

Ψ SAKTHIFINANCE

AN EDIFICE BUILT ON TRUST

*6 decades of financial services
to the transport industry*



ANNUAL 2018 REPORT

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 (*upto 18.9.2017*)
Dr. A. Selvakumar
Sri. P.S. Gopalakrishnan
Smt. Priya Bhansali
Sri. K.P. Ramakrishnan

CHIEF EXECUTIVE OFFICER

Dr. S. Veluswamy

COMPANY SECRETARY

Sri. S. Venkatesh

REGISTERED OFFICE

SAKTHI FINANCE LIMITED

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

REGISTRARS AND SHARE TRANSFER AGENT

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
AU Small Finance Bank Ltd
Bank of India
Indian Overseas Bank
The Karnataka Bank Ltd
Canara Bank

CHIEF FINANCIAL OFFICER

Sri. M.K. Vijayaraghavan

STATUTORY AUDITORS

M/s. P.K. Nagarajan & Co
Chartered Accountants
No. 33, Desabandhu Street
Ramnagar, Coimbatore - 641 009
E-mail : pknagarajanandco@gmail.com

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 61st Annual Report together with the audited financial statements of the company for the year ended 31st March 2018.

1. FINANCIAL PERFORMANCE

(₹ lakh)

| Particulars | 2017-18 | 2016-17 |
|--|-----------------|----------|
| Profit before tax | 1,853.95 | 2,111.54 |
| Less: Provision for Taxation: | | |
| - Current Tax | 839.28 | 599.84 |
| - Deferred tax | (180.23) | (163.88) |
| - Net provision for tax (earlier years) | 2.27 | 0.02 |
| Profit after tax | 1,192.63 | 1,675.56 |
| Surplus brought forward from previous year | 1,087.19 | 1,472.88 |
| Transfer from General Reserve | 1,000.00 | - |
| Transfer from Revaluation Reserve | 43.24 | 43.24 |
| Amount available for appropriation | 3,323.06 | 3,191.68 |
| Appropriations | | |
| Transfer to Statutory Reserve | 238.53 | 335.11 |
| Interim Dividend on Preference Shares* | 110.61 | 105.00 |
| Tax on Preference Dividend* | 22.51 | 21.38 |
| Dividend on Equity Shares Paid (FY 2017) | 500.00 | - |
| Tax on Equity Dividend (FY 2017) | 101.80 | - |
| Transfer to Debenture Redemption Reserve | 1,333.00 | 1,643.00 |
| Balance carried over to Balance Sheet | 1,016.61 | 1,087.19 |
| Total | 3,323.06 | 3,191.68 |

* Interim Dividend for the financial year 2017-18 was paid during April 2018

Equity Dividend recommended for the financial year 2017-18, if approved by the members, will be recognised as a liability during the financial year 2018-19

2. BUSINESS

For the year under review, the company disbursed ₹ 54,964 lakh in hire purchase operations as against ₹ 53,791 lakh during the previous financial year. The collection efficiency continues to be good. Your directors hope to achieve better business disbursements and profitability in the coming years.

3. CHANGE IN NATURE OF BUSINESS, IF ANY

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

4. DIVIDEND

Preference Shares

Your Directors have, at their meeting held on 28th March 2018, declared an interim dividend of ₹ 10 per share on 10% Redeemable Cumulative Preference Shares of ₹ 100 each and a *pro rata* dividend on 9% Redeemable Cumulative Preference Shares of ₹ 100 each for the financial year ended 31st March 2018 amounting to ₹ 110.61 lakh. The dividend distribution tax on the above is ₹ 22.51 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 2018 amounting to ₹ 500.00 lakh. The dividend distribution tax works out to ₹ 102.80 lakh.

5. TRANSFER TO RESERVES

No amount has been proposed to be transferred to general reserve.

6. MANAGEMENT DISCUSSION AND ANALYSIS REPORT

As required under Regulation 34(2) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 (**Listing Regulations**), a report on Management Discussion and Analysis, which forms part of this report, is set out in **Annexure 1**.

7. 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 Non-Convertible Debentures issued under Option III, IV and V aggregating to **₹ 1,535.32 lakh**. The repayment was made on 31st March 2018 to the respective Debenture holders.

Further, as per the terms and conditions of the Public Issue Prospectus dated 30th March 2016, your company has redeemed Non-Convertible Debentures issued under Option I and II aggregating to **₹ 3,432.09 lakh**. The repayment was made on 18th May 2018 to the respective Debenture holders.

8. ALLOTMENT OF REDEEMABLE CUMULATIVE PREFERENCE SHARES ON PRIVATE PLACEMENT BASIS

During the year, your company has issued and allotted 9% Redeemable Cumulative Preference Shares of ₹ 100 each for an amount of **₹ 835 lakhs**.

9. DEPOSITS

The total deposits with the company as at 31st March 2018 stood at **₹ 16,296.73 lakh** as against ₹ 14,959.06 lakh as at the end of the previous year.

As at the end of the financial year 2018, 403 public deposits aggregating to **₹ 274.30 lakh** were due for repayment, but remained unclaimed. The Company has been regularly reminding the depositors about the maturity and out of the said deposits, **169** deposits amounting to **₹ 153.94 lakh** have since been claimed and repaid / renewed as per their instructions.

10. TRANSFER TO INVESTOR EDUCATION AND PROTECTION FUND

During the year 2017-18, your Company has transferred unclaimed matured debentures and deposits amounting to **₹ 2.91 lakhs** to Investor Education and Protection Fund.

11. DIRECTORS AND KEY MANAGERIAL PERSONNEL

a. Cessation

Your Directors regret to inform that Sri A Shanmugasundaram, Independent Director, passed away on 19th September 2017. The Board places on record its deep appreciation for the valuable guidance provided by him during his long association with the Company.

b. Retiring by rotation

In accordance with the provisions of Section 152(6) of the Companies Act 2013, Dr. M Manickam, Chairman (DIN: 00102233) will retire by rotation at the ensuing Annual General Meeting of the Company and being eligible, offers himself for re-appointment. The Board recommends his re-appointment.

c. Continuation of Directorship

In terms of Regulation 17(1A) of the Listing Regulations as amended on 9th May 2018, Sri P S Gopalakrishnan, Non-Executive Independent Director, who is aged more than 75 years, will be continuing as an Independent Director till the end of his present tenure, i.e., up to 26th September 2019, which has been recommended by Nomination and Remuneration Committee and Board of Directors to members.

d. Key Managerial Personnel

In terms of Section 203 of the Companies Act 2013, Sri M Balasubramaniam, Vice Chairman and Managing Director, Dr S Veluswamy, Chief Executive Officer, Sri M K Vijayaraghavan, Chief

Financial Officer and Sri S Venkatesh, Company Secretary are the Key Managerial Personnel (KMPs) of the Company.

e. Remuneration Policy

Company's policy on Director's 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 set out in **Annexure 2**. 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 3** in the prescribed form MGT-9 which forms part of this Report.

f. Number of Meetings of the Board

Five (5) 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.

g. Independent Directors' Declaration

Sri P S Gopalakrishnan, Dr A Selvakumar, 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 Listing Regulations. Further, there has been no change in the circumstances which affect their status as independent directors during the year.

h. 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.

i. Inter se relationship amongst 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.

j. Board Evaluation

In terms of the requirements of Companies Act 2013 and 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.

12. AUDIT COMMITTEE

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

The composition of the Committee is given below:

- a. Dr A Selvakumar, Chairman
- b. Sri M Srinivaasan, Member
- c. Sri K P Ramakrishnan, Member

13. PARTICULARS OF LOANS, GUARANTEES OR INVESTMENTS

During the financial year 2017-18, there has been no loans, guarantees or investments which would attract the provisions of Section 186 of the Act.

14. 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.

15. INTERNAL CONTROL

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

16. RISK MANAGEMENT

The Risk Management is overseen by the Risk Management Committee of the Company. The Committee oversees the Company's processes and policies for determining risk tolerance against established levels. Major risks identified by the business 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.

17. VIGIL MECHANISM

The Company has established a vigil mechanism of Directors and employees to report their genuine concerns. During the year, no complaint has been received in this regard. For details, please refer to Corporate Governance Report which forms part of this Report.

18. CORPORATE GOVERNANCE REPORT

As required under Regulation 34(3) and Schedule V to the Listing Regulations, a report on Corporate Governance and a certificate from the auditors of the company regarding compliance of the conditions of Corporate Governance form part of the Annual Report.

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

The Company has put in place a Sexual Harassment Prevention 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 2017-18, there were no complaints received in this regard by the ICC.

20. 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.

21. 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 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. 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.

22. 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 - 4**. 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 lakhs as against ₹ 44.68 lakhs required to be spent during the previous financial year 2016-17. The unspent balance amount of ₹ **34.47 lakh** for previous year 2016-17 was also spent during the financial year 2017-18.

23. AUDITORS

a. Statutory Auditors

M/s P K Nagarajan & Co., Chartered Accountants (ICAI Regn. No. : 016676S) were appointed as statutory auditors of the Company at the 60th Annual General Meeting to hold office up to the conclusion of the 65th Annual General Meeting. They have confirmed their eligibility under Section 141 of the Companies Act 2013 and the rules framed under the Act for continuation of their term.

M/s. P K Nagarjan & Co, Chartered Accountants, have audited the accounts of the company for year 2017-18 and submitted their report thereon. There has been no qualification, reservation, adverse remarks or disclaimer given by the Auditors in their report.

b. Secretarial Auditors

The Board appointed M/s. S Krishnamurthy & Co, Practicing Company Secretaries, Chennai as Secretarial Auditors for the year 2017-18 and they have given their Secretarial Audit Report for the financial year 2017-18. The Secretarial Audit Report for the financial year 31st March 2018 is set out in **Annexure - 5**.

M/s. S Krishnamurthy & Co, Secretarial Auditors, have submitted their report for the financial year 2017-18 and there has been no qualification, reservation, adverse remarks or disclaimer given by the Auditors in their report.

24. 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 : ₹ **95.48 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 is enclosed as **Annexure 6**.

25. 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.

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26. 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.

27. EXTRACT OF ANNUAL RETURN

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

28. PECUNIARY RELATIONSHIP OR TRANSACTIONS OF NON-EXECUTIVE DIRECTORS

During the year, the Non-Executive Directors of the Company had no pecuniary relationship or transactions with the Company.

29. SECRETARIAL STANDARDS COMPLIANCE

Your Directors confirm that the Company has complied with the applicable Secretarial Standards issued by the Institute of Company Secretaries of India in relation to Board and General Meetings.

30. 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.

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

For and on behalf of the Board

9th August 2018
Coimbatore

M Manickam
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

INDIAN ECONOMY

Indian Economy, exceeding all expectations, registered a growth rate of 7.7 per cent for January - March 2018 quarter. The two segments that supported growth, particularly in March 2018 quarter, are government consumption demand and overall investment demand. Further, the robust growth was driven by three sectors, namely manufacturing, construction and public administration and defence. The Current Account Deficit as a percentage of Gross Domestic Product (GDP) remained elevated at -1.9 per cent in March 2018 quarter. The government aims to keep the fiscal deficit at 3.3 per cent of GDP for the current fiscal.

The Core sector growth was at 3.6 per cent in May 2018 compared to 4.6 per cent in April 2018 and 3.9 per cent in May 2017. The Retail Inflation rose to five months high of 5 per cent in June 2018. The rise in inflation is mainly due to fuel and miscellaneous items, clothing and footwear.

OPPORTUNITIES

For the year 2017-18, the Commercial Vehicle (CV) industry ended on a positive note. The Commercial Vehicle Segment grew by 19.94 per cent as against the same period last year. Medium and Heavy Commercial Vehicles (M&HCVs) grew by 12.48 per cent and Light Commercial Vehicles (LCVs) grew by 25.42 per cent in April - March 2018 over the same period last year. Further for April - June 2018 quarter, the CV segment registered a growth of 51.55 per cent as compared to the same period last year. M&HCV increased by 83.59 per cent, while LCVs grew by 36.51 per cent.

The commercial vehicle industry continues to be positive with growth in all segments. The Society of Indian Automobile Manufacturers (SIAM) expects the commercial vehicle sales to continue to grow at 10 to 12 per cent in 2018-19. With increased vehicle growth and the government's continuing emphasis on infrastructure and recovery in the mining sector, the growth in M&HCVs and LCVs look good. Your company has been concentrating on pre-owned Commercial Vehicles of the above segments only. With the growth in agriculture and rural demand, higher government spending, the CV industry is set to look for better prospects. This will eventually increase the growth prospects of NBFCs, like ours, which are funding this sector.

THREATS

With the likely hardening of interest rates, government's move to phase out 20 year old vehicles, increased maintenance cost continue to be a threat to CV industry to which our company has a direct linkage.

BALANCE OF PAYMENTS POSITION

The Current Account Deficit (CAD) as a percentage of GDP was -1.9 per cent in the fourth quarter of year 2018. Due to combined effect of high net merchandise trade deficit and lower invisible receipts, merchandise trade deficit is bound to be higher on account of rising oil prices. The retail inflation rise to five month's high of 5 per cent in June 2018, while Wholesale Price Index (WPI) soared to 54 month high of 5.77 per cent in June 2018 on increased prices of vegetables and fuel items.

BUSINESS OUTLOOK

The International Monetary Fund (IMF) has projected a growth rate of 7.3 per cent in 2018 and 7.5 per cent in 2019 for India against 6.7 per cent in 2017, making it the fastest growing country among major economies. The thrust on rural and infrastructure sectors in the Union Budget would encourage rural demand and private investment. With the prediction of normal monsoon for the year 2018 and its positive impact on agricultural output, growing rural and urban demand for vehicles will propel additional demand for vehicles and growing business opportunities for CV industry and this will increase the business prospects of our Company.

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PERFORMANCE AND FINANCIAL REVIEW

During the financial year 2017-18, the company disbursed ₹ 54,964 lakh in Hire Purchase financing operations as against ₹ 53,791 lakh in the corresponding previous financial year. The total deposits held by the company, as on 31st March 2018, stood at ₹ 16,297 lakh.

The gross income for the financial year 2017-18 stood at ₹ 16,856 lakh and the net profit after tax for the year was at ₹ 1,193 lakh. The company accounted towards depreciation and amortisation an amount of ₹ 332 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 our 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 strictly adhered to by the Company.

HUMAN RESOURCES DEVELOPMENT

During 2017-18, the Company maintained a very harmonious and cordial relationship with its employees. As on 31st March 2018, there were 472 employees on the rolls of the company. The aim of human resources policy of the company is to establish and build a strong performance and competency-driven culture with higher sense of accountability and responsibility among its employees. The Company takes necessary steps to strengthen the organizational competency through various training programmes for various levels on a regular basis.

For and on behalf of the Board

9th August 2018
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.