



KOTAK MAHINDRA
FINANCE LIMITED

MD	✓					BXC	✓
CS	✓					DPY	✓
RO	✓					DIV	✓
TRA	✓					AC	✓
AGM	✓		✓			SHI	✓
YE	✓	✓	✓	✓			

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12th Annual Report 1996-97



BOARD OF DIRECTORS

Harish Mahindra

Uday Kotak

Shivaji Dam

Anand G. Mahindra

S.A.A. Pinto

K.M. Gherda

M.R. Punja

K.K. Sheth

Cyril Shroff

Pradeep N. Kotak

Chairman

Vice Chairman

Executive Director

BANKERS

Chinatrust Commercial Bank

Citibank N. A.

Dena Bank

Deutsche Bank

Punjab National Bank

Standard Chartered Bank

State Bank of Hyderabad

State Bank of India

State Bank of Patiala

State Bank of Travancore

The Federal Bank Limited

The Sakura Bank Limited

Vijaya Bank

AUDITORS

V.C. Shah & Company

SOLICITORS AND ADVOCATES

Amarchand & Mangaldas & Suresh A. Shroff & Company

REGISTERED OFFICE

36-38 A, Nariman Bhavan, 227, Nariman Point, Mumbai 400 021.

REGISTRARS & TRANSFER AGENTS

Karvy Consultants Limited, 7, Andheri Industrial Estate,
Off Veera Desai Road, Andheri (West), Mumbai 400 058.
Telephone Nos.: 6267226/6269044 Fax: 6290882



Kotak Mahindra Finance Limited**NOTICE**

Notice is hereby given that the Twelfth Annual General Meeting of Kotak Mahindra Finance Limited will be held on Tuesday, 16th September 1997, at 4 p.m. at Sir Sitaram and Lady Shantabai Patkar Convocation Hall of S.N.D.T. Women's University, 1, Nathibai Thackersey Road, Mumbai - 400 020 to transact the following business :

1. To receive and adopt the Profit and Loss Account for the year ended 31st March 1997, the Balance Sheet as at that date and the Reports of the Directors and Auditors thereon.
2. To declare dividend.
3. To appoint a Director in place of Mr. Anand G. Mahindra who retires by rotation and, being eligible, offers himself for reappointment.
4. To appoint a Director in place of Mr. S.A.A. Pinto who retires by rotation and, being eligible, offers himself for reappointment.
5. To appoint a Director in place of Mr. M.R. Punja who retires by rotation and, being eligible, offers himself for reappointment.
6. To appoint Messrs V.C. Shah & Co., Chartered Accountants, Mumbai, and Messrs C.C. Chokshi & Co., Chartered Accountants, Mumbai, as Joint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

NOTES :

- (i) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER.

Proxies, to be effective, must reach the Company's Registrars and Transfer Agents, Karvy Consultants Limited, 7, Andheri Industrial Estate, Off Veera Desai Road, Andheri (West), Mumbai 400 053 not later than 48 hours before the commencement of the meeting.

- (ii) The Register of Members and the Share Transfer Books of the Company will remain closed from Tuesday, 2nd September 1997 to Tuesday, 16th September 1997, both days inclusive.
- (iii) If the dividend on shares, as recommended by the Board of Directors, is declared at the meeting, payment thereof will be made on or after 19th September 1997 to those members whose names appear on the Register of Members of the Company on 16th September 1997.
- (iv) In accordance with the provisions of Section 205A of the Companies Act, 1956, the Company will deposit unclaimed dividend for the year 1993-94 with the Central Government on 28th November 1997. Shareholders who have not encashed their dividend warrants are, therefore, requested to send the same immediately to the Company for revalidation.

By Order of the Board of Directors

N.J.N. VAZIFDAR
Vice President & Secretary

Registered Office :

36-38A, Nariman Bhavan,
227, Nariman Point,
Mumbai - 400 021.

Mumbai, 25th June 1997.



Kotak Mahindra Finance Limited**DIRECTORS' REPORT**

The Directors are pleased to present their Twelfth Annual Report together with the audited accounts of the Company for the year ended 31st March 1997.

I. FINANCIAL RESULTS

(Rs. in lakhs)

	31st March 1997	31st March 1996
Gross Income	36124	30267
Profit before Depreciation and tax	10443	9768
Depreciation	7053	5231
Profit before tax	3390	4537
Provision for tax	375	—
Profit after tax	3015	4537
<i>Appropriations :</i>		
General Reserve	1000	3500
Debenture Redemption Reserve	550	—
Special Reserve under Section 45 IC of the RBI Act, 1934	603	—
Proposed Dividend	661	661
Tax on distribution of Dividend	66	—
Surplus carried to Balance Sheet	135	376

II. DIVIDEND

The Directors recommend a tax-free dividend of 18% (previous year 18% subject to deduction of tax at source as applicable).

III. OPERATIONS AND PROSPECTS

The year under review has been an eventful year for the Company and a turbulent one for the economy as a whole, with a particularly adverse effect on the sector in which the Company operates. Recent unfortunate developments in the financial services industry have created a hostile environment even for well managed companies such as yours.

The Company's operations during the year were affected by the impact, on its clients, of the liquidity crunch in the earlier part of the year under review, the scarcity of resources, sluggishness in the capital markets, global competition and deceleration of economic growth. There also was a sharp increase in the credit risk arising from unforeseen defaults or delays even from clients with a hitherto enviable track record. Consequently, the Company has provided a sum of Rs. 2510 lakhs in accordance with the prudential norms prescribed by Reserve Bank of India. This provision has had a severe adverse effect on the Company's profitability, being largely responsible for the decline in net profit from Rs. 4537 lakhs in the previous year to Rs. 3015 lakhs for the year under review. The Company is actively pursuing recoveries and has instituted legal proceedings against some delinquent clients.

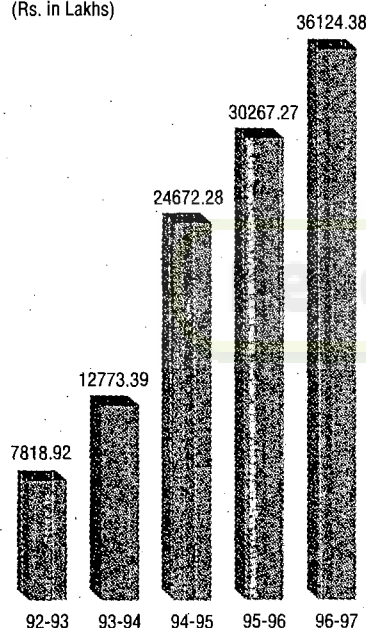
Kotak Mahindra Finance Limited

BUSINESS OPPORTUNITIES

During the year under review, the Company completed its business development exercise, forming various subsidiaries and associate companies to focus on specific businesses, some in affiliation with global players and with a strong capital base.

Kotak Mahindra Capital Company (KMCC) is a joint venture with Goldman Sachs which is one of the leading international investment bankers. Goldman Sachs has invested Rs. 6290 lakhs towards its 28% shareholding, at a premium of Rs. 619 per share, whereas the Company has invested Rs. 260 lakhs at par towards the balance 72% shareholding. During the year, KMCC retained its position as a leading player and was ranked among the top 3 Merchant Bankers (source: Prime Database). It was one of the few companies to be shortlisted by Reserve Bank of India as a satellite dealer in Government securities. KMCC made a profit of Rs. 1380 lakhs before tax for the year and has distributed a dividend of 65% on its equity capital from which the Company will get Rs. 169 lakhs by way of tax-free dividend.

TRENDS IN INCOME
(Rs. in Lakhs)



During the year under review, the Company divested its entire holding of 20,00,070 equity shares of Rs. 10 each of Kotak Mahindra Securities Limited (KMSL) and 20,00,000 ordinary shares of US \$ 1 each of Kotak Mahindra (International) Limited (KMIL). These shares were acquired by KMCC, a subsidiary of the Company, and hence the Company remains the ultimate holding company of KMSL and KMIL.

The Company and Ford Credit International Inc., U.S.A. (FCI) have formed Kotak Mahindra Primus Limited (KMPL) to finance non-Ford cars and, together with Mahindra & Mahindra Limited, have also formed Ford Credit Kotak Mahindra Limited (FCKML) to finance Ford cars. FCI is wholly owned by Ford Motor Credit Company, U.S.A. which, in turn, is wholly owned by Ford Motor Company, U.S.A. and is the world's largest dedicated auto finance company, having been in existence for over 48 years and with a net finance receivables of some US \$ 127 billion. The Company's joint ventures with FCI commenced operations during the year on receipt of all the requisite statutory approvals. FCI has placed 3 of its very experienced persons in India to help in running the business of KMPL and FCKML and the association with FCI, including regular visits by personnel from FCI and Ford Motor Company, will help the companies to improve their systems, products, controls and processes.

Under the joint venture agreement, FCI is committed to invest Rs. 24850 lakhs towards its equity contribution in KMPL over the next 7 years.

It is expected that, in the coming years, the full effect of the association with Goldman Sachs and Ford Credit will work towards making the respective joint venture companies not only domestic leaders but also internationally competitive companies.

The net worth of the group as at 31st March 1997 exceeded Rs. 56000 lakhs, represented by about Rs. 7300 lakhs in KMCC and Rs. 18000 lakhs in KMPL, while the Company itself has a net worth in excess of Rs. 31100 lakhs.

Kotak Mahindra Finance Limited**Corporate Finance**

Despite a difficult market environment with poor asset quality, low margins and significant credit risks, the business in short-term financing through bills discounting, share finance and inter corporate deposits accounted for Rs. 97500 lakhs and the disbursements under equipment leasing and hire purchase were about Rs. 10000 lakhs. The Company catered to almost 500 clients spread across 25 different industries.

Syndication

This division performed creditably, increasing business volumes by developing new areas of operations. Through inter corporate deposits, leasing, with a focus on project-based leases, and other products, a total of Rs. 12500 lakhs was syndicated during the year. Some of the major transactions involved Indian Railway Finance Corporation, Indo-Gulf Fertilisers & Chemicals Corporation Limited and Andhra Pradesh State Electricity Board.

Vehicle Financing

This activity recorded continuing growth and Rs. 18000 lakhs was disbursed for car financing up to 31st October 1996, after which this business was conducted by Kotak Mahindra Primus Limited, a subsidiary of the Company.

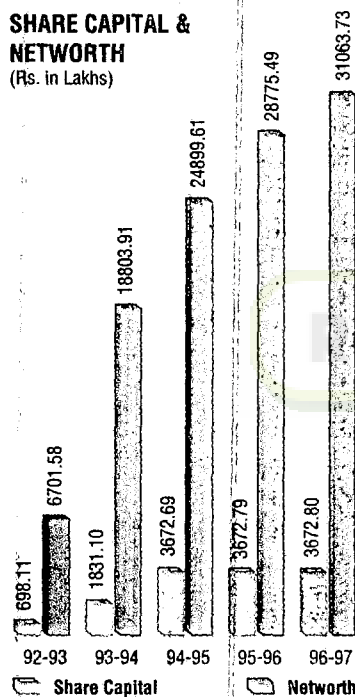
The Company commenced commercial vehicles financing during the end of 1995-96 and has already established its presence in this Rs. 10000 crore business, disbursing a sum of Rs. 9100 lakhs during the year under review. The Company is confident of soon becoming the market leader in this business, where traditionally larger NBFCs have dominated.

Fixed Deposits

The year under review witnessed a sea-change in deposit-mobilisation. With the Company having obtained Certification as an NBFC with the Reserve Bank of India, the response to the Company's fixed deposit scheme was most encouraging and the Company was able to raise sums of about Rs. 19000 lakhs during the year.

Debentures and Bank Finance

Banks and Financial Institutions continued to support the Company's business plans. The varied resource mix of the Company helped in maximising the gains of increased liquidity in the system towards the latter part of the year under review, resulting in a decrease in the cost of funds.

SHARE CAPITAL & NETWORTH
(Rs. in Lakhs)

Kotak Mahindra Finance Limited

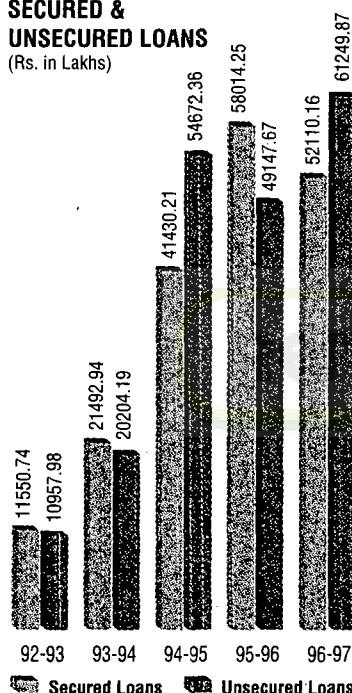
Consumer Lending

The Company has identified consumer lending as a future business with great potential and is in the process of formulating its plans to enter this vast and growing market.

Other Developments

The Company actively considered an entry into the insurance business and, although the Government of India is yet to open the insurance sector to private participation, the Company has entered into a Memorandum of Understanding with The Chubb Corporation, New Jersey, U.S.A., one of the largest American insurance firms, to develop a joint venture dedicated to the conduct of casualty and property insurance business in India.

SECURED & UNSECURED LOANS
(Rs. in Lakhs)



Subsequent to the close of the financial year, the Company invested a sum of about Rs. 200 lakhs in Matrix Information Services Private Limited (Matrix), a company formed for the purpose of providing comprehensive value-added information to business and general users. Matrix is now a wholly owned subsidiary of the Company.

OUTLOOK FOR THE FUTURE

The Reserve Bank of India has recognised the important role that NBFCs can play and, benefitting from the new liberalised environment, the Company looks forward to enhancing its status as a leading financial services company. Under the prevailing competitive conditions, control of overheads and cost reduction measures have assumed great importance and the Company is actively focussing on these.

While the Company's strong infrastructure and its network of 23 branches place it at an advantage for furthering its business interests, the Company counts as its major strength its dedicated professional work force of 311 employees.

IV. SUBSIDIARIES

During the year under review, Kotak Mahindra Primus Limited and Kotak Mahindra Investments Limited became subsidiaries of the Company. The activities of these subsidiaries and the activities of the following other subsidiary companies of the Company are detailed in their respective Directors' Report together with the audited accounts which are attached to this Report :-

- Hamko Financial Services Limited
- Kotak Mahindra Asset Management Company Limited
- Kotak Mahindra Capital Company (company with unlimited liability)
- Kotak Mahindra Securities Limited
- Kotak Mahindra (International) Limited
- Kotak Mahindra (U.K.) Limited