problematic cases are the ones where the borrower has gone to BIFR and has been declared sick. The year therefore was used to clean-up our balance sheet, improve quality of the residual portfolio on our books, and strengthen our monitoring and control systems so that after the expected shakeout in the NBFC industry we emerge as one of the stronger survivors.

The graph below gives segmentwise disbursement trends :-





Given the difficult environment for small and medium businesses, we made a conscious decision to move out of leasing of plant and equipment and develop the commercial vehicle segment over the last three years. Corporate portfolio which is the cause of large NPAs for most NBFCs, in the case of your Company is now less than 10% of the risk assets. Adequate provision has been made for the residual NPAs in this portfolio. Unfortunately, we could not grow the commercial vehicle disbursements as this segment also becomes vulnerable in a recession. We tightened our credit appraisal norms and slowed down on geographic expansion. We still see commercial vehicles as an important segment which will pickup with the investment in the infrastructure sector. We continue to grow in the car segment. The growth is from the smaller towns, as price competition from the foreign banks has reduced our share in the Metros.

As the medium term outlook of the economy remains depressed, there is a flight towards quality borrowers by all lenders, with both banks and NBFCs targeting only the top end of each segment. Consequently while there is intense price competition at the top end of the market, there are no lenders to the weaker segment or those with inadequate cashflow cushion. Given this scenario, our focus is on getting the delinquent account current rather than business growth. We continue to invest in systems and technology to upgrade our MIS so that we can monitor portfolio performance more effectively.

Our depositors have appreciated these efforts by continuing to repose their full trust in us. Although there is a crisis of confidence for the NBFC industry, your Company continues to enjoy high renewal rates on deposits. Our fixed deposit interest rates inclusive of brokerages are lower than other NBFCs with the same rating. We securitized small portion of our car portfolio towards the fiscal year end. We are also considering the offers in hand for further securitization this year. This not only reduces our cost of funds, but also reduces our dependence on fixed deposits thereby providing a large liquidity cushion.

Our future strategy is again cautious growth and at the same time to improve capital adequacy ratio to approximately 14 % by infusion of additional capital. We also plan to increase the share of construction equipment business in our portfolio given the Government's thrust on the infrastructure sector.

During the year under review your Company also launched E-cash, a smart card based secure electronic purse. This is a plastic card with a microchip, where the amount is pre-loaded electronically. It facilitates off-line transaction processing without the need for any authorization. Even though this payment mechanism concept is relatively new, we are proud to be the first one to launch it in India. It is gradually picking up popularity and we see great future potential for this business.

FINANCIAL RESOURCES

a) Public Deposits :

During the year, the public response to your Company's public deposit schemes continued to be encouraging, despite the downgrading of the credit rating of the Company by CRISIL from FAA to FAA(-) mainly due to negative environment for NBFCs.

Further, pursuant to revised directions issued by RBI a ceiling has been imposed on the quantum of public deposits that can be accepted by your Company linked with Net Owned Fund (NOF) and credit rating. Therefore, Company has initiated several steps to bring the excess deposits within limits within the prescribed time.

2649 deposits aggregating Rs. 340.57 Lacs had matured for payment but remained unclaimed as on 31st March, 1998. Reminders were sent to the depositors and ongoing efforts are made to obtain consent enabling expeditious refund / renewal of these deposits.

b) Institutional Funds :

Your Company continues to enjoy a good support of Commercial Banks and Financial Institutions.

During the year under review, Financial Institutions and Banks sanctioned fresh term loans aggregating to Rs. 47.50 Crores, while working capital facilities from banks were enhanced to Rs. 115 Crores (Rs. 105 Crores as fund based and Rs. 10 Crores as non fund based). The Company received sanctions for securitising its auto portfolio amounting to Rs. 35 Crores. However, it securitised its auto portfolio of Rs. 10.65 Crores only to meet its fund requirements.

SUBSIDIARY COMPANIES

Escorts Securities Limited

During the year under review, Escorts Securities Limited, a subsidiary of your Company, consolidated its position as a premier

DIRECTORS' REPORT CONTD ...

broking house in Delhi. The Company's financial performance has improved. The Company achieved a Profit of Rs. 3.28 Lacs for the year ended 31.3.98 as compared to a loss of Rs. 49.41 Lacs in the previous year. As the prospects for the equity markets remain negative, strategy in Escorts Securities Limited; therefore, is to gradually build the retail customer base in the major cities and keep overheads to a minimum.

Escorts Asset Management Limited

During the year under review, Escorts Asset Management Limited, a subsidiary of your Company, has been able to wipe out the entire accumulated losses during its first full year of operations. The Company achieved a profit of Rs. 19.33 Lacs. Escorts Income Bond, the maiden scheme of Escorts Mutual Fund, has provided a return of 20.12% p.a. to the unitholders during the year and a growth in net assets of over 20% since its inception. Company has just launched its second fund this year, Escorts Income Plus, which is an open ended debt fund.

DIRECTORS

In accordance with the Articles of Association of the Company, Mr. Anil Nanda, Mr. Mantosh Sondhi and Mr. K.M. Mammen retire by rotation, and being eligible, offer themselves for re-appointment.

The Directors place on record their condolence on the sad demise of Mr. V.K. Laroia and express their appreciation of the valuable services rendered by him during his tenure as Director.

AUDITORS

M/S N.D. Kapur & Co., Chartered Accountants retire at the conclusion of the ensuing Annual General Meeting. They have not opted to seek re-appointment as auditors of the Company for the year 1998-99.

M/S N.M. Rajji & Co., Chartered Accountants, being eligible, offer themselves for being appointed as the Statutory Auditors of the Company.

AUDITORS' OBSERVATIONS

The observations of the Auditors are explained, wherever necessary, in appropriate notes to the accounts.

PARTICULARS OF EMPLOYEES

Particulars of employees in terms of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 are annexed to and form part of this Report.

INFORMATION UNDER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956

Being a financial services entity, your Company has no activity relating to conservation of energy and technology absorption. The Company has incurred foreign exchange expenses on business travel abroad amounting to Rs.13.02 lacs.

ACKNOWLEDGEMENT

Your Directors acknowledge the support received from Bankers, Financial Institutions, Government Agencies, Customers and Depositors. They also take this opportunity to record their appreciation of the contribution made by all employees to the operations of the Company during a testing year. Lastly our thanks to our esteemed shareholders for their continued support and encouragement.

for and on behalf of the Board

New Delhi
May 30, 1998

RAJAN NANDA
Chairman