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Thirteenth Annual Report
2002 - 2003



Mahindra finance

**MAHINDRA & MAHINDRA
FINANCIAL SERVICES LIMITED**

MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED**SUMMARY OF RESULTS**[**Rs. in lacs**]

| Sr. No. | F- 2003 | F- 2002 | F- 2001 | F-2000 | F-1999 |
|-------------------------------------|----------------|----------------|----------------|---------------|---------------|
| 1. Business Disbursement | 160985 | 116675 | 100197 | 75748 | 50518 |
| 2. No. of Contracts | 161079 | 111327 | 76663 | 52579 | 27000 |
| 3. Total Assets | 180208 | 133323 | 111516 | 84400 | 57093 |
| 4. Total Income | 24989 | 19134 | 13887 | 11857 | 9530 |
| 5. Profit Before Depreciation & Tax | 8022 | 5529 | 3837 | 3377 | 3171 |
| 6. Depreciation | 847 | 1187 | 1790 | 2031 | 2101 |
| 7. Profit Before Tax | 7175 | 4342 | 2047 | 1346 | 1070 |
| 8. Profit After Tax | 4435 | 2772 | 961 | 541 | 453 |
| 9. Dividend % | 20 | 10 | 8 | 6 | 10 |
| 10. Equity Share Capital | 6062 | 6062 | 6062 | 6062 | 3190 |
| 11. Reserves & Surplus | 14264 | 11119 | 7804 | 7377 | 3683 |
| 12. Net Worth | 20326 | 17181 | 13866 | 13439 | 6873 |
| 13. No. of Employees | 805 | 551 | 460 | 340 | 205 |
| 14. Branches | 196 | 151 | 128 | 115 | 81 |

**MAHINDRA & MAHINDRA
FINANCIAL SERVICES LIMITED**

DIRECTORS

| | |
|-------------------|-------------------|
| Anand G. Mahindra | Chairman |
| Bharat Doshi | |
| Alan Durante | |
| Uday Y. Phadke | |
| K. J. Davasia | |
| Dhananjay Mungale | |
| M. G. Bhide | |
| Nasser Munjee | |
| Rajeev Narain | |
| Dipak Rudra | |
| Ramesh Iyer | Managing Director |

Chief Financial Officer

V. Ravi

Company Secretary

N. Shankar

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 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. Bhosale Marg,
P. K. Kurne Chowk, Worli,
Mumbai - 400 018.

Registered Office

Gateway Building,
Apollo Bunder,
Mumbai - 400 001.

THIRTEENTH ANNUAL GENERAL MEETING

Date : 19th June, 2003.
Day : Thursday.
Time : 3.00 p.m.
Place : Mahindra Towers, 6th Floor,
Dr. G. M. Bhosale Marg,
P. K. Kurne Chowk, Worli,
Mumbai - 400 018.

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

Your Directors have pleasure in presenting their Thirteenth Annual Report together with the audited accounts of your Company for the year ended 31st March, 2003.

SUMMARISED FINANCIAL RESULTS

| | Rs. in lacs | |
|--|--------------------|------------------|
| | 2003 | 2002 |
| INCOME FROM OPERATIONS | 24989.28 | 19133.95 |
| LESS : FINANCE COSTS | 8569.36 | 7443.82 |
| EXPENDITURE | 8397.98 | 6160.63 |
| DEPRECIATION | 846.58 | 1187.45 |
| | 17813.92 | 14791.90 |
| PROFIT BEFORE TAX | 7175.36 | 4342.05 |
| LESS : PROVISION FOR TAX | 3533.00 | 2269.45 |
| DEFERRED TAX | (792.62) | (699.79) |
| PROFIT AFTER TAX FOR THE YEAR | 4434.98 | 2772.39 |
| ADD : EXCESS PROVISION FOR TAX – EARLIER YEARS (NET) | — | 140.60 |
| | 4434.98 | 2912.99 |
| ADD : AMOUNT BROUGHT FORWARD FROM PREVIOUS YEARS | 2299.98 | 597.18 |
| AMOUNT AVAILABLE FOR APPROPRIATION | 6734.96 | 3510.17 |
| APPROPRIATIONS : | | |
| GENERAL RESERVE | 350.00 | - |
| STATUTORY RESERVE | 887.00 | 554.48 |
| DIVIDEND ON EQUITY SHARES (INTERIM) | 606.23 | 484.99 |
| INCOME-TAX ON DIVIDEND (INTERIM) | - | 49.47 |
| PROPOSED DIVIDEND ON EQUITY SHARES (FINAL) | 606.23 | 121.25 |
| INCOME-TAX ON PROPOSED DIVIDEND (FINAL) | 77.67 | - |
| SURPLUS CARRIED TO BALANCE SHEET | 4207.83 | 2299.98 |
| | 6734.96 | 3510.17 |
| LOAN DISBURSEMENTS DURING THE YEAR | 160985.12 | 116675.29 |

DIRECTORS' REPORT

MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED

DIVIDEND

An interim dividend of 10% (Rs. 1 per equity share) has been declared and paid to the shareholders whose names appeared in the Register of Members as on 26th December, 2002. The outgo towards payment of interim dividend amounted to Rs. 606.23 lacs.

Your Directors are pleased to recommend a final dividend of 10% (Rs. 1 per equity share), payable to those members whose names appear in the Register of Members as on 29th May, 2003, the Record date fixed for the purpose. The final dividend, inclusive of tax on distributed profits, will absorb a sum of Rs. 683.90 lacs.

The total dividend outgo for the financial year 2002-2003, inclusive of tax on distributed profits, is Rs. 1290.13 lacs, as against Rs. 655.71 lacs paid for the previous year.

OPERATIONS

The year under review has witnessed a surge in the demand for Utility Vehicles, Light Commercial Vehicles and Passenger Cars, the sales of which have registered a significant growth as compared with the decline in sales during the previous year. The decline in the tractor sales continued during the year. Your Company has maintained its market share of disbursements for products of the parent company.

During the year, your Company commenced financing of purchases of non- competitive vehicles in the passenger car segment, and of pre-used vehicles. The loan disbursements to these segments are expected to grow in the next fiscal year.

Your Directors are pleased to inform you that despite stiff competition from banks and NBFCs, the total disbursements for the year under review (49,752 new contracts) touched a high of Rs. 1609 crores as against the previous year's disbursements of Rs. 1166 crores, a growth of 38 per cent. Your Directors wish to place on record that your Company is one of the largest financiers of four wheelers in the NBFC sector. The growth in disbursement springs from an increased presence of the Company in rural and semi-urban markets.

Your Company reported an income of Rs. 24989.28 lacs for the year under review as against Rs. 19133.95 lacs for the previous year, recording a growth of 31%. The profit before tax at Rs. 7175.36 lacs was higher by 65% than the

profit before tax of Rs. 4342.05 lacs for the previous year. The profit after tax at Rs. 4434.98 lacs, was 60% higher than the profit after tax of Rs. 2772.39 lacs for the previous fiscal year. Based on the recommendation of the Audit Committee of the Board, the provision for non-performing assets, made on a prudential basis, is higher than what is required under the prescribed norms of the Reserve Bank of India by Rs. 1693.90 lacs.

As a part of your Company's expansion to support the envisaged growth, 45 more branches were added during the current fiscal year, taking the total network to 196 branches as of 31st March, 2003. Having expanded its network in the eastern region of India, your Company now has an established presence all over the country.

Insurance Distribution

During the year, your Company has commenced distribution of insurance products to exploit the vast network created through its branches. Your Company has entered into an agreement with OM Kotak Mahindra Life Insurance Company Limited (OM Kotak) to act as its "Corporate Agent" for distribution of life insurance products. Your Company and OM Kotak have jointly launched "Mahindra Loan Suraksha", an insurance product specially tailored to MMFSL customers, to protect the customer in the unfortunate event of any eventuality during the period of the loan.

Based on the encouraging response received for "Mahindra Loan Suraksha", your Company has plans to expand its reach in distribution of life insurance business and cover as many regions as possible to target the large customer base of MMFSL.

CAPITAL ADEQUACY

The Capital to Risk Assets Ratio (CRAR) of your Company as on 31st March, 2003 was 16.5%, well above the CRAR of 12% prescribed by the Reserve Bank of India.

RBI INSPECTION

During the financial year, the Reserve Bank of India carried out its regular onsite inspection of the various records and the systems/procedures followed by the Company. Whilst the comments have generally been favourable, RBI has made certain proactive suggestions which are being implemented.

DIRECTORS' REPORT

MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED

CREDIT RATING

During the year under review, Credit Rating Information Services of India Limited (CRISIL) had reaffirmed the rating of "FAA" for your Company's Fixed Deposit Scheme. This rating indicates that the degree of safety with regard to the timely payment of interest and principal is strong. The rating "AA" assigned to your Company's long-term Non Convertible Debentures issue was also reaffirmed by CRISIL. The rating of "AA" indicates high safety with regard to timely payment of interest and principal. The Company's short-term borrowing programme in the form of Commercial Paper and Short-term Debentures, continued to enjoy 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

Your Company's bank limit was enhanced to Rs. 550 crores by the Consortium of Bankers. Your Company continued its strategy of a diversified resource mobilization plan. The Company introduced new lenders and borrowed through innovative and flexible instruments like standalone Commercial Paper, MIBOR linked Debentures, FCNR(B) loans etc. The average cost of borrowings was substantially reduced during the period under review.

Your Directors are glad to inform you that the resource base of the Company as of 31st March, 2003 at Rs.1109 crores has crossed the Rs. 1000 crore milestone.

Financial assistance from International Finance Corporation, Washington

During the year, your Company received long term financial assistance of Rs. 840 million (equivalent US\$ 17 million) in the form of a senior loan of Rs. 490 million and a subordinated loan of Rs. 350 million at attractive rates of interest from International Finance Corporation, Washington – the private sector lending arm of World Bank Group. Your Directors are pleased to inform you that your Company is the first recipient of IFC's Rupee Subordinated Loan in India.

Securitisation of Receivables

Following the success of the securitization of hire purchase receivables last year, your Company had, during

the year under review, securitized receivables of Rs. 146 crores at extremely competitive rates. These issues were rated "AAA (so)" by Credit Rating Services of India Limited, indicating the highest degree of certainty regarding timely payment of financial obligations on the instrument. It is a matter of great pride that the investor response to these issues was excellent and the issues were fully subscribed on the first day of its launch.

CURRENT YEAR

The Reserve Bank of India has announced the Credit and Monetary policy for the year 2003-2004 during the last week of April, 2003. The salient features of the policy include a cut of 25 basis points each in the Bank rate (from 6.25% to 6.00%) and in the Cash Reserve Ratio (from 4.75% to 4.50%).

RBI has stated that the overall thrust of the monetary policy for 2003-2004 would be directed towards providing adequate liquidity to meet credit growth and support investment demand in the economy, and a preference for a soft and flexible interest rate environment within the framework of macroeconomic stability.

Your Directors expect that the above direction given through the credit policy would have a favourable impact on the Company, by way of a reduction in interest and a greater availability of funds.

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 particulars on related party exposures, non-performing assets and business levels in lease and hire purchase and other activities, required to be disclosed in the format prescribed by the Reserve Bank of India are contained in the schedules forming part of the accounts.

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

DIRECTORS' REPORT

MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED

FIXED DEPOSITS AND LOANS/ADVANCES

In keeping with the prevalent downward trend in interest rates, your Company had reduced the interest rate in stages by 1.5% on deposits placed during the year under the Company's Fixed Deposit Scheme.

Fixed Deposits of Rs. 4367.90 lacs were outstanding as at 31st March, 2003. 589 deposits amounting to Rs. 78.99 lacs had matured but were unclaimed as at the end of the year. Of these, 192 deposits of the aggregate value of Rs.30.43 lacs have been claimed after 31st March, 2003. The holders of unclaimed deposits are periodically reminded by the Company to either renew their deposits or send their claim for the amount of the matured deposits.

The particulars of loans/advances and investment in its own shares by listed companies, their subsidiaries, associates, etc., required to be disclosed in the annual accounts of the company pursuant to Clause 32 of the Listing Agreement with the parent company, Mahindra & Mahindra Limited, are furnished separately.

DONATIONS

K. C. Mahindra Education Trust

Your Company has donated an amount of Rs. 55.00 lacs to K. C. Mahindra Education Trust towards its corpus during the financial year.

Employees' Donation to Nanhi Kali Project

The employees of your Company have donated an amount of Rs. 5.55 lacs to K. C. Mahindra Education Trust towards Nanhi Kali - a special project aimed at providing primary education to the under-privileged girl child in India. The Directors of the Company are grateful to the employees for their whole-hearted participation in this project.

DIRECTORS

Mr. Uday S. Kotak ceased to be a Director of the Company from 25th November, 2002. Your Directors wish to place on record their deep appreciation of the valuable services rendered by Mr. Kotak to the Company during the tenure of his Directorship.

Mr. Nasser Munjee has been appointed as an Additional

Director at the Meeting of the Board held on 17th March, 2003. He holds office up to the date of the forthcoming Annual General Meeting. A notice has been duly received from a member proposing the candidature of Mr. Nasser Munjee for the office of Director at the said meeting. Mr. Munjee is a monetary economist, educated at the University of Chicago and the London School of Economics. He is the Managing Director & CEO of Infrastructure Development Finance Company Limited. Prior to this, Mr. Munjee was an Executive Director of Housing Development Finance Corporation Limited. He is also on the Board of several companies. The Board is of the view that the knowledge and experience of Mr. Munjee would be of benefit to the Company and, therefore, recommends his appointment.

Mr. Anand G. Mahindra, Mr. Bharat N. Doshi and Mr. Uday Y. Phadke retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

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

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 Meetings were held during the year under review. 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.

An Asset Liability Committee, constituted by the Board, reviews the working of the Asset Liability Operating Committee, in accordance with the guidelines of the Reserve Bank of India.

DIRECTORS' REPORT

**MAHINDRA & MAHINDRA
FINANCIAL SERVICES LIMITED**

AUDIT COMMITTEE

Mr. Uday S. Kotak ceased to be the Chairman of the Audit Committee of the Board consequent upon his resignation from the Board.

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

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to section 217(2AA) of the Companies Act, 1956, your Directors, based on the representation received from the Operating Management, and after due enquiry, confirm that:

- (i) in the preparation of the annual accounts, the applicable accounting standards have been followed;
- (ii) they have, in the selection of the accounting policies, consulted the Statutory Auditors and these have been applied consistently and reasonable and prudent judgments and estimates have been made so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2003 and of the profit of the Company for the year ended on that date;
- (iii) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) the annual accounts have been prepared on a going concern basis.

AUDITORS

Messrs. B. K. Khare & Co., Chartered Accountants, retire as Auditors of the Company at the forthcoming Annual

General Meeting and have given their consent for re-appointment. The shareholders will be required to elect Auditors for the current year and fix their remuneration.

As required under the provisions of section 224 of the Companies Act, 1956, the Company has obtained a written certificate from Messrs. 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 on 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 on 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 THE RULES MADE 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. 24,00,000 during the year ended 31st March, 2003, or of not less than Rs. 2,00,000 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: 5th May, 2003

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 31st MARCH, 2003

| 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 | Managing Director | 29,23,917 | B.Com., MBA | 45/ 26 | 1 st October, 1995 | Regional Manager, Ashok Leyland Finance Ltd. |

Notes :

1. Nature of employment is contractual, subject to termination on three months' notice from either side.
2. The above employee is not 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 contract/Company's rules.
5. Remuneration received as shown in the statement includes Salary, House Rent Allowance, car perquisite value, reimbursement of medical expenses, employer's contribution to Provident Fund, Superannuation Fund and Gratuity Fund, premium for accident insurance and all other allowances/perquisites as applicable.

For and on behalf of the Board

ANAND G. MAHINDRA
ChairmanMumbai: 5th May, 2003

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

Particulars of loans/advances and investment in its own shares by listed companies, their subsidiaries, associates, etc., required to be disclosed in the annual accounts of the company pursuant to Clause 32 of the Listing Agreement with the parent company.

Loans and advances in the nature of loans to subsidiaries, associates, and where there is no repayment schedule or repayment beyond seven years or no interest or interest below section 372A of the Companies Act, 1956 - Nil.

Loans and advances in the nature of loans to firms/companies in which directors are interested:

| Name of the Company | Balance as on 31st March, 2003 | Rs. in lacs |
|---|-----------------------------------|---|
| | | Maximum outstanding during the year |
| Automartindia Limited | 406.88 | 418.32 |
| Mahindra Holidays and Resorts India Limited | --- | 226.04 |
| Mahindra Shubhlabh Services Limited | 3.54 | 4.20 |
| Mahindra Ugine Steel Company Limited | 6.12 | 8.60 |
| Officemartindia.com Limited | 10.00 | 10.28 |


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