



ONE
OF A KIND

in living up to
our customers'
expectations

in covering
pan india
markets

in catering to
different
financial needs

in mapping
consistent
growth

in ensuring
protection

in opening
new
opportunities



Annual Report 2006-07

ONE OF A KIND

Being able to stand out in our niche segment, being the one who gets noticed and being the preferred choice: that's what makes us One-of-a-kind. Being One-of-a-kind has put us at a vantage point, where we can see the world from a different perspective and carve our own course.

Like a thumbprint, our unique identity sets us apart.

Evolving in a unique way has made us a One-of-a-kind Non Banking Financial Company (NBFC). Our forte lies primarily in financing the semi-urban and rural sector, making us one of the leading NBFCs in the Indian financial landscape.

We are One-of-a-kind in the way we do business. It originates from understanding needs of every customer, enabling us to devise customized solutions. We are a financial institution with a difference, going that extra mile to partner with our customers, to make lifelong relationships.

Based on a 'multi-product, multi-channel, single-brand' approach, our One-of-a-kind business model is impervious to volatile external dynamics.

The freshness and vitality of our ardent team is poised to springboard on the reputé, trust and One-of-a-kind position that we have already carved for ourselves in the market place. Our highly focussed human assets have set us apart, making us a preferred choice to all our stakeholders.



CORPORATE INFORMATION

DIRECTORS

Anand G. Mahindra	Chairman
Bharat Doshi	Vice Chairman
Anjanikumar Choudhari	
Uday Y. Phadke	
Dhananjay Mungale	
M. G. Bhide	
Nasser Munjee	
Piyush Mankad	
Pawan Goenka	
Ramesh Iyer	Managing Director

CHIEF FINANCIAL OFFICER

V. Ravi

COMPANY SECRETARY

Angarika Baviskar

REGISTERED OFFICE

Gateway Building,
Apollo Bunder, Mumbai – 400 001.

CORPORATE OFFICE

Sadhana House, 2nd Floor,
Behind Mahindra Towers,
570, P. B. Marg, Worli,
Mumbai – 400 018.

COMMITTEES OF THE BOARD

Audit Committee

M. G. Bhide
Dhananjay Mungale
Nasser Munjee
Uday Y. Phadke

Remuneration / Compensation Committee

Piyush Mankad
Anand G. Mahindra
Bharat Doshi
Dhananjay Mungale
Nasser Munjee
Uday Y. Phadke

Share Transfer and Shareholders / Investors Grievance Committee

Uday Y. Phadke
Dhananjay Mungale
Anjanikumar Choudhari
Ramesh Iyer

Asset Liability Committee

Uday Y. Phadke
Dhananjay Mungale

AUDITORS

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

NOTICE

THE SEVENTEENTH ANNUAL GENERAL MEETING OF MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED will be held at Patkar Hall, SNDT Woman's University, 1st Nathibai Thackersey Road, New Marine Lines, Mumbai- 400 020 on Monday, 23rd day of July, 2007, at 3.30 p.m. to transact the following business:

ORDINARY BUSINESS

1. To receive, and adopt the Directors' Report and the audited Balance Sheet of the Company as at 31st March, 2007 and the Profit and Loss Account for the year ended on that date together with the Auditors Report thereon.
2. To note the payment of Interim Dividend on Preference Shares.
3. To note the payment of Interim Dividend on Equity Shares.
4. To declare a final dividend on Equity Shares.
5. To appoint a Director in place of Mr. Dhananjay Mungale, who retires by rotation and, being eligible, offers himself for re-election.
6. To appoint a Director in place of Mr. Anand G. Mahindra, who retires by rotation and, being eligible, offers himself for re-election.
7. To appoint a Director in place of Mr. Uday Y. Phadke, who retires by rotation and, being eligible, offers himself for re-election.
8. To appoint M/s. B. K. Khare & Co., Chartered Accountants, the retiring Auditors of the Company, as Auditors, who shall hold office from the conclusion of this Annual General Meeting, until the conclusion of the next Annual General Meeting of the Company and to fix their remuneration.

SPECIAL BUSINESS

9. To consider and, if thought fit, to pass, with or without modification(s), the following as an Ordinary Resolution:

"RESOLVED that in supersession of the Resolution passed by the Shareholders at the Annual General Meeting of the Company held on 10th July, 2006 and pursuant to the provisions of sections 293(1)(a) and 293(1)(d) of the Companies Act, 1956 and all other applicable provisions of the Companies Act, 1956 and the Memorandum and Articles of Association of the Company, consent of the Company be accorded to the Board of Directors from time to time to borrow moneys and, if they think fit, for mortgaging, charging or otherwise encumbering the Company's undertaking and any property or any part thereof as a security for such borrowings, up to a continuous limit for the time being and from time to time remaining undischarged of Rs.10000 crore (apart from temporary loans obtained from the Company's Bankers in the ordinary course of business) even though the monies to be borrowed together with the monies already borrowed by the Company may exceed the aggregate of the paid-up share capital of the Company and its free reserves, that is to say, reserves not set apart for any specific purpose."
10. To consider and, if thought fit, to pass, with or without modification(s), the following as a Special Resolution:

"RESOLVED that pursuant to sections 80, 81 and all other applicable provisions, if any, of the Companies Act, 1956,

(including any statutory modification(s) or re-enactment thereof for the time being in force and as may be enacted from time to time) and in accordance with the provisions of the Memorandum and the Articles of Association of the Company and subject to the consent of all concerned authorities, if and to the extent necessary and such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed under applicable laws or imposed while granting such approvals, permissions and sanctions, which may be agreed to by the Board of Directors of the Company and/or a Committee constituted / to be constituted by the Board of Directors to exercise its powers conferred by this resolution and the powers conferred by the Board of Directors from time to time (hereinafter referred to as "the Committee") at its absolute discretion, the consent of the Company be accorded to the Board to offer/issue/allot, in the course of domestic offering, redeemable non convertible preference shares of the face value of Rs.100 each, of an aggregate nominal amount not exceeding Rs.50 crore (hereinafter for brevity's sake referred to as "Securities"), to be subscribed in rupees by such person or persons, whether or not shareholders of the Company, as the Board/Committee may at its absolute discretion think fit, including one or more of the members, promoters, debenture holders, employees, financial institutions, investment institutions, banks, mutual funds, bodies corporate, companies, private or public and other entities, in one or more combinations thereof, whether through public issue, rights issue, private placement, preferential allotment or otherwise, in one or more modes or combinations thereof and in one or more tranches and on such terms and conditions including the rate of dividend, amount of premium, if any, on redemption, redemption period, manner of redemption and matters incidental thereto as may be decided by the Board / Committee.

FURTHER RESOLVED that the Board/Committee be authorised to decide on the listing of the Securities on one or more Stock Exchanges in India as the Board / Committee in its absolute discretion deems fit and to do all such acts, deeds, matters and things as it may in its absolute discretion deem necessary for this purpose.

FURTHER RESOLVED that such of these Securities to be issued as are not subscribed may be disposed of by the Board/Committee thereof to such persons and in such manner and on such terms as the Board/ Committee in its absolute discretion think most beneficial to the Company including offering or placing them with one or more of Banks, Financial Institutions, Investment Institutions, Mutual Funds, Bodies Corporate, such other persons or otherwise as the Board/ Committee thereof may in its absolute discretion decide.

FURTHER RESOLVED that for the purpose of giving effect to this resolution, the Board/Committee be authorised to do all such acts, deeds, matters and things as it may in its absolute discretion deem necessary, proper or desirable and to settle any question, difficulty or doubt that may arise in regard to the offer, issue, allotment and utilisation of the

NOTICE (Contd.)

proceeds of the issue and Board / Committee be authorised further to do all such acts, deeds, matters and things and to finalise and execute all documents and writings as may be necessary, proper, desirable or expedient as it may deem fit and to make and accept any modifications in the proposal as may be considered necessary or as may be required by the relevant Authorities."

11. To consider and, if thought fit, to pass, with or without modification(s), the following as a Special Resolution:

"RESOLVED that pursuant to the provisions of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, and notwithstanding anything to the contrary stated in this regard in the existing Mahindra & Mahindra Financial Services Limited-Employees Stock Option Scheme ("the Scheme"), consent of the Company be accorded to the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include any Committee constituted or to be constituted by the Board as the Remuneration /Compensation Committee) to vary, as authorized by the provisions of section 115VKA of the Income Tax Act, 1961, certain terms of the Scheme approved by the shareholders at the Extraordinary General Meeting (EGM) of the Company held on 24th October, 2005 as Special Resolutions at Item Nos. 1 and 2 of the Notice of the EGM which was ratified by the Special Resolution passed at the 16th Annual General Meeting (AGM) of the Company held on 10th July, 2006 as Special Resolution at Item No. 11 of the Notice of the AGM, to provide for the recovery from the eligible employees, the fringe benefit tax in respect of options which are granted to or vested or exercised by, the eligible employees on or after the 1st day of April, 2007.

FURTHER RESOLVED that for the purpose of giving effect to this Resolution the Board be authorised to do all such acts, deeds, matters and things as it may, in its absolute discretion, deem necessary for such purpose and with power on behalf of the Company to settle any questions, difficulties or doubts that may arise in this regard without requiring to secure any further consent or approval of the shareholders of the Company."

Notes:

- A. Explanatory Statement as required under section 173(2) of the Companies Act, 1956 is annexed hereto.
- B. 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.
- C. The instrument appointing a proxy must be deposited with the Company at its Registered Office not less than 48 hours before the time for holding the Meeting.
- D. The Company's Registrar and Transfer Agent for its Share Registry Work (Physical and Electronic) are Karvy Computershare Private Limited having their office at Plot No. 17-24, Vittalrao Nagar, Madhapur, Hyderabad 500081.

- E. The Register of Members and Transfer Books of the Company will be closed from Saturday, 30th June, 2007 to Monday, 23rd July, 2007 (both days inclusive).

- F. The dividend, if declared at the Annual General Meeting, will be paid on or after 23rd July, 2007 to those persons or their mandates:

- (a) whose names appear as Beneficial Owners as at the end of the business hours on 29th June, 2007 in the list of Beneficial Owners to be furnished by National Securities Depository Limited and Central Depository Services (India) Limited in respect of the shares held in electronic form; and

- (b) whose names appear as Members in the Register of Members of the Company as on 29th June, 2007.

- G. Pursuant to the provisions of section 205A of the Companies Act, 1956, there were no unclaimed dividends for the financial year ended 31st March, 1999 due for transfer to the Investor Education and Protection Fund. Further, there are no unclaimed dividends for the financial year ended 31st March, 2000 which are required to be transferred to the Investor Education and Protection Fund.

- H. Members can avail of the facility of nomination in respect of shares held by them in physical form pursuant to the provisions of section 109A of the Companies Act, 1956. Members desiring to avail of this facility may send their nomination in the prescribed Form No. 2B duly filled in to Karvy Computershare Private Limited having their office at Plot No. 17-24, Vittalrao Nagar, Madhapur, Hyderabad 500081.

- I. The Securities and Exchange Board of India has made it mandatory for all companies to use the bank account details furnished by the depositories for depositing dividend through Electronic Clearing Service (ECS) to investors wherever ECS and bank details are available. In the absence of ECS facilities, the Company will print the bank account details, if available, on the payment instrument for distribution of dividend. The Company will not entertain any direct request from shareholders holding shares in electronic form for deletion of/change in such Bank details. Further, instructions, if any, already given by them in respect of shares held in physical form will not be automatically applicable to shares held in the electronic mode. Members who wish to change such Bank Account details are therefore requested to advise their Depository Participants about such change, with complete details of Bank Account.

- J. The Company has the facility of electronic credit of dividend directly to the respective Bank Accounts of the Members through the Electronic Clearing Service (ECS) of the Reserve Bank of India. Members wishing to avail of this facility are requested to intimate the Company's Registrar and Transfer Agent in the prescribed form and with the prescribed details. Shareholders located in places where ECS facility is not available may submit their Bank details. This will enable the Company to incorporate this information on the Dividend Warrants and thus prevent fraudulent encashment.

NOTICE (Contd.)

K. Members are requested to:

- intimate to the Company's Registrar and Transfer Agent, Karvy Computer share Private Limited at the above mentioned address, changes, if any, in their registered addresses at an early date, in case of shares held in physical form;
- intimate to the respective Depository Participant, changes, if any, in their registered addresses at an early date, in case of shares held in demat form;
- quote their folio numbers/Client ID/DP ID in all correspondence;
- consolidate their holdings into one folio in case they hold shares under multiple folios in the identical order of names.

L. Re-appointment of Directors

In respect of the information to be provided under Clause 49 of the Listing Agreement pertaining to the Directors being re appointed, members are requested to kindly refer the Chapter on Corporate Governance in the Annual Report.

By Order of the Board
Director

Registered Office:

Gateway Building,
Apollo Bunder,
Mumbai - 400 001.

12th June, 2007.

Annexure to Notice

Explanatory Statement pursuant to section 173(2) of the Companies Act, 1956.
Item No.9

Pursuant to the provisions of section 293(1)(d) of the Companies Act, 1956, the Board of Directors of a company cannot borrow monies in excess of the amount of the paid-up capital of the company and its free reserves without the approval of the shareholders in a General Meeting.

At the Annual General Meeting of the Company held on 10th July, 2006, the shareholders, by an Ordinary Resolution, had empowered the Board of Directors of the Company to borrow moneys, up to Rs.7000 crore even though such borrowing would be in excess of the paid-up capital and free reserves of the Company.

The monies so borrowed by the Company and outstanding as at 31st March, 2007 amounted to approximately Rs.4911.3 crore.

During the year 2006-2007, the Company had disbursed Rs.5440 crore and it has plans to disburse over Rs.7000 crore during the current year, mainly for financing the Mahindra range of vehicles and tractors and for other products like cars of reputed automobile manufacturers.

In order to further expand its leasing and hire purchase business and to meet increased financial needs for the

budgeted disbursements, it is proposed to increase its borrowing limits to Rs. 10000 crore, at which level, the Company would be within the capital adequacy requirement of 12% as per the Guidelines issued by the Reserve Bank of India.

The Company may be required to create mortgage / charge on all or any of the movable or immovable properties of the Company in favour of the lender(s) as security for some of the borrowings in such form, manner and ranking as may be determined by the Board of Directors of the Company or duly constituted Committee of the Board from time to time, in consultation with the lender(s).

Accordingly, the consent of the Shareholders is being sought for the enhancement of the borrowing limits and to provide security in the form of a mortgage/charge on any of the movable and / or immovable properties of your Company in respect of any such borrowings as set out in the Resolution at Item No. 9 of the Notice.

Your Directors recommend passing of this Resolution as an Ordinary Resolution.

None of the Directors has any particular interest in this item of business.

Item No.10

With a view to further augmenting the Company's resources for its ongoing business activities, to meet its growth objectives, increased financial needs, working capital requirements and other requirements, the Company proposes to raise finance, at appropriate times in one or more tranches as the Board / Committee may decide, by an issue of Preference Shares as stated in Resolution No. 10 to one or more of the members, promoters, debenture holders, employees, financial institutions, investment institutions, banks, mutual funds, bodies corporate, companies, private or public and other entities, in one or more combinations thereof who may or may not be the shareholders of the Company.

The detailed terms and conditions including price, dividend, redemption period etc. will be decided by the Board with regard to prevailing Market Conditions and applicable regulations/ guidelines, at the time of issue.

Since the new Preference Shares, are also likely to be issued/offered to persons other than the existing Shareholders of the Company, the consent of the Shareholders is being sought by a Special Resolution in terms of sections 80 and 81 of the Companies Act, 1956.

Your Directors recommend this resolution for approval of the shareholders.

The Directors of the Company may be deemed to be concerned or interested in this resolution to the extent any Preference Shares may be offered to and/or subscribed for by them or any company or body corporate of which they are directors or members.

NOTICE (Contd.)

Save as aforesaid, none of the Directors of the Company are, in any way, concerned or interested in this resolution.

Item No. 11

In the Budget for the year 2007-08, the Finance Minister had proposed the levy of fringe benefit tax ("FBT") on employee stock options ("ESOPs").

In pursuance of this proposal, section 115WB of the Income-tax Act, 1961 (the "IT Act") has been amended by the Finance Act, 2007 such that a sweat equity share or other specified security which has been allotted or transferred, directly or indirectly, by an employer free of cost or at a concessional rate to his employees (including former employee or employees), will be treated as a fringe benefit and taxed accordingly.

The aforesaid provision comes into effect from 1st April, 2007 and is applicable for the assessment year 2008-09. The fair market value of the specified security or sweat equity shares referred to above, on the date of vesting of the options, as reduced by the amount actually paid by or recovered from the employee in respect of such security or shares will be liable to FBT in the hands of the employer company.

The Finance Act, 2007 has also inserted a new section 115WKA in the IT Act, which makes it lawful for companies to vary the agreement or scheme under which options have been granted and under which shares have been allotted or transferred by the employer on or after 1st April, 2007, to enable the employer to recover from the employee FBT to the extent to which such employer is liable to pay FBT in relation to the value of the fringe benefits provided to the Employee.

As per the Clause 7 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("SEBI ESOP Guidelines"), the Company cannot vary the terms of an employee stock option scheme in any manner, which may be detrimental to the interest of the employees. However, the Finance Act, 2007 specifically authorises /permits companies to vary the contracts/schemes of ESOPs to provide for the recovery of the FBT from the employees. The Company has been advised that in view of the specific statutory authority conferred by section 115WKA of the IT Act it would be lawful for the Company to recover FBT from the employees in respect of stock options which have been granted to or vested in or exercised by the eligible employees on or after 1st April, 2007 notwithstanding the provisions of SEBI ESOP Guidelines.

The Remuneration/Compensation Committee and the Board of Directors of the Company have proposed to vary/modify the Mahindra & Mahindra Financial Services Limited Employees Stock Option Scheme ("the Scheme") approved by the shareholders at the Extraordinary General Meeting (EGM) of the Company held on 24th October, 2005 as Special Resolutions at Item Nos. 1 and 2 of the Notice of the EGM which was ratified by the Special Resolution passed at the 16th Annual General Meeting (AGM) of the

Company held on 10th July, 2006 as Special Resolution at Item No. 11 of the Notice of the AGM, so as to enable the Company to recover FBT from the Employee to whom the options have been granted and outstanding under the Scheme, to the extent to which the Company is liable to pay FBT in relation to the value of fringe benefits provided to the Employee and determined under section 115WVC(1)(ba) of the IT Act relating to or in connection with shares allotted or transferred, directly or indirectly, by the Company, on or after 1st April, 2007. Out of the total options granted, 16,25,910 options are in force and are not exercised (including options which would vest in future) as on 31st March, 2007.

In terms of Clause 7 of the SEBI ESOP Guidelines, it is also necessary to provide the details of the employees who are the beneficiaries of such variation. In the present case, the said variation is a burden on the employees as the employees would now have to pay in addition to the exercise price an amount equivalent to the FBT payable by the Company. Hence, there are no beneficiaries of the proposed variation.

Clause 7(2) of the SEBI ESOP Guidelines inter alia requires the Company to pass a Special Resolution to vary the terms of ESOPs offered pursuant to an earlier Resolution of a General Body but not yet exercised by the employee.

Accordingly, it is proposed to obtain the approval of shareholders by way of a Special Resolution to vary/amend the Scheme to provide for the recovery from the employees the amount of FBT payable by the Company in respect of any grant or vesting or exercise of stock options under the Scheme on or after 1st April, 2007.

The proposal outlined above is in the interest of the Company and the Board recommends the passing of the Resolution at Item No. 11 of the Notice as a Special Resolution.

A copy of the Scheme duly modified is available for inspection at the Registered Office of the Company on any working day from 10.00 a.m. to 1.00 p.m. upto the date of this Annual General Meeting.

Except Mr. Anand G. Mahindra who has not been granted options under the Scheme, all the other Directors of the Company have been granted options and would be eligible/qualify for further options under the Scheme and may be deemed to be concerned or interested in this item of business.

By Order of the Board
Director

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

12th June, 2007.



SOLICITORS

Khaitan & Co.
Meher Chambers,
R. K. Marg,
Ballard Estate,
Mumbai – 400 038.

REGISTRAR AND SHARE TRANSFER AGENTS

Karvy Computershare Pvt. Ltd.
Plot No 17-24,
Vittalrao Nagar, Madhapur,
Hyderabad – 500 081.

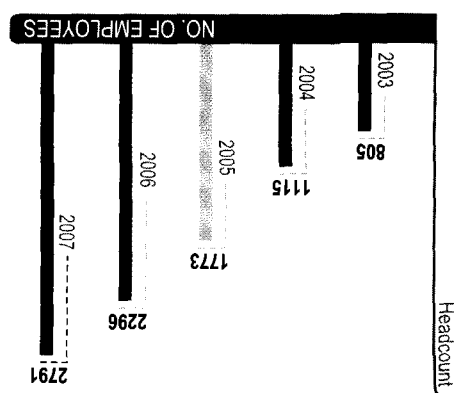
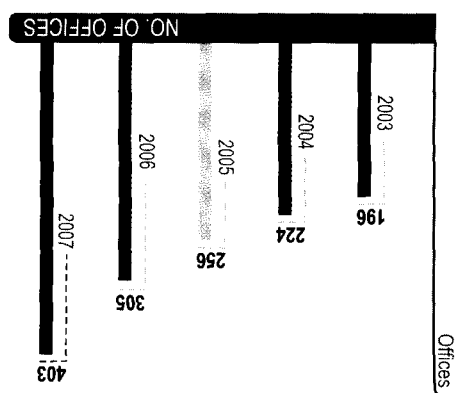
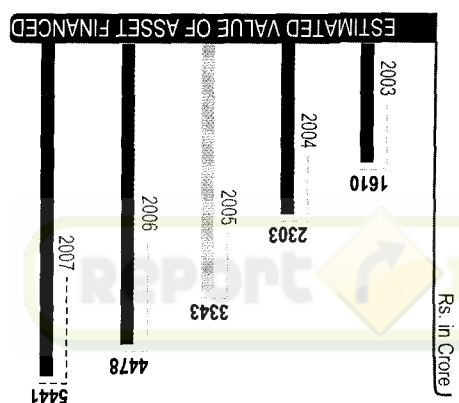
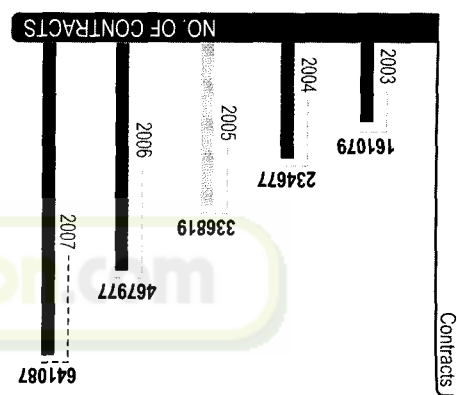
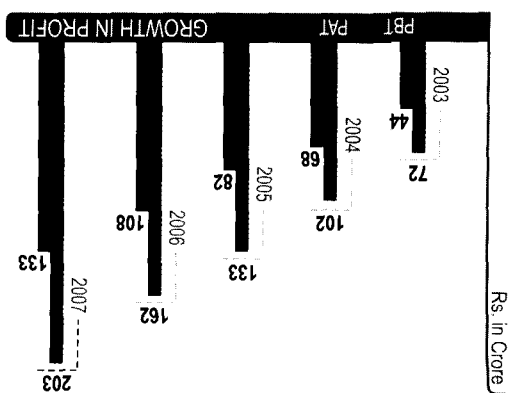
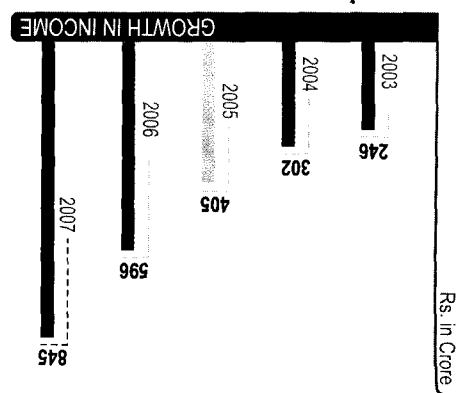
BANKERS

State Bank of India
Canara Bank
The Bank of Nova Scotia
ABN Amro Bank N.V.
Corporation Bank
Industrial Development Bank Of India Limited (IDBI Bank)
Union Bank of India
Punjab National Bank
HDFC Bank Ltd.
ING Vysya Bank Ltd.
Standard Chartered Bank
The Dhanalakshmi Bank Ltd.
UTI Bank Ltd.
Bank of America
Calyon Bank
The Hong Kong & Shanghai Banking Corporation Ltd.
DBS Bank Ltd.
BNP Paribas
Citibank N.A.
Indusind Bank Ltd.
Yes Bank Ltd.
Indian Overseas Bank
ICICI Bank Ltd.
Kotak Mahindra Bank Ltd.
Centurion Bank of Punjab Ltd.
Development Credit Bank Ltd.
Barclays Bank PLC.

OUR ASPIRATION...
TO BECOME THE
LEADING FINANCE
BRAND WITHIN
THE SEMI-URBAN
AND RURAL
LANDSCAPE...

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