



KOTAK MAHINDRA

FINANCE LIMITED

MD	<input checked="" type="checkbox"/>		BKC	<input checked="" type="checkbox"/>
CS	<input checked="" type="checkbox"/>		DPY	<input checked="" type="checkbox"/>
RO	<input checked="" type="checkbox"/>		DIV	<input checked="" type="checkbox"/>
TRA	<input checked="" type="checkbox"/>		AC	<input checked="" type="checkbox"/>
AGM	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	SEI	<input checked="" type="checkbox"/>
YE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>

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13th Annual Report 1997-98



BOARD OF DIRECTORS

Harish Mahindra	Chairman
Uday Kotak	Vice Chairman
Shivaji Dam	Executive Director
Anand G. Mahindra	
S.A.A. Pinto	
K.M. Gherda	
M.R. Punja	
K.K. Sheth	
Cyril Shroff	
Pradeep N. Kotak	

BANKERS

Citibank N.A.
Deutsche Bank
Punjab National Bank
Standard Chartered Bank
State Bank of India
State Bank of Patiala
The Sakura Bank Limited
Vijaya Bank

AUDITORS

V.C. Shah & Co.
C.C. Chokshi & Co.

SOLICITORS AND ADVOCATES

Amarchand & Mangaldas & Suresh A. Shroff & Company

REGISTERED OFFICE

5C-II, Mittal Court, 224, Nariman Point, Mumbai 400 021.
Telephone No. 2855550 • Fax No. 2027391.

REGISTRARS & TRANSFER AGENTS

Karvy Consultants Limited
Regd. Off. : Karvy House, 46, Avenue 4, Street No. 1, Banjara Hills, Hyderabad 500 034.
Telephone Nos.: (040) 3320251/751/752 Fax No.: (040) 3311968

Kotak Mahindra Finance Limited

NOTICE

NOTICE is hereby given that the Thirteenth Annual General Meeting of Kotak Mahindra Finance Limited will be held on Wednesday, 2nd September 1998 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 1998, 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. Harish Mahindra who retires by rotation and, being eligible, offers himself for reappointment.
4. To appoint a Director in place of Mr. Uday Kotak who retires by rotation and, being eligible, offers himself for reappointment.
5. To appoint a Director in place of Mr. Pradeep N. Kotak 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.

SPECIAL BUSINESS :

7. To consider and, if thought fit, to pass, with or without modification, the following Resolution as an Ordinary Resolution:
 "RESOLVED that, pursuant to the provisions of Section 372 and other applicable provisions, if any, of the Companies Act, 1956, (hereinafter referred to as "the Act") (including any statutory modification or re-enactment thereof for the time being in force) and subject to such approval of the Central Government as may be necessary and such other permissions, if any, of any other appropriate authorities as may be required under the Act or any law in force, sanction be and is hereby accorded to the Board of Directors of the Company to invest a sum or sums of money not exceeding an aggregate of Rs. 16.88 crores in 1,26,10,000 Equity Shares of Rs. 10 each in the capital of Business Standard Limited, notwithstanding that such investment, together with the Company's existing investments in all bodies corporate, may be in excess of the percentages as may be prescribed under the provisions of sub-section (2) of Section 372 of the Act and the provisos thereto.
 "RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorised to determine the actual sum to be so invested not being more than the said Rs. 16.88 crores and decide all other matters arising out of or incidental to the proposed investment including agreeing, at its discretion, to such modifications and conditions as the Central Government may prescribe in relation to the said investment and to do all such acts, deeds and things as may be necessary to give effect to the aforesaid Resolution."
8. To consider and, if thought fit, to pass, with or without modification, the following Resolution as an Ordinary Resolution :
 "RESOLVED that, pursuant to the provisions of Section 372 and other applicable provisions, if any, of the Companies Act, 1956, (hereinafter referred to as "the Act") (including any statutory modification or re-enactment thereof for the time being in force) and subject to such approval of the Central Government as may be necessary and such other permissions, if any, of any other appropriate authorities as may be required under the Act or any law in force, sanction be and is hereby accorded to the Board of Directors of the Company to invest a sum or sums of money not exceeding an aggregate of Rs.1,00,700 (Rupees One Lakh Seven Hundred Only) in the capital of Kotak Mahindra Trustee Company Limited, notwithstanding that such investment, together with the Company's existing investments in all bodies corporate, may be in excess of the percentages as may be prescribed under the provisions of sub-section (2) of Section 372 of the Act and the provisos thereto.
 "RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorised to determine the actual sum to be so invested not being more than the said Rs. 1,00,700 and decide all other matters arising out of or incidental to the proposed investment including agreeing, at its discretion, to such modifications and conditions as the Central Government may prescribe in relation to the said investment and to do all such acts, deeds and things as may be necessary to give effect to the aforesaid Resolution."
9. To consider and, if thought fit, to pass, with or without modification, the following Resolution as a Special Resolution :
 "RESOLVED that, pursuant to the provisions of Section 31 and other applicable provisions, if any, of the Companies Act, 1956, the Articles of Association of the Company be altered in the following manner :
 (a) Inserting the following Heading and Article as Article 12A after Article 12 :

Buy-Back of Shares	21A	Notwithstanding anything else contained in these Articles, in the event it is permitted by law for a company to purchase its own shares or securities, the Board of Directors may, when and if thought fit, acquire, purchase, buy-back and hold, re-sell or otherwise deal with such of the Company's own shares or securities as the Board may think necessary upon such terms and conditions and subject to such limits and such approvals as may be prescribed or permitted by law.
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 (b) Substituting the following for the interpretation of "Member", in Article 2 of the Articles of Association of the Company :

Kotak Mahindra Finance Limited

- "Member" means the duly registered holder, from time to time, of the stock or shares of the Company and includes a subscriber to the Memorandum of Association of the Company and a beneficial owner as defined in clause (a) of sub-section (1) of Section 2 of the Depositories Act, 1996.
- (c) Adding in Article 2 the following interpretations at places appropriate to the alphabetical sequence :
- "Beneficial Owner" "Beneficial Owner" means the Beneficial Owner as defined in clause (a) of sub-section (1) of Section 2 of the Depositories Act, 1996.
- "Debentureholder(s)" or "Securityholder(s)" "Debentureholder(s)" or "Securityholder(s)" means the duly registered holders from time to time of the debentures or securities of the Company.
- "Depositories Act" "Depositories Act" means the Depositories Act, 1996, and shall include any statutory modification or re-enactment thereof, for the time being in force.
- "Depository" "Depository" means a Depository as defined under clause (e) of sub-section (1) of Section 2 of the Depositories Act, 1996.
- "Securities" "Securities" means such evidence of right, title or interest in any property and includes securities enumerated in The Securities Contracts (Regulations) Act, 1956 and any securities as may be specified in that Act or any other applicable law from time to time.
- (d) Article 19 of the Articles of Association be substituted by the following :
- Company 19 (1) Notwithstanding anything herein contained, the Company shall be entitled to dematerialise or re-materialise its shares, debentures and other securities and to offer any shares, debentures or other securities proposed to be issued by it for subscription in a dematerialised form and, on the same being done, the Company shall further be entitled to maintain a Register of Members/Debentureholders/other Securityholders as well as an Index thereof, with the details of members /debentureholders/other securityholders holding shares, debentures or other securities both in materialised and dematerialised form in any media as permitted by law including any form of electronic media, either in respect of the existing shares, debentures or other securities or any future issues thereof.
- (2) If and when the Board of Directors shall decide that the Company shall exercise an option to hold its securities with a depository in dematerialised form and has entered into the necessary agreements and its securities are declared eligible for being held in dematerialised form under the Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996 ("the said Regulations"), every member of the Company shall have the option to hold his securities with the depository with which the Company has entered into an agreement for the purpose under Regulation 29 of the said Regulations and likewise have the right to opt out under Section 14 of the Depositories Act and the procedure under Sections 6, 7, 8, 10 and 14 and other relevant sections of the Depositories Act shall apply.
- (e) Article 20 of the Articles of Association be substituted by the following :
- Shares to be 20 The shares in the capital shall be numbered progressively according to their several denominations numbered progressively provided, however, that the provision relating to progressive numbering shall not apply to the shares of the Company which are dematerialised or may be dematerialised in future or issued in future in dematerialised form. Except in the manner hereinbefore mentioned, no share shall be sub-divided. Every forfeited or surrendered share held in material form shall continue to bear the number by which the same was originally distinguished.
- (f) Article 28 of the Articles of Association be altered by inserting, at the end of the first sentence, after the words "the amount paid up thereon", the words "provided, however, that no share certificate(s) shall be issued for shares held in dematerialised form."
- (g) After the amended Article 28, the following shall be inserted as Article 28A :
- Issue of 28A Notwithstanding anything herein contained, a certificate, if required, for a dematerialised share, Certificate, if required, in the case of dematerialised shares/debentures/securities and rights of beneficial owner of such shares/debentures/securities debenture or any other securities shall be issued in the name of the Depository and all the provisions herein contained in respect of the rights of a member / debentureholder/securityholder of the Company shall *mutatis mutandis* apply to the Depository as if it were a member / debentureholder/securityholder excepting that and notwithstanding that the Depository shall have been registered as the holder of a dematerialised share, debenture or any other security, the person who is the beneficial owner of such shares, debentures and other securities shall be entitled to all the rights (other than those set out in Articles 28 to 31) available to the registered holders of the shares, debentures and other securities in the Company as set out in the other provisions of these Articles.
- (h) After the existing Article 67, the following shall be inserted as Article 67 A :

Kotak Mahindra Finance Limited

Shares,
Debentures and
other Securities
held in Electronic
Form

67A In the case of transfer of shares, debentures or other securities where the Company has not issued any certificates and where such shares, debentures or other securities are being held in an electronic and fungible form, the provisions of the Depositories Act shall apply.

(i) Article 32(1) of the Articles of Association be substituted by the following :

32 (1) Except as ordered by a Court of competent jurisdiction or as by law required, the Company shall be entitled to treat the person whose name appears on the Register of Members as the holder of any share or to treat the person whose name appears as the beneficial owner of shares in the records of the Depository, as the absolute owner thereof and accordingly the Company shall not be bound to recognise any benami trust or equity or equitable, contingent or other claim to or interest in such share on the part of any other person whether or not the Company shall have express or implied notice thereof. The Board shall be entitled at its sole discretion to register any share in the joint names of any two or more persons or the survivor or survivors of them.

(j) Article 32(2) of the Articles of Association be substituted by the following :

32 (2) Save as herein otherwise provided, the Company shall be entitled to treat the person whose name appears on the Register of Members/Debentureholders/Securityholders as the holder of any share/debenture/security as the absolute owner thereof and shall also be entitled to treat the person whose name appears as the beneficial owner of the shares, debentures and other securities in the records of the Depository as the absolute owner thereof as regards receipt of dividends on shares, or bonus, interest/premium on debentures and other securities and repayment thereof or for service of notices and all or any other matters connected with the Company and accordingly the Company shall not (except as ordered by a Court of competent jurisdiction or as by law required and except as aforesaid) be bound to recognise any benami trust or equity or equitable, contingent or other claim to or interest in such shares, debentures or other securities as the case may be, on the part of any other person whether or not the Company shall have express or implied notice thereof.

(k) After the existing Article 60, the following proviso shall be inserted :

Provided that the provisions relating to the waiver of the Company's lien, if any, on partly paid shares on registration for transfer of such shares shall also mutatis mutandis apply in respect of a dematerialised share, debenture and any other security, the beneficial owner of which is registered with the Depository and where such beneficial owner shall have transferred his dematerialised shares, debentures and other securities.

(l) After the existing Article 71, the following shall be inserted as Article 71 A :

Applicability of
the Depositories
Act.

71A Nothing contained in Section 108 of the Act or in these Articles shall apply to transfer of securities effected by the transferor and the transferee both of whom are entered as beneficial owners in the records of a Depository. Provided that, in respect of the shares, debentures and other securities held by the Depository on behalf of a beneficial owner as defined in the Depositories Act, Sections 153, 153A, 153B, 187B, 187C and 372 of the Companies Act, 1956, shall not apply.

10. To consider and, if thought fit, to pass, with or without modification, the following Resolution as a Special Resolution :

"RESOLVED that, if and when permitted by the Companies Act, 1956, or any statutory modification, amendment, or re-enactment thereof for the time being in force, (hereinafter referred to as "the Act") or by any other law for the time being in force and subject to all applicable provisions of the Act and/or any such other law and further subject to such consents and such other approvals as may be required 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 committee thereof for the time being exercising the powers conferred on the Board by this Resolution), or as may be prescribed or imposed while granting such consents and approvals and which may be agreed to by the Board, the consent of the Company be and is hereby accorded to the Board to purchase, acquire, buy-back and hold, re-sell or otherwise deal with such number of Shares or other securities of the Company as the Board thinks fit and as may be specified by the Act or any other law, from the holders of the Shares or other securities of the Company in such proportion and in such manner and on such terms and subject to such conditions as may be prescribed or permitted by the Act or any other applicable law.

"RESOLVED FURTHER that, for the purpose of giving effect to this Resolution, the Board be and is hereby authorised to do all such acts and things and give such directions as may be necessary or desirable and to settle all questions or difficulties whatsoever that may arise with regard to the said purchase of Shares or other securities of the Company.

"RESOLVED FURTHER that the acquisition, purchase or buy-back of shares or other securities of the Company by the Board as aforesaid shall not be construed as redemption of share capital of the Company, within the applicable provisions of the Act.

"AND RESOLVED FURTHER that nothing hereinabove contained shall confer any right on any shareholder or member to offer, nor shall it confer any obligation on the Company or the Board to buy back, any Shares or other securities of the Company".

Kotak Mahindra Finance Limited

NOTES :

- (i) The relative Explanatory Statements pursuant to Section 173 of the Companies Act, 1956, in respect of Items 7 to 10 are annexed hereto.
- (ii) 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 at their office at 7, Andheri Industrial Estate, Off Veera Desai Road, Andheri (West), Mumbai 400 053, not later than 48 hours before the commencement of the Meeting.
- (iii) As notified in the prescribed manner, the Register of Members and Share Transfer Books of the Company will remain closed from Wednesday, 1st July 1998 to Thursday, 9th July 1998, both days inclusive.
- (iv) 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 3rd September 1998 to those members whose names appear on the Register of Members of the Company on 9th July 1998.
- (v) In accordance with the provisions of Section 205A of the Companies Act, 1956, the Company will deposit unclaimed dividend for the year 1994-95 with the Central Government on 15th October 1998. Shareholders who have not encashed their dividend warrants are, therefore, requested to send the same immediately to the Company for revalidation.
- (vi) The Company's Registrars and Transfer Agents continue to be Karvy Consultants Limited. While correspondence regarding shares/debentures of the Company should be addressed to Karvy Consultants Limited, unit : Kotak Mahindra Finance Limited, at 46, Avenue 4, Street No.1, Banjara Hills, Hyderabad 500 034, the Company has made arrangements for certificates, etc. to continue to be accepted at the Andheri Office of the said Registrars and Transfer Agents.

By Order of the Board of Directors

N.J.N. Vazifdar
Vice President & Secretary

Registered Office :

5C-II, Mittal Court,
224, Nariman Point,
Mumbai 400 021.

Mumbai, 15th June 1998.

Kotak Mahindra Finance Limited

EXPLANATORY STATEMENT

In terms of Section 173 of the Companies Act, 1956, the following explanatory statements set out all the material facts relating to Items 7 to 10 of the accompanying Notice dated 15th June 1998.

Item 7 :

The Company proposes to invest a sum not exceeding an aggregate of Rs. 16.88 crores in 1,26,10,000 Equity Shares of Rs. 10 each in the equity capital of Business Standard Limited (BSL) which is engaged in the publication of the reputed financial daily, "Business Standard". The Company presently holds around 29 % of the paid-up capital of BSL. The Company believes that BSL represents an attractive investment opportunity and has significant potential for returns from the investment.

The approval of the members is sought for the aforesaid investment.

Section 372 of the Companies Act, 1956, provides that a company shall not make investments in shares of any body corporate in excess of the percentages prescribed in the said Section unless sanctioned by a Resolution of the investing company in general meeting and previously approved by the Central Government. Since the proposed investment is in excess of the prescribed percentages, the Resolution at Item 7 of the Notice seeks to obtain the approval of the members.

The Resolution is commended for the approval of the Members.

Mr. Uday Kotak, being a Director of BSL, may be deemed to be concerned or interested in the passing of this Resolution.

Item 8 :

Kotak Mahindra Trustee Company Limited (KMTCL) is the trustee of the Kotak Mahindra Mutual Fund sponsored by the Company. The Company proposes to invest in 10,070 Equity Shares of Rs. 10 each aggregating Rs. 1,00,700 (Rupees one lakh seven hundred only) in KMTCL, with a view to make it a wholly owned subsidiary of the Company.

Although the members had, at the Extraordinary General Meeting of the Company held on 24th February 1994, approved in more general terms the investment by the Company in the equity capital of a trustee company, the Resolution at Item 8 of the Notice now seeks the specific approval of the members to invest amounts aggregating Rs. 1,00,700 in the shares of KMTCL as aforesaid.

Section 372 of the Companies Act, 1956, provides that a company shall not make investments in shares of any body corporate in excess of the percentages prescribed in the said Section unless sanctioned by a Resolution of the investing company in general meeting and previously approved by the Central Government. Since the proposed investment is in excess of the prescribed percentages, the Resolution at Item 8 of the Notice seeks to obtain the approval of the members.

The Resolution is commended for the approval of the Members.

Mr. S.A.A. Pinto, being a Director of KMTCL, may be deemed to be concerned or interested in the passing of this Resolution.

Item 9 :

The Companies Act, 1956, and Article 12 of the Articles of Association of the Company, as they stand at present, prohibit the Company from purchasing its own shares and securities. The Articles of Association of the Company are proposed to be altered by including a new Article 12A as set out in the Resolution at Item 9 (a) of the accompanying Notice to enable the Company to acquire, purchase, buy-back and to hold, re-sell or otherwise deal with its own Shares or other securities in the event that such acquiring, purchasing, buying-back and holding, re-selling or otherwise dealing with the Shares or other securities of the Company is or are permissible by law.

With the introduction of the Depositories Act, 1996, and the Depository System, some of the provisions of the Companies Act, 1956, relating to the issue, holding, transfer, transmission of shares and other securities have been amended to facilitate the implementation of the new system. The system of holding shares and securities in an electronic form appears to be a far safer and more convenient method for holding and trading in the shares and securities of a company than the paper-based system. As this new system may be beneficial to investors, the Company is considering joining the Depository System and it is therefore proposed that the Company's Articles of Association be suitably altered, as set out in the Resolution at Item 9 (b) to (l) of the accompanying Notice, to reflect the provisions introduced by the Depositories Act, 1996, and to enumerate the rights of the beneficial owners of the shares and securities in such a system.

The Memorandum and Articles of Association of the Company, together with the proposed alterations, will be available for inspection by Members at the Registered Office of the Company between 11.00 a.m. and 1.00 p.m. on any working day of the Company.

The Resolution is commended for the approval of the Members.

Item 10 :

The Companies Act, 1956, ("the Act"), presently prohibits a company from purchasing its own shares and securities. However, it is anticipated that the law may in future permit a company to buy back its own shares or other securities.

Subject to the buy-back of securities becoming permissible as aforesaid by an amendment of the Act or by any other law for the time being in force, it is proposed to enable the Company to buy-back its Shares or such other permissible securities not exceeding such percentage of the capital of the Company as may be permitted, from the members of the Company, from the open market or from the holders of odd lots. The acquiring, purchasing, buying-back and holding, re-selling or otherwise dealing with the Shares or other securities of the Company would be on such terms and conditions, in such manner and subject to such approvals as may be prescribed or permitted by the aforesaid changes in the Act or any other law.

The Resolution is commended for the approval of the members.

Registered Office :

5C-II, Mittal Court, 224, Nariman Point, Mumbai 400 021.
Mumbai, 15th June 1998.

By Order of the Board of Directors

N.J.N. Vazifdar
Vice President & Secretary

Kotak Mahindra Finance Limited

DIRECTORS' REPORT

The Directors are pleased to present their Thirteenth Annual Report together with the audited accounts of the Company for the year ended 31st March 1998.

I. FINANCIAL RESULTS

	(Rs. in lakhs)	
	31st March 1998	31st March 1997
Gross Income	30953	36124
Expenditure	3147	3447
Interest and Bank charges	14892	19724
Gross Profit	12914	12953
Provisions/write offs for Non Performing Assets	1695	2510
Profit before Depreciation and Tax	11219	10443
Depreciation	7308	7053
Profit before Tax	3911	3390
Provision for Tax	1800	375
Profit after Tax	2111	3015
Surplus brought forward from previous years	4741	4606
Amount available for appropriation	6852	7621
<i>Appropriations :</i>		
General Reserve	1000	1000
Debenture Redemption Reserve	625	550
Special Reserve under Section 45 IC of the RBI Act, 1934	422	603
Proposed Dividend	661	661
Tax on distribution of Dividend	66	66
Surplus carried to Balance Sheet	4078	4741

II. DIVIDEND

The Directors recommend maintaining a tax-free dividend of 18 %.

III. FINANCIAL SECTOR OUTLOOK

The financial services sector is undergoing a process of consolidation. In almost every segment of financial services there is a shrinkage of the number of players, with the inefficient ones exiting. Survival will depend on customer service, efficiency of processes, people and capital. In such a scenario, substance will rule over form and prior standing in the industry will be no guarantee for success. This phase of consolidation is likely to gain momentum during the current year.

The Company is confident of facing the challenges that such an environment will provide. It has followed a conservative accounting policy and has effectively controlled its balance sheet, emerging leaner and well placed to take advantage of the changing economic climate. The Company's substantial network, ability to raise resources at lower cost, dedicated and trained human resources, information technology systems, ability to adjust quickly to changes and a large customer base will enable it to prosper and play an important role in filling the vacuum that will be created by the exit of other players.

IV. OPERATIONS

The Directors had stated in their Report last year that the year 1996-97 was a turbulent year for the economy in general and for Non-Banking Financial Companies in particular. During the year under review, the economic conditions further worsened and all the adverse factors outlined in the Report last year deteriorated. This affected all aspects of the Company's business activities. In this uncertain environment, the Company took a conscious decision to reduce risk by curtailing assets. This resulted in a reduction in gross income from Rs. 361.24 crores to Rs. 309.53 crores. However, with a decrease in interest charges from Rs. 197.24 crores to Rs. 148.92 crores and provisioning for non-performing assets from Rs. 25.10 crores to Rs. 16.95 crores, profit before tax increased from Rs. 33.90 crores to Rs. 39.11 crores. Profit after tax declined from Rs. 30.15 crores to Rs. 21.11 crores on account of the higher provision for tax, from Rs. 3.75 crores to Rs. 18.00 crores.

As outlined in the Report last year, the Company's outstandings had increased due to defaults and delays from its clients, including those who previously had an unblemished payment track record. The Company concentrated on an aggressive recovery drive from its clients and has succeeded partially. It has instituted legal proceedings against some of the defaulter clients. However, even the positive results therefrom will accrue only slowly over a period of time, given the delays in the judicial process.

Inflows on account of royalty and dividends from subsidiaries, which are expected to continue in future years also, not only contributed to the stability of the Company's operations in what was otherwise a difficult year, but also vindicated the shareholders' faith in management's policy of creating separate, focussed entities with appropriate levels of capital and technology, to exploit market conditions.

Kotak Mahindra Finance Limited

Corporate Finance

The credit offtake by and large continued to be poor and the market offered extremely poor yields on good quality assets of acceptable credit. The Company's emphasis was on improvement in internal processes and risk management systems. Significant progress has been achieved in these areas, with distinct enhancement of the credit quality of assets. The Company is continuously monitoring its portfolio to anticipate potential non-performing assets and take suitable action. As a result, the Company has succeeded in exiting from several of its borrowers who have subsequently started defaulting to other lenders. Lending policies have also been substantially changed and there is a marked preference for secured lending and shorter tenure of assets. With uncertainty in the economic outlook, disbursements of long term products have been curtailed.

Syndication

The volumes handled in syndication business, though in excess of Rs. 360 crores, indicated a reduction in the volume of long term products. This was in tune with the general economic conditions where long term asset creation has declined.

Commercial Vehicle Financing

In a year which witnessed a substantial drop in the sales of commercial vehicles, the Company's disbursements of Rs. 106 crores marked an improvement of 16% over the previous year. Sharp decline in freight rates, lack of commensurate loads and delayed payments are some of the factors which have led to transport operators delaying payments, resulting in the increase in outstandings in the industry. However, due to its effective recovery network, the Company has managed to maintain a healthy recovery rate.

The business prospects for this Division for the current year continue to be sluggish. The Company's emphasis is on implementing effective controls, investing in infrastructure, instituting superior risk management modules, upgrading recovery network and maintaining a good relationship with transport operators, dealers and manufacturers. The Company has focussed on this business and intends to consolidate its market position.

Consumer Services

Members had been informed last year that the Company had identified Consumer Services as a major growth area. Pursuant to this, a successful foray has been made into this activity. The Company launched an innovative and customer friendly scheme, "Kotak Mahindra K-Value", to offer personal loans to individuals. It also introduced, for the first time in India, the concept of pre-approved credit for individuals. The Company also finances office equipment and medical equipment, addressing the needs of professionals and entrepreneurs. The Company seeks to make finance easily available to consumers through speedy appraisal, flexible financing schemes and simple documentation, while nevertheless maintaining necessary controls.

Resource Raising

The Company has a comfortable resources position and continues to receive the support of its bankers, financial institutions, debenture holders and other lenders. The Company has a varied and stable funding base with a low gearing of 2.27.

The Company has constituted an Asset Liability Committee which monitors the asset liability profiles and addresses mis-matches, if any.

Fixed Deposits

The default of one of the Non-Banking Financial Companies (NBFCs) adversely affected the image of the industry. Reserve Bank of India introduced certain guidelines linking the deposit raising capacity of NBFCs with their credit rating and also restricting Banks from offering cheque "payable at par" facilities to NBFCs. The resultant confusion and negative perception led to large scale exodus of existing fixed deposits in most NBFCs. Nevertheless, the Company's fixed deposit schemes continue to be well received and this source of finance constitutes about 20% of its total liabilities. The Company continues to enjoy "payable at par" facilities with its Bankers.

Other Developments

The Company's wholly owned subsidiary, Kotak Mahindra Asset Management Company Limited (KMAMCL), has plans to launch its mutual funds schemes. KMAMCL will soon be filing with the Securities and Exchange Board of India an offer document containing two schemes of the Kotak Mahindra Mutual Fund. KMAMCL expects to mark its presence in the market by performance, transparency, better customer services and appropriate risk gradation in all its schemes to promote the mutual fund as a savings vehicle for the public at large and believes that this is the right time to enter the business.

Matrix Information Services Limited, another subsidiary of the Company, has launched its Indian Information product on schedule and has aggregated contents from the best known sources, which would put it in a pre-eminent position when the internet takes off in India.

The Company welcomes the opening of the insurance sector to the Indian domestic companies and has plans to enter this sector. It continues its Memorandum of Understanding with The Chubb Corporation, U.S.A., one of the largest American insurance firms.

The Company's joint ventures with Goldman Sachs and Ford Credit International Inc. have not only infused capital into specific focussed business entities but have also brought about generally beneficial exposure to international standards of processes and controls. Based on the success of its on-going association, the Company is in the process of negotiating a further extension of its Strategic Alliance with Goldman Sachs.

V. SUBSIDIARIES

Kotak Mahindra Capital Company, the investment banking company in which the Company holds 72% and Goldman Sachs holds the balance 28%, reported a 73% increase in net profit, to Rs. 16.51 crores, for the year ended 31st March 1998 and has declared a dividend of 100%.