



# GRUH Finance Limited

A Subsidiary of Housing Development Finance Corporation Limited

TWENTY THIRD ANNUAL REPORT 2008-09

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## Board of Directors

Mr. Keki M. Mistry  
**Chairman**

### Directors

Mr. S. M. Palia  
Mr. Rohit C. Mehta  
Mr. Prafull Anubhai  
Ms. Renu Sud Karnad  
Mr. K. G. Krishnamurthy

Mr. Sudhin Choksey  
**Managing Director**

### Auditors

Sorab S. Engineer & Co.  
Chartered Accountants

### Bankers

Union Bank of India  
Bank of Nova Scotia  
HDFC Bank Ltd.  
IDBI Ltd.  
State Bank of Patiala  
State Bank of Saurashtra  
ABN Amro Bank NV  
Axis Bank  
State Bank of Mysore  
Bank of India  
Development Credit Bank Ltd.  
Dena Bank  
Bank of India  
Bank of Baroda

### Registered Office

“GRUH”, Netaji Marg,  
Near Mithakhali Six Roads,  
Ellisbridge, Ahmedabad 380 006.  
Tel. No : 079-2642 1671/74  
Fax No. : 079-2656 0649

## Directors' Report

TO THE MEMBERS,

Your directors are pleased to present the Twenty Third Annual Report of your Company with the audited accounts for the year ended March 31, 2009.

### Financial Results

	For the year ended March 31, 2009 (Rs. in crores)	For the year ended March 31, 2008 (Rs. in crores)
Profit Before Tax	<b>69.58</b>	59.26
Provision for Tax (Net of deferred tax and FBT)	<b>19.30</b>	16.92
Profit After Tax	<b>50.28</b>	42.34
Add:		
Balance brought forward from last year	<b>13.92</b>	3.10
Amount Available for Appropriation	<b>64.20</b>	45.44
Appropriations:		
Special Reserve	<b>12.00</b>	11.00
General Reserve	<b>5.10</b>	4.30
Proposed Dividend	<b>16.63</b>	13.86
Additional Tax on Proposed Dividend	<b>2.83</b>	2.36
Balance Carried to Balance Sheet	<b>27.64</b>	13.92
	<b>64.20</b>	45.44

### Dividend

Your directors recommend payment of dividend of Rs. 4.80 per share for the year ended March 31, 2009 as against a dividend of Rs. 4.00 for the previous year. The dividend payout ratio for the year, inclusive of additional tax on dividend will be 39%.

### Disbursements

Loan disbursements during the year were Rs. 655.52 crores as against Rs. 632.29 crores in the previous year. The growth in disbursements significantly declined during the second half of the year following the unprecedented liquidity crunch experienced in the country's financial system as a result of the global meltdown. However,

GRUH continued to focus mainly on the retail segment and disbursed Rs. 592.81 crores to 12,733 families. Cumulative disbursements as at March 31, 2009 were Rs. 3,864.85 crores.

### Golden Jubilee Rural Housing Finance Scheme

GRUH disbursed Rs. 216.14 crores in respect of 5,554 dwelling units during the year under the Golden Jubilee Rural Housing Finance Scheme of the Government of India. Cumulative disbursements under the scheme were Rs. 1,320.28 crores in respect of 54,458 dwelling units.

### Rural Housing Fund (RHF)

The National Urban Housing and Habitat Policy 2007, released by the



Government of India recommends a multi-pronged strategy for achieving the national goal of 'Affordable Housing to All'. The rural housing segment, in particular remains underserved, constituting only about 10% of the housing finance market. Keeping this in view, the Union Budget 2008-09 provided an amount of Rs. 1,200 crores for rural housing. Based on this, National Housing Bank (NHB) formulated a scheme called Rural Housing Fund – 2008 (RHF). The scheme is aimed towards rural housing undertaken by families falling under the weaker section category as defined in the RBI guidelines on lending to the priority sector. Under the scheme, GRUH has claimed Rs.137.91 crores covering 4,089 families.

#### **Loan Assets**

As at March 31, 2009, the loan assets increased to Rs. 2,085.61 crores with a growth of 18%. Loan assets in respect of retail segment also grew by 18% and stood at Rs. 2,006.79 crores.

#### **Non-Performing Assets (NPAs)**

As per the prudential norms of NHB, GRUH's NPAs stood at Rs. 19.68 crores as at March 31, 2009 constituting 0.94% of the total outstanding loans of Rs. 2,085.61 crores. The NPAs at the end of the previous year were Rs. 19.75 crores, constituting 1.12% of the total outstanding loans of Rs. 1,769.61 crores.

GRUH is required to carry a provision of Rs. 4.50 crores towards NPAs and standard assets of non-housing loans as at March 31, 2009 as per the norms of NHB. However, as a measure of caution, GRUH

carries a provision of Rs. 22.32 crores. Net NPAs of GRUH was "NIL" on the outstanding loans of Rs. 2,085.61 crores as at March 31, 2009.

During the year, GRUH could also effect recoveries of loans aggregating to Rs. 1.03 crores in respect of loans written off in the earlier years. GRUH also took possession of properties of the defaulting borrowers under the SARFAESI Act and has sold few of such acquired properties.

#### **NHB Refinance**

GRUH received significant and timely support from NHB by way of refinance sanction of Rs. 400 crores under the Special Refinance Scheme of Reserve Bank of India apart from the normal refinance sanction of Rs. 680 crores aggregating to a total sanction of Rs. 1,080 crores during the year. GRUH availed refinance aggregating to Rs. 1,010 crores including Rs. 266 crores under RHF. The refinance outstanding as at March 31, 2009 was Rs. 1,072.47 crores.

#### **Bank Term Loans**

GRUH received sanctions from banks amounting to Rs. 1,000 crores of which GRUH availed loans aggregating to Rs. 620 crores. The outstanding bank term loans as at March 31, 2009 were Rs. 757.50 crores.

#### **Subordinated Debt**

GRUH did not issue any subordinated debt during the year. As at March 31, 2009, GRUH's outstanding subordinated debt stood at Rs. 40 crores. The debt is subordinated to present and future senior indebtedness of the company and has been assigned rating of

"LAA+" by ICRA Limited (ICRA), indicating high safety with regard to timely payment of interest and principal. This rating carries a stable outlook. Based on the balance term to maturity, as at March 31, 2009, Rs. 24 crores of the book value of subordinated debt is considered as Tier – II capital under the guidelines issued by NHB for the purpose of computation of CAR.

#### **Non-Convertible Debentures (NCDs)**

During the year, GRUH raised NCDs of Rs. 160 crores on private placement basis. These NCDs have been listed on the Wholesale Debt Market segment of the National Stock Exchange of India Limited. GRUH's NCDs are rated "LAA+" by ICRA, indicating high safety with regard to timely payment of interest and principal. This rating carries a stable outlook. The outstanding NCDs as at March 31, 2009 were Rs. 125 crores.

#### **Commercial Paper**

GRUH raised Rs. 275 crores through issuance of commercial paper during the year. GRUH's commercial paper is rated "P1+" by CRISIL Limited (CRISIL), indicating high safety as regards repayment. This rating carries a stable outlook. As at March 31, 2009, there were no outstanding commercial papers.

#### **Deposits**

Despite strong competition from banks and mutual funds, growth in deposits continued during the year. GRUH mobilised fresh deposits of Rs. 150.87 crores and experienced a renewal ratio of 46% during the year. The outstanding balance of deposits as at March 31, 2009 was Rs. 250.18 crores. The rating



assigned to GRUH's deposit programme has been maintained by the two rating agencies viz. ICRA and 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. These ratings carry a stable outlook.

### **Unclaimed Deposits**

As at March 31, 2009, public deposits amounting to Rs. 2.96 crores had not been claimed by 1,017 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 (IEPF) established by the Government of India. In terms of Section 205C of the Companies Act, 1956, no claim would lie against the Company or the said fund after the said transfer. Accordingly, an amount of Rs. 2.48 lacs was transferred to the IEPF during the year.

### **Unclaimed Dividends**

As at March 31, 2009, dividend amounting to Rs. 33.85 lacs has 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 205C of the Companies Act, 1956, dividends remaining unclaimed for

a period of seven years from the date of transfer to the unpaid dividend account are required to be credited to the IEPF. Accordingly, unclaimed dividend amount of Rs. 1.85 lacs in respect of the financial year 2000-2001 was transferred to IEPF during the year. Unclaimed dividend amounting to Rs. 2.96 lacs in respect of the financial year 2001-2002 is due for transfer to IEPF in September 2009. In terms of Section 205C of the Companies Act, 1956, no claim would lie against the Company or the said fund after the said transfer.

### **Investments**

GRUH continues to maintain its Statutory Liquid Ratio (SLR) as stipulated by NHB. Accordingly, GRUH carried investments in approved securities aggregating to Rs. 14.03 crores as at March 31, 2009 to meet the requirement of the 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 complied with the guidelines issued by NHB regarding accounting standards, prudential norms for asset classification, income recognition, provisioning, capital adequacy, concentration of credit, credit rating, 'Know Your Customer' - (KYC), Fair Practices Code and real estate & capital market exposures. The details of compliances are outlined in the Management Discussion and Analysis report.

The National Housing Bank Act, 1987, empowers NHB to levy a penalty on Housing Finance

Companies for contravention of the Act or any of its provisions. NHB has not levied any penalty on GRUH during the year.

GRUH has formulated a risk management framework, which lays the procedure for risk assessment and mitigation. The Risk Management Committee (RMC) comprises the Managing Director as the Chairman and the members include senior managers holding key positions in the Company. The RMC apprises the Audit Committee of the key risks associated with the business of the Company and the measures to mitigate them.

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

GRUH's Capital Adequacy Ratio stood at 16.21% as against the minimum requirement of 12%. Tier - I Capital was 14.57% against the minimum requirement of 6%.

### **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. During the current year, besides the in-house induction training programmes in lending operations, recoveries and accounts, employees were also nominated to training programmes conducted by NHB.

GRUH's staff strength as at March 31, 2009 was 343.



### ICAI Award

The Institute of Chartered Accountants of India (ICAI) has awarded "ICAI Award for Excellence in Financial Reporting" to GRUH for its Annual Report for the year ended March 31, 2008. A Plaque was awarded to GRUH for 'Commendable Annual Report' in the category of Banking & Financial Institutions.

### Employees Stock Option Scheme

The stock options granted to directors and eligible employees operate under two schemes, namely ESOS-2005 and ESOS-2007. The disclosures as required under Clause 12.1 of the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, as amended, have been made in the annex to this report.

### 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, 2009 employed throughout the year who was in receipt of remuneration of Rs. 24 lacs or more per annum.

In accordance with the provisions of Section 217 (2A) of the

Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, the name and other particulars of such employee are set out in the annex to the Directors' Report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Directors' Report is being sent to all shareholders of the Company excluding the annex. Any shareholder interested in obtaining a copy of the said annex may write to the company secretary at the registered office of the Company.

### Directors

In accordance with Articles 134 and 135 of the Articles of Association of the Company and the provisions of the Companies Act, 1956, Mr. Prafull Anubhai and Mr. K.G. Krishnamurthy, directors of the Company, retire by rotation at the ensuing Annual General Meeting (AGM) and are eligible for re-appointment. Your directors commend their re-appointment.

Necessary resolutions for the re-appointment of the aforesaid directors have been included in the notice convening the AGM.

None of the directors of the Company are disqualified from being appointed as directors as specified in Section 274 of the Companies Act, 1956.

### Auditors

M/s. Sorab S. Engineer & Co., Chartered Accountants, statutory auditors of the Company retire at the ensuing AGM and are eligible for re-appointment.

The Company has received a

certificate from the statutory auditors to the effect that their re-appointment, if made, would be within the limits prescribed under Section 224(1B) of the Companies Act, 1956.

### Directors' Responsibility Statement

In accordance with the provisions of Section 217(2AA) of the Companies Act, 1956 and based on the information provided by the management, your directors state that:

- (i) In the preparation of annual accounts, the applicable accounting standards have been followed.
- (ii) Accounting policies selected were applied consistently. Reasonable and prudent judgements and estimates were made so as to give a true and fair view of the state of affairs of the Company as at March 31, 2009 and of the profit of the Company for the year ended on that date.
- (iii) Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities.
- (iv) The annual accounts of the Company have been prepared on a going concern basis.

### Management Discussion and Analysis Report

In accordance with clause 49 of the listing agreements, the Management



Discussion and Analysis Report forms a part of this report.

### **Acknowledgements**

Your directors take this opportunity to place on record their appreciation to all employees for their hard work, spirited efforts, dedication and

loyalty to GRUH. The employees have worked based on principles of honesty, integrity and fair play and this has helped GRUH in maintaining its growth. The directors also wish to place on record their appreciation to shareholders, depositors, saving agents, referral

associates, NHB, financial institutions and banks for their continued support.

On behalf of the Board of Directors

MUMBAI  
April 17, 2009

KEKI M. MISTRY  
Chairman





## Annexure to the Directors' Report

Disclosure pursuant to Clause 12 of SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999

1	Options granted during the year;	Nil
2	The pricing formula;	ESOS 2005 : The closing market price on October 25, 2005 on The National Stock Exchange of India Limited (NSE), was taken as exercise price. This was the latest available closing price on the stock exchange having the higher trading volume. ESOS 2007 : The closing market price on November 19, 2007 on The Bombay Stock Exchange Ltd (BSE), was taken as exercise price. This was the latest available closing price on the stock exchange having the higher trading volume.
3	Options vested during the year;	ESOS 2005 - 1,772 options ESOS 2007 - 2,85,000 options
4	Options exercised during the year;	ESOS 2005 - 4,261 options ESOS 2007 - Nil options
5	The total number of shares arising as a result of exercise of option;	4261 shares under ESOS 2005 Nil options under ESOS 2007
6	Options lapsed during the year;	ESOS 2005 - Nil options ESOS 2007 - 27,500 options
7	Variation of terms of options;	Nil
8	Money realised by exercise of options;	ESOS 2005 - Rs.2,85,487.00 ESOS 2007 - Nil
9	Total number of options in force;	ESOS 2005 - 9,808 options ESOS 2007 - 4,55,000 options
10	Details of options granted to : (i) senior managerial personnel; (ii) any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year (iii) identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital of the Company at the time of grant;	ESOS 2005 - All the options were granted to the directors and managerial cadre personnel of the Company. Mr. Sudhin Choksey, Managing Director had been granted 10,000 options representing 5% of the total grant. No director or eligible employee has been granted options equal to or exceeding 1% of the issued equity share capital of the Company.  ESOS 2007 - All the options were granted to the directors and to the employees of the Company. Mr. Sudhin Choksey, Managing Director had been granted 50,000 options representing more than 5% of the total grant. No director or eligible employee has been granted options equal to or exceeding 1% of the issued equity share capital of the Company.
11	Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard (AS) - 20.	Rs. 14.51



## Annexure to the Directors' Report (Continued)

12	Disclosure of difference between the employee compensation cost using intrinsic value of stock options instead of fair value of the options and the impact of difference on profits and on EPS of the Company	Since the options under ESOS-2005 and ESOS-2007 were granted at the market price, the intrinsic value of the option is nil. Consequently the accounting value of the option (compensation cost) was also nil. However if fair value of the options according to Black-Scholes-Mertons Option Pricing Model was to be used for calculating the accounting value of the option, the compensation cost would have been Rs. 74.54 lacs, the profit after tax would have been lesser by Rs. 74.54 lacs and basic and diluted EPS would have been Rs. 14.30 & Rs. 14.30 respectively.																								
13	Weighted-average exercise prices and weighted-average fair values of options.	<p>ESOS - 2005</p> <p>All the options were granted at an exercise price of Rs. 67 per option and hence the weighted average exercise price is Rs. 67 per option. The weighted average fair value of the option (using the Black-Scholes-Mertons Option Pricing Model) works out to Rs.13.</p> <p>ESOS - 2007</p> <p>All the options were granted at an exercise price of Rs.164.65 per option and hence the weighted average exercise price is Rs. 164.65 per option. The weighted average fair value of the option (using the Black-Scholes-Mertons Option Pricing Model) works out to Rs.17, Rs. 24 and Rs. 26 for options vesting on November 20, 2008, November 20, 2009 and November 20, 2010 respectively.</p>																								
14	A description of the method and significant assumptions used during the year to estimate the fair values of options.	<p>ESOS - 2005</p> <p>The key assumptions used in Black-Scholes-Mertons Option Pricing Model for calculating the fair value as on the date of grant i.e. October 25, 2005 are :</p> <p>(a) risk-free interest rate: 6.38%</p> <p>(b) expected life: 1140 days</p> <p>(c) expected volatility of share price: 30%</p> <p>(d) dividend yield rate: 5%</p> <p>(e) The market price of the equity share on the date of grant ranged from Rs. 66.10 to Rs.68.50.</p> <p>ESOS - 2007</p> <table><tr><td>Assumption Parameters</td><td>20-Nov-08</td><td>20-Nov-09</td><td>20-Nov-10</td></tr><tr><td>Risk free interest rate(%)</td><td>7.5</td><td>7.61</td><td>7.66</td></tr><tr><td>Expected life (days)</td><td>324</td><td>690</td><td>1055</td></tr><tr><td>Expected volatility of share price (%)</td><td>25</td><td>25</td><td>25</td></tr><tr><td>Dividend yield rate (%)</td><td>3.75</td><td>4.75</td><td>6.25</td></tr><tr><td>Market price of equity shares on the date of grant ranged from</td><td>Rs.161 to Rs.183</td><td>Rs.161 to Rs.183</td><td>Rs.161 to Rs.183</td></tr></table>	Assumption Parameters	20-Nov-08	20-Nov-09	20-Nov-10	Risk free interest rate(%)	7.5	7.61	7.66	Expected life (days)	324	690	1055	Expected volatility of share price (%)	25	25	25	Dividend yield rate (%)	3.75	4.75	6.25	Market price of equity shares on the date of grant ranged from	Rs.161 to Rs.183	Rs.161 to Rs.183	Rs.161 to Rs.183
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## Auditors' Report

### TO THE MEMBERS OF GRUH FINANCE LIMITED

1. We have audited the attached Balance Sheet of GRUH FINANCE LIMITED, as at March 31, 2009, the Profit and Loss Account and also the Cash Flow Statement of the Company for the year ended on that date both annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditors' Report) Order, 2003 ("Order") issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the

Companies Act, 1956, we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Further to our comments in the Annexure referred to above, we report that:

i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books and proper returns adequate for the purpose of our audit have been received from the branches not visited by us;

iii) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

iv) In our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report comply with the applicable accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;

v) On the basis of written representations received from the

directors, as on March 31, 2009 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2009 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956; and

vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) In the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2009;

(b) In the case of the Profit and Loss Account, of the profit for the year ended on that date; and

(c) In the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For SORAB S. ENGINEER & CO.  
Chartered Accountants

CA. M. P. Antia  
Partner

MUMBAI  
April 17, 2009

Membership No. 7825