

# Directors' Report

Dear Members,

Your Directors have pleasure in presenting the Twenty-second Annual Report on the business and operations of your Company together with the Audited Statement of Accounts for the year ended 31st March, 2006.

## Financial Results

	(Rs. in lacs)	
	2005-2006	2004-2005
<b>Gross Income</b>	22,679.90	16,382.44
Less : Interest	14,817.97	10,443.63
Overheads	3,214.15	2,450.88
Depreciation	148.35	111.29
<b>Profit before Tax</b>	4,499.43	3,376.64
Add : Exceptional item / Long term capital gain on sale of lease hold land	499.44	---
Less : Provision for taxation	827.63	666.20
<b>Profit after tax</b>	4,171.24	2,710.44
Add : Balance b/f from the previous year	91.90	59.58
Surplus available for appropriations	4,263.14	2,770.02
<b>Appropriations</b>		
Transferred to Special Reserve Under Section 36(i)(viii) of the Income Tax, 1961	1,100.00	1,050.00
Transferred to General Reserves	600.00	450.00
Preference Share Dividend	---	39.70
Interim Dividend Paid	501.13	---
Proposed Equity Dividend	751.70	1,002.26
Tax on proposed Dividend	175.70	136.16
Balance carried to Balance Sheet	1,134.61	91.90
	4,263.14	2,770.02

## Performance

Housing Finance Companies (HFCs) have played a significant role during the year in boosting the growth in Housing Finance Sector. With rising interest rates, banks and financial institutions had slowed down in their aggressive lending for housing sector for two reasons viz. increase in risk weights on commercial loans and asset liability mismatch, caused by sourcing of short term deposits and lending at long term. This situation has put HFCs like DHFL at an advantageous position, in financing to the housing sector. Rising interest rates though have dampened the Company's business moderately, still the demand for housing loans in India is more than the supply. This, combined with focus on Lower Middle Income (LMI) segment and finance to lease household project finance, your Company has performed exceedingly well with substantial growth in business and profitability.

During the year under review, your Company has recorded an all round growth in financial performance in both Profit and Loss Account and Balance Sheet parameters. The operating profit before charging depreciation and tax amounted to Rs. 4647.78 lacs, as against Rs. 3487.93 lacs in the preceding year, representing a rise of 33%.

The Profit Before Tax (PBT) for the year under review, increased by 33% from Rs. 3376.64 lacs in the previous year to Rs. 4499.43 lacs. Profit After Tax (PAT) went up by 54% to Rs.4171.24 lacs from Rs. 2710.44 lacs in the previous year. The EPS improved to Rs.8.32 as against Rs. 7.05 of the previous year.

## Dividend

### Equity Share Capital

Your Company's dividend policy is based on the need in balancing the twin objectives of appropriately rewarding shareholders with dividends and retaining capital to maintain a healthy Capital Adequacy Ratio. Your Directors approved an interim dividend of 10% (Rs. 1 per share) on equity paid up capital of the Company at the Board Meeting held on 21st October, 2005 and for which the Record Date was fixed as 7th November 2005 and the interim dividend was paid accordingly. The Board of Directors have now decided to recommend a further dividend of 15% (Rs. 1.50 per share) as final dividend thus totalling to 25% (Rs. 2.50 per share) for the financial year. (Previous year 20% i.e. Rs. 2 per share). The Dividend Tax to be borne by the Company works out to Rs.175.70 lacs and the total outflow (including interim dividend) would be Rs. 1428.53 lacs.

### Increase in the Authorised Share Capital

At the Extraordinary General Meeting of the members held on 27th March, 2006 the Authorised Share Capital of the Company was increased and re-classified from Rs. 75 crore divided into 7.50 crore equity shares of Rs. 10/- each to Rs. 250 crore divided as under:

- 10 crore equity shares of Rs. 10/- each,
- 75 lakh preference shares of Rs. 25/- each,
- 8.12 crore preference shares of Rs. 10/- each and
- 5 crore unclassified shares of Rs. 10/- each.

### Infusion of Capital

#### Optionally Convertible Preference Shares

During the year, pursuant to the approval of the members at the Extra-Ordinary General Meeting held on 27th of March, 2006, your Company issued and allotted 70,65,456 Optionally Convertible Preference Shares (the Preference Shares) of Rs. 25/- each for cash, at a premium of Rs. 50/- per preference share, on preferential basis to M/s. Caledonia Investments Plc. London, aggregating to Rs. 5299.09 lacs. Each of the said Preference Shares, at the option of the Investor, shall be converted into one equity share of Rs. 10/- at a premium of Rs. 65/- per share after 13 months but before 18 months from the date of allotment of the said Preference Shares.

#### Convertible Equity Warrants

During the year, your Company also issued and allotted 33,35,000 Optionally Convertible Equity Warrants of face value of Rs. 75/- each aggregating to Rs. 2501.25 lacs on a preferential allotment basis to M/s. Wadhawan Holding Private Ltd., the Promoter Group Company, who has paid an upfront amount of Rs. 250.13 lacs being minimum 10% of the value as per the prevalent SEBI guidelines, which shall, at the option of warrant holders, be converted into 33,35,000 equity shares of Rs. 10/- each at a premium of Rs. 65/- per share, after 13 months but before 18 months from the date of allotment of the said warrants.

### Reissue of Forfeited Shares

During the year, your Directors reissued and allotted 9,300 equity shares, which were forfeited earlier on account of non-payment of call money, to the employees of the Company at a price of Rs 46/- per share derived on the basis of the weekly high and low of the closing prices of the Company's equity shares quoted on the stock exchange(s) during the two weeks preceding the date of the meeting of the Board of Directors, wherein the said proposal was approved, i.e. 13th May 2005, or six weeks preceding the said meeting, whichever is higher.

### Subordinated Debts

During the year, your Company issued 8% Unsecured Redeemable Non Convertible Subordinated Debentures (Tier II capital) redeemable at the end of 7 years from the date of allotment aggregating to Rs. 4500 lacs to Institutional Investors. CARE has assigned CARE A+ (A plus) rating for the instrument.

### Resources

During the year, the debt market witnessed a reversal from interest rate trends of earlier years. Inflation, rise in global interest rates and increased demand for credit contributed to change in interest rate scenario. Despite increasing interest rates, the Company did not allow its cost of borrowings to go up substantially by prudent asset liability management policy.

During the year under review, fresh term loans of Rs. 78570.90 lacs were availed from the Consortium of Banks/Financial Institutions, taking the total term loan outstanding to Rs. 157399.26 lacs. All the loans availed from the banks qualify for priority sector lending. These loans were drawn at varying spreads below the prime lending rates of the respective banks.

During the year under review, the National Housing Bank extended refinance to your Company aggregating to Rs. 9084.18 lacs. As on 31st March 2006, the refinance outstanding from the National Housing Bank amounted to Rs. 19360.08 lacs.

During the year under review, medium-term funds to the extent of Rs. 12500.00 lacs were raised through the private placement of non-convertible debentures with institutional investors. Short-term borrowings were made in the form of unsecured NCD/Loans to the extent of Rs. 12800 lacs and Rs. 6500 lacs were rolled over from the banks. Out of the said borrowings, Rs. 9500 lacs are outstanding as on 31st March, 2006.

All the term loans are secured by way of the first charge on all the movable and immovable properties of your Company, both present and future and ranking on pari-passu basis in favour of all the secured lenders and are further secured by personal guarantees of the three promoter directors.

## Listing of Debentures

Pursuant to the SEBI and RBI guidelines for listing of privately placed debentures, your Company got the final listing and trading approval for its debentures from the National Stock Exchange of India.

## Fixed Deposits

Your Company was able to mobilise a total amount of Rs. 3294.08 lacs by way of Fixed Deposits from Public. Outstanding amount of deposits as on 31st March, 2006 was Rs. 7600.66 lacs, including interest accrued thereon.

As on 31st March 2006, 1880 depositors had not claimed the deposits amounting to Rs.543.84 lacs. Depositors have been intimated regarding the maturity of their deposits, with a request to either renew or claim their matured deposits. Since then, 330 depositors have either renewed or claimed their deposits aggregating to Rs. 183.04 lacs.

## Credit Rating

Short-term instruments including Commercial Paper carry the P1+ rating from CRISIL, indicating highest safety for Company's borrowing upto Rs. 20000 lacs.

The Company continued to enjoy a CARE AA+ rating from CARE for Fixed Deposits and Non-Convertible Debentures, indicating 'high safety'.

The company also enjoys a CARE AA+ rating from CARE for its redeemable preference shares to be raised to meet capital adequacy ratio.

## Capital Adequacy

To strengthen future business growth, the share capital of the Company was augmented through preferential issue of Rs. 3299.09 lacs (including premium of Rs.3532.73 lacs). Your Company also issued Convertible Warrants aggregating to Rs. 2501.25 lacs on which, an amount of Rs.250.12 lacs was paid upfront by the allottees. With the increased capital, the capital adequacy ratio of the Company was at a comfortable level of 13.33% as on 31st March, 2006 as against the minimum requirement of 12% stipulated by the National Housing Bank (NHB).

## Non-performing Assets And Provisions For Contingency

Your Company scrupulously adhered to the prudential guidelines for Non-Performing Assets (NPAs), issued by the National Housing Bank (NHB) under its Directions of 2001, as amended from time to time. Your Company has made adequate provision for the assets on which installments are overdue for more than three months and on other assets, which required provisioning.

## Investment

Housing Finance Companies (HFCs) are required to maintain liquid assets of 12.50% of the outstanding public deposits. Your Company continued to maintain its statutory liquidity ratio (SLR) as stipulated by NHB. Accordingly, your Company has made investments of Rs.1303.60 lacs in approved securities and bank deposits as on March 31, 2006 to meet the requirement of SLR.

## Insurance Protection To Borrowers

Your Company has tied up with Cholamandalam MS General Insurance Company Limited for insurance of its housing loan products called 'Sampoorna Suraksha Plan' which covers the borrowers of the company as under:

- (a) **Accidental Insurance:** Personal accident risk cover, free of cost upto an amount of outstanding loan at any particular point of time during the term/ tenure of the term loan.
- (b) **Mortgaged Property Insurance:** The property acquired out of loan, for and upto an extent of the outstanding loan amount, under risk, against fire, earthquake and allied perils affecting the concerned property.
- (c) **Loss of Employment:** Loss of job cover is upto six EMIs of loan or a maximum of Rs 25,000/-, whichever is lower.

Your Company has entered into an agreement with SBI Life Insurance Company to launch a home loan linked insurance plan named Amar Chhaya. Under this scheme, the borrower gets an insurance cover on his life to the extent of the outstanding home loan. This scheme has been introduced to ensure protection from loan default to the families of the borrower.

## Technology

During the financial year 2005-06, your Company further strengthened its IT infrastructure and systems to support its operations. It upgraded its main data centre infrastructure. Connectivity to branches was upgraded through the WAN system. New application software was implemented to provide improved information flow to branches and to further support the collection system.

## Branch Expansion

Keeping in pace with the requirements of housing finance, your Company has already set up three zonal offices to monitor its operations with 50 full fledged branches, 101 service centres and representative offices throughout the length and breadth of the country. During the year under review, your Company opened 3 new branches.

## Human Resources And Training

Developing and maintaining an organization structure and human resources that keeps pace with a changing business environment while ensuring staff continuity is critical to the success of the Company.

The Company took a number of initiatives to strengthen human resources during the year. Focused development program were initiated to build managerial and functional skills across various levels of the Company, with a focus particularly on Branch personnel. Specific interventions are initiated to improve several HR practices in the organization

The work force strength of the Company as on 31st March 2006 was 416. The total work force cost during the year has gone up by 13% from Rs. 821.31 Lacs to Rs.929.03 Lacs. This is mainly due to the increase in work force to meet the requirements on account of significant expansion in terms of geography as well as in business volumes. Few additional positions are added at the Corporate level for meeting business requirements and to give greater focus to functions like Marketing, Credit Appraisal and Operations.

## Directors

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company Shri R. P. Khosla and Shri Ashok Kumar Gupta retire by rotation at the ensuing Annual General Meeting of the Company. They are eligible for re-appointment.

Shri M. S. Sundara Rajan, Nominee of the Union Bank of India, resigned from the Board with effect from 1st April, 2006. The Board wishes to place on record its appreciation for his valuable services and guidance during his tenure as Nominee Director on the Board of your Company.

Information on details of the Directors seeking re-appointment as required under Clause 49 of the Listing Agreement has been given under the Notice to the shareholders. None of the directors of the Company are disqualified for being appointed/ reappointed as directors pursuant to Section 274(1) (g) of the Companies Act, 1956.

## Investor Observer/ Director

Pursuant to the Shareholders Agreement and Subscription Agreement entered into and the subscription to Optionally Convertible Preference Shares (Preference Shares) by M/s Caledonia Investments Plc. (Investor), the Investor has nominated a representative as an Investor Observer to attend the meetings of the Board of Directors.

Upon conversion of the said preference shares into equity and as long as they hold their investment to the extent of atleast 5% of the equity paid up share capital of the Company, the Investor shall have the right to appoint a nominee on the Board of the Company.

## Auditors

The statutory auditors, M/s. B.M. Chaturvedi & Co., Chartered Accountants, Mumbai hold the office until the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment. Your Company has obtained a certificate from the auditors to the effect that their re - appointment, if made, would be within the limits prescribed under Section 224(1B) of the Companies Act, 1956. The Board of Directors recommend for their re-appointment as the Auditors. Accordingly, a resolution is being submitted to the members for the reappointment of M/s. B.M. Chaturvedi & Co. and to fix their remuneration for the current year.

## Auditors Report

The observations made by the Statutory Auditors in their report, read with the relevant notes to accounts, are self-explanatory.

## Particulars of Employees

No employee of your Company was in receipt of remuneration in excess of the limits as laid down under section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended.

## Conservation of Energy, Technology Absorption and Foreign Exchange Earning and Outgo

The particulars regarding foreign exchange earnings and expenditure appear as Item No. B-26 in the Notes to the Accounts.

Since the Company does not own any manufacturing facility, the other particulars relating to conservation of energy and technology absorption stipulated in the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 are not applicable.

## Subsidiary Company

Your Company's subsidiary, DHFL Vysya Housing Finance Ltd. (DVHFL) is a housing finance company registered with NHB and has operations primarily in the States of Karnataka, Andhra Pradesh, Tamil Nadu and Maharashtra.

For the year ended March 31, 2006 DVHFL has reported a profit after tax of Rs. 468.67 lacs as compared to Rs. 443.88 lacs in the previous year. The Board of Directors of the subsidiary company has declared an interim dividend of 12% and has recommended a final dividend of 13%, making the total dividend to 25%.

The audited accounts of DHFL Vysya Housing Finance Ltd. together with the Reports of the Directors and the Auditors thereon are attached to this Annual Report, as required under Section 212 of the Companies Act, 1956.

## Venture Capital Fund

Your Company, as a settlor, has established a Venture Capital Fund named DHFL Venture Capital Fund, which is registered with SEBI. The prime objective of the Fund would be to invest in companies involved in real estate and allied sectors.

The Company has also promoted DHFL Venture Capital India Pvt. Ltd., the Asset Management Company of the Fund and DHFL Ventures Trustee Company Pvt. Ltd., the Trustee Company of the Fund and has subscribed to 45% equity share capital of both these companies. The Company has proposed to invest in the Venture Capital Fund an amount upto Rs. 3500 lacs or 15% of its Net Owned Funds, whichever is lower.

## Consolidation of Accounts

The audited Consolidated Accounts and Cash Flow Statement, comprising of DHFL and its subsidiary Company DHFL Vysya Housing Finance Ltd. are annexed to this Annual Report. The Auditors' Report on the Consolidated Accounts is also attached. The Consolidated Accounts have been prepared in accordance with the Accounting Standards prescribed by the Institute of Chartered Accountants of India in this regard.

## Directors' Responsibility Statement

Your Directors would like to inform that the audited accounts containing the Financial Statements for the year ended 31st March, 2006 are in conformity with the requirements of the Companies Act, 1956 and they believe that the financial statements reflect fairly the form and substance of transactions carried out during the year and reasonably present the Company's financial conditions and results of operations. These Financial Statements are audited by the Statutory Auditors, M/s. B. M. Chaturvedi & Co., Chartered Accountants, Mumbai.

In accordance with the provisions of section 217 (2AA) of the Companies Act, 1956 and based on the information provided by the management, your directors state that:

- i) in the preparation of accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- ii) 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 and loss of the Company for that period;
- iii) they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) they have prepared the annual accounts on a going concern basis.

## Adoption of New Set of Articles

Pursuant to the Subscription Agreement entered into by the Company, Promoters of the Company and M/s. Caledonia Investments Plc. (the Foreign Investor), it was agreed between the parties that certain rights and privileges granted to the Foreign Investor will form part of the Articles of Association of the Company. Accordingly, the Company adopted a new set of Articles of Association, which was approved by the members at the Extra-Ordinary General Meeting held on 27th of March, 2006.

## Corporate Governance

Pursuant to clause 49 of the Listing Agreement with the Stock Exchanges, Report on Corporate Governance, Management Discussions and Analysis and Auditors' Report on compliance with the corporate governance requirements have been included in this Annual Report as separate sections. Your Directors are pleased to report that your Company is fully compliant w.e.f 1st January, 2006 with the SEBI Guidelines for Corporate Governance (Revised Clause 49 of the Listing Agreement).

## Acknowledgements

Your Directors wish to place on record their gratitude to the NHB and the Company's Customers, Bankers, Shareholders, Debentureholders, Depositors and others who have helped the Company in its endeavour. The Board also places on record its deep appreciation for the excellent support received from the employees at all levels during the year. The Directors would also like to thank The Stock Exchange, Mumbai, the National Stock Exchange, NSDL, CDSL and Credit Rating Agencies for their co-operation.

Place : Mumbai.

Dated : 15th May, 2006.

For and on behalf of the Board  
Rakesh Kumar Wadhawan  
Chairman