



SAKTHI FINANCE LIMITED

ANNUAL REPORT 2007

SAKTHI FINANCE LIMITED

NOTICE TO MEMBERS

NOTICE is hereby given that the Fiftieth Annual General Meeting of the members of the Company will be held on **Monday, 20th August 2007 at 3.00 p.m** at President Hall, 734, Avinashi Road, Coimbatore - 641 018 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 2007 and the Profit and Loss account for the year ended on that date together with the reports of the Board of Directors and Auditors.
2. To confirm the Special Interim Dividend of 5% on equity shares paid during the year.
3. To appoint a director in place of Sri A Shanmugasundaram who retires by rotation and is eligible for reappointment.
4. To appoint a director in place of Dr A Selvakumar who retires by rotation and is eligible for reappointment.
5. 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.

SPECIAL BUSINESS

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

RESOLVED THAT in accordance with the provisions of Section 31 and all other applicable provisions, if any, of the Companies Act 1956, the Articles of Association of the Company be and is hereby amended by deleting the existing Article 102 and substituting in its place the following new Article 102.

102. The Directors shall provide a Common Seal for the purpose of the Company and shall have power from time to time to destroy the same and substitute a new seal in lieu thereof and the Directors shall provide for the safe custody of the seal for the time being, and the seal shall never be used, except by or under authority of the Directors or a Committee of Directors, previously given and in the presence of one Director at the least, who shall sign every instrument to which the seal is affixed and every such instrument shall be countersigned by the Company Secretary or such other officer or person, as the Directors may from time to time resolve provided that in the case of any Certificate of title to any shares of the Company, the Common Seal shall be affixed thereto as provided herein above and in accordance with the Companies (Issue of Share Certificates) Rules 1960.

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

RESOLVED THAT pursuant to the provisions of the Companies Act 1956 and of the Listing Agreement, the sanction / approval of the Company be and is hereby accorded to the Board of Directors for the further issue of Secured Redeemable Non-Convertible Debentures up to an amount of Rs.100 crores and that such Debentures may be offered, issued and allotted to any person or persons, Companies or Banks whether or not those allottees are existing shareholders/debenture holders of the Company.

RESOLVED FURTHER THAT the consent / approval of the Company be and is hereby accorded to the Board of Directors to finalise the terms and conditions of issue of Secured Redeemable Non-convertible debentures and the security to be created and to agree to the terms and conditions of the subscription agreement, Trustee agreement and Trust Deed to be entered

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into by the Company and execute necessary agreements and documents and to do such acts and things as may be necessary to give effect to the above resolutions.

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

RESOLVED THAT pursuant to Section 293(1)(a) and other applicable provisions, if any, of the Companies Act 1956, consent of the Company be and is hereby accorded to the Board of Directors for mortgaging and / or charging all or any of the moveable and immoveable properties of the Company both present and future, to or in favour of Subscribers/Trustees of debenture holders to secure the non-convertible debentures up to an amount of Rs. 100 crores.

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. As required under Clause 49 (IV)(G) of the Listing Agreement, the relevant details of directors seeking reappointment under Items Nos.3 and 4 are annexed.
3. The relative Explanatory Statement as required under Section 173(2) of the Companies Act 1956 setting out the material facts in respect of special businesses under Item Nos.6 to 8 is annexed.
4. The Register of Members and Share Transfer Books of the company will remain closed from Monday, 13th August 2007 to Monday, 20th August 2007, both days inclusive.
5. 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.
6. Members holding shares in physical forms are requested to intimate, indicating their folio number, the changes, if any, in their registered addresses either to the Company or to the Registrar and Share Transfer Agents, SKDC Consultants Limited, Coimbatore - 641 012 or to their respective Depository Participant (DP) in case the shares are held in dematerialised form.
7.
 - a. As per 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 their dividend warrant(s) for the said period are requested to forward their claims in prescribed Form No.II to The Companies Unpaid Dividend (Transfer to General Revenue Account of the Central Government) Rules 1978 to Registrar of Companies, Stock Exchange Building, Second Floor, 683 - 686, Trichy Road, Singanallur, Coimbatore - 641 005.
 - b. As per Section 205A (5) of the Companies Act 1956, the Company has transferred all unclaimed dividends for the financial years ended 31st March 1995, 1996 and 1997 which remained unclaimed for a period of seven years to the Investor Education and Protection Fund. Members 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 seven years from the dates that they first became due for payment and no payment shall be made in respect of each such claim.
 - c. The Special Interim Dividend of 5% paid on equity shares during March 2007 will be transferred to the Investor Education and Protection Fund during May 2014. Shareholders who have not encashed their dividend warrants are requested to claim the warrants at an early date.

By Order of the Board

S A Subramanian
Company Secretary

Coimbatore
28th June 2007

SAKTHI FINANCE LIMITED

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

Item No. 6

As per Article 102, for affixing the Common Seal of the Company to any document, attestation by two Directors is required. Owing to administrative convenience and for speedy execution of documents, it would be better to have attestation by one of the Directors with countersignature by the Company Secretary or any other officer or person duly authorized in this behalf. It is therefore, proposed to amend the article by inserting a new article in place of old one.

The proposal is in the interest of the company and your directors recommend the resolution in Item No.6 of the Notice for the approval of members.

None of the Directors is interested in the resolution.

A copy of the Memorandum and Articles of Association of the Company together with the proposed alteration is available for inspection by the members of the company at the Registered Office between 11 a.m and 1 p.m on any working day.

Item No.7

At the Annual General Meeting held on 8th September 2001, the members had approved issue of Secured Redeemable Non-convertible Debentures on private placement basis up to Rs.200 crores. Out of this, the Company has already issued Secured Redeemable Non-convertible Debentures for Rs.123 crores. It is proposed to further issue Secured Redeemable Non-Convertible Debentures on private placement basis. In terms of clause 23(a) of the Listing Agreement, all future issues of Securities should be offered to existing shareholders on *pro rata* basis, unless a resolution is passed otherwise in the General Meeting. The Special Resolution is placed before the shareholders for their approval as per Item No.7.

None of the Directors is interested in the resolution.

Item No.8

In order to secure the Non-convertible debentures, the Company has to pledge/mortgage its moveable / immoveable properties of the Company in favour of trustees for the debentureholders. This requires the approval of the shareholders under Section 293(1) (a) of the Companies Act, 1956. The resolution is placed before the shareholders for their approval as per Item No.8.

None of the Directors is interested in the resolution.

Coimbatore
28th June 2007

By Order of the Board
S A Subramanian
Company Secretary

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Item Nos. 3 and 4

INFORMATION ON DIRECTORS SEEKING REAPPOINTMENT AT THE 50TH ANNUAL GENERAL MEETING PURSUANT TO CLAUSE 49 OF THE LISTING AGREEMENT

Name	A Shanmugasundaram	Dr A Selvakumar
Date of birth and age	16.09.1936, 71 years	30.4.1955, 52 years
Date of appointment on the board	19.9.1979	30.3.2001
Qualifications	Intermediate	M.E, PhD
Expertise in specific functional areas	He has got vast experience in many industries such as Automobiles, Tyre retreading, Consumer durables, Agriculture etc. He is the Managing Director of Anamallais Retreading Company Private Limited and Managing Partner of M/s N Mahalingam & Co, Coimbatore	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 the Joint Correspondent of Kumaraguru College of Technology, Coimbatore
Directorships held in other public companies	Sri Sakthi Textiles Ltd	SA International Ltd Sri Chamundeswari Sugars Limited Sri Sakthi Textiles Ltd
Memberships / Chairmanships of committee across public companies	Audit Committee – Member: Sakthi Finance Limited	Audit Committee- Chairman Sri Chamundeswari Sugars Limited Audit, Remuneration and Shareholders' and Investors' Grievance Committee- Member: Sakthi Finance Limited
No. of Equity Shares held	5,250	Nil

SAKTHI FINANCE LIMITED

DIRECTORS' REPORT

To the Members

Your directors have pleasure in presenting their Fiftieth Annual Report together with the audited accounts of the company for the financial year ended 31st March 2007.

FINANCIAL PERFORMANCE

(Rs lakhs)

Particulars	2006-07	2005-06
Profit before tax	495.93	328.53
Less: Provision for:		
Taxation - Current	32.08	0.30
Taxation - FBT	8.37	9.40
Deferred tax	140.82	77.85
Provision / (Withdrawn) for Income Tax - earlier years	1.70	(144.98)
Profit after tax	316.35	96.00
Add: Balance brought forward from last year	365.16	332.93
Less: Special Interim Dividend	100.36	-
Dividend Tax on Special Interim Dividend	14.07	-
Transfer to Statutory Reserve	63.27	63.77
Surplus carried to balance sheet	503.81	365.16

BUSINESS

During the financial year, the company's disbursement recorded the highest amount so far. The company disbursed **Rs.150.34 crores** in hire purchase business as against Rs.89.61 crores during the previous financial year. The collection efficiency continues to be good. Your directors are optimistic of increased business volumes and profitability in the coming year.

DIVIDEND

The Board of directors at their meeting held on 19th February 2007 declared a Special Interim Dividend of 5% (Rs 0.50 per share) on the equity share capital of the Company. The Board of Directors have decided that there will be no final dividend.

RIGHTS ISSUE

The company has initiated necessary actions for the issue of 1,00,35,660 equity shares of Rs 10 each at par aggregating to Rs 1003.57 lakhs on rights basis to the existing equity shareholders in the ratio of 1:2. The documents required in this connection have been filed with SEBI and they are under process. Once their approval is received, other follow-up action would be taken up in this regard.

DEPOSITS

The total deposits with the company as at 31st March 2007 stood at **Rs 8186 lakhs** as against Rs.8171 lakhs for the corresponding period last year.

As at the end of the financial year, 1490 public deposits amounting to Rs.333.31 lakhs were due for repayment but remained to be claimed or renewed. The Company reminded the depositors regularly about the maturity and out of the said deposits, 537 deposits amounting to Rs. 161.03 lakhs have since been claimed and repaid / renewed as per their instructions.

DIRECTORS

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

1. Sri A Shanmugasundaram
2. Dr A Selvakumar

The profiles of these directors, as required under Clause 49(IV)(G) of the Listing Agreement entered into with stock exchanges are given in the Annexure to the Notice of the 50th Annual General Meeting.

ANNUAL REPORT 2007**AUDIT COMMITTEE**

The Audit Committee is functioning 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 financial statements for the year ended 31st March 2007 of Sakthi Properties (Coimbatore) Limited, a wholly owned subsidiary, along with the Schedules and the reports of the Directors and Auditors and also the statement under the said section are attached.

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.

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 requirements 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 the financial year;
- c. the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the 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.

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. The company has obtained a confirmation from the auditors that their reappointment, if made, at the forthcoming annual general meeting would be within the limit specified under Section 224 (1B) of the Companies Act 1956.

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 debenture-holders 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

Coimbatore
28th June 2007

N MAHALINGAM
Chairman

SAKTHI FINANCE LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

INDUSTRY STRUCTURE AND DEVELOPMENT

The Indian economy has performed well by registering 9.4% growth in 2006-07. The sterling performances by services and manufacturing sectors helped Indian economy register a very impressive growth in fiscal 2007, the fastest in 18 years. The economic boom coupled with the resilient micro economic policies and greater reliance on market forces during the fiscal fuelled the rapid growth of financial services industry. The economic development of the Country and the consequent surge in demand for transport services has helped non-banking finance Companies to be beneficiaries. While banks have adopted a metro-focussed model in building their retail portfolios, NBFCs follow a multi pronged strategy aimed at widening reach in non-metro locations. Their focus on financing Commercial Vehicles and two wheelers in such regions and their strong relationship with customers and manufacturers have helped them garner strong business volumes. Sakthi Finance Limited is one such player in this segment with long standing bonds with non-metro customers and strong ties with equipment / asset manufacturers.

OPPORTUNITIES

Currently around 70% of the country's total freight movement is conducted through roads and this is expected to increase further in the next few years. Recognizing the needs of the country the Government of India has embarked on massive scale to modernize the existing highways and build additional ones to improve the Country's road infrastructure.

Consequently, this would lead to higher demand for new generation trucks and therefore, truck financing. With new norms on vehicle age and loading limits coming into place the replacement demand and need for additional transport capacity would help to grow our business. Having established a strong presence in a niche market SFL is well positioned to expand its market share in a buoyant and growing market in an impressive way.

THREATS

Pre-owned vehicle financing where banks have so far been inactive offers huge potential and of late this segment has drawn considerable interest from new private sector banks and NBFCs floated by banks and MNCs also. This scenario would result in increased competition in this sector. Further rising interest rate is matter of concern.

BUSINESS OUTLOOK

A number of studies carried out by reputed institutions and individuals across the globe have asserted that our country is indeed on course to become a global economic powerhouse in the next few years. A growing economy like ours is opening up immense opportunities for growth for all entities in the economic value chain.

The opportunity for pre owned truck financing is estimated at Rs.40,000 crores over the next ten years and the evolving macro economic environment, financial market reforms etc. should provide a very healthy opportunity for the Company to record a better performance in the future. With a deep understanding of the commercial vehicle finance market and strong customer relationships, our Company would be able to sustain the path to grow at a healthy level.

PERFORMANCE AND FINANCIAL REVIEW

For the year under review, the company disbursed Rs 150.34 crores in hire purchase finance business as against Rs 89.61 crores in the previous financial year. As on 31st March 2007, the total deposits with the company was at Rs.81.86 crores.

The gross income for the year was Rs 3173.92 lakhs and the net profit after tax for the year was at Rs 316.36 lakhs. The company has provided Rs 75.72 lakhs as depreciation. The company paid a Special Interim Dividend of 5% on the equity share capital of the company aggregating to Rs.114.43 lakhs during March 2007.

ANNUAL REPORT 2007**RISKS AND CONCERNS**

The Company is exposed to normal industry risks such as credit risk, market risk and operational risk. The Company has developed a comprehensive derisking strategy, which not only helps to identify risks but also provides measures to control them against potential threats. The risk management policies are periodically reviewed by the Audit Committee so as to modify them to suit Company's needs and business exigencies.

Needless to say that the Company aims at the delivery of superior shareholder value by achieving an appropriate trade off between risk and return.

INTERNAL CONTROL SYSTEM AND ITS ADEQUACY

The Company has in place well documented and structured internal control system commensurate with its size and business which has been implemented towards achieving efficiency in operations, optimum utilization of resources and effective monitoring thereof. The system ensures an adherence to all internal control policies and procedures as well as compliance with all regulatory guidelines. The Audit Committee of the Board of Directors reviews the adequacy of these internal controls periodically.

HUMAN RESOURCES DEVELOPMENT

During the year, the Company maintained harmonious and cordial relations. As on 31st March 2007, there were 241 employees. The Company's human resources philosophy is to establish and build a strong performance and competency driven culture with higher sense of accountability and responsibility among its employees. The Company has taken necessary steps to strengthen organizational competency through training programmes at various levels and installing effective system.

Coimbatore
28th June 2007

On behalf of the Board of Directors

N MAHALINGAM
Chairman