

19th Annual Report 2004-2005



We help you build homes
(A subsidiary of HDFC Ltd.)

Redefining focus
to prepare for a new growth phase

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Challenge

Don't go through life,
grow through life.

- Eric Butterworth

The challenge of growth is perhaps more daunting than all challenges thrown up in life - and this is true especially in the housing finance industry.

Growth creates its own challenges: the challenge of consolidating on earlier gains; the challenge of retaining the confidence of existing customers; the challenge of meeting expectations of new first time customers in a buoyant housing sector; the challenge of staying one step ahead of competitors and the challenge of continuing to satisfy all stake holders.

GRUH thrives on challenge. It is gearing up to face the new challenges of sustaining growth. Exploring new markets, expanding coverage to new customers and tapping them through novel channel partners will drive the endeavour to rise to these challenges.

Working in tandem with its time-tested strengths of corporate character, determination, tenacity, toughness, perseverance, adaptability, exemplary team spirit and proven expertise in customer cultivation, these strategies will lead GRUH on to new paradigms of success in the year ahead



HIGHLIGHTS

Operational Highlights

(Rs. in Crores)

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Loan disbursements	166.63	183.58	188.80	202.16	218.13	299.83
Cumulative disbursements						1742.65
Average compounded growth rate						12.47
Cumulative investment made possible in the Housing sector						2727.86

Financial Highlights

(Rs. in Crores)

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Profit and Loss Account						
Interest Income	65	75	79	78	76	78
Interest Expenses	53	60	60	58	55	50
Net Interest Income	12	15	19	20	21	28
Other Income	4	5	5	6	7	5
Net Revenues	16	20	24	26	28	33
Operating Cost	5	6	7	7	8	9
Operating Profit	11	14	17	19	20	24
Depreciation	2	2	2	1	1	1
Provision for Contingencies and Amount Written Off (Net)	3	5	6	5	4	3
Profit Before Tax	6	7	9	13	15	20
Profit After Tax	5	6	8	11	13	17
Balance Sheet						
Stockholders' Equity	45	49	53	59	63	73
Borrowed Funds	444	450	487	555	572	806
Loans Outstanding	420	452	480	556	582	817
Investments	11	12	16	21	19	22
Key Ratios						
Loans to Total Assets (%)	85.31	88.86	87.96	89.76	91.25	92.71
Gross NPA to Total Assets (%)	4.50	4.46	3.06	1.68	1.54	1.81
Net NPA to Loans (%)	4.34	3.90	2.43	0.81	0.30	0.66
Net Interest Margin to Average Assets (%)	2.65	2.97	3.61	3.47	3.35	3.72
Non-Interest Expenses to Average Assets (%)	1.36	1.33	1.57	1.45	1.36	1.25
Fees to Average Assets (%)	0.93	0.88	0.95	0.90	0.90	0.62
PAT to Average Assets (%)	0.98	1.22	1.54	1.76	2.12	2.20
Return on Average Networth (%)	11.80	12.93	15.66	18.08	21.73	24.42
Earning Per Share (Rs.)	1.62	2.28	3.02	3.84	5.03	6.31
Dividend Per Share (Rs.)	0.50	0.80	1.20	1.50	1.80	2.10
Dividend Payout Ratio (%)	26.74	38.68	39.72	44.01	40.40	37.98
Book Value Per Share as at March 31 (Rs.)	16.87	18.40	20.18	22.34	23.91	27.72
Market Price Per Share as at March 31 (Rs.)	7.90	8.75	17.85	15.90	29.70	45.05
Capital Adequacy Ratio (%)	10.15	11.47	17.65	18.26	19.26	15.71

Learning to grow



Lessons learnt while growing stimulate further growth and lead to excellent performance in the school of life

GRUH has been an important contributor in the learning curve for rural housing finance. The organization has 'customer cultivation' and 'new learning quotients' embedded in its genes.

Strength of corporate character, determination, tenacity and adaptive postures are lessons which GRUH has learned from its own experience and the shared experiences of its peers.

The strategy of consolidating its financial strengths while also introducing new products and exploring new markets has paid off. GRUH will now readjust its focus to foray into new markets so that it can leverage its experience and add to its growth potential.



BOARD OF DIRECTORS AND THEIR BRIEF PROFILE :

- Mr. K. M. Mistry, the non-executive Chairman of the Company is the Managing Director of Housing Development Finance Corporation Limited (HDFC). He is a Chartered Accountant and a Fellow Member of the Institute of Chartered Accountants of India. Mr. Mistry is the Chairman of Intelenet Global Services Pvt. Ltd. Mr. Mistry serves as a director on the board of reputed companies like HDFC Bank Ltd., HDFC Chubb General Insurance Co. Ltd., HDFC Standard Life Insurance Co. Ltd., Credit Information Bureau (India) Ltd., The Great Eastern Shipping Co. Ltd., Sun Pharmaceutical Industries Ltd., Next Gen Publishing Ltd., and Infrastructure Leasing & Financial Services Ltd. He has been on the board of GRUH since 2000. He is a member of the Audit Committee and Compensation Committee of GRUH.
- Mr. S. M. Palia, is a development banker. He holds a degree in Commerce, Law and Banking [CAIIB, CAIB (London)] and has 25 years working experience in Industrial Development Bank of India (IDBI) in various capacities. He retired as Executive Director of IDBI in 1989. He is on the board of reputed companies like Tata Iron & Steel Company Ltd. and The Associated Cement Companies Ltd. He has been on the board of GRUH since 1993. He was Vice Chairman of the Company from 1993 to 2000 and Chairman of the Company for one year from January 2001. He is Chairman of the Audit, Compensation and Shareholders'/ Investors' Grievance Committees of GRUH.
- Mr. Rohit C. Mehta, is a prominent and successful industrialist possessing a wide and varied experience in the management of business and industry. He is a Law Graduate from the Bombay University. He was International President of Lions Clubs International. He has also been the President of Federation of Indian Chambers of Commerce & Industry. He is the Chairman of Torrent Power AEC Ltd. and Rajesh Malleables Ltd. He is a director of Cama Hotels Ltd. and Gujarat Hotels Ltd. He has been on the board of GRUH since 1987 and was Chairman of the Company from 1987 to 1998. He is a member of the Audit Committee of GRUH.
- Mr. Prafull Anubhai, is a management consultant and is associated with educational institutions like Indian Institute of Management (IIMA), Ahmedabad Education Society (AES) etc. He has done his B.Sc.(Econ.) from the London School of Economics and attended PMD at Harvard Business School. He has 30 years of experience as a Chief Executive of Textile Manufacturing Operations and presently he is a Director in companies like Torrent Cables Ltd., The EMSAF – Mauritius (The Emerging Markets South Asian Fund), Mahavir Spinning Mills Ltd. (Vardhman Group), Birla Sun Life Trustee Co. Pvt. Ltd. etc. He has been on the board of GRUH since 1987. He is a member of the Audit Committee and the Shareholders'/ Investors' Grievance Committee of GRUH.
- Ms. Renu S. Karnad, is the Executive Director of HDFC. She is a graduate in law and holds a Master's Degree in economics from the University of Delhi. She has been employed with HDFC since 1978. She has been appointed as the Executive Director of HDFC in 2000. She is in charge of overall lending business activities of HDFC. She is the Chairperson of HDFC Venture Capital Ltd. She is also a director in companies like Credit Information Bureau (India) Ltd., HDFC Bank Ltd., HDFC Asset Management Co. Ltd., HDFC Chubb General Insurance Limited, HDFC Realty Ltd., Intelenet Global Services Pvt. Ltd. and ICI India Ltd. She has been on the board of GRUH since 2000. She is a member of the Compensation Committee of GRUH.
- Mr. K. G. Krishnamurthy, is working with HDFC as Sr. General Manager – Technical Services and has been with HDFC for over 26 years. He is a graduate from IIT, Kharagpur with a management degree from Jamnalal Bajaj Institute of Management, Mumbai. He has been appointed on the board of GRUH since January 2004. He is a director in companies like HDFC Realty Ltd., HDFC Venture Capital Ltd., Tata Housing Development Co. Ltd. (THDC), Rockfort Estate Developers Ltd. and Indian Association for Savings and Credit (IASC).
- Mr. R. K. Pandey, is working with the National Housing Bank (NHB) as Deputy General Manager (IT) and has been with the NHB since 1989. He is a nominee director of NHB. He holds a Master's degree in Physics. He has been on the board of GRUH since 2003.
- Mr. Sudhin Choksey, the Managing Director of GRUH, is a Chartered Accountant from the Institute of Chartered Accountants of India. He has been employed with GRUH since 1993 and was the Executive Director of the Company since 1996. He was appointed as the CEO of the Company in 1998 and the Managing Director in 2000. He has the working experience of handling functional areas of finance, commercial and general management both in India and abroad. He is a director of Gujarat State Financial Services Ltd. and Deepak Nitrite Ltd. He is a member of the Audit Committee of Gujarat State Financial Services Ltd. and Deepak Nitrite Ltd. He is a member of the Shareholders'/Investors' Grievance Committee of GRUH.



SENIOR EXECUTIVES

Mr. Kamlesh Shah	General Manager (Corporate Office)
Mr. Avinash Srivastava	DGM (Retail Lending – Maharashtra)
Mr. Amit Chokshi	DGM (Retail Lending – Gujarat)
Mr. Utpal Kapadia	Chief Manager (Information Systems)
Mr. Suresh Iyer	Chief Manager (Operations)
Mr. Nilesh Mehta	Senior Manager (HRM and Administration)
Mr. Jayesh Jain	Chief Accounts Manager
Mr. Marcus Lobo	Company Secretary

AREA MANAGERS

Mr. Manish Gandhi	Ahmedabad
Mr. Umesh Agrawal	Aurangabad
Mr. Amit Rashiwadekar	Kolhapur
Mr. Dahyabhai Vadher	Palanpur
Mr. Dushyant Joshi	Saurashtra
Mr. Rahul Anklesaria	Vadodara
Mr. Rajendra Rajput	Nagpur

AREA IN – CHARGES

Mr. Amar Vyas	Kutch
Mr. Anand Rehpade	Nashik
Mr. Santosh Kulkarni	Pune
Mr. Tushar Hebalkar	Thane
Mr. Dharmesh Bhavsar	Vapi

REGISTERED OFFICE

"GRUH", Netaji Marg, Near Mithakhali Six Roads,
Ellisbridge, Ahmedabad - 380 006.

AUDITORS

M/s. SORAB S. ENGINEER & Co.,
Chartered Accountants

SOLICITORS AND ADVOCATES

M/s. Singhi & Co.,
Advocates, Solicitors and Notary

BANKERS

ABN Amro Bank N.V. * Allahabad Bank * Bank of Baroda * Bank of India * Bank of Maharashtra
Bharat Overseas Bank * Bank of Nova Scotia * Central Bank of India * Centurion Bank Ltd. * Canara Bank
Dena Bank * Development Credit Bank Ltd. * HDFC Bank Ltd. * ICICI Bank Ltd. * IDBI Bank Ltd.
Indian Overseas Bank * Kotak Mahindra Bank Ltd. * The Jammu and Kashmir Bank Ltd. * State Bank of India
State Bank of Patiala * State Bank of Saurashtra * State Bank of Travancore * Syndicate Bank * UCO Bank
Union Bank of India * Vijaya Bank

DEBENTURE TRUSTEES

IDBI Trusteeship Services Ltd., 10th Floor, Nariman Bhavan,
227, Vinay K. Shah Marg, Nariman Point, Mumbai-400 021.

Deep rooted convictions



In hostile terrain, a hardy plant spreads its roots far and wide in search of vital sustenance.

Deep rooted convictions enable GRUH to expand its coverage by following up new leads and reaching out to new first time customers.

Lack of 'Income Proof' has traditionally prevented disbursal of loans to individuals in the unorganised sector. By shifting the focus to 'will to pay' and 'ability to pay', "GRUH SUVIDHA" has opened up another potential yet untapped sector to HFCs.



DIRECTORS' REPORT

TO THE MEMBERS,

Your directors are pleased to present the Nineteenth Annual Report of your Company with the audited accounts for the year ended March 31, 2005.

FINANCIAL RESULTS (Rs. in crores)

	For the year ended March 31, 2005	For the year ended March 31, 2004
Profit Before Tax	20.67	15.70
Provision for Tax (net of deferred tax)	3.96	2.38
Profit After Tax	16.71	13.32
Add : Balance brought Forward from last year	2.38	5.15
Less : Short provision of Income – tax for earlier years (Net)	0.07	-
Less : Adjustment of deferred tax	-	1.21
Amount Available for Appropriation	19.02	17.26
Appropriations:		
Special Reserve	8.00	8.50
General Reserve	1.70	1.00
Proposed Dividend	5.56	4.77
Additional Tax on Proposed Dividend	0.78	0.61
Balance Carried to Balance Sheet	2.98	2.38
	19.02	17.26

Dividend

Your directors recommend payment of dividend of Rs. 2.10 per share for the year ended March 31, 2005 as against a dividend of Rs. 1.80 for the previous year.

Disbursements

Loan disbursements during the year were Rs. 299.83 crores as against Rs. 218.13 crores in the previous year representing a growth of 37.45%. GRUH continued to focus on the individual loan segment and disbursed Rs. 295.94 crores to 10,532 families. Cumulative disbursements as at March 31, 2005 were Rs. 1,742.65 crores.

Golden Jubilee Rural Housing Finance Scheme

GRUH disbursed Rs. 128.57 crores in respect of 5,332 dwelling units during the year under the Golden Jubilee Rural Housing Finance Scheme of the Government of India. Cumulative disbursements under the scheme have been Rs. 518.29 crores in respect of 30,258 dwelling units.

GRUH Suvidha Home Loans

GRUH Suvidha home loan product offers flexible repayment option to customers. This loan product has been designed to target the self employed and skilled workers where formal income proofs are not easily available. GRUH disbursed Rs. 15.78 crores to 623 families during the year.

Insurance Cover

GRUH has an arrangement with HDFC Standard Life Insurance Company Limited (HDFC SL) to act as a referral agent for marketing its life insurance products. Under this arrangement, GRUH has been referring customers to HDFC SL for life insurance cover under loan cover assurance products.

GRUH also has an arrangement with The Oriental Insurance Company Limited to act as the collecting agent for insurance premium for home loan customers wherein customers can take insurance cover for the property financed by GRUH.

Non Performing Assets

National Housing Bank (NHB) revised the norms for identifying an asset as a Non Performing Asset (NPA) from 180 days past due to 90 days over due with effect from March 31, 2005. GRUH has adopted the new norms in preparation of annual accounts for the year under review.

As per the new norms, GRUH's NPAs stood at Rs. 15.93 crores as at March 31, 2005 constituting 1.95% of the total outstanding loans of Rs 816.53 crores. The NPAs at the end of the previous year were Rs. 9.79 crores, constituting 1.68% of the total outstanding loans as per the old norms.

GRUH is required to carry a provision of Rs 2.70 crores towards NPAs of Rs. 15.93 crores as at March 31, 2005 as per the new norms. However, GRUH has adequate provision of Rs.10.52 crores, which is more than required under the norms. As a result, net NPAs of Rs. 5.41 crores were 0.66 % of the outstanding loans of Rs. 816.53 crores.

During the year, GRUH could also effect recoveries of loans aggregating to Rs. 1.97 crores in respect of loans written off in the earlier years.



Sale of Home Loans

GRUH sold individual home loans by way of securitisation aggregating to Rs. 40.14 crores during the year (previous year Rs. 125 crores) and continues to act as the receiving and paying agent, in respect of such loans. The total amount outstanding in respect of loans sold as at March 31, 2005 was Rs. 101.90 crores (previous year Rs. 182.53 crores).

NHB Refinance

GRUH availed refinance aggregating to Rs. 230.27 crores from NHB. A major portion of the refinance availed has been under the Golden Jubilee Rural Housing Finance Scheme. The refinance outstanding as at March 31, 2005 was Rs. 279.43 crores.

Bank Term Loans

GRUH received sanctions from banks amounting to Rs. 455 crores of which GRUH availed loans aggregating to Rs. 274.50 crores. The outstanding bank term loans as at March 31, 2005 were Rs. 264.17 crores.

Non Convertible Debentures

GRUH has filed a Shelf Information Memorandum for issuance of Secured Redeemable Non Convertible Debentures (NCDs) amounting to Rs.150 crores as per the Securities and Exchange Board of India guidelines. GRUH's NCDs have been listed on the Wholesale Debt Market segment of the National Stock Exchange of India Limited.

During the year, GRUH raised NCDs of Rs.75 crores on a private placement basis by issuance of 750 NCDs of Rs.10 lacs each for a tenure of 5 years. GRUH raised these funds at competitive market rates.

GRUH's NCDs are rated "AA" by CRISIL indicating high safety with regard to timely payment of interest and principal.

Commercial Paper

GRUH raised Rs. 75 crores through issuance of Commercial Paper during the year. GRUH's Commercial Paper is rated "P1+" by CRISIL. This rating indicates highest safety as regards repayment. As at March 31, 2005, outstanding Commercial Paper was Rs. 50 crores.

Deposits

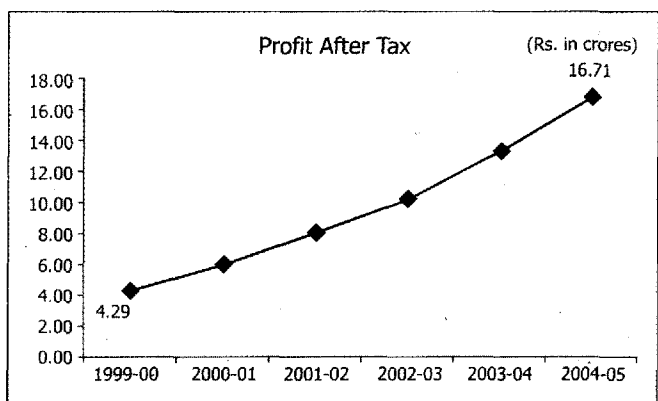
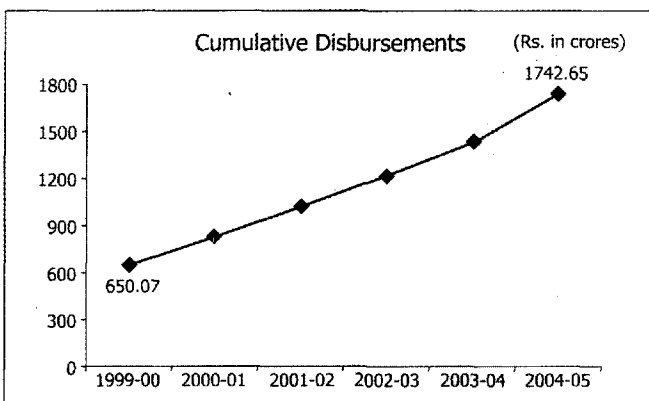
Since attractive alternate avenues were available in the retail savings market, GRUH experienced net outflow of deposits of Rs. 35.90 crores during the year although GRUH could mobilise fresh deposits of Rs. 31.42 crores and experienced a renewal ratio of 29.66%. The outstanding balance of deposits as at March 31, 2005 was Rs. 127.43 crores.

The rating assigned to GRUH's deposit programme has been maintained by the two leading rating agencies viz. Information and Credit Rating Agency Limited (ICRA) and Credit Rating and Information Services of India Limited (CRISIL). GRUH's deposits are rated "MAA+" and "FAA+" by ICRA and CRISIL respectively and both the ratings indicate high safety as regards timely repayment of principal and interest.

Unclaimed deposits

As at March 31, 2005, public deposits amounting to Rs. 4.41 crores had not been claimed by 1,666 depositors. Depositors were intimated regarding the maturity of deposits with a request to either renew or claim their deposits and subsequent reminders have been sent.

As per the provisions of Section 205C of the Companies Act, 1956, deposits remaining unclaimed and unpaid for a period of seven years from the date they became due for payment are required to be credited to Investor Education and Protection Fund established by the Government of India. Accordingly, an amount of Rs. 1.14 lacs has been transferred to the Investor Education and Protection Fund during the year.





Unclaimed dividends

As at March 31, 2005, dividend amounting to Rs. 15.65 lacs had not been claimed by shareholders. GRUH has been intimating the shareholders to lodge their claim for dividend from time to time.

As per the provisions of Section 205A of the Companies Act, 1956, dividends that have not been claimed by the shareholders for a period of seven years from the date of transfer to the unpaid dividend account are required to be credited to the Investor Education and Protection Fund. Accordingly, an amount of Rs. 1.01 lacs was transferred to the Investor Education and Protection Fund during the year.

Investments

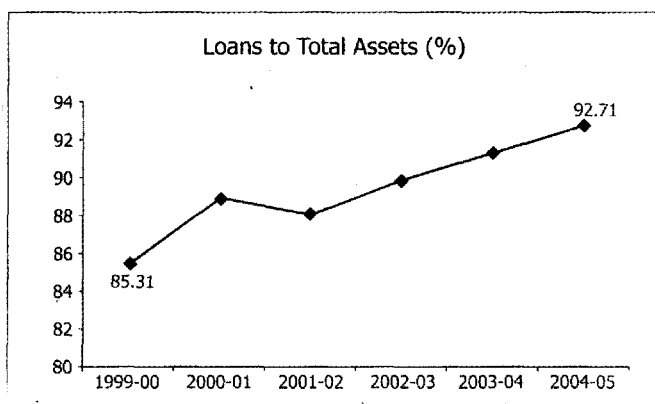
GRUH continues to maintain its Statutory Liquidity Ratio (SLR) as stipulated by NHB. Accordingly, GRUH has made investments in approved securities aggregating to Rs. 22.25 crores as at March 31, 2005 to meet the requirement of SLR.

GRUH does not carry any other investments other than those required for the purpose of SLR. GRUH has classified its investments as long term and valued them at cost. Adequate provision towards loss, if any, to be experienced on redemption of investments on maturity has been made.

Regulatory Guidelines

GRUH has complied with the guidelines issued by NHB regarding accounting standards, prudential norms for asset classification, income recognition, provisioning, capital adequacy, concentration of credit and credit rating. The details of compliances are outlined in the Management Discussion and Analysis Report.

As at March 31, 2005, GRUH's Capital Adequacy Ratio was 15.71% as against the minimum requirement of 12%.



The National Housing Bank Act, 1987, empowers NHB to levy a penalty on HFCs for contravention of the Act or any of its provisions. NHB has now decided to initiate strict imposition of penalty on erring HFCs and has also finalised the quantum of penalty to be levied for various defaults/contraventions. NHB has not levied any penalty on GRUH during the year.

The task of overseeing the implementation of the Asset Liability Management has been entrusted to the Audit Committee which oversees and reviews the ALM position vis-a-vis risk management.

During the year NHB introduced "Know Your Customer" (KYC) Guidelines for the HFCs, *inter alia*, to put in place systems and procedures to help mitigate and control incidence of financial frauds. GRUH has initiated steps to implement the KYC guidelines.

Human Resource Management

At GRUH, human resource management is considered vital for effective implementation of business plans. Constant endeavours are being made to offer professional growth opportunities and recognitions apart from imparting training to employees. GRUH's staff strength as at March 31, 2005 was 195.

Particulars regarding Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Expenditure

GRUH does not have any foreign exchange earnings and expenditure. Particulars relating to conservation of energy and technology absorption stipulated in the Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988 are not applicable to GRUH.

Particulars of Employees

GRUH had 1 employee as at March 31, 2005 (previous year Nil) employed throughout the year who was in receipt of remuneration of Rs.24.00 lacs or more per annum.

