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SAKTHI FINANCE LIMITED

ANNUAL REPORT 2004



SAKTHI FINANCE LIMITED

BOARD OF DIRECTORS

Dr. N. Mahalingam *Chairman*
 M. Manickam *Vice Chairman*
 M. Balasubramaniam *Managing Director*
 S.A. Murali Prasad
 A. Shanmugasundaram
 V. Muthuswami
 M. Srinivaasan
 Dr. A. Selvakumar

BANKERS

Karnataka Bank Ltd
 Canara Bank
 State Bank of Travancore
 The Lakshmi Vilas Bank Ltd
 The Catholic Syrian Bank Ltd
 Central Bank of India
 The South Indian Bank Ltd
 Bank of India
 Union Bank of India
 Vijaya Bank

PRINCIPAL EXECUTIVES

N. Srinivasan *Vice President (CS & BSC)*
 T. Sivasankaran *General Manager (HR)*
 S. Anand *General Manager (Operation)*

AUDITORS

M/s. P.N. Raghavendra Rao & Co.
 Chartered Accountants
 33, Desabandhu Street
 Ramnagar
 Coimbatore - 641 009

COMPANY SECRETARY

S. Veluswamy

REGISTERED OFFICE

90, Dr. Nanjappa Road
 Coimbatore - 641 018
 Phone : (0422) 2231471 - 74 (4 lines)
 Fax : (0422) 2231915
 E-mail : sakthif@giasmd01.vsnl.net.in

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SAKTHI FINANCE LIMITED

NOTICE TO MEMBERS

NOTICE is hereby given that the 47th Annual General Meeting of the members of the Company will be held at President Hall, 734, Avanashi Road, Coimbatore - 641 018 on **Friday, 24th September 2004 at 10.00 a.m** to transact the following business.

You are requested to make it convenient to attend the meeting.

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 2004 and the Profit and Loss account for the year ended on that date and the reports of the Board of Directors and Auditors.
2. To appoint a Director in place of Sri V Muthuswami, who retires by rotation and is eligible for reappointment.
3. To appoint a Director in place of Dr A Selvakumar, who retires by rotation and is eligible for reappointment.
4. To appoint auditors for the current year and to fix their remuneration. M/s P N Raghavendra Rao & Co, Chartered Accountants, Coimbatore retire and are eligible for reappointment.

SPECIAL BUSINESS

5. To consider and if thought fit, to pass with or without modification, the following resolutions as Special Resolutions:

RESOLVED THAT pursuant to Section 81 and other applicable provisions, approvals, permissions, consents, if any, of the Companies Act 1956, the consent of the company be and is hereby accorded to the Board of Directors of the company (hereinafter referred to-as " the Board " which term shall be deemed to include any committee of directors which the Board may have constituted or hereafter constitute to exercise its powers including the powers conferred by this resolution) to issue and allot 1,00,35,660 equity shares of Rs 10 each of the aggregate nominal value up to Rs 10,03,56,600 to the existing shareholders in the proportion of one equity share for every two equity shares of Rs 10 each held on the following terms and conditions:

- a. that the offer shall be made to all the existing shareholders whose names appear on the Register of Members of the company as on a record date to be determined by the Board of Directors.
- b. that the offer to every shareholder shall be made by a notice specifying the number of equity shares offered and limiting a time from the date of offer within which time the offer shall be accepted.
- c. that the shareholders are empowered to renounce the shares to which they are entitled in favour of any person, provided that such renunciation is made before the time limit fixed for acceptance of the offer or right.
- d. that the Board of Directors are empowered to dispose of the shares in the manner most beneficial to the company, in case where the shares are neither subscribed nor renounced in favour of any other person within the time limit specified above.
- e. that the shareholders are entitled to apply for additional shares provided that a shareholder who has renounced his right in whole or in part shall not be entitled to an allotment of additional shares.
- f. that the right shares shall be issued subject to the Memorandum and Articles of Association of the company and the terms of offer as will be contained in the Letter of Offer.

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- g. In case the offer of Right Shares entails entitlement to any fractional shares, fractions of more than half will be rounded off to the nearest whole number and the fractions of less than half will be ignored.
- h. The New Equity Shares shall rank *pari passu* in all respects with the existing equity shares of the company except that such "New Equity Shares" shall carry the right to receive proportionate dividend, if any declared, for the financial year in which the said equity shares are allotted.
- i. The issue of shares to non-resident members / OCBs will be further subject to the approval of Reserve Bank of India under the Foreign Exchange Management Act 1999.
- j. The new equity shares will be listed in stock exchanges.

RESOLVED FURTHER THAT the Board of Directors / the Committee constituted by the Board for this purpose are authorised to decide such other terms and conditions for the new equity shares to be offered on rights basis or otherwise as stated above and to accept such amendments, modifications, conditions as the Securities and Exchange Board of India (SEBI) and / or other authorities concerned may prescribe in this behalf.

RESOLVED FURTHER THAT for the purpose of giving effect to the above issue, the Board of Directors be and are hereby authorised to take all such actions and to give all such directions as may be necessary to settle any questions or difficulty that may arise in regard to the creation, offer, issue and allotment of New Equity shares and further to do all such acts, deeds, matter and things.

- 6. To consider and if thought fit, to pass with or without modification, the following resolution as a Special Resolution:

RESOLVED that subject to the provisions of the Companies Act 1956, Securities Contracts (Regulation) Act 1956 and the Rules framed thereunder, the Listing Agreement, the Securities and Exchange Board of India (Delisting of Securities) Guidelines 2003, and all other applicable laws, rules, regulations and guidelines and subject to such approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by the authority while granting such approvals, permissions and sanctions, which may be agreed to by the Board of Directors (hereinafter referred to as the Board, which term shall be deemed to include any committee thereof for the time being exercising the powers conferred on the Board), the consent of the company be and is hereby accorded to the Board of Directors to delist the equity shares of the company from Coimbatore Stock Exchange Limited, Bangalore Stock Exchange Limited and The New Delhi Stock Exchange Association Limited without giving an exit option to the shareholders of the region where the aforesaid stock exchanges are situated.

NOTES

- 1. The relevant Explanatory Statement pursuant to Section 173 of the Companies Act 1956 in respect of the special business under Item Nos. 5 and 6 set out above and details under Clause 49 of the Listing Agreement with the Stock Exchanges in respect of directors seeking re-appointment at the Annual General Meeting are annexed to the Notice.
- 2. **A member entitled to attend and vote at the general meeting is entitled to appoint a proxy to attend and vote instead of himself. The proxy need not be a member of the company. Proxy forms should be lodged with the company at least 48 hours before the commencement of the meeting.**
- 3. The Register of Members and Share Transfer Books of the company will remain closed from Thursday, 16th September 2004 to Friday, 24th September 2004, both days inclusive in connection with the Annual General Meeting.

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4. Members are informed that pursuant to Section 205A of the Companies Act 1956, the company has transferred all unclaimed dividends up to the equity dividend for the financial year ended 31st March 1994 to the General Revenue Account of the Central Government. Members who have not encashed the dividend warrants for the said period are requested to claim the amount from the Registrar of Companies, Stock Exchange Building, Second Floor, 683 - 686, Trichy Road, Singanallur, Coimbatore - 641 005.

Further, pursuant to the provisions of sub-section (5) of Section 205A of the Companies Act 1956, the unpaid dividends for the years ended 31st March 1995 and 1996 which remained unclaimed for a period of 7 years from the date of transfer to the unpaid dividend account have already been remitted to the Investor Education and Protection Fund. The amount of dividend for the year ended 31st March 1997 which has been transferred to the unpaid dividend account of the company and which remains unpaid or unclaimed for a period of 7 years from the date of such transfer will be transferred to the Investor Education and Protection Fund on or after **20th October 2004**. Those members who have not so far encashed their dividend warrants for the above year are requested to claim the amount from the company immediately by surrendering the warrants before the said date. Members are informed that the refund of unclaimed / unpaid dividend amount can not be claimed by the members once it is transferred to the Investor Education and Protection Fund.

14th August 2004
Coimbatore

By Order of the Board
N Mahalingam
Chairman

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT 1956

ITEM NO. 5

The authorised share capital of the company is Rs 45 crores divided into 4,00,00,000 equity shares of Rs 10 each and 5,00,000 Redeemable Cumulative Preference Shares of Rs 100 each. The present issued capital of the company is Rs.2007.13 lakhs divided into 2,00,71,321 equity shares of Rs. 10 each. It is found necessary to augment resources for long term requirements of the company and the board of directors have considered it appropriate to make a rights issue in the proportion of one equity share for every two equity shares held as on a record date to be determined by the Board of Directors. The necessary resolutions in terms of Section 81 of the Companies Act 1956 are proposed as special resolutions.

The Board of Directors recommend the passing of these special resolutions.

Directors are interested in the said resolutions to the extent of their shareholding.

ITEM NO.6

The equity shares of the company are listed on 5 Stock Exchanges, namely Coimbatore Stock Exchange Ltd, Madras Stock Exchange Ltd, The Stock Exchange, Mumbai, Bangalore Stock Exchange Ltd and The Delhi Stock Exchange Association Ltd.

With extensive networking of The Stock Exchange, Mumbai and online trading facility provided by broking companies, investors are able to trade in the equity shares of the company across the country.

Considering the high cost of listing and low trade volumes, it is proposed to delist the shares from Coimbatore, Bangalore and New Delhi Stock Exchanges. The proposed delisting, as and when it takes place, will not adversely affect the investors, as the company's equity shares would continue to be listed / traded on The Stock Exchange, Mumbai and Madras Stock Exchange Limited. Hence

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no exit opportunity is required to be given as per delisting guidelines issued by SEBI. The delisting will take effect after all approvals, permissions and sanctions are received. The exact date on and from which the delisting will take effect would be suitably informed.

As per Securities and Exchange Board of India (Delisting of Securities) Guidelines 2003, approval of the members is required by way of special resolution at a general meeting to delist the equity shares from stock exchanges. Accordingly, necessary special resolution is placed before the members for their approval.

None of the Directors is in any way concerned or interested in the passing of the Resolution.

14th August 2004
Coimbatore

By Order of the Board
N Mahalingam
Chairman

INFORMATION ON DIRECTORS RETIRING BY ROTATION SEEKING REAPPOINTMENT AT THE 47TH ANNUAL GENERAL MEETING PURSUANT TO CLAUSE 49 OF THE LISTING AGREEMENT

Name	Sri V Muthuswami	Dr A Selvakumar
Date of birth	14.6.1922	30.4.1955
Appointed on	2.12.1990	30.3.2001
Qualifications	B A (Hons)	ME Phd
Expertise in specific functional areas	He is a retired Asst. Commissioner of Income Tax. He has got vast experience in income tax and other allied matters.	He holds a doctorate in engineering from Canada. He was working as a Project in-charge at Naval Engineering Test Establishment in Canada. At present he is working as joint correspondent of Kumaraguru College of Technology, Coimbatore.
Directorships held in other public companies	Nil	SA International Ltd
Memberships/ Chairmanships of committee across public companies	Audit Committee and Remuneration Committee: Sakthi Finance Limited	Audit Committee, Remuneration Committee and Shareholders' and Investors' Grievance Committee : Sakthi Finance Limited

SAKTHI FINANCE LIMITED

DIRECTORS' REPORT

To the Members,

Your Directors have pleasure in presenting their Forty Seventh Annual Report together with the audited accounts of the company for the financial year ended on 31st March 2004.

FINANCIAL RESULTS

The net profit for the year is Rs.71.32 lakhs. The provision for income tax is Rs.5.45 lakhs. Amount transferred to statutory reserves is Rs.13.20 lakhs. The deferred tax asset is Rs.75.61 lakhs. The net balance is added to the surplus of the previous year.

BUSINESS

During the financial year under review, the company disbursed Rs.73.05 crores in hire purchase business as against Rs.64.67 crores during the previous financial year. The collection efficiency continues to be good. The Board of Directors are confident of better business prospects in the years to come.

DEPOSITS

The total deposits with the company as at 31st March 2004 stood at Rs 103.08 crores as against Rs.107.25 crores as at 31st March 2003.

As at the end of the financial year, 1789 public deposits amounting to Rs. 293.03 lakhs were due for repayment but remained to be claimed or renewed. The company intimated the depositors repeatedly about the maturity and out of the said deposits, 671 deposits amounting to Rs. 136.86 lakhs have since been claimed and repaid / renewed as per their instructions.

DIRECTORATE

The following directors retire by rotation at the ensuing Annual General Meeting and are eligible for reappointment.

1. Sri V Muthuswami
2. Dr A Selvakumar

AUDIT COMMITTEE

The Audit Committee constituted under Section 292A of the Companies Act 1956 functions with the following non-executive, independent directors:

1. Dr A Selvakumar
2. Sri A Shanmugasundaram
3. Sri V Muthuswami

SUBSIDIARY COMPANY

As required under Section 212 of the Companies Act 1956, the audited statement of accounts for the year ended 31st March 2004 of Sakthi Properties (Coimbatore) Limited, a wholly owned subsidiary, together with the Reports of the Directors and Auditors and also the statement under the said section are attached.

ISSUE OF EQUITY SHARES ON RIGHTS BASIS

To augment the resources for long term requirements, the board of directors have proposed to issue additional shares on rights basis. Necessary resolutions are placed before the members for approval at the ensuing Annual General Meeting.

ANNUAL REPORT 2004**AUDITORS**

M/s P N Raghavendra Rao & Co, Chartered Accountants, Coimbatore retire at the conclusion of the ensuing Annual General Meeting and are eligible for reappointment. A certificate under Section 224 (1B) has been obtained from them.

PARTICULARS REQUIRED UNDER SECTION 217 OF THE COMPANIES ACT 1956

The particulars required to be given in terms of Section 217(1)(e) of the Companies Act 1956 regarding Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo are not applicable to your company. The company has no employee drawing remuneration more than the limits prescribed under Section 217(2A) of the Companies Act 1956.

DIRECTORS' RESPONSIBILITY STATEMENT

In terms of the provisions of Section 217(2AA) of the Companies Act 1956, your directors confirm that:

- a) in the preparation of the Annual Accounts, the applicable accounting standards had been followed;
- b) the directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit of the company for that period;
- c) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities; and
- d) the directors had prepared the annual accounts on a going concern basis.

CORPORATE GOVERNANCE REPORT

Pursuant to Clause 49 of the Listing Agreement, a report on corporate governance forms part of this Annual Report. A certificate from the auditors of the company regarding compliance of the conditions of corporate governance as stipulated under the listing agreement is attached to this report.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

In accordance with the Listing Agreement, a management discussion and analysis report forms part of this report.

LISTING

The shares of the company are listed in Coimbatore, Chennai, Mumbai, Bangalore and New Delhi Stock Exchanges. The listing fee has been paid to all the stock exchanges. It is proposed to delist the equity shares from the Coimbatore Stock Exchange Limited, Bangalore Stock Exchange Limited and The Delhi Stock Exchange Association Limited subject to the approval of the shareholders in the ensuing Annual General Meeting and subject to such approvals, if any, as may be required. The equity shares of the company will continue to be listed in The Stock Exchange, Mumbai and the Madras Stock Exchange Limited.

ACKNOWLEDGEMENT

Your directors wish to place on record the valuable assistance and co-operation extended by the members, commercial banks and government authorities. The Board of Directors wish to convey their sincere thanks to the depositors and debentureholders of the Company for their continued patronage. They also wish to appreciate the excellent services rendered by the employees of the company.

We pray the Goddess SAKTHI to continue to shower her blessings and to guide us in all our endeavours.

On behalf of the Board of Directors

14th August 2004
Coimbatore

N MAHALINGAM
Chairman

SAKTHI FINANCE LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

INDUSTRY STRUCTURE AND DEVELOPMENT

Financial services industry is one of the important industries aiding the development of Indian economy. The industry consists of banks, institutions, subsidiaries of multinational banks, captive finance companies and independent finance companies. As the economy registered a strong growth in 2003 - 04, the financial services industry also have performed well. Sakthi Finance Limited is concentrating on retail asset financing for commercial vehicles, infrastructure development equipments and personal finance requirements.

OPPORTUNITIES

With the continuing thrust given to infrastructure projects by Government, the demand for commercial vehicles and infrastructure equipments will increase. The demand for used vehicles will also increase. Sakthi Finance Limited is focussing more on refinancing of commercial vehicles. The company has drawn up and implementing a plan to penetrate deeper in the market. This plan will enable Sakthi Finance Limited to tap much bigger customer base and face competition.

THREATS

The entry of new players into refinancing segment is perceived as potential threat to the NBFCs. The competition will intensify in this sector in the coming years.

BUSINESS OUTLOOK

With the new Central Government headed by an economist of repute, Dr Manmohan Singh taking office recently, it is expected that the economic reforms initiated by him in 1991 will continue to get a fresh momentum to take the Indian economy further forward. With the healthy foreign exchange reserves and the growth in agricultural and manufacturing sector due to the normal monsoon, road transport sector will have better days ahead. Your company is poised to cash in on the opportunity.

PERFORMANCE AND FINANCIAL REVIEW

During the year, the company deployed Rs 73.05 crores in hire purchase finance business as against Rs 64.67 crores in the previous financial year. With the infusion of more funds and access to other sources of funds, the company hopes to increase the deployment further during the current year.

The company is diversifying the funding portfolio by tapping securitisation deals. The total deposits with the company as at 31.3.2004 stood at Rs. 103.08 crores and the secured non-convertible debentures stood at Rs. 35.68 crores.

The gross income for the year was Rs 26.80 crores and the net profit after tax for the year was at Rs 65.87 lacs. The company has charged Rs 72.91 lacs as depreciation and Rs 5.45 lacs towards income tax.

RISKS AND CONCERNS

The company is susceptible to normal industry risks like interest rate risk, credit risk and market risk. These risks are mitigated by having a very conservative finance profile and by following prudent business and risk management policies.

ADEQUACY OF INTERNAL CONTROL

The company has proper and adequate system of internal controls to monitor and control all the activities. The company adheres to all internal control policies and procedures as well as compliance with all regulatory guidelines.

The Audit Committee of the Board of Directors continuously reviews the adequacy of internal controls.

HUMAN RESOURCES DEVELOPMENT

The company has 179 employees on rolls. The company recognises the importance of human resources development for the success of the organisation. Appropriate personnel are selected and trained as and when required to meet the organisational needs.

On behalf of the Board of Directors
N MAHALINGAM
 Chairman

14th August 2004
 Coimbatore

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CORPORATE GOVERNANCE REPORT

1. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

The company's philosophy on corporate governance continues to aim at better levels of transparency, accountability and equity in all areas of its operations and its dealing with members, employees, customers, lenders, regulatory and government agencies.

2. BOARD OF DIRECTORS

a. Composition and size of the Board

The Board has seven Non-Executive Directors and a Managing Director. The Board has a non-executive chairman. The Board of Directors and its committees meet at periodic intervals. Policy formulation, setting up of goals and evaluation of performance and control functions vest with the Board.

The Board has constituted four committees, namely, Audit Committee, Remuneration Committee, Shareholders' / Investors' Grievance Committee and Asset Liability Management Committee.

b. Number of Board Meetings held during the year

The Board of Directors have met 7 times during the financial year on 30th June 2003, 26th August 2003, 30th August 2003, 30th September 2003, 26th December 2003, 25th February 2004 and 25th March 2004. The gap between any two board meetings did not exceed 4 months.

c. Directors' attendance record and Directorships held

The names of members of the Board of Directors, their attendance at board meetings held during the financial year and at the last Annual General Meeting, number of other directorships and committee membership / chairmanship held in public companies are furnished below.

Name of the director	Category of directorship	Financial year 2003-04 Attendance at		As on 14th August 2004		
		Board	Last AGM	No. of other directorships *	Committee position	
					Member	Chairman
				(excluding Sakthi Finance Ltd)		
Dr N Mahalingam	Non-Executive Chairman, Promoter	6	Yes	7	—	1
Sri M Manickam	Non-Executive Vice Chairman, Promoter	4	Yes	14	1	—
Sri M Balasubramaniam	Managing Director, Promoter	7	Yes	12	1	—
Sri M Srinivaasan	Non-Executive Director, Promoter	5	Yes	10	—	—
Sri A Shanmugasundaram	Non-Executive Director, Independent	7	Yes	1	—	—
Sri S A Murali Prasad	Non-Executive Director, Independent	5	Yes	1	1	—
Sri V Muthuswami	Non-Executive Director, Independent	3	Yes	—	—	—
Dr A Selvakumar	Non-Executive Director, Independent	7	Yes	1	—	—

*excludes directorships in private limited companies