

 SAKTHIFINANCE

AN EDIFICE BUILT ON TRUST



ANNUAL REPORT

2017



SAKTHI FINANCE

AN EDIFICE BUILT ON TRUST

BOARD OF DIRECTORS

Dr. M. Manickam *Chairman*
Sri. M. Balasubramaniam
Vice Chairman and Managing Director
Sri. M. Srinivaasan
Sri. A. Shanmugasundaram
Dr. A. Selvakumar
Sri. P.S. Gopalakrishnan
Smt. Priya Bhansali
Sri. K.P. Ramakrishnan

CHIEF FINANCIAL OFFICER

Sri. M.K. Vijayaraghavan

COMPANY SECRETARY

Sri. S. Venkatesh

REGISTERED OFFICE

SAKTHI FINANCE LIMITED

CIN : L65910TZ1955PLC000145
62, Dr. Nanjappa Road
Coimbatore - 641 018
Phone : (0422) 2231471 - 74, 4236200
Fax : (0422) 2231915
E-mail : sakthif_info@sakthifinance.com
Website : www.sakthifinance.com

REGISTRARS AND SHARE TRANSFER AGENTS

SKDC CONSULTANTS LIMITED

"Kanapathy Towers", Third Floor
1391/A-1, Sathy Road, Ganapathy
Coimbatore - 641 006
Phone : (0422) 4958995, 2539835-836
Fax : (0422) 2539837
E-mail : info@skdc-consultants.com

DEBENTURE TRUSTEE

Catalyst Trusteeship Limited
Catalyst House, Plot No. 5
Bhusari Colony (Right), Paud Road
Pune - 411 038
Tel : (020) 25280081
Fax : (020) 25280275
E-mail : dt@ctltrustee.com

BANKERS

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

FINANCIAL INSTITUTION

The Tamilnadu Industrial Investment
Corporation Limited

STATUTORY 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

SECRETARIAL AUDITORS

M/s. S. Krishnamurthy & Co
Company Secretaries
(Branch Office)
W-Block, No. 7-D, Kovaipudur
Coimbatore - 641 042

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BOARD'S REPORT

To the Members

Your Directors are pleased to present their 60th Annual Report together with the audited accounts of the company for the financial year ended 31st March 2017.

FINANCIAL PERFORMANCE

(₹ lakh)

Particulars	2016-17	2015-16
Profit before tax	2111.54	2039.93
Less: Provision for Taxation:		
- Current Tax	599.84	863.07
- Deferred tax	(163.88)	(75.71)
- Net provision for tax (earlier years)	0.02	-
Profit after tax	1675.56	1252.57
Surplus brought forward from previous year	1472.88	2112.13
Transfer from Revaluation Reserve	43.24	46.06
Amount available for appropriation	3191.68	3410.76
Appropriations		
Transfer to Statutory Reserve	335.11	250.51
Dividend on Preference Shares	105.00	104.34
Tax on Preference Dividend	21.38	21.24
Proposed Dividend on Equity Shares	*	500.00
Tax on Equity Dividend	*	101.79
Transfer to Debenture Redemption Reserve	1643.00	960.00
Balance carried over to Balance Sheet	1087.19	1472.88
Total	3191.68	3410.76

* will be recognised as a liability on approval by the members at the Annual General Meeting.

BUSINESS

For the year under review, the company disbursed ₹ 53,791 lakh in hire purchase operations as against ₹ 52,562 lakh during the previous financial year. The collection efficiency has been good. Your directors hope to achieve improved business disbursements and profitability in the years to come.

CHANGE IN NATURE OF BUSINESS, IF ANY

During the year, there was no change in the nature of business of the company.

DIVIDEND

Preference Shares

Your Directors have, at their meeting held on 16th March 2017, declared an interim dividend of ₹ 10 per share on 10% Redeemable Cumulative Preference Shares of ₹ 100 each for the financial year ending 31st March 2017 amounting to ₹ 105.00 lakh. The dividend distribution tax on that is ₹ 21.38 lakh.

Equity Shares

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 2017 amounting to ₹ 500.00 lakh. The dividend distribution tax on that is ₹ 101.79 lakh.

TRANSFER TO RESERVES

No amount is proposed to be transferred to general reserve.

REDEMPTION OF SECURED, REDEEMABLE, NON-CONVERTIBLE DEBENTURES

As per the terms and conditions of the Public Issue Prospectus dated 18th February 2015, your company has redeemed Option I and II of Non-Convertible Debentures aggregating to ₹ 4816.78 lakh. The repayment was made on 31st March 2017 to the respective Debenture holders.

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DEPOSITS

The total deposits with the company as at 31st March 2017 stood at ₹ 14959.06 lakh as against ₹ 16242.60 lakh as at the end of previous year.

As at the end of the financial year, 816 public deposits aggregating to ₹ 506.82 lakh were due for repayment, but remained unclaimed. The Company has been reminding the depositors regularly about the maturity and out of the said deposits, 353 deposits amounting to ₹ 256.79 lakh have since been claimed and repaid/renewed as per their instructions.

TRANSFER TO INVESTOR EDUCATION AND PROTECTION FUND

During the year 2016-17, your Company has transferred unclaimed matured debentures amounting to ₹ 2.14 lakh to Investor Education and Protection Fund.

DIRECTORS AND KEY MANAGERIAL PERSONNEL

a. Retiring by rotation

In accordance with the provisions of Section 152(6), Sri. M Srinivaasan (DIN: 00102387) will retire by rotation at the ensuing Annual General Meeting of the Company and being eligible, offers himself for reappointment. The Board recommends his reappointment.

b. Key Managerial Personnel

In terms of Section 203 of the Companies Act 2013, Sri M Balasubramaniam, Vice Chairman and Managing Director, Sri M K Vijayaraghavan, Chief Financial Officer, Dr S Veluswamy, Senior President (Operations) and Sri S Venkatesh, Company Secretary are the Key Managerial Personnel (KMPs) of the Company.

AUDIT COMMITTEE

The Audit Committee has three non-executive directors as members of which two are Independent Directors.

- a. Dr A Selvakumar, Chairman
- b. Sri A Shanmugasundaram, Member
- c. Sri M Srinivaasan, Member

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

As required under Regulation 34(2) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, a report on Management Discussion and Analysis Report forms part of this report.

CORPORATE GOVERNANCE REPORT

As required under Regulation 34(3) and Schedule V to the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 (Listing Regulations), 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 regulations forms part of the Annual Report.

DISCLOSURE AS PER SEXUAL HARASSMENT OF WOMEN AT WORKPLACE (PREVENTION, PROHIBITION AND REDRESSAL) ACT 2013

The Company has put in place a Sexual Harassment Policy in line with the requirements of the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act 2013. An Internal Compliance Committee (ICC) has been set up to redress complaints received regarding sexual harassment. All employees are covered under this Policy. During the year 2016-17, there were no complaints received by the ICC.

DISCLOSURES REQUIRED UNDER THE COMPANIES ACT 2013 AND THE LISTING REGULATIONS

The information required to be disclosed under the Companies Act 2013 and the Listing Regulations is set out in the **Annexure - 1** and forms part of this report.

ADEQUACY OF INTERNAL FINANCIAL CONTROLS WITH REFERENCE TO THE FINANCIAL STATEMENTS

The Company has put in place necessary internal financial controls which are adequate and are operating effectively. The controls are adequate for ensuring the orderly and efficient conduct of the business, completeness of accounting records and timely preparation of reliable financial information,

besides adherence to the Company's policies, safeguarding of assets, prevention and detection of frauds and errors, accuracy, etc.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 134(5) of the Companies Act 2013, your directors confirm, to the best of their knowledge and belief, that:

- a. in the preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures;
- b. they have selected such accounting policies and applied them consistently and made judgments 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. they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act 2013 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- d. they have prepared the annual accounts on a going concern basis;
- e. they have laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and operating effectively; and
- f. they have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The CSR Policy of the Company and the details about the initiatives taken by the Company on CSR during the year as per the Companies (Corporate Social Responsibility Policy) Rules 2014 have been disclosed in **Annexure - 2**. Further, details regarding composition of Corporate Social Responsibility Committee and other particulars are provided in the Corporate Governance Report which forms part of this report.

Your Company has so far spent **₹ 10.21 lakh** as against **₹ 44.68 lakh** required to be spent during the financial year 2016-17.

BOARD EVALUATION

In terms of the requirements of Companies Act 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 (**Listing Regulations**), the Board has carried out an annual performance evaluation of its own performance, individual Directors as well as the evaluation of its Committees.

The evaluation was carried out based on a structured questionnaire which includes performance criteria such as performance of duties and obligations, independence of judgement, level of engagement and participation, contribution in increasing the Board's over-all effectiveness etc. Your directors have expressed their satisfaction on functioning and performance of Individual Directors, Board and its Committees.

AUDITORS

a. Statutory Auditors

M/s. P N Raghavendra Rao & Co, Chartered Accountants, were first appointed as statutory auditors of the Company at the 44th AGM held on 8th September 2001. They have already completed more than ten years as Statutory Auditors of the Company. In terms of their appointment made at the 57th AGM held on 27th September 2014, they hold office as auditors up to the conclusion of the 60th AGM and hence, would retire at the conclusion of the forthcoming 60th AGM. Your Directors place on record their appreciation for the services rendered by M/s P N Raghavendra & Co, as the Statutory Auditors of the Company.

In view of the mandatory rotation requirement, your Directors have recommended appointment of M/s P K Nagarajan & Co., (Firm Regn No: 016676S), Chartered Accountants, as Statutory Auditors

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for a period of five (5) years from the conclusion of 60th AGM till the conclusion of 65th AGM of the Company.

M/s P K Nagarajan & Co., (Firm Regn No: 016676S), Chartered Accountants, have consented to the said appointment and confirmed that their appointment, if made, would be within the limits specified under Section 141(3) of the Act. They have further confirmed that they are not disqualified to be appointed as statutory auditors in terms of the proviso to Section 139(1), Section 141(2) and 141(3) of the Companies Act 2013 and the provisions of the Companies (Audit and Auditors) Rules 2014. They have also confirmed that they hold a valid peer review certificate from the Institute of Chartered Accountants of India (ICAI).

b. Secretarial Auditors

The Board appointed M/s. S Krishnamurthy & Co, Practicing Company Secretaries, Chennai, who has given Secretarial Audit Report for the financial year 2016-17. The Secretarial Audit Report for the financial year 31st March 2017 is enclosed as **Annexure - 3**.

The clarification to the observation made by the Secretarial Auditors on the delayed submission of returns to Reserve Bank of India (RBI) is given hereunder:

The Company had been experiencing some difficulty on account of migration to new software and in the matters of checks and balances with regard to verification of validity of accounting figures generated by it. The delay was only in the first quarter of the financial year on account of the aforesaid reasons. For subsequent quarters, the company has been submitting the returns within the prescribed time.

SIGNIFICANT AND MATERIAL ORDERS PASSED BY THE REGULATORS OR COURT

There are no significant and material orders passed by the regulators or courts or tribunals affecting the going concern status of your company and its operations in future.

MATERIAL CHANGES AND COMMITMENTS

There are no material changes and commitments which occurred between the end of the financial year of the company and the date of this report affecting the Company's financial position.

PARTICULARS REQUIRED UNDER SECTION 134 OF THE COMPANIES ACT 2013

Particulars as required under Section 134(3)(m) of the Companies Act 2013 read with Companies (Accounts) Rules 2014 are given below:

- 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 : ₹ 72.73 lakh

The disclosures in terms of Section 197(12) of the Companies Act 2013 read with rule 5(1), (2) and (3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules 2014 relating to remuneration are provided in **Annexure 1**.

ACKNOWLEDGEMENT

Your Directors wish to place on record the valuable assistance and excellent co-operation extended by the members, banks, financial institutions, rating agencies, Reserve Bank of India and other regulatory 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.

Your Directors pray Goddess SAKTHI to continue to shower Her blessings and to guide us in all our endeavors.

For and on behalf of the Board

10th August 2017
Coimbatore

M Manickam
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

INDIAN ECONOMY

The year 2016-17 has witnessed many economic developments, namely, passage of Goods and Services Tax (GST) Act, Demonetization of specified bank notes, Overhauling of bankruptcy laws etc. The macro-economic indicators are very robust and provide for a comfortable inflation numbers. The Central Government is confident of achieving a fiscal deficit target of 3.2% of Gross Domestic Product (GDP). The Current Account situation is in comfortable position and foreign exchange reserves are high. Towards investment destination, India is among the fastest growing large economies.

As per the Second Advanced Estimates released by the Central Statistical Office (CSO), the India's economic growth has been projected to be lower at 7.1% for 2017 from 7.9% in the year 2016. Despite these projected temporary slow-down in the growth, the other macro-economic fundamentals are very strong. Further, growth is expected to increase on the back of the strong agricultural sector performance. As per the Central Statistical Office (CSO), the Index for Industrial Production (IIP) for April-May 2017 period decelerated to 2.3% from 7.3% as against the same period in last year. The retail inflation hit a low of 1.54% in June 2017 on account of dip in food items like vegetables, pulses and milk products.

OPPORTUNITIES

During the year 2016-17, the Commercial Vehicle (CV) industry started on a strong note. However, after witnessing a growth of 13% during the first quarter, the growth started to decline with the contraction in demand for Medium and Heavy Commercial Vehicles (M&HCV). As per the Society of Indian Automobile Manufacturers (SIAM), the Commercial Vehicles sales registered a growth of 4.16% during 2016-17 as compared to last year. M&HCVs grew by 0.04% and Light Commercial Vehicles (LCV) touched a growth of 7.41% during 2016-17 as compared to the same period last year.

With the expected pick-up in economy, pursuant to implementation of GST (a uniform single tax incidence across the country), the growth prospects for M&HCV, LCV segments look positive. Further, your company is principally engaged in financing of pre-owned commercial vehicles of these segments only. With growth prospects on account of several factors including increase in consumer spending, higher government capital spending, the CV industry will be positively impacted and this, in turn, will increase the growth prospects of companies, like yours, which has a direct engagement in funding the commercial vehicle industry.

THREATS

Monsoon remaining a concern, in spite of optimistic forecast of IMD. The government's policy on phasing out of older vehicles, ever-increasing maintenance cost and inflation continue to impact the commercial vehicle industry to which your company is directly linked.

BALANCE OF PAYMENTS POSITION

The Current Account Deficit (CAD) soared to \$ 3.4 billion or 0.6% of Gross Domestic Product (GDP) in the fourth quarter of 2017 from \$ 0.3 billion a year ago. Consumer Price Index (CPI) based inflation eased to 1.54% in June 2017 from 2.18% in May 2017 as many food items, such as pulses and vegetables became cheaper. Food Price inflation also contracted to 2.12% in June 2017. The Whole-sale Price Index (WPI) slowed down to 0.9% in June 2017 from 2.17% in May 2017.

BUSINESS OUTLOOK

International Monetary Fund (IMF) has projected India's GDP growth rate at 7.2% for the year 2017-18. With the expected good monsoon, the agricultural output will aid higher economic growth. Further, with the introduction of Goods and Services Tax (GST) Act, rationalization of check posts etc, optimum utilization of vehicles is bound to substantially benefit the Commercial Vehicle industry. All these measures will drive the improved performance of road transport sector, which in turn, will help increase the growth prospects of NBFC's sector.

PERFORMANCE AND FINANCIAL REVIEW

For the financial year 2016-17, the company disbursed ₹ **53,791 lakh** in Hire Purchase financing operations as against ₹ 52,562 lakh in the corresponding previous financial year. The total deposits with the company, as on 31st March 2017, stood at ₹ **14,959 lakh**.

The gross income for the financial year 2016-17 stood at ₹ **17,055 lakh** and the net profit after tax for the year was at ₹ **1,676 lakh**. The company accounted towards depreciation and amortisation an amount of ₹ **322 lakh** in the statement of profit and loss.

RISKS AND CONCERNS

Our Company, like any other NBFC, is also exposed to normal industry risks such as credit, market, interest and operational risks. These risks are effectively mitigated by taking pro-active, prudent business and risk management policies. The risk management policies are periodically reviewed by the Risk Management Committee and Audit Committee so that they are in line with your Company's strategic needs.

INTERNAL CONTROL SYSTEM AND ITS ADEQUACY

Sound and adequate system of internal controls to monitor and regulate all the activities have been put in place by the Company. Further, compliance with internal control policies and procedures and other regulatory requirements are adhered to by the Company.

HUMAN RESOURCES DEVELOPMENT

During 2016-17, the Company maintained a very harmonious and cordial relationship with its employees. As on 31st March 2017, there were 456 employees on the rolls of the company. To establish and build a strong performance and competency-driven culture with higher sense of accountability and responsibility among its employees is the aim of the human resources policy of the Company. Necessary steps to strengthen the organizational competency through training programmes at various levels and installing effective system are taken by the Company on regular basis.

For and on behalf of the Board

10th August 2017
Coimbatore

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.

DISCLOSURES REQUIRED UNDER THE COMPANIES ACT 2013 AND THE LISTING REGULATIONS**1. EXTRACT OF ANNUAL RETURN**

The extract of Annual Return as provided under sub-section (3) of Section 92 of the Companies Act 2013 (the "Act") is enclosed as **Annexure - 4** in the prescribed Form MGT-9 and forms part of this Report.

2. REMUNERATION POLICY

Company's policy on Directors' appointment and remuneration including criteria for determining qualifications, positive attributes, independence of a director and other matters provided under Section 178(3) of the Act are covered in the Corporate Governance Report which forms part of the Board's Report. The policy on remuneration is given in **Annexure - 5**. Further, information about elements of remuneration package of individual directors is provided in the extract of Annual Return as required under Section 92(3) of the Act and is enclosed as **Annexure - 4** in the prescribed form MGT-9 which forms part of this Report.

3. NUMBER OF MEETINGS OF THE BOARD

Six (6) meetings of the Board of Directors of the Company were held during the year. For details of the meetings, please refer to the Corporate Governance Report, which forms part of this Report.

4. INDEPENDENT DIRECTOR'S DECLARATION

Sri P S Gopalakrishnan, Dr A Selvakumar, Sri A Shanmugasundram, Smt. Priya Bhansali and Sri K P Ramakrishnan who are Independent Directors, have submitted declarations that each of them meet the criteria of independence as provided in sub-section (6) of Section 149 of the Act and Regulation 25 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015. Further, there has been no change in the circumstances which affect their status as independent directors during the year.

5. CODE OF CONDUCT FOR DIRECTORS AND SENIOR MANAGEMENT

The Directors and members of the Senior Management have confirmed compliance with the code of conduct. A declaration to this effect has been signed by Vice Chairman and Managing Director and forms part of the Annual Report.

6. INTER SE RELATIONSHIP BETWEEN DIRECTORS

Except Dr M Manickam, Chairman, Sri M Balasubramaniam, Vice Chairman and Managing Director and Sri M Srinivaasan, Director who are related to each other, none of the other Directors is related to each other within the meaning of the term "relative" as per Section 2(77) of the Companies Act 2013 read with Listing Regulations 2015.

7. PARTICULARS OF LOANS, GUARANTEES OR INVESTMENTS

During the financial year 2016-17, there has been no loans, guarantees or investments which would attract the provisions of Section 186 of the Act.

8. TRANSACTIONS WITH RELATED PARTIES

The Company has entered into contracts or arrangements with the related parties in the ordinary course of business and these are on arm's length basis only. There are no contract or arrangement entered into with Related Party(ies) during the year to be disclosed under Sections 188(1) and 134(h) of the Companies Act 2013.

9. INTERNAL CONTROL

The information about internal controls is set out in the Management Discussion and Analysis Report which is attached and forms part of this Report.

10. RISK MANAGEMENT

The Risk Management is overseen by the Audit Committee of the Company on a continuous basis. The Committee oversees the Company's processes and policies for determining risk tolerance against established levels. Major risks identified by the businesses and functions are systematically addressed through mitigating actions on a continuous basis. For details, please refer to the Management Discussion and Analysis Report which forms part of the Board's Report.

11. FAMILIARIZATION PROGRAMME FOR INDEPENDENT DIRECTORS

The Company has put in place a process of conducting familiarization programme for independent directors. This is given in detail in the Corporate Governance Report which forms part of the Annual Report.

12. VIGIL MECHANISM

The Company has established a vigil mechanism of Directors and employees to report their genuine concerns. For details, please refer to Corporate Governance Report which forms part of this Report.

13. PARTICULARS OF REMUNERATION**a. Details pertaining to remuneration as required under section 197(12) of the Companies Act 2013 read with rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules 2014**

Sl No	Name and Designation of the Director / Key Managerial Personnel (KMP)	Remuneration for FY 2016-17 (₹ lakh)	% increase in remuneration in FY 2016-17	Ratio to median remuneration
1	Mr M Balasubramaniam, Vice Chairman and Managing Director	96.92	57.51	33.31
2	Mr M K Vijayaraghavan, Chief Financial Officer	26.53	40.30	NA
3	Dr S Veluswamy, Senior President (Operations)	17.96	(5.37)	NA
4	Mr S Venkatesh, Company Secretary	10.74	(3.94)	NA

Other Information

i	the percentage increase in the median remuneration of employees in the financial year	15.79%
ii	the number of permanent employees on the rolls of the company	456
iii	average percentile increase already made in the salaries of employee other than the managerial personnel in the last financial year and its comparison with the percentile increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the managerial remuneration.	The average increase in salaries of employees other than managerial personnel in 2016-17 was 16.30%. Percentage increase in the managerial remuneration for the year was 5.00%.
iv	affirmation that the remuneration is as per the remuneration policy of the company.	The Company's remuneration policy is driven by the success and performance of the individual employees and the Company. Through its compensation package, the Company endeavours to attract, retain, develop and motivate high performance. The Company follows a compensation mix of fixed pay, benefits and performance based variable pay. Individual performance pay is determined through the annual appraisal process. The Company affirms that remuneration is as per the remuneration policy of the Company / the Act.