

Directors' Report

Dear members

The Directors have great pleasure in presenting the Nineteenth Annual Report of your Company together with the audited accounts for the year ended 31st March 2008.

Financial results

The profit and loss account shows a profit before tax of Rs.532.37 cr after writing off bad loans of Rs.11.61 cr and provision of Rs.27.85 cr towards contingencies and considering the amount recovered of Rs.15.17 cr out of earlier write off and taking into account all expenses,

including depreciation. Considering the prior period items of Rs.0.07 cr, the profit before tax is Rs.532.30 cr. After considering the provision for income tax (net of deferred tax) of Rs.145.12 cr, the profit after tax for the year is Rs.387.18 cr.

Taking into account the balance of Rs.11.88 cr being brought forward from the previous year, the distributable profit is Rs.399.06 cr.

(Rs. in crore)

	For the year ended 31st March 2008	For the year ended 31st March 2007
Appropriations:		
Special reserve	100.00	136.00
General reserve	85.00	55.00
Interim dividend	Nil	42.47
Proposed dividend	84.93	25.48
Tax on dividend	14.43	10.28
Market fluctuation reserve	13.32	5.19
Balance carried forward to next year	101.38	11.88
	<u>399.06</u>	<u>286.30</u>

Dividend

Considering the excellent performance during the year 2007-08, your Directors have recommended a dividend of Rs.10 per equity share (100 percent), for the year ended 31st March 2008, as against Rs.8 per equity share (80 percent) for the previous year ended 31st March 2007.

Performance

Income and profit

Profit before tax and after tax stood at Rs.532.30 cr and Rs.387.18 cr as against Rs.353.78 cr and Rs.279.15 cr, respectively, for the previous year. Profit before tax has increased by 50.46 percent and profit after tax by 38.70 percent as compared to previous year.

The Company earned a total income of Rs.2,164.92 cr, registering an increase of 37.41 percent. The percentage of administrative expenses to the housing loans, which was 0.62 percent in the previous year, has decreased to 0.59 percent in 2007-08.

Lending operations

Individual loans

The main thrust continues on individual loans. However, project loans were also given due weightage thereby resulting into a sizeable growth in project loans. During the year, the Company sanctioned 60,665 individual loans for

Rs.6,535.74 cr and disbursed 61,819 loans for Rs.5,902.52 cr during 2007-08. This constitutes 75.84 percent of the total sanctions and 83.47 percent of the total disbursements compared to the last year's figures of 89.21 percent and 95.71 percent respectively.

The cumulative sanctions and disbursements since the incorporation, in respect of individual loans are:

Amount sanctioned: Rs.37,559.18 cr

Amount disbursed: Rs.35,642.85 cr

Project loans

Growth in profit has been attributed to the growing portfolio of project loans. The Company sanctioned/disbursed project loans to select builders/developers. The project loans sanctioned and disbursed by the Company during the year were Rs.2,082.14 cr and Rs.1,168.96 cr, respectively. These loans are generally for short duration and also give better yield as compared to individual loans.

Approximately 9,40,000 customers have been serviced by the Company up to 31st March 2008 since its inception.

Non-Performing Assets and provisions

The amount of gross Non-Performing Assets (NPA) as on 31st March 2008 is Rs.372.92 cr, which is equivalent to 1.70 percent of the housing loan portfolio. The net NPA is

Rs.140.90 cr i.e. 0.64 percent of the housing loan portfolio. The total cumulative provision towards housing loan as on 31st March 2008 is Rs.232.02 cr. During the year, the Company has written off Rs.38.99 cr of housing loan portfolio against which a provision of Rs.27.38 cr existed.

Fund raising

The Company raised funds aggregating to Rs.7,489.70 cr through term loans from commercial banks, Non-Convertible Debenture (NCD) and Public Deposit. The Company's NCD issue was rated 'AAA' and Public Deposit was rated as 'FAAA/STABLE' by CRISIL.

Increase in authorised capital

The Company has increased its capital base from Rs.100 cr to Rs.150 cr to augment resources for its growth as well as to maintain the Capital Adequacy Ratio as prescribed by the National Housing Bank (NHB). However, during 2007-08, the Company has not issued any equity share.

Auditors

Statutory Auditors M/s. P.C. Hansotia & Co., Chartered Accountants, retire at the conclusion of the forthcoming Annual General Meeting (AGM) and are eligible for reappointment. The Company received the requisite certificate from them to the effect that their reappointment, if made, would be within the limits of Section 224 (1B) of the Companies Act, 1956.

The Directors recommend the reappointment of M/s. P.C. Hansotia & Co., Chartered Accountants, as auditors of the Company for the financial year 2008-09.

Directors

During the period, Shri S. K. Mitter, Shri G. M. Ramamurthy and Shri Thomas Mathew T. resigned from the Board of Directors of the Company. The Board places on record its appreciation for the valuable contributions made by them

during their tenure as members of the Board.

Shri Y.B. Desai and Shri Dhananjay Mungale, Directors, retire by rotation at the ensuing AGM and are eligible for reappointment.

Shri D. K. Mehrotra and Shri R. R. Nair have been appointed by the Board of the Company as Managing Director and Director in whole time employment in terms of nomination received from Life Insurance Corporation of India, subject to approval of shareholders at the forthcoming AGM.

The Directors recommend their reappointment / appointment.

Corporate Governance

A certificate from the Statutory Auditors of the Company regarding compliance of the conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement is attached to the Corporate Governance Report.

Your Company has been complying with the principles of good Corporate Governance over the years. The Board of Directors support the broad principles of Corporate Governance. In addition to the basic governance issues, the Board lays strong emphasis on transparency, accountability and integrity.

NHB guidelines

The Company has been following prudential accounting practices in respect of income recognition since 1991-92, not accounting income in respect of housing loans on which interest is past due for more than six months.

As per revised guidelines issued by the NHB, the time limit has been reduced to 90 days for categorising a housing loan as non-performing. The Company has been following the same from the day it has become effective.

Your Company has been complying with the guidelines in respect of income recognition, provisioning for Non-

Performing Assets and maintaining capital adequacy issued by the NHB from time to time. The capital adequacy was 13.34 percent (as against 12 percent prescribed by the NHB) as on 31st March 2008.

Depository system

The Company has signed an agreement with the Central Depository Services (India) Limited (CDSL) for transactions of its shares in dematerialised form, in addition to the National Securities Depository Limited (NSDL), to give a choice to shareholders in selecting depository participant. As on 31st March 2008, 16,275 members of the Company continue to hold shares in physical form. As per the Securities and Exchange Board of India's (SEBI) instructions, the Company's shares have to be transacted in dematerialised form and therefore, members are requested to convert their holdings to dematerialised form.

Public deposits

During 2007-08, the Company started accepting deposits from the public. As on 31st March 2008, the outstanding amount on account of public deposits was Rs.15,70,18,000 and no deposit was unpaid as on end of the financial year. The interest due on the public deposits has been paid on time.

Statutory information

The Company does not own any manufacturing facility. Hence the particulars relating to the 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. The particulars of foreign exchange outgo and foreign earnings during 2007-08 are given at item No.5 and No.6 in the Notes to the Accounts. There are no employees covered by Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended.

Auditors' observations

No adverse remark or observation is given by the statutory auditors.

During the year, the Company has changed the internal audit systems thereby the internal audit is being conducted inhouse instead of outside agency. Efforts are being continued to further strengthen the internal audit system to make it commensurate with the size and the nature of the business.

Systems and procedures are being upgraded to provide checks and alerts for avoiding fraud arising out of misrepresentation given by borrower/s while availing the housing loans.

Outlook for 2008-09

The initiatives taken by the Company during the year are expected to improve its operational and financial performance. Major initiatives taken by the Company include:

- ♦ Raising funds through loans at attractive rate of interest and terms.
- ♦ Continuing negotiation with lenders for reducing overall cost of funds.
- ♦ Reviewing the existing lending rates in view of the change in interest rate scenario, thereby passing the burden of increased rate to the customer.
- ♦ Strengthening its credit appraisal system to evaluate the lending rate applicable to individuals.
- ♦ Change in Information Technology platform to ensure prompt and effective service to the clientele.
- ♦ Initiating brand building measures to generate general awareness about the Company and also increase the overall market share.
- ♦ Creating additional distribution channels to reach the new segment of customers.
- ♦ Improving the existing schemes and introduction of customer-friendly products.

Following the government's policy to provide shelter to a large number of people, the government offers a number of incentives to boost housing and housing finance activities. Some of these are listed below:

1. The Finance Act, 2008, continued with the tax concessions in respect of interest paid on loan raised for buying/ construction of house property.
2. Rebate for repayment of housing loan under Section 80C of the Income-Tax Act, 1961, of Rs.1,00,000/- is also continued for the year 2008-09.
3. Clearance under Section 230 (A) of the Income Tax Act, 1961, is no longer required.
4. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) was extended to select housing finance companies, including your Company. Under this Act, the housing finance company is entitled to demand from the defaulter whose loan has been classified as NPA, to clear the entire dues within 60 days, failing which the Company is empowered to takeover the property and recover its dues by disposing of the property by adhering to the prescribed rules. This has enabled the Company to foreclose bad loans without the intervention of the court and thereby improve NPA position.
5. The NHB has prescribed the risk weightage of 50 percent of individual housing loans for the purpose of capital adequacy.

Apart from this, the steps taken by the NHB are expected to provide greater thrust to house construction activities and consequently to housing finance business.

New product

The Company had also introduced new scheme to cater to the demand of different kinds of customers namely the "Reverse Mortgage for Senior Citizens".

The management perspective about future of the Company

In view of the huge shortage in urban housing units in the country, the Union government has been providing continued support to make the sector attractive, and giving it due recognition in the last three Union budgets. It is estimated that during the Eleventh Five-Year Plan (2007-12), there will be an outlay of Rs.150,000 cr provided by the Union government exclusively for housing and, therefore, the management reasonably foresees good potential for growth in the business of the Company.

Directors' Responsibility Statement pursuant to Section 217 (2AA) of the Companies Act, 1956

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:

- ◆ In the preparation of the annual accounts, the applicable accounting standards have been followed.
- ◆ Accounting policies were applied consistently. Reasonable and prudent judgment and estimates were made so as to give true and fair view of the state of affairs of the Company as at the end of 31st March 2008, and profit of the Company for the year ended on that date.
- ◆ Proper and sufficient care has been taken for maintenance of accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing/detecting fraud and other irregularities.
- ◆ The annual accounts are prepared on a going concern basis.

Human resources

The Company is run by qualified and trained employees who are responsive to the customers' needs and the changing economic scenario. Employee relations remained

cordial and the work atmosphere remained congenial during the year.

The Company had organised various training programmes for upgrading the skill and knowledge of its employees in different operational areas. It had been sponsoring its employees for training programmes/seminars/conference organised by reputed professional institutions.

Subsidiary companies

The financial statements along with the Reports of the Directors of the Company's wholly owned subsidiaries namely LICHFL Care Homes Limited, LICHFL Financial Services Limited, LICHFL Trustee Company Private Limited and LICHFL Asset Management Company Private Limited for the year ended 31st March 2008, are attached along with the statement pursuant to Section 212 of the Companies Act, 1956, with respect to the said subsidiaries. The brief review of the subsidiary companies are as under:

1. LICHFL Care Homes Limited

To address to the crying need of housing for the senior citizens of the country, the Company had promoted LICHFL Care Homes Limited, to establish and operate assisted living centres. It launched its eco-friendly pilot project in Bangalore with cost-effective independent cottages and all other on-campus amenities, fully structured and self-contained to address every possible need of residents. It has library, community centre, home theatre, meditation centre, doctors on call and ambulance to take the ailing to the nearest city medicare centre – all that would make the lives of senior citizens comfortable and satisfying.

During the current year, the Company proposes to start construction of project at Bhubaneswar and finalise the purchase of land for few more projects.

2. LICHFL Financial Services Limited

LICHFL Financial Services Limited was incorporated on 31st October 2007 for undertaking non fund based activities like

marketing of housing loans, insurance products, credit cards, mutual funds, personal loans etc. Effective steps for starting the business of the Company are also being taken. However, till 31st March 2008, the Company has not commenced any activities.

3. LICHFL Trustee Company Private Limited

LICHFL Trustee Company Private Limited was incorporated on 5th March 2008 for undertaking the business of trustees of venture capital trust, funds – in India and offshore fund. The Company would very soon launch its operations - act as trustee of the fund raised through private placement, public offer etc.

4. LICHFL Asset Management Company Private Limited

LICHFL Asset Management Company Private Limited was incorporated on 14th February 2008 for undertaking the business of managing, advising, administering mutual funds, unit trust, investment trust in India as well as in abroad. The Company will launch its operations very soon.

Acknowledgments

The Directors place on record their appreciation for the advice, guidance and support given by the Life Insurance Corporation of India and the NHB and all the bankers of the Company. The Directors also place on record their sincere thanks to the Company's clientele and members for their patronage. The Directors also record their appreciation for the dedicated services of the employees and their contribution to the growth of the Company.

For and on behalf of the Board

Mumbai
20th May 2008

Chairman