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# SAKTHI FINANCE LIMITED

ANNUAL REPORT 2006



# SAKTHI FINANCE LIMITED

## BOARD OF DIRECTORS

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

## BANKERS

The 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

Sri. N. Srinivasan *Vice President*  
 Sri. P.A. Muralidharan *Vice President (Strategy)*  
 Sri. S. Anand *General Manager (Operations)*

## AUDITORS

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

## COMPANY SECRETARY

Dr. S. Veluswamy

## REGISTERED OFFICE

New No. 62, Dr. Nanjappa Road  
 Coimbatore - 641 018  
 Phone : (0422) 2231471 - 74 (4 lines)  
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 e-mail : sakthif@giasmd01.vsnl.net.in

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**SAKTHI FINANCE LIMITED****NOTICE TO MEMBERS**

NOTICE is hereby given that the Forty Ninth Annual General Meeting of the members of the Company will be held at President Hall, 734, Avinashi Road, Coimbatore - 641 018 on **Wednesday, 6th September 2006 at 3.00 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 Balance Sheet as at 31st March 2006 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 M Srinivaasan who retires by rotation and is eligible for reappointment.
3. To appoint a director in place of Sri S A Murali Prasad who retires by rotation and is eligible for reappointment.
4. To appoint M/s P N Raghavendra Rao & Co, Chartered Accountants, Coimbatore as Statutory Auditors of the company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting on the remuneration and out of pocket expenses as recommended by the Audit Committee and approved by the Board of Directors. M/s P N Raghavendra Rao & Co, Chartered Accountants, Coimbatore retire and are eligible for reappointment.

**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 DEPOSITED WITH THE REGISTERED OFFICE OF THE COMPANY NOT LATER THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.**
2. The Register of Members and Share Transfer Books of the company will remain closed from Friday, 1st September 2006 to Wednesday, 6th September 2006, both days inclusive.
3. Members holding shares in dematerialised form are requested to bring their Client ID and DP ID Numbers for easy identification of attendance at the meeting.
4. Members are requested to notify any change in their address immediately to SKDC Consultants Limited, Company's Registrars and Share Transfer Agents.
5. Pursuant to section 205A of the Companies Act 1956, all unclaimed dividends up to the financial year ended 31st March 1994 have been transferred to the General Revenue Account of the Central Government. Shareholders who have not encashed the dividend warrant 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.

By Order of the Board

29th June 2006  
Coimbatore

S Veluswamy  
Company Secretary

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

Name	Sri M Srinivaasan	Sri S A Murali Prasad
Date of birth and age	2nd September 1966, 39 years	27th September 1941, 64 years
Date of appointment on the board	18th April 1994	21st January 1984
Qualifications	B E, M B A	M Com, ACA, AICWA
Expertise in specific functional areas	He holds a bachelor's degree in engineering and a post graduate degree in business administration. He has got rich and varied experience in Sugar Industry. At present he is the Managing Director of Sri Chamundeswari Sugars Ltd	He is a leading practicing management consultant in Chennai and has been in practice for more than 3 decades. He has been advising corporates on finance, software consultancy etc
Directorships held in other public companies	Sri Chamundeswari Sugars Ltd ABT Limited ABT Industries Limited Sakthi Sugars Limited Sri Bhagavathi Textiles Ltd Sakthi Synthetic Gems Ltd Sakthi Management Services (CBE) Ltd Sri Sakthi Textiles Ltd Sakthi Auto Component Ltd The Gounder and Company Auto Ltd	Kovai Medical Center and Hospital Ltd Rane Brake Linings Ltd
Memberships/ Chairmanships of committee across public companies	<b>Shareholders and Investors Grievance Committee - Member:</b> Sri Chamundeswari Sugars Limited	<b>Audit and Remuneration Committee - Chairman:</b> Sakthi Finance Limited <b>Audit Committee Member:</b> Rane Brake Linings Limited
No. of Equity Shares held	2,21,355	Nil

**SAKTHI FINANCE LIMITED****DIRECTORS' REPORT**

To the Members

Your directors have pleasure in presenting their Forty Ninth Annual Report together with the audited accounts of the company for the financial year ended 31st March 2006.

**FINANCIAL RESULTS**

The net profit before tax for the year is Rs.328.53 lakhs. The provision for taxation is Rs.0.30 lakhs. Rs 63.77 lakhs has been transferred to statutory reserve. The net balance is added to the surplus of the previous year.

**BUSINESS**

For the financial year under review, the company disbursed Rs.89.61 crores in hire purchase business as against Rs.79.06 crores during the previous financial year. The collection efficiency has been good. Your directors are hopeful of better business volumes and working results in the coming year.

**DEPOSITS**

The total deposits with the company as at 31st March 2006 stood at Rs 8171 lakhs as against Rs.9453 lakhs as at 31st March 2005.

As at the end of the financial year, 1654 public deposits amounting to Rs. 348.09 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, 691 deposits amounting to Rs. 188.09 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 Srinivaasan
2. Sri S A Murali Prasad

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 49th Annual General Meeting.

The Board of Directors regret to inform that Sri V Muthuswami, former Director of the company passed away on 15th October 2005. The Board places on record the valuable services rendered by him during his tenure as a director.

**AUDIT COMMITTEE**

The Audit Committee continues to function with the following non-executive 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 2006 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.

**MANAGEMENT DISCUSSION AND ANALYSIS REPORT**

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

**ANNUAL REPORT 2006****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.

**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:

- a) in the preparation of the annual accounts, the applicable accounting standards had been followed and that no material departure had been made from it;
- 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.

**ACKNOWLEDGEMENTS**

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.

29th June 2006  
Coimbatore

On behalf of the Board of Directors

**N MAHALINGAM**  
Chairman

## SAKTHI FINANCE LIMITED

### MANAGEMENT DISCUSSION AND ANALYSIS REPORT

#### INDUSTRY STRUCTURE AND DEVELOPMENT

NBFC industry comprises of subsidiaries of banks, financial institutions, subsidiaries of foreign banks, associates of commercial vehicle / equipment manufacturers and stand-alone NBFCs. They extend their service mainly in retail finance segment which comprises of truck finance, infrastructure equipment finance, auto loans, two wheeler loans, tractor finance and personal loans. The truck finance segment can be classified into New vehicle finance segment and Used vehicle finance segment. New vehicle finance segment is dominated by larger players floated by manufacturers and banks. The Used vehicle finance segment is dominated by numerous small local financiers and few organised players. With the sharp fall in yields in New vehicle financing, the larger players are also increasing their focus now on the Used vehicle finance. Sakthi Finance Limited is focussing on Used commercial vehicle financing.

#### OPPORTUNITIES

With the over all development of the economy, and with thrust for the infrastructure developments like laying roads, the requirements for commercial vehicles will increase. Due to the major road projects like Golden Quadrilateral, the Hub and Spoke system of transportation is emerging. Therefore, the demand for multi axle vehicles and smaller commercial vehicles will increase. Hence the requirements for finance for new trucks as well as used trucks is expected to grow further. NBFCs' with strong origination and collection skills will be able to play a major role in Used truck finance segment.

#### THREATS

With the entry of banks and NBFCs' floated by Banks and MNCs into retail finance segment and in particular into commercial vehicle refinance business, the competition is likely to increase further. The fuel price hike and upward trend in interest rates may affect the growth rate in Commercial vehicle sales.

#### BUSINESS OUTLOOK

With the economy remaining buoyant, the demand for financial assistance will be at higher level. Therefore, the business outlook for NBFCs which have established systems and strong presence is good.

#### PERFORMANCE AND FINANCIAL REVIEW

For the year ended 31st March 2006, the company disbursed Rs 89.61 crores in hire purchase finance business as against Rs 79.06 crores in the previous financial year. As on 31st March 2006, the total deposits with the company was at Rs.81.71 crores.

The gross income for the year was Rs 2753.17 lakhs and the net profit after tax for the year was at Rs 318.84 lakhs. The company has provided Rs 70.92 lakhs as depreciation and Rs 0.30 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. The risk management policies are also periodically reviewed by the Audit Committee to modify them to suit the company's needs.

#### ADEQUACY OF INTERNAL CONTROL

The company has a sound 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 is periodically apprised of the adequacy of internal controls.

#### HUMAN RESOURCES DEVELOPMENT

The company has 204 permanent employees on its rolls. The company is aware of the importance of human resources development for the success of the organisation. The company has taken steps to recruit young, talented personnel to meet the demands of the business, whenever required.

On behalf of the Board of Directors

**N MAHALINGAM**

Chairman

29th June 2006  
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 of Directors consist of eight members, out of which one is a Managing Director and seven are Non-Executive Directors who bring in a wide range of skills and experience to the Board. The Board has a Non-Executive Chairman and the number of independent directors is one-third of the total number of directors. The composition of the Board is in conformity with Clause 49 of the Listing Agreement. 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.

None of the Directors on the Company's Board is a member of more than ten committees and Chairman of more than five committees across all companies in which he is a Director.

#### b. Number of Board Meetings held during the year

During the year under review, five Board Meetings were held on 14th June 2005, 30th June 2005, 27th August 2005, 29th October 2005 and 30th January 2006. The required information as enumerated in Annexure IA to Clause 49 of the Listing Agreement is made available to the Board for discussion and consideration at Board Meetings. The Board also taken on record the certificates given by the senior management personnel regarding compliance with the applicable laws on quarterly basis.

#### c. Directors' attendance record and Directorships held

The composition 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 are given below.

Name of the director	Category	Relationship with other directors	Financial year 2005-06 Attendance at		As on 29th June 2006		
			Board meeting	Last AGM	No. of other directorships *	Committee position	
						Member**	Chairman**
Dr N Mahalingam	Non-executive Chairman, Promoter	Father of Sri M Manickam, Sri M Balasubramaniam and Sri M Srinivaasan	5	Yes	6	—	1
Sri M Manickam	Non-executive Vice Chairman, Promoter	Son of Dr N Mahalingam, brother of Sri M Balasubramaniam and Sri M Srinivaasan	2	Yes	11	1	—



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Sri M Balasubramaniam	Managing Director, Promoter	Son of Dr N Mahalingam, brother of Sri M Manickam and Sri M Srinivaasan	5	Yes	12	2	1
Sri M Srinivaasan	Non-executive Director, Promoter	Son of Dr N Mahalingam, brother of Sri M Manickam and Sri M Balasubramaniam	4	Yes	10	1	—
Sri A Shanmugasundaram	Non-executive Director, Non-Independent	Brother in law of Dr N Mahalingam	4	Yes	Nil	—	—
Sri S A Murali Prasad	Non-executive Director, Independent	None	4	No	2	1	—
Dr A Selvakumar	Non-executive Director, Independent	None	5	Yes	1	—	1
Sri P S Gopalakrishnan	Non-executive Director, Independent	None	5	Yes	3	1	2

\* excludes directorships in private limited companies and Section 25 companies

\*\* only Audit Committee and Shareholders' / Investors' Grievance Committee are considered for this purpose

### d. Code of conduct

The Board of Directors, at their meeting held on 29th October 2005 adopted a Code of Conduct and Ethics ("the Code") to help ensure compliance with the legal requirements and standards of business conduct. The purpose of the Code is to deter wrong doing and promote ethical conduct.

The Code applies to all Directors and members of Senior Management Team of the company. All Board Members and personnel of the Senior Management Team of the company have affirmed compliance with the Code. A declaration to this effect, duly signed by the Managing Director is annexed. The Code has been hosted on the website of the company.

### 3. Committees of the Board

#### A. Audit Committee

The brief terms of reference of the Audit Committee are:

- Reviewing the accounting systems and policies periodically and suggest any improvements to the Board as and when required
- Reviewing the financial statements before they are submitted to the board of directors
- Reviewing the internal control systems
- Any other matters that are relevant

The committee consists of 3 non-executive directors, of which 2 are independent directors. The committee held 4 meetings during the financial year on 30th June 2005, 26th August 2005, 29th October 2005 and 30th January 2006.

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The composition of the Audit Committee and the attendance of its members are given below:

Name	No. of meetings held	No. of meetings attended
Sri S A Murali Prasad, Chairman	4	4
Dr A Selvakumar, Member	4	4
Sri A Shanmugasundaram, Member	4	1

All members of Audit Committee are financially literate.

The minutes of Audit Committee are placed before the Board of Directors at their meetings. Due to health reasons, the Audit Committee Chairman was not able to attend the last Annual General Meeting. Other two members of Audit Committee were present at the meeting.

#### B. Remuneration Committee

The Remuneration Committee determines and recommends to the Board the remuneration including commission, perquisites and allowances payable to the Managing Director. During the year, the committee held a meeting on 30th June 2005 to consider the reappointment and remuneration of Managing Director. The company has complied with the non-mandatory requirement of Clause 49 regarding remuneration committee.

The committee consists of 3 non-executive, independent directors.

The composition of the Remuneration Committee and the attendance of its members are given below:

Name	No. of meetings held	No. of meetings attended
Sri S A Murali Prasad, Chairman	1	1
Dr A Selvakumar, Member	1	1
Sri P S Gopalakrishnan, Member	1	1

Remuneration policy of the company is given below:

#### For Managing Director

The total remuneration, subject to members' approval, consists of a fixed component, consisting of salary, perquisites and allowances as per company's Rules and a variable component, linked to the performance of the company, consisting of commission within the limits approved by the members.

#### For Non-Executive Directors

Sitting fees as permitted under the Companies Act 1956 plus reimbursement of actual travelling and out-of-pocket expenses incurred for attending such meetings. Non-executive directors are not being paid any commission.

The details of remuneration / fees paid to the executive / non-executive directors for the year 2005-06 and the shares held by them are given below. (Rs. Lakhs)

Name of the Director	Salary	Commis- sion	Perqui- sites	Sitting Fees	Total	No. of equity shares held
Dr N Mahalingam	—	—	—	0.10	0.10	2,06,023
Sri M Manickam	—	—	—	0.04	0.04	61,875
Sri M Balasubramaniam	5.40	—	4.97	—	10.37	1,28,000
Sri M Srinivaasan	—	—	—	0.08	0.08	2,21,355
Sri A Shanmugasundaram	—	—	—	0.08	0.08	5,250
Sri S A Murali Prasad	—	—	—	0.08	0.08	Nil
Dr A Selvakumar	—	—	—	0.10	0.10	Nil
Sri P S Gopalakrishnan	—	—	—	0.10	0.10	Nil