

*Where your Investment
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13th

ANNUAL REPORT

2003-2004



IKF Finance Limited

40-1-144 ,3rd Floor, Corporate Centre
M.G. Road, VIJAYAWADA-520 010., PHONE : 2474644

IKF FINANCE LIMITED**BOARD OF DIRECTORS :**

Mr. I.D.Agarwal
 Mr. V.G.K. Prasad
 Mrs. V.Indira Devi
 Mr. N.Haranath
 Mr. V.Purnachandra Rao
 Dr. Sinha S. Chunduri
 Dr. Prasad J. Athota
 Mr. K.V.Venkateswara Rao

Non-executive Chairman
 Managing Director
 Whole Time Director
 Director
 Director
 NRI Director (Alternate Director Mr. N.V.S.N.Prasad)
 NRI Director (Alternate Director Mr. Ch.V.Rama Rao)
 Director

AUDIT COMMITTEE :

Mr. K.V.Venkateswara Rao
 Mr. V.Purnachandra Rao
 Mr. N.Haranath

SHARE TRANSFER & INVESTOR GRIEVANCE COMMITTEE:

Mr. N.Haranath
 Dr. Prasad J. Athota
 (Alternate Director Mr. Ch.V.Rama Rao)

MANAGEMENT COMMITTEE:

Mr. V.G.K.Prasad
 Mrs. V.Indira Devi
 Mr. N.Haranath
 Dr. Prasad J. Athota
 (Alternate Director Mr. Ch.V.Rama Rao)

BANKERS :

The Federal Bank Limited
 Andhra Bank
 ING Vysya Bank Limited
 UTI Bank Limited
 The A.P. Mahesh Co-operative Urban Bank Ltd.

AUDITOR :

Hanumaiah & Co.,
 Chartered Accountants
 1 & 2 Ground, RAM'S VSR Apartments
 Mogalrajapuram,
 VIJAYAWADA - 520 010.

LISTING :

The Hyderabad Stock Exchange Limited, Hyderabad
 The Stock Exchange, Mumbai
 The Stock Exchange, Ahmedabad

REGISTERED OFFICE :

40-1-144, 3rd Floor,
 Corporate Centre, M.G. Road,
 VIJAYAWADA - 520 010. (A.P.)

SHARE TRANSFER AGENTS :

Bigshare Services Pvt. Limited
 E-2, Ansa Industrial Estate, Sakivihar Road,
 Saki Naka, Andheri (E), MUMBI - 400 072.

BRANCH OFFICES :

- ◆ D.No. 40-1-144, 1st Floor, Corporate Centre, M.G. Road, VIJAYAWADA - 520 010.
- ◆ D.No.47-11-9, Vamsee Complex, Dwaraka Nagar, Daimand Park, VISAKHAPATNAM - 530 016.
- ◆ D.No.77-8-4, R T C Complex Road, RAJAHMUNDY - 533 101.
- ◆ D.No.8-3-219/19, Dhanunjaya Chambers, Yusufguda Road, Ameerpet, HYDERABAD - 500 073.
- ◆ 2nd Floor, Kothamasu Plaza, 3/1 Arundalpet, GUNTUR - 522 002.
- ◆ D.No. 4-33/5/F, Mamatha Complex, Opp.: Government Hospital, Main Road, KODAD - 508 206.

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Date : 20th September, 2004 Time : 4:30 P.M. Day : Monday Venue : HOTEL ILAPURAM Gandhi Nagar Vijayawada - 520 003 Krishna District Andhra Pradesh	Notice Directors' Report Management Discussion & Analysis Report on Corporate Governance Auditor's Report Balance Sheet Profit & Loss Account Schedules to the Accounts Balance Sheet Abstract Cash Flow Statement	2 4 6 10 16 20 21 22 31 32

IKF FINANCE LIMITED**NOTICE TO THE SHAREHOLDERS**

Notice is hereby given that the 13th Annual General Meeting of the Company will be held on Monday, the 20th September, 2004 at Hotel Ilapuram, Gandhi Nagar, Vijayawada at 4.30 P.M. to transact the following business;

ORDINARY BUSINESS:

01. To receive, consider and adopt the Balance Sheet as at 31st March, 2004 and the Profit and Loss Account as on that date and reports of the Directors' and Auditors' thereon.
02. To declare dividend for the financial year 2003-2004
03. To appoint a Director in place of Shri. I D Agarwal, who retires by rotation and being eligible, offers himself for re-appointment.
04. To appoint a Director in place of Shri. V. Purnachandra Rao, who retires by rotation and being eligible, offers himself for re-appointment.
05. To appoint a Director in place of Shri. N. Haranath, who retires by rotation and being eligible, offers himself for re-appointment.
06. **Appointment of Auditors:**

To consider and, if thought fit, to pass with or without modification(s) the following resolution as an Ordinary Resolution.

"Resolved That M/s. Hanumaiah & Co., Chartered Accountants, Vijayawada, who retire at this annual general meeting, being eligible and willing to act as Auditors of the Company, be and are hereby appointed as Auditors of the Company to hold office till the conclusion of next Annual General Meeting at such a Remuneration as may be fixed by the Board of Directors in addition to the reimbursement of out-of-pocket expenses."

SPECIAL BUSINESS:

07. To be moved as a Special Resolution.

To consider and, if thought fit, to pass with or without modification(s) the following resolution as Special Resolution.

"Resolved That, Subject the provisions of the Companies Act, 1956, (including any statutory modification(s) or re-enactment thereof for the time being in force and as may be enacted hereinafter), the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 and subject to such approvals, permissions and sanctions, as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions, which may be agreed to, by the Board of Directors of the Company (hereinafter referred to as "the Board", which term shall be deemed to include any Committee thereof for the time being exercising the powers conferred on the Board by this Resolution), consent is hereby accorded to the Board to delist the Company's Ordinary Shares from all or any of the following Stock Exchanges viz. The Hyderabad Stock Exchange Limited, Hyderabad and The Stock Exchange, Ahmedabad."

By order of the Board

Sd/- x x x
(V.G.K. PRASAD)
Managing Director

Place: Vijayawada
Date : 29.07.2004.



ANNEXURE TO NOTICE

Explanatory Statement Under Section 173(2) of the Companies Act, 1956.

Item No.7:

VOLUNTARY DELISTING OF THE COMPANY'S ORDINARY SHARES FROM CERTAIN STOCK EXCHANGES

Presently the Company's Securities are listed on The Hyderabad Stock Exchange Limited, The Stock Exchange, Mumbai and The Stock Exchange, Ahmedabad. The trading volumes of the Company's Ordinary Shares on The Hyderabad Stock Exchange Limited, Hyderabad and The Stock Exchange, Ahmedabad are insignificant/nil since first listing of the Shares in 1995. The Continued listing on the said Stock Exchanges is not considered necessary. Therefore, the Board of Directors at its meeting held on 29th July, 2004 has decided to apply for the voluntary delisting of the Company's shares from the said Stock Exchanges. The proposed voluntary delisting from the said Stock Exchanges will not adversely affect any investors including the Members located in the regions where the said Stock Exchanges are situated. Pursuant to the SEBI (Delisting of Securities) Guidelines, 2003, it is now proposed to seek the Members' approval by way of a Special Resolution as set out in the Resolution at Item No.7. In terms of the said Guidelines, as the Company's shares shall continue to remain listed on The Stock Exchange, Mumbai (BSE), which has nationwide terminals, no Exit Option is required to be offered to the Shareholders.

The proposed Delisting is in the interest of the Company and the Board recommends the resolution for approval by the members. None of the other Directors of the Company is, in any way, concerned or interested in the said resolution.

NOTES

1. A member, entitled to attend and vote at this Annual General Meeting may appoint a Proxy to attend and vote on a poll on his behalf. A Proxy need not be a member of the Company. Proxies, in order to be effective, must be received at the Registered Office of the Company not less than forty eight hours before the commencement of this Annual General Meeting.
2. Members are requested to bring their copies of Annual Reports to the Meeting.
3. Members/Proxies should bring the attendance slips filled in for attending the Meeting.
4. Members are requested to notify any change in their address along with the Pin Code Number immediately either to the Company or the Share Transfer Agents M/s.Bigshare Services Private Limited, E-2, Ansa Industrial Estate, Sakivihar Road, Sakinaka, Andheri (East), Mumbai - 400 072.
5. The Register of Members and the Share Transfer Books of the Company will remain closed from 16th September, 2004 to 17th September, 2004, both days inclusive.
6. Dividend, if declared, will be paid to those members whose names appear on the Register of Members of the Company as on 17th September 2004.
7. Members desiring any information as regards the Accounts are requested to write to the Company at an early date so as to enable the management to reply.
8. The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, in respect of Special Business is annexed hereto and forms part of the notice.
9. Pursuant to the provisions of Section 205A of the Companies Act, 1956, as amended, Dividends for the financial year ended 31st March, 1997 and thereafter, which remains unpaid or unclaimed for a period of 7 years will be transferred to the Investor Education and Protection Fund (IEPF) of the Central Government. Members who have not encashed their Dividend warrants so far for the financial year ended 31st March, 1997 or any subsequent financial year(s) are requested to large their claims Company.

Members are advised that in terms of the provisions of the Section 205C of the Companies Act, 1956, once unclaimed dividend transferred to IEPF, no claim shall lie in respect thereof.

By order of the Board

Sd/- x x x
(V.G.K. PRASAD)
Managing Director

Place: Vijayawada

Date : 29.07.2004.

IKF FINANCE LIMITED



DIRECTORS REPORT

Your directors have pleasure in presenting the 13th Annual Report along with audited accounts of the Company for the year ended 31st March, 2004. The summarised financial results of the Company, are given hereunder:

Financial Results:

(Rs.in Lakhs)

Particulars	Year ended 31.03.2004	Year ended 31.03.2003
Income from Operations	422.57	426.10
Total Expenditure	55.94	44.16
Interest	131.03	129.44
Profit Before Dep. & Taxes	235.60	252.50
Depreciation	72.93	110.98
Provision for Current Tax	37.43	30.40
Provision for Deferred Tax	20.95	10.09
Profit after Tax	104.29	101.04
General Reserve	5.25	5.06
Reserve Fund	21.00	20.21
Dividend (proposed)	66.88	66.88
Dividend Tax	8.36	8.36
Surplus Carried to Balance Sheet	2.80	0.31

Dividend:

Your Directors are happy to recommend a Dividend of 15% (Rs.1.50 per Equity Share) for the year ended 31st March, 2004. The Dividend together with Dividend Tax of Rs.8.36 Lakhs absorbs a Sum of Rs.75.24 Lakhs (Rupees Seventy Five Lakhs Twenty Four thousand Only).

Review of Operations:

During the year under review, the Gross Income of the Company has declined slightly on account of change in Hire Purchase and Lease Mix in line with a conscious decision taken by the Company. In spite of considerable decline in Lease Income, the Gross Income (net of Depreciation on Lease Assets) has increased by 6.81%. The Profit before Tax has increased by 14.94% from Rs.141.52 Lakhs to Rs.162.67 Lakhs and the Net profit increased from Rs.101.04 Lakhs to Rs.104.29 Lakhs registering a growth rate of 3.22%.

Business:

The year 2003-2004 witnessed an overall growth in the automobile sector. The growth story was led by Medium and Heavy Commercial Vehicles (M & HCVs) registering a 40% growth while Light Commercial Vehicles (LCVs) recorded a 32% jump in total Sales and Three Wheelers grew by 23%. In line with this up-trend in Automobile Sector, your Company achieved a healthy growth in business during the year under review. Total Disbursements has increased from Rs.835.69 Lakhs to Rs.1208.06 Lakhs registering a growth of 44.56%.

Your Company has been consolidating its market share in the commercial vehicle financing, both New & Used, segment while maintaining its lead in Three Wheeler segment, despite intense competition from Big NBFCs and banks, through well planned penetration strategies and superior customer service, without compromising on its asset quality.

Future Outlook:

The retail finance business will continue to grow strongly and your company continues to focus on Retail segment. However, the profile of the industry is continuously evolving. The competitors that your company contends with today are bigger and better equipped to compete on multiple platforms than those that comprised the industry a few years ago. In the last 13 years, your company has repeatedly demonstrated the ability to innovate, institute superior risk management safeguards and respond swiftly to changes in the external environment. A good distribution network and steady relationships with vehicle dealers have helped the company establish a significant market presence in the state of Andhra Pradesh. To continue this growth and sustain profitability, the company will focus on providing superior service to customers, lowering its cost of funds, maintaining a good asset quality and enhancing operating efficiencies. To achieve this, the company will invest in developing a strong team supported by good systems.

Deposits:

Your Company has not mobilised any Public Deposits during the year under review and there are no outstanding Deposits at the end of the year.

Bank Limits:

Your company continues to enjoy Cash Credit Limits with the Federal Bank Limited (Rs.150 Lakhs), Andhra Bank (Rs.100 Lakhs) and the ING Vysya Bank Limited (Rs.200 Lakhs). During the year under review, UTI Bank Limited has sanctioned Cash Credit Limits of Rs.75 Lakhs.

Your Company proposes to negotiate for enhancement of Credit Limits with the existing Bankers and also for Fresh Limits from other Banks to further expand the operations.

Business Associations/Tie-Ups:

During the year under review, your Company has entered into a Joint Lending Arrangement with HDFC Bank Limited for extending finance on Commercial Vehicles, both New & Used, and Three Wheelers.



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Infusion of Additional Capital:

During the year under review, your company has allotted 15,58,500/- Equity Shares of Rs.10/- each at a Premium of Rs.5/- per Share aggregating Rs.234 Lakhs to Non-Resident Indians (NRIs) and Overseas Corporate Bodies (OCBs) on Preferential basis and the same are yet to be listed on the respective Stock Exchanges.

Capital Adequacy & Asset Quality:

The Capital to Risk Assets Ratio of your company is 28% as on 31.03.2004, well above the minimum of 12% prescribed by the Reserve Bank of India. All the assets of the company are classified as Standard assets.

RBI Guidelines:

The company has complied with all the applicable regulations of the Reserve Bank of India.

Credit Rating:

During the year under review, the Credit Rating of your company has upgraded by one notch to 'BBB+' from 'BBB' by Credit Analysis and Research Limited (CARE) for its Secured Non Convertible Debenture schemes to the tune of Rs.350 Lakhs, signifying the adequate degree of safety for Debenture holders funds regarding timely payment of interest and principal.

De-listing from the Hyderabad Stock Exchange Limited and the Stock Exchange, Ahmedabad:

Your Company proposes voluntary de-listing of the company's shares from The Hyderabad Stock Exchange Limited and The Stock Exchange, Ahmedabad, considering the insignificant trading on the exchange pursuant to the SEBI (Voluntary De-listing) Guidelines, 2003. The company's shares continue to be listed on the Stock Exchange, Mumbai (BSE), which has nationwide terminals and as such the de-listing from Hyderabad Stock Exchange Limited, Hyderabad (HSE) & The Stock Exchange, Ahmedabad (ASE) will not cause any hardship to shareholders.

Corporate Governance:

A report on corporate governance, giving the status of implementation of mandatory and non-mandatory norms as per clause 49 of the listing agreement together with a Certificate from the Statutory Auditors, is attached and forms a part of the Directors' Report.

Management's Discussion and Analysis:

In accordance with the listing requirement, the Management's Discussion and Analysis forms part of this report.

Directors:

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the company, Sri I D Agarwal, Sri V.Purnachandra Rao and Sri N.Haranath retire by rotation and being eligible offer themselves for reappointment. Your Directors are pleased to place on record their appreciation for the services rendered by them during their tenure as Directors and wish to recommend their reappointment.

Particulars of Employees:

During the year under review, none of the employees of your Company were in receipt of remuneration in excess of the limits prescribed for disclosure as per Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employee) Rules, 1975 as amended from time to time.

Information on Conservation of Energy, Technology absorption and Foreign Exchange earnings/outgoings as per Section 217 (1) (e) of the Companies act, 1956:

Your Company has no activities relating to the conservation of energy and technology absorption. Your company didn't have any foreign exchange earnings during the year under review. However your company has received Rs.234 Lakhs in USD towards subscription to Equity Share Capital from Non-Resident Indians (NRIs) and Overseas Corporate Bodies (OCBs) on Preferential basis. The company does not have any foreign exchange earnings.

Directors' Responsibility Statement:

Pursuant to Section 217 (2AA) of the Companies Act, 1956 the Directors to the best of their knowledge and belief confirm that:

in the preparation of the Profit & Loss account for the year ended 31st March, 2004 and the balance sheet as at that date applicable accounting standards have been followed.

appropriate accounting policies have been selected and applied consistently and judgments and estimates that are reasonable and prudent have been made so as to give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit of the company for that period. Further, in accordance with the accounting standard on intangible assets (AS-26) together with the clarification issued by the Institute of Chartered Accountants of India, business origination costs incurred during the year has been expensed fully and the accumulated balance of business origination cost as at 31st March, 2004 is being amortised over the tenure of the respective agreements.

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- 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 fraud and other irregularities. To ensure this, the company has established internal control systems, consistent with its size and nature of operations, subject to the inherent limitations that should be recognised in weighing the assurance provided by any such system of internal controls. These systems are reviewed and updated on an ongoing basis. Periodic internal audits are conducted to provide reasonable assurance of compliance with these systems. The audit committee meets at regular intervals to review the internal audit function.
- the financial statements have been prepared on a going concern basis.

Auditors:

M/s. Hanumaiah & Co, Chartered Accountants, retire at the ensuing annual general meeting and are eligible for re-appointment.

Acknowledgement:

Your directors thank all the customers, debenture holders, vehicle dealers, bankers and business associates, The A.P. Mahesh Co-Operative Urban Bank Limited, ING Vysya Bank Limited - Retail SBU and HDFC Bank Limited for their continued support to your company.

Your directors also thank all the shareholders for the co-operation extended to their company and look forward to their continued support. Your directors also place on record their appreciation of the admirable contribution made by the employees at all levels for posting a satisfactory performance.

By order of the Board

Sd/- x x x
(V.G.K. PRASAD)
Managing Director

Place: Vijayawada
Date : 29.07.2004.

MANAGEMENT DISCUSSION & ANALYSIS

INTRODUCTION:

The motive behind this discussion is to share Management's perspective on the contemporary developments in the Financial Services sector, challenges and opportunities as well as an analysis of the Company's performance.

This discussion outlines the Company's Business Outlook, Goals & Strategies, Internal Audit & control measures and Risk management & monitoring and should be read in conjunction with the Directors Report, Financial Statements and Notes on accounts appended to it.

IKF Finance Limited is one of Andhra Pradesh's largest non-banking finance companies. The company provides a range of financial services such as asset finance, asset management. The market for each of these services offers high potential for growth. At present, retail vehicle finance is the only business of the company. The company has, over the years, built significant strengths in regional distribution network as well as robust credit and recovery systems and sound internal processes and risk management systems.

The company's long-term aspiration is to play a significant role in meeting the transportation finance requirements for commercial transport vehicle owners.

ECONOMIC ENVIRONMENT:

The year 2003-2004 was closed with a very positive note and the Indian economy is estimated to have recorded one of its best growth performance backed by a rebound in agricultural growth. High economic growth during the year was also aided by global recovery, competitive advantages of Indian Services sector and signs of revival in the manufacturing sector. The Agricultural and allied activities is estimated to have increased by 9.1% and the Industrial Sector by 6.7% while the services sector has registered a healthy growth of 8.7%. As per the revised estimates by Central Statistical Organisation, GDP is estimated to have grown at 8.20% as compared to the growth rate of 4% during the financial year 2002-2003. Inflation continues to hover around 5% levels.



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High growth in foreign exchange reserves witnessed in financial year 2002-2003 continued in financial year 2003-2004 aided by high Exports growth, high invisible inflows and a current account surplus. India's balance of payment position remains comfortable and the current account is expected to remain in surplus during the current year also. Indian Currency has appreciated significantly on account of weak US Dollar and the Forex reserves have crossed a historical high of USD 100 Billion and reached to 107 Billion at the end of 31st March, 2004.

As in financial year 2002-2003, the Interest rates are softened further during financial year 2003-2004 in view of comfortable foreign exchange reserves and stable inflation in line with the Reserve Bank policy. However, rising inflation and hardening of interest rates in US may reverse the trend during the Current Financial year as opined by the Banking professionals.

AUTOMOTIVE SECTOR:

It is imperative to take note of the prospects of the Indian Automotive sector as it is directly related to the business of your Company.

The market for commercial vehicles is growing due to various factors: national economic growth, the implementation of large infrastructure projects and a replacement demand generated by the rigorous implementation of emission control norms, restriction on vehicle age and the availability of better products. Besides, the improvement of road infrastructure, restrictions on overloading, and the lower cost of debt are continuing to improve the overall economics of transport operators. In 2003-2004, the Medium & Heavy Commercial Vehicles (M & HCVs) has registered a growth of 40% and Light Commercial Vehicles (LCVs) grew by 32%. Three Wheelers have recorded a growth of 23%.

PRODUCT MIX:

IKF has maintained a policy of developing a diversified and de-risked product mix and enriching its offerings based on ongoing market feedback. The company periodically evaluates new product opportunities on criteria such as the size of the market, perceived risk, intensity of competition and its ability to enhance customer value. Traditionally, the company has financed the acquisition of commercial vehicles. During the Financial Year 2003-2004, your company has entered into Tractors segment and has begun to test tractor markets.

OPERATING & FINANCIAL PERFORMANCE:

Despite growth in the asset base, income was lower primarily on account of change in Hire Purchase and Lease mix.

1. However, the Hire Purchase Income has increased by 34.56% on account of increase in HP disbursements, with more number of agreements, during the financial year 2003-2004.
2. The Lease Income has declined by 27.75% on account of change in Lease/HP disbursements mix in line with the conscious policy taken by the Company to reduce the Lease exposure over a period of time in view of Accounting Standard "Accounting on Leases" stipulated by ICAI.

As such, the Gross Income (net of Depreciation on Lease Assets) has increased by 6.81% in spite of considerable decline in Lease Income.

Asset Portfolio Management Income has increased by 42.96% on account of Joint Lending Tie-up with HDFC Bank Limited and other Income by 51.77% primarily on account of Income derived from sale of Investments.

Total Income (net of Depreciation on Leased Assets) and Profit before Tax has increased by 11.44% and 14.94% respectively.

In spite of increase in Administrative Expenses and declining lending rates, the Net Profit, after providing for both Current year Income tax and as well as Deferred Income Tax, has increased by 3.22%.

Your Company achieved a growth of 44.56% in disbursements during the year in a highly competitive market without compromising on quality of its portfolio. Gross disbursements touched Rs.1208.06 Lakhs as against Rs.835.69 Lakhs in the previous year.

Capital Adequacy (CRAR) at 28% as on 31.03.2004 was comfortably higher than the statutory requirement of 12%.

BUSINESS OUTLOOK:

The retail vehicle finance business has significant potential for continued growth. In view of this, the company aims to pursue steady growth in the business. In the past, IKF achieved steady growth by implementing a well defined strategy of geographical and product expansion. The company's strengths in distribution and its solid relationships with customers, associates and product dealers offer a reliable base on which to build future growth. The company believes that in the years ahead, its ability to consistently deliver a superior service to customers and associates will be its primary differentiator. Towards this, the company is setting itself significantly higher standards of service and is streamlining processes and strengthening operational systems. The company is optimistic of resuming its high growth over the coming years.

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Your company is confident of meeting the challenges and posting a satisfactory performance for the year, as it does during the past, in spite of the pressure on lending rates.

RISK MANAGEMENT & CREDIT MONITORING:

Your company lays great emphasis on risk management and Credit monitoring and evolved a variety of Risk management and monitoring tools while dealing with a wide variety of retail customers across the State. Increased competition and market volatility has enhanced the importance of risk management in financial services business. The sustainability of the business is derived from the following:

- Identification of the diverse risks faced by the company.
- The evolution of appropriate systems and processes to measure and monitor them.
- Risk management through appropriate mitigation strategies within the policy framework
- Monitoring the progress of the implementation of such strategies and subjecting them to periodical audit and review.
- Reporting these risk mitigation results to the appropriate managerial levels.

The main risks that the company manages are:

CREDIT RISK:

Credit risk is the risk of financial loss arising out of the inability or unwillingness of a customer to meet his obligation.

RISK MITIGATION:

The credit risk in vehicle finance is managed through appropriate processes including the sourcing of business, thorough due diligence and the follow-up of collection processes. Clear underwriting and documentation standards have been established for various customer segments. Risk is also managed by monitoring the performance of the overall portfolio across various product / customer segments.

OPERATIONAL RISK:

This is the risk of loss from inadequate or failed systems, processes or procedures. These may be attributed to human failure or technical problems given the increased use of technology and staff turnover.

RISK MITIGATION:

The company has a comprehensive internal control and security system, which provides for appropriate checks and balances. Its internal audit process reviews internal controls and compliance of the control systems. The system is continuously upgraded based on market developments and the company's cumulative experience.

MARKET RISK:

Market risk refers to uncertainty of future earnings resulting from changes in the values of financial instruments. This could arise from changes in liquidity conditions and interest rates.

RISK MITIGATION:

The market risk arising from fund-based exposures is managed through an asset-liability management process. Though the company does not have an Asset - Liability Management Committee (ALCO), your Company's management closely monitors the risk management policies at frequent intervals, to ensure that there are no imbalances or excessive concentrations. A risk limit is fixed to contain any adverse impact on the bottomline, even while taking advantage of the upside potential offered by the market.

LIQUIDITY RISK:

This risk could arise out of a mismatch in the maturity profile of the assets and liabilities, potentially impacting the company's ability to meet its immediate financial obligations.

RISK MITIGATION:

The management of liquidity risk includes the measurement and forecasting of the cash flow position across various time buckets. The policy also stipulates the permissible maximum amount of mismatches within any time bucket. The company has made suitable arrangements on a continuous basis to ensure that there is no disruption of business on account of liquidity constraints.

INTEREST RATE RISK:

Interest rate risk arises when there is a mismatch between cash flows, subject to interest rate fluctuations within a specified period adversely impacting the net interest income. The company measures interest rate risks by the 'duration gap' method. The duration gap is a risk measure that tracks the gap between assets and liabilities sensitive to interest rate changes.



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RISK MITIGATION:

The company manages the duration gap within the set risk limit, by altering the tenure and structure of borrowings.

GOALS & STRATEGIES:

In an era of extreme competition and multiple market players, where rates seem to be the only differentiator, your company's strategy is to position itself as a high quality and preferred service provider. Your Company's Tie Ups with various Banks and Financial Institutions, which are market leaders in their respective areas, has yielded positive results and strengthened its competitive edge. Your company continues to be wedded to the ideal of total customer satisfaction and reaches out to its customers through its branch network with a diverse range of financial products.

It is the continuous endeavour of your company to meet the ever-increasing customer expectations and to deliver greater value addition to customers. Today, your company is able to offer a wide range of financial services, either on its own or on behalf of its business associates, to its customers. To differentiate on the basis of quality and deliver superior products and services to customers remains your company's prime objective.

HUMAN RESOURCES AND INFRASTRUCTURE:

As the company's operations have gained steadily in size, reach and complexity, its organisation structure and human resources have kept pace with the changes. The company fosters a culture that values high performance and maintains high professional standards. Regular training for skill up-gradation and open communications enable the organisation to sustain a talent pool which provides an edge to the company in a highly competitive business.

CAUTIONARY FORWARD LOOKING STATEMENTS

The company has made forward-looking statements in this document that are subject to risks and uncertainties. Forward-looking statements may be identified by their use of words like 'expects', 'believes', 'estimates' or similar expressions. All statements that address expectations or projections about the future, including, but not limited to, statements about company's strategy for growth, product development, market position, market expenditures, and financial results are forward looking statements.

For those statements the company cautions that numerous important factors could affect the company's actual results and could cause its results to differ materially from those expressed in any such forward looking statements.

By order of the Board

Sd/- x x x
(V.G.K. PRASAD)
Managing Director

Place: Vijayawada
Date : 29.07.2004.