

55th ANNUAL REPORT 2012

⁴ SAKTHI FINANCE

AN EDIFICE BUILT ON TRUST

BOARD OF DIRECTORS

Dr. M. Manickam *Chairman* Sri. M. Balasubramaniam *Vice Chairman and Managing Director* Sri. S.A. Murali Prasad *(Upto 28.9.2011)* Sri. A. Shanmugasundaram Sri. M. Srinivaasan Sri. P.S. Gopalakrishnan Dr. A. Selvakumar Sri. S. Ragothaman

SENIOR MANAGEMENT

- Sri. M.K. Vijayaraghavan Sr. President (Finance)
- Dr. S. Veluswamy Sr. President (Operations)
- Sri. K. Guruprasad Vice President
- Sri. K. Natesan Vice President
- Sri. G. Muniasamy Sr.General Manager
- Sri. N. Raveendran Sr.General Manager
- Sri. N. Radhakrishnan General Manager
- Dr. G. Sundar General Manager
- Smt. R. Geetha General Manager

COMPANY SECRETARY

Sri. S. Venkatesh

REGISTERED OFFICE SAKTHI FINANCE LIMITED

62, Dr. Nanjappa Road Coimbatore - 641 018 Phone : (0422) 2231471 - 74, 4236200 Fax : (0422) 2231915 E-mail : sakthif_info@sakthifinance.com

BANKERS

State Bank of India Bank of India Indian Overseas Bank Central Bank of India State Bank of Travancore The Lakshmi Vilas Bank Ltd The Karnataka Bank Ltd Canara Bank

FINANCIAL INSTITUTIONS

Small Industries Development Bank of India The Tamilnadu Industrial Investment Corporation Limited

AUDITORS

M/s. P.N. Raghavendra Rao & Co Chartered Accountants No. 23/2, Viswa Paradise Apartments Second Floor, Kalidas Road Ramnagar, Coimbatore - 641 009

INTERNAL AUDITOR

Sri B. Muralidharan FCA Chartered Accountant 226, T.V. Samy Road (East) R.S. Puram, Coimbatore - 641 002

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NOTICE TO MEMBERS

NOTICE is hereby given that the Fifty Fifth Annual General Meeting of the members of the Company will be held on Thursday, 27th September 2012 at 4.00 p.m at Smt. Velumaniammal Memorial Hall, Sri Ramakrishna Kalyanamandapam, Avarampalayam Road, Coimbatore - 641 044 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 2012 and the Statement of Profit and Loss for the year ended on that date together with the reports of the Board of Directors and Auditors.
- 2. To declare dividends on Preference and Equity Shares.
- 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 Sri M Srinivaasan who retires by rotation and is eligible for reappointment.
- 5. To appoint Auditors and to fix their remuneration. 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 LESS 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 Item Nos.3 and 4 is annexed.
- 3. All documents referred to in the Notice are open for inspection at the Registered Office of the Company on all working days between 11.00 a.m and 1.00 p.m up to the date of the Annual General Meeting.
- 4. The Register of Members and Share Transfer Books of the company will remain closed from Thursday, 20th September 2012 to Thursday, 27th September 2012, both days inclusive.
- 5. The dividend, if declared at the Annual General Meeting, will be paid on or after 2nd October 2012 to those persons or to their mandatees:
 - a. whose names appear as Beneficial Owners as at the close of the business hours on Wednesday, 19th September 2012 in the list of Beneficial Owners to be furnished by National Securities Depository Limited and Central Depository Services (India) Limited in respect of the shares held in electronic form; and
 - b. whose names appear as Members in the Registrar of Members of the Company after giving effect to valid share transfers in physical form lodged with the Company / its Registrar and Transfer Agents on or before Thursday, 20th September 2012.
- 6. 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. Members who have not encashed their dividend warrant(s) for the said years are requested to forward their claims to Registrar of Companies, Stock Exchange Building, Second Floor, 683 686, Trichy Road, Singanallur, Coimbatore 641 005 in Form No.II prescribed under The Companies Unpaid Dividend (Transfer to General Revenue Account of the Central Government) Rules 1978.
 - 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 to 1997 which remained unclaimed for a period of seven years to the Investor Education and Protection Fund.

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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. Any amount remaining unclaimed in respect of the Special Interim Dividend of 5% paid during March 2007 on equity shares for the year ended 31st March 2007 and the Dividend of 10% for the year ended 31st March 2011 paid during October 2011 will be transferred to the Investor Education and Protection Fund during March 2014 and October 2018 respectively. Members who have not encashed their dividend warrants are requested to claim the warrants at an early date.
- 7. Shareholders are requested to provide Bank Account details such as Account No., IFSC Code and name of bank and branch to facilitate electronic transfer of dividend amount. The details may please be provided well in time in the form given on Page No.51 of the Annual Report sent to members of the company.
- 8. Members holding shares in electronic form are informed that Bank particulars registered against their respective depository account will be used by the company for payment of dividend. The Company or its Registrars can not act on any request received directly from the Members holding shares in electronic form for any change of bank particulars or bank mandates. Such changes are to be advised only to the depository participant of the members.
- 9. Members holding shares:
 - a. in physical form are requested to:
 - i) intimate to the Company's Registrar and Transfer Agents, SKDC Consultants Limited, "Kanapathy Towers", Third Floor, 1391/A-1, Sathy Road, Ganapathy, Coimbatore - 641 006, changes, if any, in their registered address at an early date.
 - ii) consolidate their holdings into a single folio in case they hold shares under multiple folios in the identical order of name.
 - b. in electronic form are requested to intimate to the respective Depository Participant, changes, if any, in their registered addresses at an early date.

10. Members are requested to quote their folio number / Client ID / DP ID in all their correspondences.

Registered Office 62, Dr. Nanjappa Road Coimbatore - 641 018

By Order of the Board S Venkatesh Company Secretary

6th August 2012

Important Communication to Members

The Ministry of Corporate Affairs has taken a "Green Initiative in the Corporate Governance" by allowing paperless compliances by the companies and has issued circulars stating that service of notice / documents including Annual Report can be sent by e-mail to its members.

To support this green initiative of the Government:

- a. members holding shares in electronic form are requested to register their e-mail addresses in respect of their holdings through their Depository Participants concerned.
- b. members who hold shares in physical form are requested to fill in and forward the E-mail Address Registration Form given in Page No.53 of this Annual Report to SKDC Consultants Limited, Registrar and Transfer Agents, "Kanapathy Towers", Third Floor, 1391/A-1, Sathy Road, Ganapathy, Coimbatore - 641 006.

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ANNEXURE

DETAILS OF DIRECTORS SEEKING REAPPOINTMENT AT THE 55TH ANNUAL GENERAL MEETING AS REQUIRED UNDER CLAUSE 49(IV)(G) OF THE LISTING AGREEMENT

Item No.3 and 4

Name of the Director	A Shanmugasundaram	M Srinivaasan
Director Identification Number (DIN)	00001434	00102387
Date of birth and age	16th September 1936, 75 years	2nd September 1966, 45 years
Date of appointment on the Board	19th September 1979	18th April 1994
Qualifications	Intermediate	B.E., M.B.A.
Expertise in specific functional areas	He has got vast and rich 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 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 Limited and Joint Managing Director (Technical) of Sakthi Sugars Limited.
Directorships held in other public companies	Sri Sakthi Textiles Limited	ABT Limited ABT Foods Limited ABT Foods Retailing (India) Limited ABT Industries Limited Indian Sugars Exim Corporation Limited Sakthi Auto Component Limited Sakthi Management Services (Coimbatore) Limited Sakthi Properties (Coimbatore) Limited Sakthi Realty and Infrastructure Limited Sakthi Sugars Limited Sri Chamundeswari Sugars Limited The Gounder and Company Auto Limited
Memberships / Chairmanships of committee across public companies	Audit Committee - Member: Sakthi Finance Limited	Audit Committee- Member: Sakthi Finance Limited Shareholders' and Investors' Grievance Committee - Member: Sri Chamundeswari Sugars Limited
No. of equity shares held	7,875	2,51,355
Relationship with other directors	None	Brother of Dr M Manickam and Sri M Balasubramaniam

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DIRECTORS' REPORT

To the Members

Your Directors are pleased to present their Fifty Fifth Annual Report together with the audited accounts of the company for the financial year ended 31st March 2012.

FINANCIAL PERFORMANCE

FINANCIAL PERFORMANCE		(< lakns)
Particulars	2011-12	2010-11
Profit before tax	1717.05	1093.20
Less: Provision for:		
- Current Tax	451.26	255.43
- MAT credit entitlement	-	(131.86)
- Deferred tax	105.38	160.64
Net Provision for Income Tax (earlier years)	(1.29)	15.40
Profit after tax	1161.70	793.59
Add : Surplus brought forward from previous year	363.92	1578.96
Amount available for appropriation	1525.62	2372.55
Appropriations		
Transfer to Statutory Reserve	232.34	158.72
Transfer to General Reserve	-	1500.00
Proposed Dividend on Preference Shares (pro rata)	0.19	-
Tax on Proposed Preference Dividend	0.03	-
Proposed Dividend on Equity Shares	500.00	301.07
Tax on Proposed Equity Dividend	81.11	48.84
Surplus carried to balance sheet	711.95	363.92
	1525.62	2372.55

BUSINESS

During the year under review, the company's disbursement touched in excess of ₹400 crores. The company disbursed ₹ **42133** lakhs in hire purchase business as against ₹35127 lakhs during the previous financial year. The collection efficiency continues to be at its best. Your directors expect even higher business volumes and profitability in the years to come.

RESERVES AND SURPLUS

As required under Section 45IC of the Reserve Bank of India Act 1934, the Company has transferred 20% of the net profit after tax to Statutory Reserve.

DIVIDEND

Your Directors are pleased to recommend a dividend of ₹1 per equity share (10% on the face value of equity share of ₹10/- each) for the year ended 31st March 2012 and a *pro rata* dividend of ₹0.027 per 10% Redeemable Cumulative Preference Shares from the date of allotment. 1,98,93,019 equity shares of ₹10 each allotted on 31st March 2012 on preferential basis are eligible for full dividend for the year ended 31st March 2012. Further, the dividends, if approved by the members, would involve a cash outflow of ₹581.33 lakhs including dividend tax.

PREFERENTIAL ISSUE

During the year, your Company made a preferential issue of 1,98,93,019 equity shares of ₹10 each at ₹11.10 per share aggregating to ₹2208.13 lakhs to promoter group companies and a non-promoter company in terms of the approval of members obtained at their meeting held on 19th March 2012 and the in-principle approval of Stock Exchanges. The Allotment Committee of Directors at their meeting held on 31st March 2012 have allotted the shares to the respective allottees. Consequently, the equity share capital of the company stands increased to ₹50 crores from ₹30.11 crores.

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The Allotment Committee of Directors at their Meeting held on 31st March 2012 have allotted 6,90,300 10% Redeemable Cumulative Preference Shares of ₹100 each on private placement basis.

The Company has received listing approval from Bombay Stock Exchange Limited and Madras Stock Exchange Limited for listing of 1,98,93,019 equity shares allotted on preferential basis. Steps are being taken to comply with the formalities for listing.

As required under Clause 43 of the Listing Agreement regarding the utilization of issue proceeds of preferential equity issue, the company makes the following statement:

"Against the receipt of preferential equity issue proceeds of ₹2208.13 lakhs from the allottees, the company has utilized the entire issue proceeds for the purpose of increasing the Net worth, Capital Adequacy Ratio of the company as stated in the Notice of the Extraordinary General Meeting".

DEPOSITS

The total deposits with the company as at 31st March 2012 stood at **₹ 2773 lakhs** as against ₹ 4,829 lakhs for the corresponding previous year.

As at the end of the financial year, 655 public deposits amounting to ₹208.57 lakhs were due for repayment but remained to be claimed or renewed. The Company has been reminding the depositors regularly about the maturity and out of the said deposits, 562 deposits amounting to ₹180.24 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. Sri M Srinivaasan

The profiles of Directors, as required under Clause 49(IV)(G) of the Listing Agreement are given in the Annexure to the Notice of the 55th Annual General Meeting.

AUDIT COMMITTEE

The Audit Committee has been functioning with the following three non-executive directors of which two are Independent Directors.

- 1. Dr A Selvakumar, Chairman
- 2. Sri A Shanmugasundaram, Member
- 3. Sri M Srinivaasan, Member

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

As required under Clause 49 of the Listing Agreement, a report on Management Discussion and Analysis Report forms part of this report.

CORPORATE GOVERNANCE REPORT

As required under 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 forms part of the Annual Report.

PARTICULARS REQUIRED UNDER SECTION 217 OF THE COMPANIES ACT 1956

As required under Section 217(1)(e) of the Companies Act 1956 read with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules 1988:

a. The Company has no activity involving conservation of energy or technology absorption;

- b. The Company does not have any Foreign Exchange Earnings; and
- c. Foreign Exchange Outgo : ₹44.50 lakhs

The company has no employee drawing remuneration more than the limits prescribed under Section 217(2A) of the Companies Act 1956.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under 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 Company has 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 Company has 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 annual accounts of the Company has been prepared on a going concern basis.

AUDITORS

M/s P N Raghavendra Rao & Co (ICAI Reg.No.003328S) 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 limits specified under Section 224 (1B) of the Companies Act 1956.

Members are requested to appoint M/s P N Raghavendra Rao & Co, as Statutory Auditors of the company and to fix their remuneration for the financial year 2012-13.

ACKNOWLEDGEMENTS

Your Directors wish to place on record the valuable assistance and excellent co-operation extended by the members, banks, financial institutions 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.

For and on behalf of the Board

Coimbatore 29th May 2012 M Manickam Chairman

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MANAGEMENT DISCUSSION AND ANALYSIS REPORT

ECONOMY/INDUSTRY STRUCTURE AND OVERVIEW

The Indian Economy witnessed a slow-down in 2011-12 and the growth in GDP is estimated at only 6.90 per cent as against 8.50 per cent in 2010-11 in spite of the creditable performance of the agricultural and service sectors. The output of food grains in 2011-12 touched a new peak of 250.42 million tons as against 244.78 million tons in the previous season. Though new production records have been established in many directions, the contribution of the agriculture to GDP growth was lesser at 3.38 per cent on a larger base as against 6.80 per cent. However, the growth in GDP is estimated at 6.90 per cent.

The Indian Commercial Vehicle industry is broadly classified as Light, Medium and Heavy Commercial Vehicles and further classified into new and pre-owned vehicles in the above sub-classifications. Our company mainly focuses funding for pre-owned commercial vehicles of all types. The pre-owned commercial vehicle segment is predominantly held by small, medium truck owners and first time users to whose funds requirements our company mainly caters to.

BALANCE OF PAYMENTS POSITION

The quantum of foreign exchange did not increase noticeably as the external parity of the rupee dropped sharply with the Indian currency touching a low of ₹ 53.90 against the US Dollar as compared to ₹ 49.50 at the beginning of the year. The support to the economy by export earnings was significant even with the realization of lower prices in world markets comparatively due to steady decline in the value of the rupee. Thus, the exports in the whole year 2011-12 rose by 20.94% to a record \$ 303.71 billion against \$ 251.14 billion. The target of \$ 300 billion could be surpassed in spite of a cheaper rupee with a total at \$ 303.71 billion. Even with higher export earnings in forex terms the trade gap fell to \$ 184.92 billion against \$ 118.63 billion. This steep rise was due to an abnormal rise in imports by \$ 488.64 billion against \$ 369.77 billion due to dearer oil imports and a substantial rise in imports of bullion.

The balancing of deficit presented serious difficulties notwithstanding higher Net Invisible Receipts; the Current Account deficit for April to December was \$ 53.70 billion against \$ 39.60 billion. The total deficit for the whole year may rise to around \$ 70 billion. Even so, foreign exchange assets were lower at \$ 260.07 billion on 30th March 2012 against \$ 275.01 billion on April 2011. It was necessary therefore to dip into available resources and for the first time in recent years the capital account could not fill the gap fully with the required net inflows.

OPPORTUNITIES

With the launch of product variances, the overall Commercial Vehicle Industry consisting of LCV, MCV and HCV has grown by 18.20 per cent in 2011-12. The Society of Indian Automobile Manufacturers Association (SIAM), an apex body, has forecast the auto industry to grow at 10-12 per cent in 2012-13. The pre-owned Commercial Vehicles segment market size is put at ₹ 520 billion. With such a huge market size, there is a very good scope to increase our market share in that segment and which will, in turn augment the growth opportunities for our company.

THREATS

The ever-increasing rise in maintenance cost poses a great challenge to the purchasers of vehicle. Further, the increasing trend of interest rates is another big challenge. The cumulative effect of these may have an effect on the profitability of NBFCs which fund pre-owned vehicles segment.

The adverse balance of payments position is likely to impact on the inflationary trend through pushing up prices of petroleum, coal imports and edible oil. Consequently the pressure on margins is likely to increase.

BUSINESS OUTLOOK

It is predicted that the immediate outlook for the economy is not reassuring. However, the agricultural sector is likely to perform creditably for the third season in succession. With the monsoon in the forthcoming season being normal, the rise in output of food and cash crops are expected. Hence growth in agricultural sector coupled with growth in services sector will aid the growth of GDP.

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The business outlook of NBFC sector will be promising as Road Transport Sector to which NBFC's like our company caters to will play an increased role in helping agricultural and other sectors.

PERFORMANCE AND FINANCIAL REVIEW

In the year 2011-12, the company's disbursements scaled a new high. The total disbursements for the year is **₹ 42133 lakhs** in hire purchase finance business as against **₹** 35127 lakhs in the corresponding previous financial year. As on 31st March 2012, the total deposits with the company stood at **₹ 2773 lakhs**.

The gross income for the year 2011-12 was ₹11594 lakhs and the net profit after tax for the year was at ₹1162 lakhs. The company has charged a depreciation and amortisation of ₹282 lakhs in the statement of profit and loss.

RISKS AND CONCERNS

Our Company is exposed to normal industry risks such as credit, market, interest and operational risks. These risks are mitigated by adopting prudent business and risk management policies. The risk management policies are periodically reviewed by the Audit Committee and Risk Management Committee so as to tune them to suit our Company's business needs.

INTERNAL CONTROL SYSTEM AND ITS ADEQUACY

Our Company has a sound and adequate system of internal controls to monitor and regulate all the activities. The Company complies with internal control policies and procedures and other regulatory requirements.

HUMAN RESOURCES DEVELOPMENT

During the year, our Company maintained very harmonious and cordial relationship with its employees. As on 31st March 2012, there were 355 employees. Our 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. Our Company has taken necessary steps to strengthen the organizational competency through training programmes at various levels and installing effective system.

In order to secure highest competency of the Marketing Officers (MO) even at the entry level, your company in association with Kumaraguru College of Technology (KCT) has established Sakthi Excellence Academy (SEA) through which fresh graduates are being imparted exclusive training so as to make them ready to fit in at the Marketing Officer's level. These candidates are being given training in all facets of business procurements, including appraisal, legal, regulatory requirements and financial matters. With the induction of such trained candidates, the Company expects to achieve greater heights with quality assets.

Coimbatore 29th May 2012 For and on behalf of the Board **M Manickam** Chairman

Cautionary Statement

Certain statements made in the Management Discussion and Analysis Report describing the Company's objectives, predictions may be "forward-looking statements" within the meaning of applicable laws and regulations. Actual results may vary significantly from forward-looking statements contained in this report due to various risks and uncertainties. These risks and uncertainties include the effect of economic and political conditions in India, change in interest rates, new regulations and Government policies that may impact the Company's business as well as its ability to implement the strategy. The Company does not undertake to update these documents.