

MD	✓		BKC	✓
CS	✓		DPI	✓
RC	✓		DTV	✓
TRA	✓		AC	✓
AGM	✓	✓	SHI	✓
YE	✓	✓		✓

MAFATLAL FINANCE

MAFATLAL FINANCE COMPANY LIMITED

10TH ANNUAL REPORT 1996-97

BOARD OF DIRECTORS :

SHRI H. A. MAFATLAL *Chairman*
 SHRI N. G. PATEL
 SHRI J. R. GAGRAT
 SHRI Y. C. AMIN
 DR. A. C. SHAH
 SHRI B. R. SHAH
 DR. N. M. DHULDHOYA
 SHRI N. K. PARIKH *Managing Director*

COMPANY SECRETARY :

SHRI GAURANG SHAH

BANKERS :

DENA BANK
 STATE BANK OF INDIA
 CENTRAL BANK OF INDIA
 UNION BANK OF INDIA
 BANK OF BARODA
 BANK OF INDIA
 STATE BANK OF INDORE
 STATE BANK OF HYDERABAD
 DHANALAKSHMI BANK LTD.
 THE SAKURA BANK LTD.
 BANK OF PUNJAB LTD.
 THE SOUTH INDIAN BANK LTD.
 ICICI BANKING CORPORATION LTD.
 THE FEDERAL BANK LTD.
 UNITED BANK OF INDIA

AUDITORS :

C.C. CHOKSHI & CO.
Chartered Accountants

SOLICITORS & ADVOCATES :

MANILAL KHER AMBALAL & CO.

REGISTERED OFFICE :

MAFATLAL HOUSE,
 BACKBAY RECLAMATION,
 MUMBAI - 400 020.

REGISTRARS & SHARE TRANSFER AGENTS :

MAFATLAL CONSULTANCY SERVICES (INDIA) LTD.
 BITS HOUSE, JUKASO SILK MILLS COMPOUND,
 ANDHERI KURLA ROAD, SAKI NAKA,
 ANDHERI (EAST), MUMBAI - 400 072.

MANAGEMENT TEAM :

SHRI H. A. MAFATLAL
Chairman

SHRI N. K. PARIKH
Managing Director

SHRI N. R. DIVATE
Executive Director

SHRI SHOME SENGUPTA
Executive Director

SHRI NITIN PAREKH
Chief Executive - Merchant Banking

SHRI K. CHANDRAMOULI
Vice President - Resources

SHRI S. M. KAKU
Financial Controller

SHRI S. N. BHATRI
Whole-time Director - Mafatlal Securities Ltd.

SHRI A. L. SHETTY
Whole-time Director - Mafatlal Securities Ltd.

NOTICE

NOTICE is hereby given that the TENTH ANNUAL GENERAL MEETING of the Members of MAFATLAL FINANCE COMPANY LIMITED will be held at M.C. Ghia Hall, Bhogilal Hargovindas Bldg., 18/20 K. Dubhash Marg, (Rampart Row), Mumbai 400 001 on Thursday, the 4th September, 1997 at 4.00 p.m. to transact the following business :

ORDINARY BUSINESS

1. To consider and adopt the Audited Profit and Loss Account for the year ended 31st March, 1997 and the Balance Sheet as at that date and the Reports of Directors and the Auditors thereon.
2. To declare dividend on the Equity Shares.
3. To appoint a Director in place of Shri N.G. Patel, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Dr. N.M. Dhuldhoya, who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint a Director in place of Shri J.R. Gagrati, who retires by rotation and being eligible offers, himself for reappointment.
6. To appoint Auditors to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting and fix their remuneration.

SPECIAL BUSINESS

7. To consider and if thought fit, to pass with or without modifications the following resolution as a Special Resolution.

"RESOLVED THAT pursuant to Section 31 and other applicable provisions, if any, of the Companies Act, 1956 and the provisions of other Statutes as applicable and such approvals, consents, permissions and sanctions as may be necessary from the appropriate authorities or bodies, the Articles of Association of the Company be and is hereby altered as follows :

- (a) At the end of Interpretation Clause under Article 2 add the following :

Beneficial Owner

The word "beneficial owner" shall mean the beneficial owner as defined in Clause (a) of the subsection (1) of Section 2 of the Depositories Act, 1996.

Depositories Act, 1996

The word 'Depositories Act, 1996' shall include any Statutory modification or re-enactment thereof.

Depository

The word 'Depository' shall mean Depository as defined under Clause (c) of subsection (1) of Section 2 of the Depositories Act, 1996.

- (b) At the end of Article 14 add the following words :

"Provided however that the provision relating to progressive numbering shall not apply to the shares of the Company which have been dematerialised."

- (c) To insert the following article as Article 15-A.

Company entitled to dematerialise its shares

"Notwithstanding anything contained herein the Company shall be entitled to dematerialise its shares, debentures and other securities pursuant to the Depositories Act, 1996 and to offer for subscription in a dematerialised form. The Company shall further be entitled to maintain a Register of Members with the details of Members holding shares both in material and dematerialised form in any media as permitted by law including any form of electronic media.

- (d) At the end of Article 28 add the following words:

"Provided, however that the provision relating to issue of share certificates and certificate numbers shall not apply to the shares of the Company which have been dematerialised."

- (e) After Article 31 insert the following article as Article 31A.

Beneficial owner deemed as absolute owners

"Save as herein otherwise provided, the Company shall be entitled to treat the person whose name appears as the beneficial owner of the shares in the records of the Depository as the absolute owner thereof as regards receipt of dividends or bonus or service of notices and all or any other matter connected with the Company and accordingly the Company shall not (except as ordered by Court of Jurisdiction or as by law required) 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 it shall have express or implied notice thereof."

- (f) Sub-Clause (4) of Article 40 be renumbered as 40(4)(a) and the following Sub-Clause 40(4)(b) be inserted.

"In case of transfer or transmission of shares or other marketable securities where the Company has not issued any certificates and where such shares or securities are being held in an electronic and fungible form, the provisions of the Depositories Act, 1996 shall apply."

By order of the Board
For Mafatlal Finance Company Limited

Gaurang Shah

Company Secretary

Registered Office :

Mafatlal House

Backbay Reclamation

Mumbai - 400 020.

Dated : 30th June, 1997

NOTES :

- a) A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY OR PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THAT A PROXY NEED NOT BE A MEMBER.
- b) Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the special business is annexed hereto.
- c) The Register of Members and the Share Transfer Books of the Company will remain closed from Tuesday, the 19th August, 1997 to Thursday the 4th September, 1997 (both days inclusive) for the purpose of payment of dividend, if any.
- d) The dividend as recommended by the Board of Directors when declared at the Annual General Meeting will be paid to those members whose names appear on the Register of Members as on 4th September, 1997.
- e) Members are requested to notify any change in their address to the Company's Registrars & Transfer Agents, Mafatlal Consultancy Services (I) Ltd. at Jukaso House, Jukaso Silk Mills Compound, Behind Orkay Silk Mills, Andheri Kurla Road, Andheri (E), Mumbai 400 072, quoting their folio nos. immediately, so as to ensure that all Communications/Reports/Dividend warrants reach the members promptly.
- f) All members who have either not received or have not encashed their Dividend Warrants for the financial years 1993-94, 1994-95 and 1995-96 are requested to write to the Company's R&T Agents at the abovementioned address quoting the relevant folio No(s).

g) Shareholders seeking any information with regard to the Accounts of the Company are requested to write to the Company at an early date so as to enable the management to keep the information ready.

h) In order to avoid fraudulent encashment of dividend warrants, shareholders who have not furnished their bank account numbers, names and addressess of the bank branches, are requested to provide the abovementioned details, quoting their folio numbers, to the R&T Agents, at the abovementioned address at the earliest.

ANNEXURE TO NOTICE

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

Item No. 7

Consequent to the passing of the Depositories Act, 1996 and introduction of Depository System, some of the provisions of the Companies Act, 1956, pertaining to issue, holding, transfer, transmission and dealing in shares and other securities as also certificates thereof have been amended so as to facilitate the functioning of Depository System. Your Company proposes to dematerialise the shares in the near future with a view to provide better services to investors. Some of the Articles in Articles of Association of the Company pertaining to issue, holding, transfer, transmission and dealing in shares and securities, which were in line with the erstwhile provisions of the Companies Act, 1956 are conflicting with the provisions of the Depositories Act, 1996 and therefore they are required to be amended.

The Board of Directors therefore recommend the resolution for the approval of Members. None of the Directors of the Company, is in any way concerned or interested in the said Resolution.

By order of the Board
For Mafatlal Finance Company Limited

Gaurang Shah
Company Secretary

Registered Office :

Mafatlal House

Backbay Reclamation

Mumbai - 400 020.

Dated : 30th June, 1997

DIRECTORS' REPORT

To

**The Members,
MAFATAL FINANCE COMPANY LIMITED**

Your Directors present the Tenth Annual Report together with the Audited Statement of Accounts of the Company for the year ended 31st March, 1997.

1. FINANCIAL RESULTS

The financial results of the Company for the year under review as compared to the previous year are summarised below for your consideration :

	Year ended 31.3.1997 (Rs. in lacs)	Year ended 31.3.1996 (Rs. in lacs)
GROSS INCOME	10612.17	6887.62
GROSS PROFIT BEFORE DEPRECIATION AND INCOME TAX	2871.29	2547.95
Depreciation	2435.41	1311.89
Provision for Tax	87.10	10.20
NET PROFIT AFTER TAX	348.78	1225.86
Add : Amount brought forward from previous year	1084.87	894.01
AMOUNT AVAILABLE FOR APPROPRIATION	1433.65	2119.87
PROPOSED DIVIDEND	312.31	780.00
TRANSFER TO DEBENTURE REDEMPTION RESERVE	489.00	105.00
TRANSFERRED TO STATUTORY RESERVE UNDER RBI ACT	69.75	—
TRANSFERRED TO GENERAL RESERVE	—	150.00
Balance carried forward	531.36	1084.87

2. DIVIDEND

In view of a decline in profit and the prevailing situation your Directors recommend payment of dividend for the year ended 31st March, 1997, at the rate of 10 % on the paid up capital as against 25% paid in the previous year. The proposed dividend will absorb a sum of Rs. 312.31 lacs.

3. OPERATIONS

The year 1996-97 was one of the most difficult years for the Non-Banking Finance Companies (NBFCs). Despite various constraints, the income from operations grew by 54 % over the previous year. The net profit however, has fallen by 72 % over the last year mainly due to a severe pressure on the margins and high financing costs.

As per the prudential norms laid down by the Reserve Bank of India for the NBFCs, the Company has made a provision of Rs. 156 lacs towards diminution in the value of unquoted investments, Rs. 126 lacs towards NPA and has also reversed income to the extent of Rs. 258 lacs for the year. The management is confident that a number of these accounts would change their current status in future, when these provisions would have to be written back.

3.1 Performance

Due to slow industrial growth on account of steep increase in the cost of borrowings and inactive capital markets a large number of Corporates were slow in the expansion / diversification programmes or totally abandoned it for the time being. This has effected the Lease and Hire Purchase business of the Company.

The Division has disbursed Rs. 9800 lacs during 1996-97 recording a decline of 17 % over the last year.

The contribution from fee based activities of Corporate Finance and Merchant Banking Division was very low due to a low level of capital market activities.

During the year, the Company put emphasis on Consumer Finance Activities such as car and commercial vehicles financing. The performance of the Company in this sector was quite impressive with the disbursements exceeding Rs. 12220 lacs during the year as against Rs. 4634 lacs in the last year resulting into an increase in 164 % over the last year. This Sector which is growing at a rate of around 25 % every year has good growth potential.

The Stock Broking Subsidiary - Mafatlal Securities Ltd., performed well during the year in spite of a bearish capital market. It has been empanelled with almost all the financial institutions/banks. It has also been empanelled with 3 FIIs who are very active in capital markets. Mafatlal Securities

Ltd. has recorded a net profit of Rs.30.55 lacs for the year against a loss of Rs. 40.84 lacs in the previous year.

3.2 Resources

As the generation of fresh funds from Banks/ Financial Institutions was difficult, the Company continued to concentrate on raising the funds from retail sources like Debentures and fixed deposits. During the year, the Company came out with a Public Issue of NCDs aggregating Rs.3000 lacs which was subscribed. The Company also successfully mobilised over Rs.1797 lacs by way of Privately Placed NCDs.

3.3 Fixed Deposits

In spite of severe competition from big corporate houses and leading NBFCs in the market, the Company continued to remain in the forefront among NBFCs for its fixed deposits mobilisation due to a strong brand equity coupled with good service to investors. The fixed deposit mobilisation during the year showed a growth of 75 % over the last year. The aggregate net Fixed Deposit amount at the end of 31.03.97 stood at Rs. 22773 lacs.

The Company has complied with all the requirements of credit rating and capital adequacy and has also complied with the guidelines and directives issued by the Reserve Bank of India from time to time. The Company's fixed deposit programme continues to be rated FAA - denoting "High degree of safety towards timely repayment of interest as well as principal."

At the end of the financial year, 1739 depositors have not claimed their deposits aggregating to Rs.213.12 lacs. Excepting this, your Company does not have any unclaimed or unpaid deposits.

4. OUTLOOK

At the beginning of the current financial year under review, with the announcement of the new Credit Policy and the various follow up measures after the presentation of a path-breaking Budget '97, the outlook for the Non-Banking Financial Services Industry looked bright.

However the events that have taken place subsequently in the current year have created an unprecedented turmoil for the Non - Banking Financial Services Industry. The regulatory authorities are under pressure to bring in more amount of

discipline in managing the working of 40,000 odd prevailing NBFCs. We welcome this step. Under the circumstances it is impossible for the regulatory authorities to monitor the activities of so many NBFC's. Consequently only a few who fulfil the various criteria laid down would be allowed to carry on operations. The management considers these new circumstances as an opportunity and is confident of emerging as one of the significant players in this industry as we have at all times followed a prudent and conservative approach to our business, always complying with the regulations in force.

For the current year the management of your Company has worked out a detailed plan to improve the profitability of the Company. The main thrust is on reducing the cost of borrowings through ECB funding, improving operating spreads, reducing administration cost & further improving credit quality.

5. MUTUAL FUND

The Company's efforts to set up a mutual fund has finally taken off. SEBI has given an in principle approval to the Company to set up a mutual fund. Two separate companies namely, Mafatlal Asset Management Company Ltd. and Mafatlal Trustee Company Ltd. to manage the mutual fund activities have been incorporated.

Key Personnel having necessary qualification and experience have been appointed to manage mutual fund business. The Company is in the process of complying with the SEBI requirements to get the mutual fund registered with SEBI and hopes to come out with the first scheme during the current year.

6. SHARE CAPITAL

The Board of Directors of the Company after giving adequate notice to the defaulting shareholders, have forfeited 8,16,200 shares for non-payment of Allotment / Call monies. With the forfeiture of these shares, the Paid up Share Capital of the Company stood at Rs. 3123.11 lacs.

7. DISCLOSURE UNDER THE LISTING AGREEMENT

Under Clause 43 of the Listing Agreement, companies who have issued shares are required to furnish comparison of the projected figures given in the Prospectus / Letter of Offer with the actuals in respect of profitability.

In October 1994, the Company had offered to the public 80,00,000 equity shares of Rs. 10/- each at a premium of Rs. 40/- per share. The comparison of

projections in the prospectus issued at the time of said public issue of shares with actual performance as to the profitability for the year 1996-97 is set out below.

(Rs. in lacs)		
Particulars	Actuals	Projections made in the prospectus dt. 23.9.1994
1. Total Income	10612	10932
2. Profit before Interest, Depreciation and Tax	8629	10121
3. Net Profit	349	3963
4. Dividend	10 %	24 %

The business environment for the NBFCs has undergone a fundamental change during the last three years, and most of the assumptions under which the projections were made are no longer valid now. Some of the basic changes are :

- No opportunity to earn income from capital market operations.
- Merchant Banking Services and other advisory services income severely affected on account of the radically changed capital market scenario prevailing today as against the estimates in our projections.
- Resistance on the part of Banks and Financial Institutions to extend credit to Non- Banking Finance Companies.
- Increased cost of borrowing with respect to October 1994 level.
- Lowering of interest burden by issue of low cost commercial paper could not take place as there was no market for commercial paper last year.

8. SUBSIDIARY COMPANIES

As required under Section 212 of the Companies Act, 1956, the audited statement of accounts of Mafatlal Securities Ltd. alongwith the report of the Board of Directors and Auditors' Report thereon for the financial year ended 31st March, 1997 are annexed.

9. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGOINGS

The Company is not engaged in manufacturing activities therefore there is no information to submit in respect of conservation of energy and absorption of technology.

Foreign exchange earnings Nil

Foreign exchange outgoing Rs. 0.48 lac

10. DONATIONS

During the year under review, the Company had made donations of Rs. 8.98 lacs to different charitable institutions for their philanthropic activities.

11. DIRECTORATE

Mr. N.G. Patel, Dr. N.M. Dhuldhoya and Mr. J.R. Gagrati retire by rotation at the ensuing Annual General Meeting, but being eligible offer themselves for reappointment.

12. PARTICULARS OF EMPLOYEES

The particulars of employees as required under Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 forms a part of this Report.

However, as per the provisions of Section 219 (1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to all shareholders of the Company, excluding this information. Those shareholders who are interested in obtaining such particulars may write to the Company Secretary at the Registered Office.

13. AUDITORS

The Company's Auditors, M/s.C.C. Chokshi & Co., Chartered Accountants, retire at the ensuing Annual General Meeting. They being eligible have given their consent to act as Auditors of the Company, if reappointed. Members are requested to consider their reappointment as Auditors of the Company for the current year and fix their remuneration.

14. ACKNOWLEDGEMENTS

Your Directors wish to place on record their appreciation of the valuable support given by our clients, Financial Institutions, Banks, Mutual Funds as well as the shareholders, debentureholders and depositors for their sustained support.

For and on behalf of the Board

H. A. MAFATLAL
Chairman

Mumbai, Dated : 30th June, 1997

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the attached Balance Sheet of MAFATLAL FINANCE COMPANY LIMITED, as at 31st March, 1997 and the Profit and Loss Account of the Company for the year ended on that date annexed thereto and report that :

1. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988, issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956, we give in the Annexure a statement on the matters specified in the said order.
2. Further to our comments in the Annexure referred to in Paragraph 1 above, we report that:
 - a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books;
 - c) The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account;
 - d) Attention is invited to the following note in Schedule No. 18 :

Note No. 7 regarding reconciliation of Interest payable on Fixed Deposit and Fixed Deposits received.

- e) Subject to the foregoing, in our opinion and to the best of our information and according to the explanations given to us, the said accounts read with the other notes thereon give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view:
 - a) In the case of the Balance Sheet of the state of affairs of the Company as at 31st March, 1997; and
 - b) In the case of the Profit and Loss Account of the profit for the year ended on that date.

For C.C. CHOKSHI & CO.
Chartered Accountants

R. SALIVATI
Partner

Mumbai, 30th June, 1997

ANNEXURE TO THE AUDITORS' REPORT

Referred to in Paragraph 1 of our report of even date on the accounts of MAFATLAL FINANCE COMPANY LIMITED for the year ended 31st March, 1997.

1. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. The fixed assets of the Company, other than those leased out, have been physically verified by the management during the year. Leased assets have been physically verified by the management during the year in accordance with the regular programme which in our opinion is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on verification. In addition confirmations have also been received from some of the lessees in respect of leased assets, and are awaited from the remaining lessees.
2. None of the Fixed Assets have been revalued during the year.
3. The nature of the Company's activities is such that the requirements of items (xii), (xiv) and (xvi) of Clause A and item (i) of Clause C of paragraph 4 of the Order are not applicable to the Company.
4. The stocks of shares have been physically verified by the management during the year. In our opinion the frequency of verification is reasonable.
5. The procedures of physical verification of stocks of shares followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
6. We are informed that no material discrepancies have been noticed on physical verification of stocks of shares as compared to the book records.
7. On the basis of our examination of stock records, we are of the opinion that the valuation of stocks of shares is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the previous year.
8. In our opinion, the rate of interest and other terms and conditions on which loans have been taken from companies listed in the register maintained under Section 301 of the Companies Act, 1956 are not prima facie prejudicial to the interest of the Company. The Company has not taken loans from firms or other parties listed in the registers maintained under Section 301 of the Companies Act, 1956 and/or from companies under the same management of this Company within the meaning of Section 370(1B) of the Companies Act, 1956.
9. In our opinion, the rate of interest and other terms and conditions on which loans have been granted to the companies listed in the register maintained under Section 301 of the Companies Act, 1956 and to the companies under the same management as this Company within the meaning of Section 370(1B) of the Companies Act, 1956 are not prima facie prejudicial to the interest of the Company. The Company has deployed short term surplus funds with its subsidiary, interest free and payable on demand. These advances, in our opinion, may not be considered prima facie prejudicial to the interest of the Company since the same have been made to the wholly owned subsidiary.
10. The parties (including employees) to whom loans or advances in the nature of loans have been given by the Company are repaying the principal amounts as stipulated and are also regular in payment of interest where applicable other than non-performing loans for which provision has been made as per norms prescribed by Reserve Bank of India. The Company is advised that Bills purchased are not in the nature of loans and advances.
11. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of plant and machinery, equipment and other assets.
12. Transactions of sale of services have been made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and aggregating during the year to more than Rs. 50,000/- in respect of each party. As explained to us, no similar services were rendered to other parties and hence the prices at which services have been rendered are not comparable.
13. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Section 58A of the Companies Act, 1956 and the directions issued by the Reserve Bank of India in respect of deposits received from the public except that the Company has not complied with the provisions of Rule 12 regarding maintenance of a minimum percentage of investment in approved securities as well as overall percentages of liquid assets for part of the year.
14. In our opinion, the Company's internal audit system, operated in house/ by firms of Chartered Accountants, is commensurate with the size and nature of its business.