

IKF FINANCE LIMITED

REGD.OFFICE: # 40-1-144, III FLOOR, CORPORATE CENTRE,

M.G. ROAD, VIJAYAWADA - 520 010.

ANDHRA PRADESH, INDIA

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ReportJunction.com

15th Annual Report
2005-2006

IKF FINANCE LIMITED**BOARD OF DIRECTORS :**

Mr. V.G.K. Prasad
 Mrs. V.Indira Devi
 Mr. N.Haranath
 Dr. Sinha S. Chunduri
 Dr. Prasad J. Athota
 Mr. K.V.Venkateswara Rao
 Mr. S.Veerabhadra Rao
 Mr. M.Mohan Murali

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

AUDIT COMMITTEE :

Mr. K.V.Venkateswara Rao
 Mr. S. Veerabhadra Rao
 Mr. M.Mohan Murali

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

AUDITOR :

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

LISTING :

Bombay Stock Exchange Limited, Mumbai

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.

15 TH ANNUAL GENERAL MEETING	
Date	: 30th September, 2006
Time	: 4:30 P.M.
Day	: Saturday
Venue	: Registered Office of the Company 40-1-144, 3rd Floor Corporate Centre, MG Road, Vijayawada - 520 010 Krishna District Andhra Pradesh, India

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NOTICE TO THE SHAREHOLDERS

Notice is hereby given that the 15th Annual General Meeting of the Company will be held on Saturday, the 30th September, 2006 at the Registered Office of the Company at 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, 2006 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 2005-2006
03. To appoint a Director in place of Dr.Sinha S Chunduri, who retires by rotation and being eligible, offers himself for re-appointment.
04. To appoint a Director in place of Dr.Prasad J Athota, who retires by rotation and being eligible, offers himself for re-appointment.
05. **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:

06. **To be moved as an ordinary Resolution.**

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

"RESOLVED THAT Shri.Sunkara Veerabhadra-Rao who was appointed as the Additional Director of the Company on 30.12.2005 by the Board of Directors pursuant to Section 260 of the Companies Act, 1956 holds office upto the date of this Annual General meeting and in respect of whom the Company has received a notice under section 257 of the Companies Act, 1956, in writing, alongwith a deposit of Rs.500/- proposing his candidature for the office of Director, be and is hereby appointed as the Director of the Company, subject to retirement by rotation."

07. **To be moved as an ordinary Resolution.**

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

"RESOLVED THAT Shri.Myneni Mohan Murali who was appointed as the Additional Director of the Company on 30.12.2005 by the Board of Directors pursuant to Section 260 of the Companies Act, 1956 holds office upto the date of this Annual General meeting and in respect of whom the Company has received a notice under section 257 of the Companies Act, 1956, in writing, alongwith a deposit of Rs.500/- proposing his candidature for the office of Director, be and is hereby appointed as the Director of the Company, subject to retirement by rotation."

08. **To be moved as an ordinary Resolution.**

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

"RESOLVED THAT, pursuant to the provisions of Section 293(1) (d) and other applicable provisions, if any, of the Companies Act, 1956, subject to the regulations, if any, of the Reserve Bank of India, consent of the Company be and is hereby accorded to the Board of Directors, to borrow from time to time such sum or sums of money from the Company's Bankers and/or from any one or more persons, Companies, bodies Corporate or Financial



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Institutions, whether by way of Cash Credit, advance or loans or by issue of debentures or otherwise and whether unsecured or secured by mortgage, charge, hypothecation, lien, or pledge of all or any assets or properties of the Company, whether movable or immovable whether existing or future, notwithstanding that the moneys borrowed together with the money already borrowed by the company, apart from the temporary Loans obtained from company's Bankers in the ordinary course of business, may exceed the aggregate of Paid Up Capital and Free Reserves of the Company, that is to say reserves not set apart for any specific purpose, provided that the total amount to be borrowed by the board of Directors shall not at any time exceed Rs.100 Crores (Rupees One hundred Crores Only)."

09. To be moved as an ordinary Resolution.

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

"RESOLVED THAT the consent of the Company be and is hereby accorded under Section 293 (1) (a) and other applicable provisions, if any, of the Companies Act, 1956, subject to the regulations, if any, of the Reserve Bank of India, to the Board of Directors of the Company to mortgage/charge/hypothecate/pledge, from time to time on such terms and conditions as it may deem fit, the assets and properties of the Company, whether movable or immovable and both present and future, in favour of Banks, Financial Institutions and others under Loan Agreements and/or Hypothecation Deeds to be executed by the Company in their favour towards loans already availed or to be availed from them subject, however, that the aggregate value of such loan outstanding at any one time shall not exceed a sum of Rs.100 Crores (Rupees One hundred Crores Only)."

10. To be moved as a Special Resolution.

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

"RESOLVED FURTHER THAT the consent of the Company be and is hereby accorded under section 372A and other applicable provisions, if any, of the Companies Act, 1956 subject to the regulations, if any, of the Reserve Bank of India, to the Board of Directors of the Company to give Guarantee to Banks, Financial Institutions, Non-Banking Financial Companies, Mutual Funds, Corporate Bodies, Firms, Individuals or to any other entities from time to time on such terms and conditions as it may deem fit under Asset Portfolio Management/Joint Lending/Securitisation arrangements and/or such other arrangements to be executed by the Company in their favour towards Asset Portfolio Management/Joint Lending/Securitisation limits already availed or to be availed from them subject, however, that the aggregate value of such corporate guarantees at any one time shall not exceed a sum of Rs.100 Crores (Rupees One hundred Crores Only)"

11. To be moved as a Special Resolution.

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

"RESOLVED THAT, pursuant to the provisions of Section 81 and all other applicable provisions, if any, of the Companies Act, 1956 and enabling provisions in the Memorandum and Articles of Association of the Company and, subject to the approval of the Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI) and/or any other authority concerned, if and to the extent necessary, and subject to such conditions and modifications as may be considered necessary by the Board of Directors of the Company (hereinafter referred to as the "Board" which term shall be deemed to include any duly authorised committee thereof for the time being exercising the powers conferred on the Board by this resolution) or as may be prescribed in granting such consents and approvals and which may be agreed by the Board, the consent of the Company be and is hereby accorded to the Board to offer, issue and allot 30,57,665 Fully Convertible Debentures of Rs.10/- each, convertible in to one Equity Share of Rs.10/- each on or before 29th day of 18th Month from the date of allotment, as the Board may, in its sole discretion, at any time hereafter decide, to the Shareholders of the Company on Rights basis at Rs.13/- per Debenture (including a premium of Rs.3/-) (whether payable in Indian Rupees or in Foreign Currencies) and in such manner as the Board may, in its sole discretion think fit.



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"RESOLVED THAT the Debentures on conversion shall rank parri passu in all respects with the existing Equity Shares of the Company save that such equity shares shall carry the right to receive dividend which may be declared for the financial year in which the allotment of the Shares shall become effective prorata from the date of allotment subject to the provisions of Companies Act, 1956 and/or SEBI Regulations, if any."

RESOLVED FURTHER that the Board be and is hereby authorised and empowered to do such acts, deeds, matters and things as it may, in its absolute discretion, deem fit, necessary, desirable or expedient to give effect to this resolution and to settle any question, difficulty or doubt that may arise with regard to the offerings, issue proceeds, or any other matters incidental and/or ancillary thereto."

By order of the Board

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

Place: Vijayawada
Date : 31.07.2006.

ANNEXURE TONOTICE

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

Item No.6:

Shri.Sunkara Veerabhadra Rao was appointed by the Board of Directors as an Additional Director of the Company at its meeting held on 30.12.2005. Pursuant to Section 260 of the Companies Act, 1956, Shri.Sunkara Veerabhadra Rao will hold office as Additional Directors upto the date of the ensuing Annual General Meeting. The Company has received a notice in writing alongwith a deposit of Rs.500/- from members proposing the candidature of Shri. S.Veerabhadra Rao for the office of Director of the Company under the provisions of Section 257 of the Companies Act, 1956.

Shri.Sunkara Veerabhadra Rao, Managing Director of M/s.SVR Finance & Leasing (P) Limited, is having 25 years of enormous experience in the fields of Automobile Finance and Management.

Your Directors recommend the resolution for your approval.

Shri.Sunkara Veerabhadra Rao is deemed to be concerned or interested in the resolution as it pertain to his appointment. None of the other Directors of the Company is, in any way, concerned or interested in the said resolution.

Item No.7:

Shri.Myneni Mohan Murali was appointed by the Board of Directors as an Additional Director of the Company at its meeting held on 30.12.2005. Pursuant to Section 260 of the Companies Act, 1956, Shri.Myneni Mohan Murali will hold office as Additional Directors upto the date of the ensuing Annual General Meeting. The Company has received a notice in writing alongwith a deposit of Rs.500/- from members proposing the candidature of Shri. M.Mohan Murali for the office of Director of the Company under the provisions of Section 257 of the Companies Act, 1956.

Shri.Myneni Mohan Murali, a Chartered Accountant, is having 30 years of enormous experience in the fields of Finance, accounts and Management. He has served various companies as senior Management personnel.

Your Directors recommend the resolution for your approval.

Shri.Myneni Mohan Murali is deemed to be concerned or interested in the resolution as it pertain to his appointment. None of the other Directors of the Company is, in any way, concerned or interested in the said resolution.

Item No. 8 :

Under Section 293(1)(d) of the Companies Act, 1956, the Board of Directors shall not except with the consent of the Company in General Meeting, borrow monies apart from temporary loans obtain from the Company's Bankers in the ordinary course of business, in excess of the aggregate Paid Up Capital and Free Reserves of the Company. According to Explanation 1 to the Section, every resolution passed in the General Meeting of the Company in relation to the exercise of the above powers shall specify the total amount upto which monies may be borrowed by the Board of Directors



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over and above the Paid Up Capital and Free Reserve. Hence, Resolution as set out in the item No.8 is recommended for your approval.

Item No. 9 :

The Borrowings of the company are in general required to be secured by suitable mortgage of charge on all or any of the movable or immovable properties of the company in such from, manner and ranking as may be determined by the Board of Directors of the Company from time to time, in consultation with the lender(s).

The mortgage and/or charge by the company of its movable and/or immovable properties and/or the whole or any part of the undertaking(s) of the company in favour of the Lender(s), with a power to take over the management of the business and concern of the company in certain events of default by the company, may be regarded as disposal of the company's undertaking(s) within the meaning of Section 293(1)(a) of the Companies Act, 1956, requiring the approval of the members under that Section. Hence, Resolution as set out in Item No.9 is proposed for your approval.

Item No. 10 :

Under Section 372A of the Companies Act, 1956, the Board of Directors shall not except with the consent of the Company in General Meeting, give guarantee exceeding Sixty percent of its paid-up share capital and free reserves or one hundred percent of its free reserves, whichever is lower. According to the provisions of Section, every resolution passed in the General Meeting of the Company in relation to giving guarantee of the above powers shall indicate the specific limits upto which the guarantee to be given and the purpose of guarantee. Hence, Resolution as set out in the item No.10 is recommended for your approval.

Item No.11:

Consent of the Shareholders is sought to authorise the Board of Directors for issuing One Fully Convertible Debenture of Rs.10/- each with a Premium of Rs.3/- per Debenture for every Two Equity Shares held by the Shareholders of the Company as stated in the resolution at item No.5 which will be in accordance with the requirements of the law for the time being in force and of existing guidelines issued by the Securities and Exchange Board of India (SEBI) and any other guidelines issued by the Government bodies and/or authorities.

As the Company proposes expand its investment activities by raising funds by way of issue of Fully Convertible Debentures (FCDs), it is proposed to offer, issue and allot 30,57,665 Fully Convertible Debentures of Rs.10/- each at a Premium of Rs.3/- per Debentures, convertible in to One Equity Share of Rs.10/- each on 29th day of 18th Month from the date of allotment to the existing Shareholders of the Company, whose names appear in the Register of Members as on the record date which will be announced at a later date separately, on Rights Basis.

The proposed issue of Securities will be subject to the approval of Securities and Exchange Board of India (SEBI) Reserve Bank of India (RBI) and all other concerned authorities as may be required.

In terms of the enabling resolution, the Board is inter alia empowered to offer, issue and allot Fully Convertible Debentures to the Shareholders of the Company and consent of the members in the General Meeting would therefore be necessary pursuant to Section 81 of the Companies Act, 1956. Hence the resolution in Item No. 5 is recommended for your approval.

Accordingly, consent of the shareholders is being sought for issue of Fully Convertible Debentures. Directors recommend the resolution for approval of the shareholders.

None of the Directors of the Company are interested in this resolution except to the extent of Shares allotted to them and their relatives.

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/Proxies should bring the attendance slips filled in for attending the Meeting.
3. The Register of Members and the Share Transfer Books of the Company will remain closed from 20th September, 2006 to 29th September, 2006, both days inclusive.



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4. Dividend, if declared, will be paid in respect of shares held in physical form to those members who are entitled to the same and whose names appear on the Register of Members of the Company after giving effect to all valid share transfers lodged with the Registrar and Share Transfer Agents, viz., Bigshare Services (P) Limited at the end of the business hours on 19th September 2006 and in respect of shares held in electronic form to those "Deemed Members" whose names appear in the statement of beneficial ownership furnished by the NSDL and CDSL as on 19th September 2006.
5. 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.
6. 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.
7. Pursuant to the provisions of Section 205A of the Companies Act, 1956, as amended, Dividends for the financial year ended 31st March, 1999 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, 1998 or any subsequent financial year(s) are requested to lodge their claims with the 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.
8. **Appointment/Reappointment of Directors**
As per Clause 49 of the listing agreement with Stock Exchanges, the brief resume, functional expertise of the Directors proposed for appointment/re-appointment are furnished below along with details of Companies in which they are Directors and the Board Committee of which they are Members.
 - (i) **Dr.Sinha S. Chunduri**
Dr.Sinha S. Chunduri, a Specialist in Diagnostic Gastro Entrology, is engaged in medical Profession for last 25 years in U.S.A. Dr.Sinha is a Director of the Company since February 10, 1993. Besides medical profession, he is associated with several Medical Institutions as consultant and Director in U.S.A. He is a Director in M/s.Amara Raja Power Systems (P) Limited, an associate concern of M/s.Amara Raja Batteries Limited. He does not hold any membership of a committee of the Board in any company. Dr.Sinha holds 19,500 shares.
 - (ii) **Dr.Prasad J. Attota**
Dr.Prasad J. Attota, a General Surgeon, is engaged in medical profession for the past 30 years in U.S.A. Dr.Prasad is a Director of the Company since February 10, 1993. He has promoted several Institutions in U.S.A. and associated with the NRI business Community there. He has promoted M/s.Cheviot Medicate Centre, OHIO State in U.S.A. and M/s.Precision Tuning of Indianapolis in Indiana State, U.S.A. with considerable Equity stake. He does not hold any Directorships/Committee Memberships in any indian company. Dr.Prasad holds 71,800 shares.
 - (iii) **Shri.Sunkara Veerabhadra Rao**
Mr.Veerabhadra Rao is a Science Post Graduate and a veteran in Finance business in Coastal Andhra Pradesh with two and half decades of rich experience in the field of Finance, particularly in Hire Purchase and Leasing of Automobiles, and Management. He served as President of Krishna District Auto Financiers Association for two consecutive terms. He is the Managing Director in SVR Finance & Leasing (P) Limited. He does not hold any membership of a committee of the Board in any company. He does not hold any shares in the company.
 - (iv) **Shri.Myneni Mohan Murali**
Mr.Mohan Murali is a Chartered Accountant with 30 years of rich experience in the fields of finance, accounts, audit and Management. For the past 30 years he has served various notable corporate houses as Sr. management personnel and also as Director. Currently, he is with M/s.Marvel ERP solutions India Limited as Vice President (Operations). He does not hold any membership of a committee of the Board in any company. He does not hold any shares in the company.

By order of the Board

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

Place: Vijayawada
Date : 31.07.2006.



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DIRECTORS REPORT

Your directors have pleasure in presenting the 15th Annual Report along with audited accounts of the Company for the year ended 31st March, 2006. The summarised financial results of the Company, are given hereunder:

Financial Results:

(Rs.in Lakhs)

Particulars	Year ended 31.03.2006	Year ended 31.03.2005
Income from Operations	566.84	537.78
Total Expenditure	71.12	60.70
Interest	149.60	142.23
Profit Before Dep. & Taxes	346.12	334.85
Depreciation	109.30	111.99
Provision for Current Tax	91.14	62.01
Provision for Fringe Benefit Tax	0.14	0.00
Provision for Deferred Tax	(7.47)	21.98
Profit after Tax	153.01	138.87
General Reserve	7.75	6.95
Reserve Fund	31.00	27.80
Dividend (proposed)	91.73	91.73
Dividend Tax	11.47	11.47
Prior Year Income Tax	10.21	0.62
Surplus Carried to Balance Sheet	0.85	0.30

Dividend:

Your Directors are pleased to recommend a Dividend of 15% (Rs.1:50 per Equity Share) for the Financial Year ended March 31, 2006. The Dividend together with Dividend Tax of Rs.11.47 Lakhs absorbs a Sum of Rs.103.20 Lakhs (Rupees One Crore and Three Lakhs Twenty thousand Only).

Review of Operations:

Your Company's performance for the Year ended March 31, 2006 continues to be encouraging and registered a growth of 5.40% in its Gross Receipts to Rs.566.84 Lakhs as against Rs.537.78 Lakhs and the Net profit increased from Rs.138.87 Lakhs to Rs.153.01 Lakhs registering a growth rate of 10.18%.

Business:

In line with modest growth in automotive sector, Your Company has succeeded in retaining its share in the commercial vehicle financing in spite of intense competition from Big NBFCs and New Private Sector Banks. Good penetration strategies and customer centric services have enable your company to retain its share 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. Competition continues to be intense as more and more big players are eyeing the Vehicle finance segment. However, your company's core strengths such as the ability to innovate, respond swiftly to changes in the external environment will enable it to stay ahead. To continue this growth and sustain profitability, your company will focus on providing superior service to customers, lowering its cost of funds, maintaining a good asset quality and enhancing operating efficiencies.

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), ING Vysya Bank Limited (Rs.200 Lakhs) and UTI Bank Limited (Rs.75 Lakhs).

Your Company is exploring all options to access low cost funds, by leveraging its strengths, to further expand the operations.

Business Associations/Tie-Ups:

Your Company has been continuing its association with HDFC Bank Limited (Joint Lending Arrangement) and Sundaram Finance Limited (Securitisation). During the year under review, Sundaram Finance Limited has increased the existing securitisation exposure limit to Rs.500 Lakhs from Rs.200.00 lakhs.

Capital Adequacy:

The Capital to Risk Assets Ratio of your company is 21% as on 31.03.2006, well above the minimum of 12% prescribed by the Reserve Bank of India.

Credit Rating:

During the year under review, Credit Analysis and Research Limited (CARE) has retained "BBB+" rating assigned to your company 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.

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



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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, Dr.Sinha S Chunduri and Dr.Prasad J Athota 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 Director and wish to recommend their reappointment.

During the year under review, Shri.V.Purnachandra Rao has relinquished his position from the Board of Directors. Your Directors wish to place on record their sincere appreciation of the valuable contributions made by him during his tenure as Director.

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.119.61 Lakhs in USD as subscription to Fully Convertible Debentures application money from Non-Resident Indians (NRIs).

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 accounts for the year ended 31st March, 2006, the applicable accounting standards have been followed.
- the Directors have selected such accounting policies and applied them consistently and made judgements

and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period.

- the Directors have taken proper and sufficient care 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; and
- the Directors have prepared the accounts for the financial year ended 31st March 2006 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, automobile dealers, bankers and business associates, HDFC Bank Limited and Sundaram Finance 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 dedication and commitment displayed 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 : 31.07.2006.



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MANAGEMENT DISCUSSION & ANALYSIS

INTRODUCTION:

This discussion aims to share Management's perspective and views on the contemporary developments in the Financial Services sector that could impact the Company. 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.

ECONOMIC ENVIRONMENT:

During the year 2005-2006, the Indian economy registered a growth of 8.40% on account of sustained growth in both manufacturing and service sector. India continued to be one of the highest growth economies in the world and had become one of most attractive investment destinations in the world. Manufacturing and Service Sectors are estimated to have grown at 9% and 10% while the Agricultural Sector has grown at 3.9%. In spite of spiraling crude prices, Inflation continues to hover around 4%-5% levels.

AUTOMOTIVE SECTOR:

It is imperative to take note of the prospects of the Indian Automotive sector, more particularly Commercial Vehicle segment, as it is directly related to the business of your Company. In 2005-2006, the Medium & Heavy Commercial Vehicles (M & HCVs) has registered a modest growth of 4.50% and Light Commercial Vehicles (LCVs) grew by 19.40%.

PRODUCT MIX:

IKF has maintained its policy of developing a diversified and de-risked portfolio and enriching its offerings based on ongoing market feedback. The company periodically explores new product opportunities on criteria such as perceived risk, intensity of competition and its ability to enhance customer value.

OPERATING & FINANCIAL PERFORMANCE:

During the financial year 2005-2006, the Gross Income has grown by 5.40% and Net Income has registered a growth of 10.18%. Earnings Per Share [E.P.S.] has increased to Rs.2.50 as against Rs.2.27 during the corresponding period last year and the Cash Earnings Per Share [C.E.P.S.] has increased from Rs.4.12 to Rs.4.31 during the financial year 2005-2006.

Capital Adequacy (CRAR) at 21% as on 31.03.2006 was comfortably higher than the statutory requirement of 12%.

BUSINESS OUTLOOK:

The company continues to strive to attain its goal of becoming a significant Player as there is a huge potential for growth in retail vehicle finance segment. The company continues to focus on its strengths in distribution channels and its relationships with customers, associates and product dealers. 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. Though the raising oil prices are a cause for concern, your company is confident of meeting the challenges and posting a satisfactory performance for the current financial 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 policies followed by the Company are in line with some of the best policies in the financial services sector.

Credit Risk and its Mitigation:

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