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**Mahindra finance**

Tenth Annual Report  
1999 - 2000

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MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED

# MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED

## SUMMARY OF RESULTS

		(Rupees in lakhs)					
Sr.No.		F-2000	F-99	F-98	F-97	F-96	F-95
1.	Business Disbursement	75748	50518	30313	15600	10200	3700
2.	No. of contracts	52579	27000	12000	7142	2882	999
3.	Total assets	81400	57093	42514	28510	15604	7159
4.	Total income	11857	9530	7312	4258	3359	894
5.	Profit before depreciation & tax	3377	3171	2257	1126	668	460
6.	Depreciation	2031	2101	1280	610	364	292
7.	Profit before tax	1346	1070	977	516	304	168
8.	Profit after tax	541	453	478	146	304	168
9.	Dividend %	6	10	15	14	20	20
10.	Equity Share Capital	6062	3190	1990	1990	796	398
11.	Preference Share Capital	--	---	906	--	---	--
12.	Reserves & Surplus	7377	3683	2376	2226	1439	473
13.	Net Worth	13439	6873	5272	4216	2235	871
14.	EPS #	1.25	1.52	2.40	1.45*	1.57	4.94
15.	CEPS #	5.98	9.65	8.96	7.53*	10.08	13.55
16.	No. of employees	340	205	130	62	33	13
17.	Branches	115	81	31	11	1	-

# Based on average Equity Capital

\* After 1 : 4 Bonus during 1996-97

**MAHINDRA & MAHINDRA  
FINANCIAL SERVICES LIMITED**

**DIRECTORS**

Anand G. Mahindra Chairman  
Uday S. Kotak  
Alan Durante  
Bharat Doshi  
U. Y. Phadke  
K. J. Davasia  
Raj Kale  
Sunit Malhotra  
Dhananjay Mungale

**Chief Executive**

Ramesh Iyer

**Auditors**

B. K. Khare & Co.  
Chartered Accountants,  
706 / 708, Sharda Chambers,  
Mumbai - 400 020.

**Solicitors**

Little & Co.  
Central Bank Building  
Mahatma Gandhi Road,  
Mumbai - 400 023.

**Bankers**

State Bank of India  
Union Bank of India  
Corporation Bank  
Punjab National Bank  
Canara Bank  
Indian Overseas Bank  
ANZ Grindlays Bank  
Standard Chartered Bank  
Bank of America  
ABN Amro Bank  
Bank of Nova Scotia  
Commerz Bank  
KBC Bank  
HDFC Bank  
IDBI Bank  
Vysya Bank  
UTI Bank  
United Western Bank  
Dhanalakshmi Bank

**Corporate Office**

Mahindra Towers, Gr. Floor,  
Dr. G. M. Bhosle Marg,  
P. K. Kurne Chowk, Worli,  
Mumbai - 400 018.

**Registered Office**

Gateway Building,  
Apollo Bunder,  
Mumbai - 400 001.

**TENTH ANNUAL GENERAL MEETING**

Date : 27th July, 2000  
Day : Thursday  
Time : 2 p.m.  
Place : Mahindra Towers, 6th Floor,  
Dr. G. M. Bhosle Marg,  
P. K. Kurne Chowk,  
Worli, Mumbai - 400 018.

**DIRECTORS' REPORT****MAHINDRA & MAHINDRA  
FINANCIAL SERVICES LIMITED****DIRECTORS' REPORT TO THE SHAREHOLDERS**

Your Directors have pleasure in presenting their Tenth Report together with the audited accounts of your Company for the year ended March 31, 2000.

**SUMMARISED FINANCIAL RESULTS**

	<b>Rs. in lakhs</b>	
	<u>2000</u>	<u>1999</u>
INCOME FROM OPERATIONS	11857.48	9530.32
LESS : FINANCE COSTS	5875.17	4367.15
EXPENDITURE	2605.67	1992.24
DEPRECIATION	2031.07	2100.93
	<u>10511.91</u>	<u>8460.32</u>
PROFIT BEFORE TAX	1345.57	1070.00
LESS : PROVISION FOR TAX	804.25	617.20
PROFIT AFTER TAX	541.32	452.80
LESS : SHORT PROVISION FOR INCOME-TAX - EARLIER YEARS	(0.12)	----
	<u>541.20</u>	<u>452.80</u>
ADD : AMOUNT BROUGHT FORWARD FROM PREVIOUS YEAR	271.15	280.33
AMOUNT AVAILABLE FOR APPROPRIATION	<u>812.35</u>	<u>733.13</u>
APPROPRIATIONS :		
GENERAL RESERVE	----	25.00
SPECIAL RESERVE	108.27	90.60
DIVIDEND ON 11.25% PREFERENCE SHARES REDEEMED ON 9TH OCTOBER, 1998	----	53.36
INCOME TAX ON PREFERENCE DIVIDEND	----	5.33
DIVIDEND ON EQUITY SHARES (INTERIM)	216.69	----
INCOME TAX ON DIVIDEND (INTERIM)	23.84	0.00
PROPOSED DIVIDEND ON EQUITY SHARES (FINAL)	43.34	259.18
INCOME TAX ON PROPOSED DIVIDEND (FINAL)	9.53	28.51
SURPLUS CARRIED TO BALANCE SHEET	410.68	271.15
	<u>812.35</u>	<u>733.13</u>

**DIRECTORS' REPORT****MAHINDRA & MAHINDRA  
FINANCIAL SERVICES LIMITED****INTERIM DIVIDEND**

An interim dividend @ 5% on equity shares of Rs.10 each has been declared and paid as follows to those members whose names appeared on the Register of Members as on March 31, 2000, being the record date fixed for the purpose :-

	Rupees (in lakhs)
(a) a dividend of Re.0.50 per share on 3,19,03,231 equity shares of Rs.10 each	159.52
(b) a pro-rata dividend of Re.0.289 per share on 46,18,508 equity shares of Rs.10 each allotted on 02.09.99	13.37
(c) a pro-rata dividend of Re. 0.251 per share on 46,04,144 equity shares of Rs. 10 each allotted on 30.09.99	11.57
(d) a pro-rata dividend of Rs. 0.165 per share on 1,94,97,420 equity shares of Rs. 10 each allotted on 02.12.99	32.23
Total	<u>216.69</u>

**FINAL DIVIDEND**

Your Directors have recommended a final dividend of 1% per equity share of Rs.10 each payable as follows to those members whose name appear on the Register of members as on July 17, 2000 :

	Rupees (in lakhs)
(a) a dividend of Re.0.10 per share on 3,19,03,231 equity shares of Rs.10 each	31.90
(b) a pro-rata dividend of Re.0.058 per share on 46,18,508 equity shares of Rs.10 each allotted on 02.09.99	2.68
(c) a pro-rata dividend of Re. 0.0502 per share on 46,04,144 equity shares of Rs. 10 each allotted on 30.09.99	2.31
(d) a pro-rata dividend of Rs. 0.03306 per share on 1,94,97,420 equity shares of Rs. 10 each allotted on 02.12.99	6.45
Total	<u>43.34</u>

The total Dividend paid / payable by the Company will absorb a sum of Rs. 293.40 lakhs including Rs.33.37 lakhs as tax on distributed profits, as against an amount of Rs. 346.38 lakhs for the previous year.

**DIRECTORS' REPORT****MAHINDRA & MAHINDRA  
FINANCIAL SERVICES LIMITED****RIGHTS ISSUE AND CAPITAL ADEQUACY**

In order to strengthen its capital base, your Company had made Right Issues amounting to Rs.63.18 crore. in a phased manner during the year under review.

Consequent upon the rights issues, the share capital of the Company has increased to Rs.60.62 crore from Rs.31.90 crore and the share premium, to Rs.65.37 crore from Rs.30.91 crore.

As a result of the increased net worth, the Company was able to maintain the Capital to Risk Assets Ratio (CRAR) of 20% as on March 31, 2000 against the required CRAR of 12%. Your Company is thus well placed against any increase that the Reserve Bank of India may prescribe in the Capital Adequacy Ratio following the recommendations of the task force appointed by the Government to review the regulatory frame work for Non Banking Finance Companies.

**HOLDING OF MAHINDRA & MAHINDRA LIMITED**

Pursuant to the allotments of equity shares under the rights issues during the year, the holding of Mahindra & Mahindra Limited in the share capital of the Company increased from 93.11% to 95.99% as of March 31, 2000.

**OPERATIONS**

During the financial year 1999-2000, whilst the Automobile industry recorded a moderate growth over the previous year, the Utility Vehicle segment, which your Company mainly caters to, has not shown any significant improvement.

Your Company disbursed Rs.757 crore compared to Rs.505 crore disbursed during the previous financial year [including Rs.211 crore (previous year: Rs. 117 crore) towards Tractor Financing to the dealers of Mahindra & Mahindra Limited, registering a growth of over 50%. This was possible mainly due to the Company's strategy of consolidating its position in rural and semi urban markets. Your Company has extended retail finance to automotive sales of Mahindra products and has a client base of over 50,000. The Company also commenced retail tractor financing operations during the current financial year in Rajasthan, Madhya Pradesh and Gujarat.

The income of the Company during the year was Rs.118.57 crore registering a growth of 24.42% over

the previous year. The profit before tax has increased to Rs.13.46 crore from Rs.10.70 crore, a growth of 25.75%. The profit after tax at Rs.5.41 crore is 19.52% higher than the previous year's profit of Rs.4.53 crore.

During the year, the Company has added 34 branches, taking the total number of branches to 115 as of March 31, 2000.

Your Directors are pleased to report that the strategic initiatives embarked upon have resulted in another year of impressive growth, both in business and profits.

**RBI INSPECTION**

During the current financial year, the Reserve Bank of India had carried out regular onsite inspection of the various records and the systems / procedures followed by the Company and no adverse comments have been received on conclusion of the inspection.

**CREDIT RATING**

During the year under review, the Credit Rating Services of India Limited (CRISIL) has, on two occasions, upgraded the Credit Rating assigned to the Company's Fixed Deposit Scheme from "FAA-" to "FAA" and thereafter, to "FAA+". The revised rating indicates that the degree of safety regarding timely payment of interest and principal is strong. Your Company is one of the few companies amongst NBFC companies whose credit rating by CRISIL has been upgraded twice in a year.

CRISIL has also rated the Company's short-term Non Convertible Debentures with "P1+" rating. A "P1+" rating indicates that the degree of safety regarding timely payment on the instrument is very strong. The Company's Long Term Non Convertible Debentures issue of Rs. 50 crore was rated "Ind AA+" by Duff & Phelps Credit Rating India Private Limited. The rating of "Ind AA+" indicates high credit quality.

**FINANCE**

During the year under review, the Company had adopted pro-active financial management policies, which helped it reduce the weighted average cost of its borrowings by 2.6% through a variety of measures such as raising finance through innovative instruments, re-arranging the mix of borrowings, correction of the Asset/Liability mismatch.

**DIRECTORS' REPORT****MAHINDRA & MAHINDRA  
FINANCIAL SERVICES LIMITED**

The strong financials and enhanced credit rating has made it possible for the Company to arrange adequate external resources in keeping with its growth objective, whilst at the same time, reducing the reliance on borrowings from the parent Company.

**CURRENT YEAR**

The new Fiscal Year 2000 - 2001 has commenced with a cut in the bank rate as well as Cash Reserve Ratio by 1% in two stages. These measures should benefit the Company in terms of fund availability and associated borrowing costs.

Your Company anticipates a reasonable growth in business, and will continue to provide finance primarily for Mahindra range of vehicles and tractors, with an emphasis on retail sales, particularly in rural and semi urban markets.

**Year 2000 (Y2K) COMPLIANCE**

Due to adequate precautions undertaken by the Company and thorough testing of its various computer hardware systems and application software, your Company had smooth transition into the new millennium.

**CORPORATE GOVERNANCE**

Your Company believes that Corporate Governance is a voluntary code of self-discipline. In line with its policy of self-discipline, the Board of Directors strongly believes that it is very important that the Company should follow healthy Corporate Governance practices and report to the shareholders the progress of various measures undertaken. Although your Company is unlisted, your Directors feel it prudent to initiate reporting on Corporate Governance measures adopted by your Company. The initiatives undertaken by your Company towards better Corporate Governance are summarized below :

**Board of Directors**

The Company presently has nine Directors against the maximum of twelve Directors permitted by its Articles of Association. All the Directors possess in-depth knowledge of Automotive/Tractor Markets and matters related to financial services business.

**Board Meetings**

Five Board Meetings were held during the year, at which the Performance Reports, business development plans, Statutory Compliance Certificates and general industry scenario were reviewed and discussed. The Board meetings were well attended. The Senior Executives of the Company are present at meetings of the Board.

**Audit Committee**

The Board has constituted an Audit Committee on 17th February, 2000 whose terms of reference includes a review of the Company's accounting practices and financial reporting systems, interaction with the Company's Internal and Statutory Auditor, selection of accounting policies and review of the Auditor's Report on the Financial Statements. The members of the Audit Sub-Committee are Mr. Uday Kotak (Chairman of the Committee), Mr. Dhananjay Mungale and Mr. U.Y. Phadke.

**Board Committees**

The Board periodically delegates matters related to borrowings and share issues for speedy implementation of decisions taken at Board meetings.

**ADDITIONAL INITIATIVES**

We are pleased to summarise the initiatives undertaken by your Company during the last financial year:

**a. Strategy Formulation:**

In view of the fast changing market scenario, your Company had reviewed its strategy with the assistance of a reputed consulting firm to achieve its strategic business objective.

**b. Balanced Scorecard**

The Company is in the process of implementing the Balanced Scorecard approach to implement the formulated strategy by developing appropriate measures of performance.

**c. HR Assessment Centre**

Your Company recognises that its employees are its most valuable assets. To identify the areas of

**DIRECTORS' REPORT****MAHINDRA & MAHINDRA  
FINANCIAL SERVICES LIMITED**

development of the employees and to facilitate better career planning for them, your Company will, on an ongoing basis, conduct scientific HR Assessments of its key employees.

**d. Customer Relationship Management**

Your Company has devised a process for collecting regular feed-back from its clients. Such feed-back is conveyed to the parent company on a regular basis to help it better plan its product development initiatives.

Your Company regularly conducts surveys to assess the satisfaction level in respect of fixed deposit investors. The feedback of such survey is placed before the Management and is also used to effect improvements in the standards of service. The Company plans to conduct such surveys at regular intervals to maintain high standards of service to Depositors / Investors.

**ACCOUNTING STANDARDS**

The financial statements of your Company comply with the Accounting Standards recommended by the Institute of Chartered Accountants of India as referred to in sub-section (3C) of Section 211 of the Companies Act, 1956. The Company also adheres to the prudential guidelines prescribed by the Reserve Bank of India.

As a good practice, the Company gets its accounts audited on quarterly basis by the Statutory Auditors.

**FIXED DEPOSITS**

As per the revised RBI guidelines, the Company can accept Public Deposits upto four times its net owned funds, which works out to Rs.53717.64 lakhs. Against this, your Company held fixed deposits of Rs.3694.88 lakhs as on March 31, 2000. Out of these deposits, 705 deposits aggregating Rs.110.35 lakhs which had matured as at March 31, 2000, had not been claimed as at the end of the financial year. Since then, 112 of these deposits of the value of Rs.18.34 lakhs have been claimed.

**DIRECTORS**

Mr. Anand G. Mahindra, Mr. K J Davasia and Mr. Uday Kotak retire by rotation and, being eligible, offer themselves for re-appointment.

**AUDITORS**

M/s. B. K. Khare & Co., Chartered Accountants, retire as Auditors of the Company and have given their consent for re-appointment. The shareholders will be required to appoint Auditors for the current year and fix their remuneration.

As required under the provisions of Section 224 of the Companies Act, 1956, your Company has obtained a written certificate from M/s. B. K. Khare & Co., Chartered Accountants to the effect that their re-appointment, if made, would be in conformity with the limits specified in the said section.

**CONSERVATION OF ENERGY,  
TECHNOLOGY ABSORPTION AND  
FOREIGN EXCHANGE EARNINGS AND  
OUTGO**

In view of the nature of activities which are being carried out by the Company, Rules 2A and 2B of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, concerning conservation of energy and technology absorption respectively are not applicable to the Company.

The information on foreign exchange outgo is furnished in the Notes to the accounts. There were no foreign exchange earnings during the year under review.

**PARTICULARS OF EMPLOYEES AS  
REQUIRED UNDER SECTION 217(2A) OF  
THE COMPANIES ACT, 1956 AND RULES  
THEREUNDER**

As required under Section 217(2A) of the Companies Act, 1956 and Rules thereunder, a statement containing particulars of the Company's employees who were in receipt of remuneration of not less than Rs. 6,00,000 during the year ended March 31, 2000 or of not less than Rs. 50,000 per month during any part of the said year is given in the Annexure to this Report.

**For and on behalf of the Board**

**ANAND G. MAHINDRA**  
Chairman

Mumbai, 28th April, 2000.



**AUDITOR'S REPORTS****MAHINDRA & MAHINDRA  
FINANCIAL SERVICES LIMITED**

TO

**THE MEMBERS****MAHINDRA & MAHINDRA FINANCIAL  
SERVICES LIMITED**

We have audited the attached Balance Sheet of M/s. MAHINDRA AND MAHINDRA FINANCIAL SERVICES LIMITED as at 31st March, 2000 and the Profit and Loss Account for the year ended on that date annexed there to and report that:

A. As required by the Manufacturing and other Companies (Auditor's Report) Order, 1988, issued by the Company Law Board, in terms of section 227(4A) of the Companies Act, 1956, we enclose in the Annexure a statement of the matter specified in paras, 4 and 5 of the said Order on the basis of such checks of the books and records as were considered appropriate, and according to the information and explanations given to us in the course of the audit.

B. Further to our comments in the Annexure referred to in para A above, we report that :

1 We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;

2 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;

3 The Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of account of the Company.

4 In our opinion the Balance Sheet and Profit and Loss Account comply in all material respects with the accounting standards referred to in section 211(3C) of the Companies Act, 1956 and

5 In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with the notes thereon given the information required by the Companies Act, 1956, in the manner so required and give a true and 3 fair view :

a) in the case of Balance Sheet, of the state of affairs of the Company as at 31st March, 2000 and

b) in the case of Profit and Loss Account of the Profit of the Company for the year ended 31st March, 2000.

**For B. K. KHARE & COMPANY  
CHARTERED ACCOUNTANTS**

**PADMINI KHARE  
PARTNER**

Place : Mumbai

Dated : 28th April, 2000.