

*Eleventh Annual Report
2000 - 2001*



Mahindra finance

MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED

MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED**SUMMARY OF RESULTS**

(Rupees in lacs)

Sr. No.		F-2001	F-2000	F-1999	F-1998	F-1997	F-1996	F-1995
1.	Business Disbursement	100197	75748	50518	30313	15600	10200	3700
2.	No. of contracts	76663	52579	27000	12000	7142	2882	999
3.	Total assets	111516	84400	57093	42514	28510	15604	7159
4.	Total income	13887	11857	9530	7312	4258	2359	894
5.	Profit before depreciation & tax	3837	3377	3171	2257	1126	668	460
6.	Depreciation	1790	2031	2101	1280	610	364	292
7.	Profit before tax	2047	1346	1070	977	516	304	168
8.	Profit after tax	961	541	453	478	146	304	168
9.	Dividend %	8	6	10	15	14	20	20
10.	Equity Share Capital	6062	6062	3190	1990	1990	796	398
11.	Preference Share Capital	—	—	—	906	—	—	—
12.	Reserves & Surplus	7804	7377	3683	2376	2226	1439	473
13.	Net Worth	13866	13439	6873	5272	4216	2235	871
14.	EPS #	1.59	1.25	1.52	2.40	1.45*	4.57	4.94
15.	CEPS #	4.55	5.98	9.65	8.96	7.53*	10.08	13.55
16.	No. of employees	460	340	205	130	62	33	13
17.	Branches	128	115	81	31	11	1	—

Based on average Equity Capital

†

After 1 : 4 Bonus during 1996-97

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

ADDITIONAL INFORMATION AS REQUIRED UNDER SECTION 217 (2A) OF THE COMPANIES ACT, 1956 READ WITH COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED MARCH 31, 2001

Name of the Employee	Designation /Nature of duties	Gross Remuneration (subject to income -tax) (Rs.)	Qualifications	Age/ Experience (years)	Date of Commencement of Employment	Last Employment
Ramesh Iyer	Chief Executive Officer	15,14,473	B.Com., MBA	43/ 24	01-10-1995	Regional Manager, Ashok Leyland Finance Ltd.
V Ravi	Chief Financial Officer	12,81,981	B.Com., ACA AICWA	41/18	01-10-1995	Senior Finance Executive Mahindra UGINE Steel Co. Ltd.

Notes :

1. Nature of employment is permanent, subject to termination on three months' notice from either side.
2. None of the above employees is related to any Director of the Company.
3. No employee holds by himself or along with his spouse and dependent children 2% or more of the equity shares of the Company.
4. Employment terms and conditions are as per Company's rules.
5. Remuneration received as shown in the statement includes Salary, House Rent Allowance or value of perquisites for accommodation, car perquisite value, reimbursement of medical expenses, employer's contribution to Provident Fund, Superannuation Fund and Gratuity Fund, premium for Mediciam and all other allowances/perquisites as applicable.

For and on behalf of the Board**ANAND G. MAHINDRA
Chairman****Mumbai, 30th April, 2001.**

MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED

Regd. Office : Gateway Building, Apollo Bunder, Mumbai- 400 001.

30th April, 2001

To
All the Members of
MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED

Dear members,

Sub : **Abstract under section 302 (2) of the Companies Act, 1956**

At the meeting of the Board of Directors held on 30th April, 2001, the Directors have passed the following resolution for the appointment of Mr. Ramesh Iyer as Managing Director for a period of five years w.e.f. 30th April, 2001:-

"RESOLVED that subject to the provisions of sections 198, 269, 309, 310 and any other applicable provisions of the Companies Act, 1956, and Rules made thereunder or any statutory modification or re-enactment thereof, Mr. Ramesh Iyer, be appointed as the Managing Director of the Company for a period of 5 years effective from 30th April, 2001, on the following terms :-

1. Consolidated Salary : Rs.45,000 per month in the scale of Rs.45,000 to Rs.65,000 per month.
2. Commission : In addition to salary and perquisites, the Managing Director will be entitled to such commission based on the net profits of the Company in any financial year not exceeding 1/4 % of such profits as the Board of Directors shall decide, having regard to the performance of the Company.
3. Perquisites :
 - (a) Housing : Furnished/ unfurnished residential accommodation or House Rent Allowance of 50% of Consolidated Salary in lieu thereof.
 - (b) Medical Reimbursement : As per the Company's Rules.

- (c) Leave Travel Concession : For the Managing Director and his family once in a year, incurred in accordance with the Company's Rules.
- (d) Performance award : As per Company's Rules.
- (e) Club Fees : Fees of Clubs subject to a maximum of two clubs. This will not include admission and life membership fees.
- (f) Encashment of leave : Encashment of leave not availed of by the Managing Director as per the Company's Rules.
- (g) Contribution to Funds : Contribution to Provident Fund, Superannuation Fund, Annuity Fund, Gratuity/ Contribution to Gratuity Fund as per the Company's Rules.
- (h) Provision of car and telephone at the Managing Director's residence for his use : Provision of car and telephone at the Managing Director's residence for his use.
- (i) Other amenities and benefits : Such other benefits, amenities and facilities as per the Company's rules.

FURTHER RESOLVED that in the event of absence or inadequacy of profit in any financial year, the remuneration by way of salary, allowances and perquisites payable to the Managing Director shall not exceed the limits prescribed under Schedule XIII to the Companies Act, 1956, and the Rules made thereunder or any statutory modification or re-enactment thereof, including the provisions relating to minimum remuneration."

Apart from Mr. Ramesh Iyer none of the other Directors of the Company is concerned or interested in this resolution.

Yours faithfully,
MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED

ANAND G. MAHINDRA
CHAIRMAN

**MAHINDRA & MAHINDRA
FINANCIAL SERVICES LIMITED**

DIRECTORS

Anand G. Mahindra	Chairman
Uday S. Kotak	
Alan Durante	
Bharat Doshi	
U. Y. Phadke	
K. J. Davasia	
Harsharaj Kale	
Sunit Malhotra	
Dhananjay Mungale	
M. G. Bhide	
Ramesh Iyer	Managing Director

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
Standard Chartered Grindlays Bank
Standard Chartered Bank
Bank of America
ABN Amro Bank
Bank of Nova Scotia
Commerz Bank
HDFC Bank
IDBI Bank
Vysya Bank
UTI Bank
United Western Bank
Dhanalakshmi Bank
ICICI 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.

ELEVENTH ANNUAL GENERAL MEETING

Date : 14th. June, 2001
Day : Thursday
Time : 4.30 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 the Eleventh Annual Report together with the audited accounts of your Company for the year ended 31st March, 2001.

SUMMARISED FINANCIAL RESULTS

	Rs. in lacs	
	<u>2001</u>	<u>2000</u>
INCOME FROM OPERATIONS	13886.89	11857.48
LESS : FINANCE COSTS	6588.60	5875.17
EXPENDITURE	3461.52	2605.67
DEPRECIATION	1790.05	2031.07
	<u>11840.17</u>	<u>10511.91</u>
PROFIT BEFORE TAX	2046.72	1345.57
LESS : PROVISION FOR TAX	<u>1085.42</u>	<u>804.25</u>
PROFIT AFTER TAX	961.30	541.32
LESS : SHORT PROVISION FOR INCOME-TAX -		
EARLIER YEARS	—	(0.12)
	<u>961.30</u>	<u>541.20</u>
ADD : AMOUNT BROUGHT FORWARD		
FROM PREVIOUS YEAR	410.68	271.15
AMOUNT AVAILABLE FOR APPROPRIATION	<u>1371.98</u>	<u>812.35</u>
APPROPRIATIONS :		--
STATUTORY RESERVE	192.27	108.27
DEBENTURE REDEMPTION RESERVE	48.07	--
DIVIDEND ON EQUITY SHARES (INTERIM)	--	216.69
INCOME TAX ON DIVIDEND (INTERIM)	--	23.84
PROPOSED DIVIDEND ON EQUITY SHARES (FINAL)	484.99	43.34
INCOME TAX ON PROPOSED DIVIDEND (FINAL)	49.47	9.53
SURPLUS CARRIED TO BALANCE SHEET	597.18	410.68
	<u>1371.98</u>	<u>812.35</u>

DIRECTORS' REPORT

MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED

DIVIDEND

Your Directors have recommended a dividend of 8% on equity shares of Rs.10 each, payable to those members whose names appear on the Register of Members as on 4th June, 2001.

The total dividend payable by the Company will absorb a sum of Rs. 534.46 lacs, including Rs. 49.47 lacs as tax on distributed profits, as against an amount of Rs. 293.40 lacs for the previous year.

OPERATIONS

During the financial year 2000-2001, the Automobile industry had witnessed a decline in growth by 7.6 per cent over the previous year. However, sales of Utility Vehicles recorded a marginal increase of 1.5 per cent.

In spite of the slow down in the Utility Vehicle/Tractor segments, your Company was able to increase its disbursement by 32% from Rs. 757 crores in the previous year to Rs. 1001 crores. This was achieved mainly as a result of your Company's strategy of penetrating deeper into the rural and semi-urban markets with customised financial products. During the year under review, the Company has started regular retail financing of tractors in selected areas.

The income of the Company for the year ended 31st March, 2001 was Rs.13887 lacs, registering a growth of 17.12% over the previous year. The profit before tax has increased to Rs. 2047 lacs from Rs.1346 lacs, a growth of 52.08%. The profit after tax at Rs. 961 lacs is 77.63% higher than the previous year's profit of Rs. 541 lacs.

The year under review also witnessed a massive earthquake, which devastated several parts of Gujarat and particularly causing large-scale damage in Kutch district. Your Company's exposure in the earthquake-affected region was not significant. The Company, wherever required, in consultation with the affected borrowers, will appropriately re-schedule the terms of contracts to facilitate the rehabilitation process.

Your Directors are pleased to report an overall improvement in the performance of the Company including growth in business as well as income and profits despite general slow down and difficult conditions prevalent during the financial year 2000-2001.

During the year under review, the Company has also expanded its network by adding 13 more branches taking the

total number of branches to 128 as of 31st March, 2001. Your Company has a client base of over 76,000 as on 31st March, 2001 as against 52,759 as at 31st March, 2000.

Your Directors are pleased to report here that in one of the difficult years for automobile and finance industry, your Company has crossed an important milestone of Rs. 1000 crores, both in disbursements as well as assets.

CAPITAL ADEQUACY

With proper forecast and planning, your Company was able to maintain a Capital to Risk Assets Ratio (CRAR) of 15.4% as on 31st March, 2001 against the required CRAR of 12%. Your Company follows a prudent policy in maintaining Capital Adequacy.

RBI INSPECTION

During the 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. No adverse comments have been received from RBI.

CREDIT RATING

During the year under review, your Company's long-term Non Convertible Debentures issue was assigned "AA+" rating by the Credit Rating Information Services of India Limited (CRISIL). This rating indicates high safety with regard to timely payment of interest and principal. CRISIL has also reaffirmed the rating of "FAA+" for your Company's Fixed Deposit Scheme, indicating that the degree of safety regarding timely payment of interest and principal is strong.

The Company's short-term borrowing programme in the form of Commercial Paper and Short-term Debentures was assigned the highest rating of "P1+" by CRISIL. This rating indicates that the degree of safety with regard to the timely payment on the instrument is very strong.

FINANCE

During the year under review, the Company had adopted a two pronged strategy to manage its liabilities. The first strategy was to reduce the Asset / Liability mismatch by matching the tenor of the liability with those of its assets. This has also helped in reducing the interest rate mismatch. The second strategy was to diversify the source of funds by adding new lenders and introducing different types of

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

innovative instruments.

Your Directors are happy to inform the members that the Company was able to reduce its weighted average cost of borrowings, whilst simultaneously increasing the average tenure of the liability.

The strong performance supported by enhanced credit rating had facilitated the achievement of the desired funding strategy of your Company during the last fiscal.

CURRENT YEAR

While presenting the Union Budget for the year 2001-2002, the Finance Minister has proposed an interest rate cut of 1.5% (from 11% to 9.5%) in provident fund and other allied savings schemes. He has also proposed to contain the fiscal deficit at 4.7% (down from 5.1% in the previous year).

Subsequent to the small savings rate cut, the Reserve Bank of India has announced a two-stage reduction of bank rate by 1%. The cash reserve ratio (CRR) has also been reduced by 0.5%, thereby increasing the liquidity in the market.

During the third week of April, 2001, RBI announced the monetary and credit policy for the year 2001-2002. The credit policy envisages provision of adequate liquidity to meet credit growth and support revival of investment demand while continuing a vigil on movements in the price level. It is also expected that the present stable interest rate environment would continue with a preference for softening to the extent evolving situation warrants. Banks will be allowed to lend below Prime Lending Rates (PLR) to credit worthy borrowers as approved by their respective Boards.

Against the backdrop of these measures, it can be reasonably expected that interest rates in India would be steady and are not likely to go up in the near future assuming that the inflation rate is maintained at the existing or lower level.

SERVICE TAX

A service tax of 5% has been proposed on the banking and financial services including leasing and hire purchase services in the Finance Bill for the year 2001 – 2002. The proposal to levy service tax in its present form would significantly affect Leasing and Hire Purchase Companies. However, clarification on the methodology of computing

service tax is still awaited. Your Company will be able to chalk out a suitable strategy only after getting the clarification on the methodology of computation and clearance of the Finance Bill by both the Houses of Parliament.

THE RECENT CO-OPERATIVE BANK CRISIS

Your Company largely operates in rural segments and its customers in these segments depend largely on Co-operative Banks for their banking needs. More than seventy per cent of the Co-operative Banks are situated in the States of Maharashtra and Gujarat, where your Company has large business interest. Although the present difficulties faced by the Co-operative Banks in Gujarat do not have any direct impact on your Company's business, it is expected that there could be a slow down in recovery in these States. Your Company, however, has initiated various measures, including cash collection, in order to overcome the situation.

BUSINESS PROCESS RE-ENGINEERING

Messrs. Accenture (formerly known as Andersen Consulting) were appointed by your Company to develop a blueprint for operational excellence to support the Company's growth plans. The study was based on the business strategy developed by your Company.

On a review of the recommendations contained in the report submitted on conclusion of their study, your Company has chalked out an implementation plan, to be carried out in phases.

BALANCED SCORECARD

The Company has developed a Balanced Score Card (BSC) to translate its mission and strategy into objectives and measures. BSC provides a framework, a language to communicate the Company's mission and strategy, and is organized over four different perspectives viz. Financial, Customer, Internal Business Process, and Learning and Growth.

BSC facilitates identification of key initiatives and helps measurement of progress in achieving these initiatives.

CUSTOMER RELATIONSHIP MANAGEMENT

With the aim of achieving better customer relationship, your Company gets regular feed back on product

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

performance from its borrowers and passes on the information to its parent company to help its product development initiatives.

ACCOUNTING STANDARDS

The financial statements of your Company adhere to the prudential guidelines prescribed by the Reserve Bank of India.

As a measure of good practice, your Company gets its accounts audited on quarterly basis by the Statutory Auditors and places them before the Board of Directors for review.

The Institute of Chartered Accountants of India has prescribed Accounting Standard (AS) 19, under which in case of finance leases, the lessee would be required to capitalize the assets in its books and avail of depreciation, as against the previous practise of the lessor capitalizing the asset and availing of depreciation. The lessor would be required to account for the interest portion as its income. In view of the clarification of the Central Board of Direct Taxes to the effect that the accounting standard will have no implication on the allowance of depreciation on assets under the provisions of the Income-tax Act, 1961, the Company would be required to maintain two sets of records - one for the purpose of preparing accounts under the Companies Act, and the other for determining the taxable income of the Company under the Income-tax Act.

Your Company is presently following the Equated Method (EM) of accounting for recognizing income arising out of Hire Purchase contracts. Under this method, the income is spread evenly over the tenor of the contract. As per the Accounting Standard AS 19 prescribed recently by the Institute of Chartered Accountants of India, income from contracts entered into after 1st April, 2001 is to be recognised under the Implicit Rate of Return (IRR) method. Under the IRR method, income recognized in the initial period of the contract is higher as compared with income accounted under the equated method during the similar period.

FIXED DEPOSITS

The deposits accepted by your Company are well within the limits stipulated in the RBI Guidelines. Your Company held fixed deposits of Rs. 3963.17 lacs as at 31st March, 2001. Out of these deposits, 743 deposits aggregating

Rs. 84.82 lacs which had matured by 31st March, 2001 had not been claimed. 119 of these deposits of the aggregate value of Rs. 15.86 lacs have been claimed after 31st March, 2001.

During the year under review, your Company reduced the interest rate by 1 per cent on its Fixed Deposits Scheme in line with the prevailing downward trend in interest rates.

DIRECTORS

Mr. U. Y. Phadke was appointed as Director by the Board of Directors at its meeting held on 27th May, 1999 in the casual vacancy caused by the resignation of Mr. M. R. Ramachandran. Mr. Phadke holds office up to the date of the forthcoming Annual General Meeting of the Company.

Mr. Manohar G. Bhide was appointed as Additional Director of the Company at the meeting of the Board of Directors held on 24th October, 2000. Mr. Bhide holds office up to the date of the forthcoming Annual General Meeting of the Company.

Mr. Ramesh Iyer, Chief Executive Officer of the Company, has been appointed as Additional Director of the Company at the Meeting of the Board of Directors held on 30th April, 2001. He has also been appointed as Managing Director of your Company for a period of 5 years with effect the same day. The shareholders are required to approve the terms of appointment and remuneration payable to Mr. Iyer.

Mr. Phadke, Mr. Bhide and Mr. Iyer hold office up to the date of the forthcoming Annual General Meeting of the Company. The Company has received notices from members signifying their intention to propose Mr. Phadke, Mr. Bhide and Mr. Iyer as candidates for the office of Director at the forthcoming Annual General Meeting.

Mr. Alan E. Durante, Mr. Bharat N. Doshi and Mr. Dhananjay Mungale retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

DIRECTORS' RESPONSIBILITY STATEMENT

In accordance with the provisions of section 217(2AA) of the Companies Act, 1956 ("the Act"), your Directors confirm that :

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

- (i) in preparation of the accounts, the applicable accounting standards had been followed;
- (ii) the Directors have selected such accounting policies and applied them consistently and made judgement and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company for the year ended 31st March, 2001 and the profit for that year;
- (iii) the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) the Directors had prepared the accounts on a going concern basis.

CORPORATE GOVERNANCE**Board of Directors**

The Company presently has eleven Directors against the maximum of twelve Directors permitted by its Articles of Association. In view of the growing business of the Company, Mr. Ramesh Iyer has been appointed as Managing Director of the Company by the Board of Directors at its meeting held on 30th April, 2001.

Board Meetings

Four 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 meetings were well attended. The Senior Executives of the Company were present at meetings of the Board.

Committees of the Board

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

AUDIT COMMITTEE

The Audit Committee of the Board presently comprises Mr. Uday Kotak (Chairman of the Committee), Mr. U. Y. Phadke and Mr. Dhananjay Mungale. The Committee met twice during the year.

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.

There were no foreign exchange earnings or outgo 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. 12,00,000 during the year ended 31st March, 2001 or of not less than Rs. 1,00,000 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: 30th April, 2001.