



Reaching out... what does it mean? Which star guides you on your way? Which dream goads you, pulls you to stretch yourself to your limits? Which voice in the sky keeps telling you to reach and grasp its hand?

When you commit yourself to a vision, you tell the world what your stand is. On your way to fulfilling promises, the challenge is not about success alone. The real test is to continue the journey - learning, improving... growing.

As we cross one more milestone, the questions go deeper. What next? How? Which way? But the answer remains the same, like it was on day one: *"Listen to the small voice inside. Reach for a new dream within."*

For us, Rs. 1,00,000 crore in loan approvals is more than just an achievement. It begets the question, "What more?"

At HDFC, we have forever looked at pathways that are yet to be seen by most. In fact, we have a heritage of 'firsts' to live upto. Whether it was being among the first to help people find more affordable homes or spreading our network to meet the customers - wherever they were.

To us, nothing seems to have changed. There are still people dreaming of homes, looking for easier, better, quicker finance options to 'live' their dreams. HDFC is always there to reach out.

1,00,000 Crores in Approvals

For us, reaching out is not just a theme, but a reiteration. With the influx of technology, we have managed to open up new avenues for customer interaction - starting from the smallest enquiry to the disbursement of the biggest loan, we are always listening, interacting and responding faster than ever before.

The journey continues. There are peaks yet to be conquered.

Annual General Meeting (AGM)

Day/Date : Tuesday, July 18, 2006

Time : 3.00 p.m.

Venue : Birla Matushri Sabhagar, 19, Marine Lines, Mumbai 400 020.

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Operational Highlights

(Rs. in crores)

	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	Cumulative
Approvals	2,521.70	3,251.27	4,071.76	5,305.15	6,879.77	9,041.25	11,731.57	15,215.56	19,715.33	25,633.67	112,431.62
Disbursements	2,100.78	2,753.61	3,424.27	4,492.74	5,803.01	7,616.56	9,950.87	12,696.82	16,206.75	20,679.20	93,103.46
Cumulative Investment made possible in the housing sector	26,207.51	32,710.05	40,540.36	50,742.57	64,502.11	82,584.61	103,734.78	134,165.90	173,595.90	224,863.24	
1 Crore = 10 Million											
1 Lac = 100,000											

Financial Highlights

(Rs. in crores)

	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Gross Income	1,265.33	1,444.68	1,752.73	2,015.56	2,382.35	2,700.15	2,975.62	3,077.85	3,410.44	4,278.39
Profit After Tax	247.89	293.36	333.90	401.81	473.65	580.01	690.29	851.78	1,036.59	1,257.30
Shareholders' Funds	1,662.75	1,777.24	1,971.84	2,095.97	2,371.94	2,702.84	3,043.86	3,393.79	3,883.10	4,468.33
Share Capital - Equity	119.11	119.11	119.11	119.11	120.08	121.71	244.41@	246.61	249.12	249.56
- Preference	50.00	—	—	—	—	—	—	—	—	—
Reserves and Surplus	1,493.64	1,658.13	1,852.73	1,976.86	2,251.86	2,581.13	2,799.45	3,147.18	3,633.98	4,218.77
Term Borrowings	3,035.47	3,724.66	4,571.18	6,764.69	8,219.95	10,264.67	14,130.73	19,346.39	28,807.31	37,979.93
Deposits	3,502.19	4,423.79	5,252.40	6,223.85	7,249.83	8,491.02	9,121.55	9,337.65	7,840.09	8,741.42
Loans Outstanding	5,709.32	6,944.07	8,219.26	10,063.00	13,224.66	17,207.68	21,749.91	27,974.27	36,011.50	44,990.12
Dividend (%)	45	75*	85	190**	125	250***	110@	135	170	200
Book Value per Share (Rs.)#	68	75	83	88	99	111	125	138	156	179
Earnings per Share (Rs.)#	10	12	14	17	20	24	28	35	42	50

* Includes one time special dividend of 20% to mark the completion of HDFC's 20th Anniversary.

** Includes one time special millennium (interim) dividend of 100%.

*** Includes one time special Silver Jubilee dividend of 100%.

@ The Corporation allotted bonus shares in the ratio of 1:1 in December, 2002. Dividend is for the full year on the enhanced capital post the issue of bonus shares.

Adjusted for bonus.

Board of Directors

Mr. Deepak S. Parekh Chairman

Mr. Keshub Mahindra Vice Chairman

Mr. Shirish B. Patel

Mr. B. S. Mehta

Mr. D. M. Sukthankar

Mr. D. N. Ghosh

Dr. S. A. Dave

Mr. S. Venkitaramanan

Dr. Ram S. Tarneja

Mr. N. M. Munjee

Mr. D. M. Satwalekar

Ms. Renu S. Karnad Executive Director

Mr. K. M. Mistry Managing Director

Brief Profile of the Directors of the Corporation

Mr. Deepak S. Parekh is the executive Chairman of the Corporation. He is a Fellow of the Institute of Chartered Accountants (England & Wales). Mr. Parekh joined the Corporation in a senior management position in 1978. He was inducted as a wholetime director of the Corporation in 1985 and was appointed as the Chairman in 1993. He is the chief executive officer of the Corporation.

Mr. Keshub Mahindra is the vice chairman of the Corporation. He is a graduate of Wharton-University of Pennsylvania, U.S.A. He is a renowned industrialist and is the chairman of the Mahindra & Mahindra Group of companies. He has been a director of the Corporation since its inception. He is also the Chairman of the Compensation Committee of Directors.

Mr. Shirish B. Patel holds a Master's degree in arts from the University of Cambridge. He founded and is now the chairman-emeritus of a firm of consulting civil engineers with expertise in prefabrication, mass housing, tall buildings, factories, bridges and marine works. He was one of the three original authors of the idea of New Bombay. He has been a director of the Corporation since its inception and is a member of the Compensation Committee of Directors.

Mr. B. S. Mehta is a graduate in commerce and a Fellow of the Institute of Chartered Accountants of India. Mr. Mehta is an accountant in practice dealing with taxation, accountancy matters and mergers and acquisitions valuation. He is a director on the boards of several prominent companies in India and has been a director of the Corporation since 1988. He is also a member of the Compensation Committee and Audit Committee of Directors.

Mr. D. M. Sukthankar was an officer of the Indian Administrative Services and was Secretary, Ministry of Urban Development, Government of India and later Chief Secretary to the Government of Maharashtra. Mr. Sukthankar is recognised as an expert urban developer and has been associated with the housing sector for a number of years. He has been a director of the Corporation since 1989.

Mr. D. N. Ghosh holds a Master's degree in economics. He was the former chairman of the State Bank of India. He is currently the chairman of ICRA Limited and a director of many prominent companies. He has been a director of the Corporation since 1989 and is a member of the Audit Committee of Directors.

Dr. S. A. Dave is a Doctorate of economics and holds a Master's degree in economics from the University of Rochester. Dr. Dave was the former chairman of the Securities and Exchange Board of India and the Unit Trust of India. Dr. Dave is currently the chairman of the Centre for Monitoring Indian Economy and a director of many prominent companies. He has been a director of the Corporation since 1990. He is also the Chairman of the Audit Committee of Directors.

Mr. S. Venkitaramanan holds a Master's degree in industrial administration from the Carnegie Mellon, University of Pittsburgh and a Master's degree in physics from the University of Kerala. Mr. Venkitaramanan is a former governor of the Reserve Bank of India. He is a director of many prominent companies. He has been a director of the Corporation since 1994.

Dr. Ram S. Tarneja holds a Doctorate in human resources from Cornell University. He also has a M. A. both from the University of Delhi and University of Virginia and a B. A. Honors from University of Delhi. He was the former managing director of Bennett, Coleman & Company Limited. He is a director of several prominent companies and has been a director of the Corporation since 1994. He is also the chairman of the Investors' Grievance Committee of the Directors.

Mr. N. M. Munjee holds a Master's degree in economics from the London School of Economics. He is a director on the boards of several prominent companies in India. He was earlier the executive director of the Corporation and had been working with the Corporation from 1978 to 1998.

Mr. D. M. Satwalekar holds a Bachelor's degree in technology from the Indian Institute of Technology, Bombay and a Master's degree in business administration from the American University, U.S.A. He is currently the managing director and chief executive officer of HDFC Standard Life Insurance Company Limited and a director of many prominent companies in India. He was earlier the managing director of the Corporation and had been working with the Corporation from 1979 to 2000. He is also a member of the Investors' Grievance Committee of Directors.

Ms. Renu S. Karnad, the Executive Director of the Corporation, is a graduate in law and holds a Master's degree in economics from Delhi University. She has been employed with the Corporation since 1978 and was appointed as the Executive Director of the Corporation in 2000. She is responsible for overseeing all aspects of lending operations of HDFC.

Mr. K. M. Mistry, the Managing Director of the Corporation, is a Fellow of the Institute of Chartered Accountants of India. He has been employed with the Corporation since 1981 and was appointed as the executive director of the Corporation in 1993. He was appointed as the deputy managing director in 1999 and the Managing Director in 2000. He is also a member of the Investors' Grievance Committee of Directors.

Senior Executives

SENIOR GENERAL MANAGER

*Mr. K. G. Krishnamurthy

GENERAL MANAGERS

Mr. R. Anand

Mr. R. Arivazhagan

*Mr. Gautam Bhagat

Mr. Conrad D'Souza

Ms. Madhumita Ganguli

Mr. C. V. Ignatius

Mr. Mathew Joseph

Mr. Irfan Koreishi

Mr. Suresh Menon

Mr. P. K. Mukherjee

Mr. S. N. Nagendra

Mr. M. Ramabhadran

Mr. S. Ramanath

Mr. V. S. Rangan

Mr. Prabhat Rao

Mr. Rajeev Sardana

Mr. B. V. Sundararajan

* On deputation to subsidiary company

DEPUTY GENERAL MANAGERS

Mr. Dilip Apte

Mr. P. S. Barman

Mr. B. M. Bhasin

Mr. Girish Bhatia

Ms. Mala Bhojwani

Mr. Udayan Bose

Mr. S. K. Chaudhari

Mr. Thomas Cherian

Mr. Jagdish Dave

Mr. Nikhil Dwivedi

Mr. Dipta Bhanu Gupta

Mr. Prosenjit Gupta

Mr. Sudhir Kumar Jha

Mr. Pradip V. Kakad

Mr. K. Suresh Kumar

Mr. Praveen Kumar

Ms. Manju K. Malkani

Mr. M. B. Mishra

Ms. Sonal Modi

Mr. N. R. Pai

Mr. N. Radhakrishnan

Ms. Premalatha Ramanathan

Mr. T. Ravishankar

Mr. Subodh Salunke

Mr. R. Sankaranarayanan

Mr. Jayesh N. Shah

Mr. H. S. Shamasundara

Mr. Dilip Shetty

Mr. S. K. Vasant

COMPANY SECRETARY

Mr. Girish V. Koliyote

REGISTERED OFFICE

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Tel. Nos.: 22-2414 6267/68
Fax Nos.: 22-2414 7301
E-mail : securities@hdfc.com

AUDITORS

S. B. Billimoria & Company
Chartered Accountants

BRANCH AUDITORS

Pannell Kerr Forster
Chartered Accountants

DEBENTURE TRUSTEES

Central Bank of India
Debenture Trustee Section
Central Bank – MMO Bldg.,
6th Floor, 55, M. G. Road,
Fort, Mumbai 400 023.

IL&FS Trust Co. Ltd.
IL&FS Financial Centre,
Bandra-Kurla Complex,
Bandra (E), Mumbai 400 051.

IDBI Trusteeship Services Ltd.
Asian Building, Ground Floor,
17, R. Kamani Marg,
Ballard Estate, Mumbai 400 001.

Law Debenture
Law Debenture Trust (Asia) Ltd.
Room 1904,
19/F Two International Finance
Centre, 8, Finance Street,
Central Hong Kong.

TRUSTEES - FCCB

Deutsche Trustee Company Ltd.
Winchester House,
1 Great Winchester Street,
London EC2N 2DB

SOLICITORS AND ADVOCATES

Amarchand & Mangaldas & Suresh
A. Shroff & Company
Wadia Ghandy & Company

PRINCIPAL BANKERS

Central Bank of India
HDFC Bank Ltd.
State Bank of India
Bank of India
Canara Bank

Chairman's Statement

'To be forewarned is to be forearmed' - the dynamics of this industry need to be understood and respected. We need to realise that growth in the sector will be sustained only if certain basic issues are dealt with effectively and efficiently. Of these, the issue of housing in the urban scenario is, for me, one of the urgent challenges that we need to tackle.

This year, I have an exceptional reason to stand before you and celebrate HDFC's success. Today, we bear witness to an achievement that has taken us to a new level of performance – the attainment of Rs. One Lac crore in loan approvals. With this, HDFC has become India's leading example of how a private institution can successfully enable growth in a socially relevant sector. Not only is this feat a corroboration of the vision of housing finance that HDFC's founder, Mr H T Parekh, set for the organisation, but is also the result of the one principle that has guided HDFC's growth through the years – the principle of 'reaching out'. This is an approach we have followed with all our stakeholders – be it customers, employees, investors or channel partners. I thank all of them for their belief in HDFC's dream and unflinching support in critical times.

Housing – a responsibility

If there is one factor that has remained unchanged through the years, it is our focus on service management and customer relationships. We have always believed in the dreams of our customers, realising that buying a home is an emotional decision for an individual, an investment that one makes for a family, a place of refuge and a haven away from the anxieties of life.

For HDFC, the journey has been an eventful one. Our initial years saw us build an organisation in a sector without precedents in terms of regulations, standards and products. We began by concentrating on understanding concepts, building the industry and then moved to introspection, in an attempt to create an internal management style and identify core values that the organisation could base its strategies on. Throughout, HDFC was guided by its core objective – housing for all through the development of the housing finance sector in India. Achieving this meant reaching out to different parts of the country, an initiative that was supported by the introduction of technology and our extensive network of branches.

When I reflect upon this stance that has been HDFC's focus from the day of its incorporation, I realise that today's achievements are in fact an opportunity to take our performance to new levels. The stage is set for a new thrust in our quest for the development of housing in India.

At this point, we need to spare a thought to what will drive the next phase of growth at HDFC. In the current environment of multiple players, all competing for a share of the housing finance market, how do we differentiate ourselves? For me, I think the answer lies in knowing our customers – their needs, their dreams and their aspirations. And being a specialised player dedicated to housing finance gives us a natural edge with our knowledge of housing and real-estate markets and the ability to better sensitise ourselves to customers looking for housing finance solutions.

At the same time, we need to stay ahead of the curve and look out for triggers for growth, future trends and price movements. It is this understanding that will ensure customer service that goes beyond mere transaction processing.

Making informed decisions

Beyond doubt, the Indian housing sector is reaping the benefits of the upswing in its growth cycle. However, can we take a look at the current scenario and say that we are moving towards affordable housing? I think not. As a service provider in this industry, we have always believed that the customer should be the end beneficiary *and we therefore need to ensure that they make informed decisions.*

The increased FDI inflow and easy access to bank credit has recently led to a greater demand for developed properties. However, vast portions of India are undeveloped, leading to a shortage in supply of unencumbered properties in growing towns and cities. Furthermore, while a portion of the current demand is real, at least a quarter of this is being driven by speculation (in some pockets of the country, as high as three-fourths of the sales are effected by pure investors). These buyers are unlikely to be the end users and hence real estate is fast becoming a speculative commodity. This is an unhealthy trend and has led to unaffordable price levels in many cities.

We need to exercise caution. As in every cyclical environment, a downtrend is inevitable. Availability of easy credit leads to speculative buying. When the dream run comes to an end and prices fall, it leads to a decline in housing equity, borrowing and spending; also widespread defaults could generate a contraction in economic growth.

Globally, the likelihood of tighter monetary policies, hardening of interest rates and rising oil prices can no longer be ignored and while a crash may not be in the offing, a slowdown in home-price appreciation is a definite possibility. Likewise for India, there will be a correction in home prices, but a more urgent and bigger correction must happen in the commercial space and land prices in particular. In India, we cannot hide behind the argument that the need for over twenty million dwelling units will sustain housing demand in the years to come. Exceptionally high prices have locked out the majority of the population that needs homes and are today forced to live with their families in small apartments. Add to this divergent regulations and lack of guidelines for the builder community and you have a situation where housing for all may remain a distant dream.

We also have additional causes for concern since our real estate markets are not as transparent as international practices. In the building industry, standards are not uniform or enforced. Property transactions, ownership records as well as land titles are unclear and the legal system is fraught with loopholes. It would be unwise to ignore these realities and live under the premise that the real estate market will continue to remain immune to them.

Regulators have taken steps in this regard by instructing lenders to increase the risk weight on their real estate lending. Additionally, in a bid to safeguard against the perceived real estate bubble, it has directed lenders against disbursing loans if requisite government clearances are not in place. While such initiatives are welcome, I strongly believe that self-regulation and information dissemination is critical in the