



SAKTHI FINANCE LIMITED

ANNUAL REPORT 2005



SAKTHI FINANCE LIMITED

BOARD OF DIRECTORS

Dr. N. Mahalingam *Chairman*
 M. Manickam *Vice Chairman*
 M. Balasubramaniam *Managing Director*
 S.A. Murali Prasad
 A. Shanmugasundaram
 P.S. Gopalakrishnan
 M. Srinivasan
 Dr. A. Selvakumar

BANKERS

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

PRINCIPAL EXECUTIVES

N. Srinivasan *Vice President (cs & bsc)*
 P.A. Muralidharan *Vice President (Strategy & HR)*
 S. Anand *General Manager (Operations)*

AUDITORS

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

COMPANY SECRETARY

S. Veluswamy

REGISTERED OFFICE

New No. 62 (Old No. 475)
 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 48th Annual General Meeting of the members of the company will be held at President Hall, 734, Avanashi Road, Coimbatore - 641 018 on **Monday, 19th September 2005 at 3.30 p.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 Profit and Loss account for the year ended 31st March 2005 and the audited Balance Sheet as at that date and the reports of the Board of Directors and Auditors.
2. To appoint a Director in place of Sri M Manickam, who retires by rotation and is eligible for reappointment.
3. To appoint a Director in place of Sri A Shanmugasundaram, who retires by rotation and is eligible for reappointment.
4. To appoint statutory auditors of the company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting 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 resolution as an Ordinary Resolution:

RESOLVED THAT pursuant to Section 260 of the Companies Act 1956, Sri P S Gopalakrishnan, who was co-opted as an Additional Director of the company on the Board as per Article 68 of the Articles of Association of the company and holds office up to the date of the ensuing Annual General Meeting and in respect of whom the company has received a notice in writing from a member under Section 257 of the Companies Act 1956 signifying his intention to propose him as a candidate for the office of Director, be and is hereby appointed as a Director of the company, liable to retire by rotation.

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

RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309 and 317 read with Schedule XIII to the Companies Act 1956 and other applicable provisions, if any, of the Companies Act 1956, consent of the company be and is hereby accorded to the appointment of Sri M Balasubramaniam, as Managing Director of the company for a period of five years with effect from 29th September 2005.

RESOLVED FURTHER THAT in consideration of his qualification, experience and services rendered to the company as Managing Director and subject to the overall limits for payment of managerial remuneration laid down under section 198 read with Schedule XIII to the Companies Act 1956, Sri M Balasubramaniam be paid the following remuneration and perquisites:

Salary : Rs. 50,000 per month

Perquisites : Not exceeding the annual salary as may be decided by the Board of Directors from time to time.

Commission : 1% on the net profits of the company, subject to a maximum ceiling specified in Section I of Part II of Schedule XIII to the Companies Act 1956.

RESOLVED FURTHER THAT where in any financial year, during the currency of tenure of the Managing Director, the company has no profits or profits are inadequate, the above salary and perquisites be paid as minimum remuneration.

ANNUAL REPORT 2005**NOTES**

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE ANNUAL GENERAL MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXY FORM SHOULD BE LODGED WITH THE REGISTERED OFFICE OF THE COMPANY NOT LATER THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.

2. The relevant Explanatory Statement pursuant to section 173 of the Companies Act 1956 in respect of the Special Business under Items 5 and 6 is annexed.

3. The Register of Members and Share Transfer Books of the company will remain closed from Friday, 16th September 2005 to Wednesday, 28th September 2005, both days inclusive.

4. Pursuant to section 205A of the Companies Act 1956, the company has transferred all unclaimed dividends up to the financial year ended 31st March 1994 to the General Revenue Account of the Central Government. Shareholders 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.

Pursuant to section 205A(5) of the Companies Act 1956, the unpaid dividends for the years ended 31st March 1995, 1996 and 1997 which remained unclaimed for a period of 7 years from the date of transfer to the unpaid dividend account, were transferred to the Investor Education and Protection Fund. Shareholders are informed that no claims shall lie against the fund or the company in respect of individual amounts which were unclaimed or unpaid for a period of 7 years from the dates that they first become due for payment and no payment shall be made in respect of each such claim.

30th June 2005
Coimbatore

By Order of the Board
S Veluswamy
Company Secretary

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

ITEM No. 5

Sri P S Gopalakrishnan, aged 69, was appointed as an additional director of the company as per Article 68 of the Articles of Association of the company by the Board of Directors at their meeting held on 20th November 2004. He holds office till the conclusion of the ensuing Annual General Meeting and a resolution to appoint him as a director of the company is proposed under Item No. 5 of the agenda.

Sri P S Gopalakrishnan holds a Bachelor's Degree in Commerce, a Bachelor's degree in Law and an associate membership of the Institute of Bankers, London. He was former Chairman of IFCI Ltd., Oriental Bank of Commerce and Indian Overseas Bank.

A notice together with the required deposit has been received from a member under the provisions of Section 257 of the Companies Act 1956 proposing his candidature for the office of director of the company. Sri P S Gopalakrishnan has given his consent to act as a director, if appointed.

The board of directors recommend the resolution for the approval of members.

Except Sri P S Gopalakrishnan, none of the other directors is in any way concerned or interested in the resolution.

Details of his other directorship / committee membership are given in the annexure to the notice.

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ITEM No. 6

Sri M Balasubramaniam was reappointed as Managing Director of the company on 29th September 2000. His present term of office ends on 28th September 2005. Considering his contribution to the company during his period of office, the Board of Directors have at their meeting held on 30th June 2005, reappointed him, subject to the approval of members, as Managing Director for a further period of 5 years with effect from 29th September 2005 on the terms of reappointment and remuneration set out in the resolution which is placed before the members for their approval.

Sri M Balasubramaniam is 47 years of age. He holds a Masters degree in Commerce from Madras University and an MBA from Notre Dame University, USA. He has been the Managing Director of the company since 1990.

Details of his other directorships and committee memberships as on date are given in the annexure to the notice.

Sri M Balasubramaniam may be deemed to be concerned or interested in the above resolutions as it relates to his reappointment and remuneration. Dr N Mahalingam, Chairman, Sri M Manickam, Vice Chairman and Sri M Srinivaasan, Director, are interested in the reappointment of Sri M Balasubramaniam as relatives. None of the other directors have any concern or interest in the resolutions.

The board of directors recommend the resolutions for the approval of members.

By Order of the Board

30th June 2005
Coimbatore

S Veluswamy
Company Secretary

INFORMATION ON DIRECTORS SEEKING APPOINTMENT / REAPPOINTMENT AT THE 48TH ANNUAL GENERAL MEETING PURSUANT TO CLAUSE 49 OF THE LISTING AGREEMENT

Name	Sri M Manickam	Sri A Shanmugasundaram
Date of birth and age	24.3.1956, 49 years	16.9.1936, 68 years
Date of appointment on the board	12.12.1991	19.9.1979
Qualifications	M Sc MBA	Intermediate
Expertise in specific functional areas	Finance and Administration	Business Administration
Directorships held in other public companies	ABT Limited ABT Industries Ltd Kovai Medical Centre and Hospital Ltd Sakthi Auto Component Ltd Sakthi Management Services (Coimbatore) Ltd Sakthi Properties (Coimbatore) Ltd Sakthi Refinery and Protein Ltd Sakthi Soft Drinks Ltd Sakthi Sugars Limited Sri Bhagavathi Textiles Ltd Sri Chamundeswari Sugars Ltd Sri Sakthi Textiles Ltd The Gounder and Company Auto Ltd	Nil
Memberships/ Chairmanships of committee across public companies	Shareholders' and Investors' Grievance Committee - Member : Sakthi Sugars Limited	Audit Committee - Member : Sakthi Finance Limited

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Name	Sri P S Gopalakrishnan	Sri M Balasubramaniam
Date of birth and age	23.8.1935, 69 years	6.5.1958, 47 years
Date of appointment on the board	20.11.2004	21.8.1985
Qualifications	B Com LLB AIB (London)	M Com MBA
Expertise in specific functional areas	Has got rich experience in heading banks and financial institutions	Has got rich experience in Finance and Business administration
Directorships held in other public companies	Kothari Sugars and Chemicals Ltd Reliance Capital Asset Management Company Ltd Shriram Overseas Finance Ltd	ABT Limited ABT Finance Ltd ABT Industries Ltd Sakthi Auto Component Ltd Sakthi Logistic Services Ltd Sakthi Management Services (Coimbatore) Ltd Sakthi Sugars Ltd Sri Bhagavathi Textiles Ltd Sri Chamundeswari Sugars Ltd Sri Sakthi Textiles Ltd The Gounder and Company Auto Ltd Sakthi Properties (Coimbatore) Ltd
Memberships/ Chairmanships of committee across public companies	Audit Committee, Remuneration Committee and Shareholders' and Investors' Grievance Committee - Chairman: Kothari Sugars and Chemicals Ltd Shriram Overseas Finance Ltd Remuneration Committee - Member : Sakthi Finance Limited	Audit Committee - Member : Sakthi Sugars Limited Shareholders' and Investors' Grievance Committee - Member : Sakthi Sugars, Limited Sri Chamundeswari Sugars Ltd

SAKTHI FINANCE LIMITED

DIRECTORS' REPORT

To the Members

Your directors have pleasure in presenting their Forty Eighth Annual Report together with the audited accounts of the company for the financial year ended 31st March 2005.

FINANCIAL RESULTS

The net profit before tax for the year is Rs.212.21 lakhs. The provision for income tax is Rs.16.96 lakhs. Amount transferred to statutory reserve is Rs.39.05 lakhs. The net balance is added to the surplus of the previous year.

BUSINESS

During the financial year under review, the company disbursed Rs.79.06 crores in hire purchase business as against Rs.73.05 crores during the previous financial year. The collection efficiency continues to be good. Your directors are optimistic of improved business volumes and better working results in the current year.

DEPOSITS

The total deposits with the company as at 31st March 2005 stood at Rs 9453 lakhs as against Rs.10309 lakhs as at 31st March 2004.

As at the end of the financial year, 1694 public deposits amounting to Rs. 325.08 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, 960 deposits amounting to Rs. 151.66 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 M Manickam
2. Sri A Shanmugasundaram

Sri V Muthuswami, Director of the company resigned from the directorship with effect from 20th November 2004. The Board places on record his valuable contribution made during his long tenure. Sri P S Gopalakrishnan, former Chairman of IFCI Ltd was co-opted as an additional director of the company with effect from 20th November 2004. Sri P S Gopalakrishnan holds office up to the end of the ensuing Annual General Meeting. The company has received a notice in writing from a member signifying his intention to propose him as a candidate for the office of Director. A resolution proposing him as a director of the company is brought at the ensuing annual general meeting for the approval of members.

The present term of office of Sri M Balasubramaniam, Managing Director ends on 28th September 2005. A resolution for his reappointment as Managing Director for a further term of five years is brought before the members for their approval.

The profiles of these directors, as required under Clause 49 of the Listing Agreement entered into with the stock exchanges, are given in the Annexure to the Notice of the 48th Annual General Meeting.

AUDIT COMMITTEE

The Audit Committee was reconstituted during the year with the following non-executive, independent directors:

1. Sri S A Murali Prasad, Chairman
2. Dr A Selvakumar, Member
3. Sri A Shanmugasundaram, Member

SUBSIDIARY COMPANY

As required under Section 212 of the Companies Act 1956, the audited statement of accounts for the year ended 31st March 2005 of Sakthi Properties (Coimbatore) Limited, a wholly owned

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subsidiary, together with the reports of the directors and auditors and also the statement under the said section are attached.

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

Pursuant to the provisions of Section 217(2AA) of the Companies Act 1956, your directors confirm, to the best of their knowledge and belief, that:

- in the preparation of the annual accounts, the applicable accounting standards had been followed and that no material departures had been made from it;
- 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;
- 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
- the directors had prepared the annual accounts on a going concern basis.

LISTING

Consequent to the approval of the members at the 47th Annual General Meeting held on 24th September 2004 and in accordance with the Securities and Exchange Board of India (Delisting of Securities) Guidelines 2003, the equity shares of the company were delisted from Bangalore, Coimbatore and New Delhi Stock Exchanges. The delisting was done mainly due to low trade volumes of our shares in these exchanges.

The shares are continued to be listed on the following stock exchanges:

- The Stock Exchange, Mumbai
- Madras Stock Exchange Limited

CORPORATE GOVERNANCE REPORT

Pursuant to Clause 49 of the Listing Agreement, a report on corporate governance and a certificate from the auditors of the company regarding compliance of the conditions of corporate governance as stipulated under the listing agreement form part of this report.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

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

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

30th June 2005
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 banks have realised the potential in retail finance segment, most of the banks have entered into this segment either directly or through arrangement with NBFCs. Banks are either tying with NBFCs or taking over NBFCs to enable faster penetration into the retail segment. Sakthi Finance Limited is principally concentrating on retail asset financing for commercial vehicles and has tied up with banks to channelise their funds into this segment.

OPPORTUNITIES

With the continuing thrust given to infrastructure projects by Government and with the economy doing well, the demand for commercial vehicles will increase. Consequently, the demand for used vehicles will also increase. Sakthi Finance Limited is focussing more on refinancing of commercial vehicles. The company has implemented SOHO concept and now operates very closer to the customers. This has opened up big potential to offer varied range of financial products to suit the customers need. To meet the funding requirements, the company has tied up with leading banks to tap their line of credit.

THREATS

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

BUSINESS OUTLOOK

As the government is pursuing reform measures vigorously, positive outlook is prevailing in all sectors of the economy. The road transport sector will perform better as it will have more goods for carrying. But the rising prices of petroleum products may reduce their profitability unless it is passed on by way of higher freight rates. The company is concentrating on the semi-urban and rural centers, where there is scope for passing on the hike in petroleum prices due to the smaller loads carried. As a whole, the outlook for business is promising.

PERFORMANCE AND FINANCIAL REVIEW

During the year, the company deployed Rs 79.06 crores in hire purchase finance business as against Rs 73.05 crores in the previous financial year. With tie-up for more funds in place, the company hopes to increase the deployment further during the current year. The total deposits with the company as at 31st March 2005 stood at Rs.94.53 crores.

The gross income for the year was Rs 2911.15 lakhs and the net profit after tax for the year was at Rs 195.25 lakhs. The company has charged Rs 66.78 lakhs as depreciation and Rs 16.96 lakhs 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 196 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

30th June 2005
 Coimbatore

REPORT ON CORPORATE GOVERNANCE

(Pursuant to Clause 49 of the Listing Agreement)

1. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

The company's philosophy on corporate governance continues to aim at high 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. Three are independent directors. The Board of Directors and its committees meet at periodic intervals. Policy formulation, setting up of goals and evaluation of performance and control function 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 4 times during the financial year on 30th June 2004, 14th August 2004, 20th November 2004 and 15th February 2005. 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 2004-05 Attendance at		As on 30th June 2005		
		Board	Last AGM	No. of other directorships *	Committee position	
					Member	Chairman
(excluding Sakthi Finance Ltd)						
Dr N Mahalingam	Non-Executive Chairman, Promoter	2	No	6	—	1
Sri M Manickam	Non-Executive Vice Chairman, Promoter	1	Yes	13	1	—
Sri M Balasubramaniam	Managing Director, Promoter	4	Yes	12	2	—
Sri M Srinivaasan	Non-Executive Director, Promoter	3	Yes	9	1	—
Sri A Shanmugasundaram	Non-Executive Director, Independent	2	Yes	—	—	—
Sri S A Murali Prasad	Non-Executive Director, Independent	4	No	1	—	1
Sri V Muthuswami**	Non-Executive Director, Independent	—	No	—	—	—
Dr A Selvakumar	Non-Executive Director, Independent	3	Yes	2	—	1
P S Gopalakrishnan***	Non-Executive Director, Independent	—	NA	3	—	2

* excludes directorships in private limited companies

** ceased to be a director with effect from 20th November 2004

*** appointed as additional director with effect from 20th November 2004