

Twelfth Annual Report  
2001 - 2002



**Mahindra finance**

**MAHINDRA & MAHINDRA  
FINANCIAL SERVICES LIMITED**

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

[ Rs. in lacs ]

Sr. No.	F- 2002	F- 2001	F-2000	F-1999	F-1998
1. Business Disbursement	116675	100197	75748	50518	30313
2. No. of Contracts	111327	76663	52579	27000	12000
3. Total Assets	111436	111516	84400	57093	42514
4. Total Income	19134	13887	11857	9530	7312
5. Profit before depreciation & tax	5529	3837	3377	3171	2257
6. Depreciation	1187	1790	2031	2101	1280
7. Profit before tax	4342	2047	1346	1070	977
8. Profit after tax	2772	961	541	453	478
9. Dividend %	10	8	6	10	15
10. Equity Share Capital	6062	6062	6062	3190	1990
11. Preference Share Capital	-	-	-	-	906
12. Reserves & Surplus	11119	7804	7377	3683	2376
13. Net Worth	17181	13866	13439	6873	5272
14. No. of employees	551	460	340	205	130
15. Branches	151	128	115	81	31



# Mahindra finance

**MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED**

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

## NOTICE

THE TWELFTH ANNUAL GENERAL MEETING OF MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED will be held at Mahindra Towers, Dr. G. M. Bhosle Marg, P. K. Kurne Chowk, Worli, Mumbai – 400018 on Wednesday, 26<sup>th</sup> June, 2002 at 11.00 a.m. to transact the following business:

### Ordinary Business

1. To receive, consider and adopt the audited Balance Sheet of the Company as at 31<sup>st</sup> March, 2002 and the Profit and Loss Account for the year ended on that date together with the reports of the Directors and Auditors thereon.
2. To declare a dividend on equity shares.
3. To appoint Mr. Rajeev Narain as a Director in the vacancy caused by the retirement, by rotation, of Mr. Harsharaj A. Kale, who does not wish to seek re-election. The Company has received notice from a member signifying his intention to propose Mr. Rajeev Narain as a Director.
4. To appoint Mr. Deepak Rudra as a Director in the vacancy caused by the retirement, by rotation, of Mr. Sunit Malhotra, who does not wish to seek re-election. The Company has received notice from a member signifying his intention to propose Mr. Deepak Rudra as a Director.
5. To appoint a Director in place of Mr. K. J. Davasia who retires by rotation and, being eligible, offers himself for re-election.
6. To appoint Auditors to hold office from the conclusion of this Annual General Meeting, upto the conclusion of the next Annual General Meeting of the Company and to fix their remuneration.

### NOTES :

- (A) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND

VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER.

- (B) The final dividend on Equity Shares for the year ended 31<sup>st</sup> March, 2002, if sanctioned at the Meeting, will be payable to those Members whose names appear on the Company's Register of Members as on 5<sup>th</sup> June, 2002 being the Record Date fixed by the Board for this purpose.

- (C) In accordance with the provisions of section 205A of the Companies Act, 1956, the Company has transferred unclaimed dividends up to the year ended 31<sup>st</sup> March, 1995, to the General Reserve Account of the Central Government. The members concerned may, therefore, submit their claims in the prescribed form to the Registrar of Companies, CGO Complex, CBD Maharashtra, Belapur, New Mumbai 400 614.

Pursuant to the provisions of section 205A of the Companies Act, 1956, dividend for the financial years ended 31<sup>st</sup> March, 1996 and thereafter, which remain unpaid or unclaimed for a period of 7 years will be transferred to the Investor Education and Protection Fund of the Central Government. Shareholders who have not encashed the dividend warrant(s) so far for the financial year ended 31<sup>st</sup> March, 1996 or any subsequent financial years are requested to make their claim to the Company. It may also be noted that once the unclaimed dividend is transferred to the Central Government, as above, no claim shall lie in respect thereof.

By Order of the Board

**N. SHANKAR**  
COMPANY SECRETARY

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

30<sup>th</sup> April, 2002

**MAHINDRA & MAHINDRA  
FINANCIAL SERVICES LIMITED**

**DIRECTORS**Anand G. Mahindra Chairman

Uday Kotak

Alan Durante

Bharat Doshi

U. Y. Phadke

K. J. Dadasia

Harsharaj Kale

Sunit Malhotra

Dhananjay Mungale

M. G. Bhide

Ramesh Iyer Managing Director**Company Secretary**

N.Shankar

**Auditors**

B. K. Khare &amp; Co.

Chartered Accountants,

706/708, Sharda Chambers,

Mumbai - 400 020.

**Solicitors**

Little &amp; 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 Bank

Bank of America

ABN Amro Bank

Bank of Nova Scotia

Credit Lyonnais

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.

**TWELFTH ANNUAL GENERAL MEETING**

Date : 26th June, 2002.

Day : Wednesday.

Time : 11.00 a.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 are pleased to present the Twelfth Annual Report together with the audited accounts of your Company for the year ended 31<sup>st</sup> March, 2002.

**SUMMARISED FINANCIAL RESULTS**

	<b>Rs. in lacs</b>	
	<b><u>2002</u></b>	<b><u>2001</u></b>
INCOME FROM OPERATIONS	19133.95	13879.12
LESS : FINANCE COSTS	7443.82	6588.60
EXPENDITURE	6160.63	3453.75
DEPRECIATION	1187.45	1790.05
	<u>14791.90</u>	<u>11832.40</u>
PROFIT BEFORE TAX	4342.05	2046.72
LESS : PROVISION FOR TAX	2269.45	1085.42
DEFERRED TAX	(699.79)	-
	<u>2772.39</u>	<u>961.30</u>
PROFIT AFTER TAX FOR THE YEAR	2772.39	961.30
ADD : EXCESS PROVISION FOR TAX – EARLIER YEARS (NET)	140.60	-
	<u>2912.99</u>	<u>961.30</u>
ADD : AMOUNT BROUGHT FORWARD FROM PREVIOUS YEARS	597.18	410.68
	<u>3510.17</u>	<u>1371.98</u>
AMOUNT AVAILABLE FOR APPROPRIATION	<u>3510.17</u>	<u>1371.98</u>
APPROPRIATIONS :		
STATUTORY RESERVE	554.48	192.27
DEBENTURE REDEMPTION RESERVE	-	48.07
DIVIDEND ON EQUITY SHARES (INTERIM)	484.99	-
INCOME-TAX ON DIVIDEND (INTERIM)	49.47	-
PROPOSED DIVIDEND ON EQUITY SHARES (FINAL)	121.25	484.99
INCOME-TAX ON PROPOSED DIVIDEND (FINAL)	-	49.47
SURPLUS CARRIED TO BALANCE SHEET	2299.98	597.18
	<u>3510.17</u>	<u>1371.98</u>

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

Your Directors had, at their meeting held on 23<sup>rd</sup> March, 2002, declared an interim dividend @ 8% (Rs.0.80 per share). The dividend, entailing an outgo, including tax, of Rs. 534.46 lacs has already been paid.

Your Directors are pleased to recommend a final dividend @ 2% (Rs.0.20 per share), payable to those members whose names appear in the Register of Members as on 5<sup>th</sup> June, 2002, being the Record date fixed for the purpose. The final dividend will absorb a sum of Rs. 121.25 lacs.

The total dividend outgo for the financial year 2001-2002, including dividend tax, is Rs. 655.71 lacs, as against Rs. 534.46 lacs paid for the previous year.

**OPERATIONS**

During the financial year 2001-2002, sales of automobiles in the domestic market remained stagnant. Your Company caters mainly to the Utility Vehicles and Light Commercial Vehicles segments, which witnessed a decline in sales of 3% and 11% respectively during the year. The year also witnessed a general slow down in the Tractor Industry, which reported a negative growth in sales during the year. Despite these adverse circumstances, your Company's disbursements during the year increased by 17%, from Rs. 1001 crores to Rs.1166 crores. Your Company has continued to maintain its market share of disbursements for products of the parent company, despite stiff competition from banks and financial institutions. The Company has also significantly increased retail financing of tractors. The growth in disbursement is attributable to your Company's policy of penetrating deeper into the semi-urban and rural areas with tailor-made financial products.

Your Directors are pleased to report a growth of

38% in your Company's income Rs. 19133.95 lacs for the year ended 31<sup>st</sup> March, 2002 as against Rs.13879.12 lacs during the corresponding previous year. The profit before tax was also higher at Rs. 4342.05 lacs as compared to Rs. 2046.72 lacs during the previous year, a growth of 112%. The profit after tax at Rs. 2772.39 lacs is 188% higher than the previous year's profit of Rs. 961.30 lacs.

During the year under review, the Company has widened its reach by adding 23 more outlets, taking the total network to 151 as of 31<sup>st</sup> March, 2002. The Company, in particular, increased its presence in the States of West Bengal and Orissa.

Your Directors wish to place on record that in a year that was difficult not only for the automobile and tractor industries but also for the finance industry, your Company added 34,000 contracts, thereby taking the total client base to over 1,00,000 and the asset size to Rs. 1114.36 crores.

As a prudent practice, the Audit Committee of your Company has recommended provisioning for non-performing assets (NPA) at a rate higher than that prescribed in the norms laid down by the Reserve Bank of India. The amount so provided in excess of what is required under the norms is Rs. 1537.62 lacs.

**CAPITAL ADEQUACY**

The Capital to Risk Assets Ratio (CRAR) of your Company is 17.05% as on 31<sup>st</sup> March, 2002 as against the required CRAR of 12%. Your Company continued to maintain a comfortable capital adequacy, well above the requirement of Reserve Bank of India.

**RBI INSPECTION**

During the financial year, the Reserve Bank of India had carried out regular onsite inspection of the

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

various records and the systems/procedures followed by the Company and there were no adverse comments.

**CREDIT RATING**

Credit Rating Information Services of India Limited (CRISIL) had revised the rating of your Company's Fixed Deposit Scheme from "FAA+" to "FAA" in line with the revision in the rating of the parent company. However, the "stand alone" performance of your Company was in line with the expectations of the Credit Rating Agency. The revised rating indicates that the degree of safety with regard to the timely payment of interest and principal is strong.

The rating assigned to your Company's long-term Non Convertible Debentures issue was, for the same reason, revised by CRISIL from "AA+" to "AA". The rating of "AA" indicates high safety with regard to timely payment of interest and principal.

The rating assigned to your Company's short-term borrowing programme in the form of Commercial Paper and Short-term Debentures, was, however, reaffirmed by CRISIL with the highest rating of "P1+". 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 has been continuously reducing the Asset/Liability mismatch by matching the tenor of the liabilities with those of its assets, and by diversifying its sources of funds by introducing newer lenders and borrowings through more innovative instruments.

Your Company's bank limit was enhanced to Rs. 525 crores from the earlier limit of Rs. 400 crores.

Your Company has successfully raised funds at

competitive rates from Mutual Funds/Banks through innovative financial products with flexible maturity periods. The cost of borrowings has been reduced substantially by proactively availing of short/medium term resources such as Commercial Paper, FCNR(B) borrowings, MIBOR linked Debentures, term bank borrowings etc.

Your Company's business involves collection of installments from customers situated at rural and semi-urban areas where proper banking facilities are not available. However, the cost of collection has been significantly reduced by extending the Cash Management System offered by the consortium banks to collection of funds from rural areas.

**FINANCIAL ASSISTANCE FROM IFC**

During the year, your Company has sought financial assistance from International Finance Corporation (IFC) Washington in the form of a long term loan of Rs. 49 crores and a Subordinated Loan of Rs. 35 crores, to be repaid over approximately five years. Your Company would be the first to raise a Rupee Subordinated Loan from IFC.

The Company intends utilising these proceeds to expand its product lines by including new businesses including the distribution of insurance products, financing of non M&M vehicles/products, vehicles sold on the secondary market, M&M vendors and purchases of agricultural inputs; strengthen its capital base to position itself for future growth; and provide longer tenor products.

Your Company has applied to the regulatory authorities for its approval and proposes to draw on this loan during the current fiscal year.

**SECURITISATION OF RECEIVABLES**

During the year under review, your Company for the

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

first time had securitised hire purchase receivables of Rs. 39 crores through an SPV route, without recourse, at competitive rates. The issue received a good response from the market. The successful completion of the securitization transaction has provided your Company with an additional avenue for raising funds at competitive rates.

**INSURANCE BUSINESS**

As a part of ongoing reforms, the insurance sector was opened up to the private sector during the last fiscal. Several leading international insurance companies have tied up with Indian firms for life as well as non-life insurance business. Some of the leading private insurance companies are in negotiation with your Company for a possible tie-up so as to utilize the wide rural network of your Company for distribution of their products.

Your Company is awaiting the revised IRDA guidelines relating to appointment of Corporate Brokers/Agents for insurance business before finalising the tie-ups.

**CURRENT YEAR**

In the Union Budget for the year 2002-2003, various measures have been initiated to stimulate the growth of agriculture and infrastructure sectors. A cut of 50 basis points has been brought about in small savings administered by the Government. This cut signals continuance of soft interest rate regime. The Budget also proposes to introduce a Bill on banking sector reforms to strengthen creditors' rights through foreclosure and enforcement of securities. An Asset Reconstruction Company is proposed to be set up by June, 2002.

The monetary policy announced in the last week of April, 2002, continues the emphasis on adequate liquidity for credit growth, softer interest rate regime

and greater flexibility in the interest rates in the medium term. As a measure to increase liquidity, the CRR has been cut by 50 basis points. The Central Bank has indicated its willingness to cut the Bank Rate up to a maximum of 50 basis points in case of comfortable liquidity and credit off-take situation. It has continued its reforms in institutional framework and operational procedures like guidelines for SLR of RRBs, ceiling on borrowing and lending in call money market.

The increased liquidity is likely to help the company to access resources at competitive interest rates.

**SERVICE TAX**

During the year under review, the levy of service tax of 5 per cent was extended to the banking and financial services including lease and hire purchase services effective from 16<sup>th</sup> July, 2001. By virtue of this levy, the 5 per cent service tax was made applicable to all recoveries from the customer like finance charges, upfront fees, service charges, processing fees etc., other than the principal. Your Company has included the service tax in its contracts in most of the markets.

**CO-OPERATIVE BANK CRISIS**

The Co-operative Bank crisis experienced during the last year in some parts of the State of Gujarat, also occurred in the State of Andhra Pradesh during the current year. Even though your Company's operations in this State were not directly affected, it witnessed a general slow down in recovery. However, your Company was able to stabilize the recovery process within a reasonable time.

**BUSINESS PROCESS RE-ENGINEERING**

The policies and guidelines for BPR have been

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

formulated for all Departments. The detailing of re-engineered processes under each Department has also been completed. Your Company has started restructuring the organization to suit the new processes and policies.

To implement its IT strategy, your Company has commissioned leading software solution providers for provision of front-end and back-end solutions.

**CUSTOMER RELATIONSHIP  
MANAGEMENT**

With the aim of achieving better customer relations management, your Company has instituted processes to get regular feed back on product performance from its borrowers. This information is passed on to the parent company to help it in its product development initiatives.

**ACCOUNTS AND ACCOUNTING  
STANDARDS**

The financial statements of your Company adhere to the prudential guidelines prescribed by the Reserve Bank of India and to the Accounting Standards issued by the Institute of Chartered Accountants of India. The Accounting Standards that have become mandatory during the year under review relate to Segment Reporting, Related Party Disclosures, Accounting for Leases, and Accounting for Taxes on Income. The impact on the accounts for the year arising out of the adoption of these Standards has been disclosed in the Notes on Accounts.

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

**FIXED DEPOSITS**

During the year under review, your Company has reduced the interest rate in stages by 1.75 per cent on deposits placed under the Fixed Deposits Scheme in line with the prevailing downward trend in interest rates.

Fixed Deposits of Rs. 4090.73 lacs were outstanding as at 31<sup>st</sup> March, 2002. 541 deposits amounting to Rs. 66.83 lacs had matured but were unclaimed as at the end of the year. 113 of these deposits of the aggregate value of Rs. 17.78 lacs have been claimed after 31<sup>st</sup> March, 2002.

**DIRECTORS**

Mr. K. J. Davasia retires by rotation and, being eligible, offers himself for re-election at the forthcoming Annual General Meeting.

Mr. Harsharaj Kale and Mr. Sunit Malhotra who retire by rotation have expressed their desire not to seek re-election. Your Directors wish to place on record their deep appreciation of the valuable services rendered by Mr. Kale and Mr. Malhotra to the Company during the tenure of their Directorships.

The Company has received notices from members signifying their intention to propose Mr. Rajeev Narain and Mr. Deepak Rudra as Directors of the Company in the vacancies caused by the retirement of Mr. Harsharaj Kale and Mr. Sunit Malhotra respectively. Mr. Rajeev Narain and Mr. Deepak Rudra are authorised dealers of Mahindra & Mahindra Limited, and have vast experience in the automobile dealership business and in general corporate management. The Board is of the view that the knowledge and experience of Mr. Narain and Mr. Rudra would be of benefit to the Company and therefore recommends their respective appointments.

**DIRECTORS' REPORT****MAHINDRA & MAHINDRA  
FINANCIAL SERVICES LIMITED****CORPORATE GOVERNANCE****Constitution of the Board**

The Company presently has eleven Directors. The Directors have adequate experience in matters related to trading, finance and general corporate management.

**Board Meetings**

The Board Meetings are conducted at least once every quarter to review the periodic Performance Reports, the financial results of the Company, the Statutory Compliance Certificates and matters relating to the operations of the Company. Five Board Meeting were held during the last financial year. These were well attended. The Senior Executives of the Company were present at meetings of the Board.

**Committees of the Board**

The Board has delegated matters related to borrowings to a Committee of the Board for speedy implementation of decisions taken at the Board Meetings.

**AUDIT COMMITTEE**

The Audit Committee of the Board which presently comprises Mr. Uday S. Kotak (Chairman of the Committee), Mr. U. Y. Phadke, Mr. Dhananjay Mungale and Mr. M. G. Bhide met thrice during the year.

**ASSET LIABILITY COMMITTEE (ALCO)**

An Asset Liability Committee has been constituted by your Company's Board of Directors in their meeting held on 12.09.01 to review the working of

ALCO operating Committee formed under the guidelines issued by the Reserve Bank of India. The ALCO Board Committee comprises of Mr. Dhananjay Mungale and Mr. U. Y. Phadke .

The working of the ALCO operating committee is to assess various types of risks like interest rate risk, liquidity risk, credit risk, operational risk, product risk and altering asset liability portfolio in dynamic manner through proper systems in order to manage the risk.

The ALCO Board Committee would meet regularly to review the working of ALCO Operating Committee as per RBI guidelines with effect from 01.04.2002.

**DIRECTORS' RESPONSIBILITY  
STATEMENT**

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

- (i) in the preparation of the annual accounts, the applicable accounting standards have been followed, including Accounting Standards 19 and 22 on Leases and Accounting for taxes on income respectively, which have become effective from 1st April, 2001;
- (ii) they have selected such accounting policies and, read with para (i) above, applied them consistently, and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2002 and of the profit of the Company for the year ended on that date;
- (iii) they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of