

Letter of Offer  
September 1, 2006

For Equity Shareholders of the Company Only



**GRUH FINANCE LIMITED**

Registered Office: “GRUH” Netaji Marg, Near Mithakali Six Roads, Ellisbridge, Ahmedabad – 380 006. The Company was incorporated on July 21, 1986 as Gujarat Rural Housing Finance Corporation Limited under the provisions of the Companies Act, 1956. The name of the Company was changed to GRUH Finance Limited on August 21, 1995. The Company became a public listed company on January 8, 1993. The Corporate Office of the Company is at “GRUH” Netaji Marg, Near Mithakali Six Roads, Ellisbridge, Ahmedabad – 380006 (For further details see “History of the Company and Other Corporate Matters” on page 29 of this Letter of Offer.)

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**FOR PRIVATE CIRCULATION TO THE EQUITY SHAREHOLDERS OF THE COMPANY ONLY**

**LETTER OF OFFER**

**ISSUE OF 79,50,000 FULLY PAID EQUITY SHARES WITH A FACE VALUE OF Rs. 10 EACH AT A PREMIUM OF Rs. 65 PER EQUITY SHARE FOR AN AMOUNT NOT MORE THAN Rs. 5,962.50 LACS TO THE EXISTING EQUITY SHAREHOLDERS ON RIGHTS BASIS IN THE RATIO OF THREE FULLY PAID EQUITY SHARES FOR EVERY TEN EQUITY SHARES HELD BY THE EXISTING SHAREHOLDERS ON THE RECORD DATE, i.e. SEPTEMBER 2, 2006. THE TOTAL ISSUE PRICE IS 7.5 TIMES OF THE FACE VALUE OF THE EQUITY SHARES. FOR MORE DETAILS, SEE “TERMS OF THE ISSUE” ON PAGE 122 OF THIS LETTER OF OFFER.**

**GENERAL RISKS**

Investments in equity and equity related securities involve a degree of risk and Investors should not invest any funds in this Issue unless they can afford to take the risk of losing their investment. Investors are advised to read the Risk Factors carefully before taking an investment decision in this Issue. For taking an investment decision, Investors must rely on their own examination of the Issuer and the Issue including the risks involved. The securities have not been recommended or approved by the Securities and Exchange Board of India (SEBI) nor does SEBI guarantee the accuracy or adequacy of this document. **Investors are advised to refer to “Risk Factors” on page v of this Letter of Offer before making an investment in this Issue.**

**ISSUER’S ABSOLUTE RESPONSIBILITY**

The Issuer, having made all reasonable inquiries, accepts responsibility for and confirms that this Letter of Offer contains all information with regard to the Issuer and the Issue, which is material in the context of this Issue, that the information contained in this Letter of Offer is true and correct in all material respects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this Letter of Offer as a whole or any such information or the expression of any such opinions or intentions misleading in any material respect.

**LISTING**

The existing Equity Shares of the Company are listed on the Bombay Stock Exchange Limited (“Designated Stock Exchange”), the National Stock Exchange of India Limited and Ahmedabad Stock Exchange Limited. The Company has received “in-principle” approvals from BSE, NSE and ASE for listing the Equity Shares arising from this Issue vide letters dated July 11, 2006, July 19, 2006 and July 19, 2006 respectively.

**LEAD MANAGER TO THE ISSUE**



**DSP Merrill Lynch Limited**  
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Website: [www.dspml.com](http://www.dspml.com)  
Contact Person: Mr. Kartik Desai

**REGISTRAR TO THE ISSUE**



**Intime Spectrum Registry Limited (Unit GRUH)**  
C-13, Pannalal Silk Mills Compound,  
LBS Marg, Bhandup (W),  
Mumbai- 400078.  
Tel No. 022- 25960320 Fax No. 022- 25960329  
Email ID: [gruhfin-rights@intimespectrum.com](mailto:gruhfin-rights@intimespectrum.com)  
Contact person: Ms Awani Punjani

**ISSUE PROGRAMME**

ISSUE OPENS ON	LAST DATE FOR REQUEST FOR SPLIT APPLICATION FORMS	ISSUE CLOSURES ON
SEPTEMBER 14, 2006	SEPTEMBER 29, 2006	OCTOBER 13, 2006



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## ABBREVIATIONS & TECHNICAL TERMS

AKFED:	Aga Khan Fund for Economic Development.
AGM:	Annual General Meeting.
ALM:	Asset Liability Management.
AS:	Accounting Standard as issued by The Institute of Chartered Accountants of India.
ASE:	Ahmedabad Stock Exchange Limited.
Asst.	Assessment.
Act:	The Companies Act, 1956 as amended.
Articles or AOA:	Articles of Association of the Company.
BSE/Designated Stock Exchange:	The Bombay Stock Exchange Limited.
Board:	The Board of Directors of the Company or the Committee authorized to act on their behalf.
Bankers to the Issue:	HDFC Bank Limited.
CAF:	Composite Application Form.
CAR:	Capital Adequacy Ratio.
CAGR:	Compounded Annual Growth Rate.
CDSL:	Central Depository Services (India) Limited.
CIBIL	Credit Information Bureau of India Limited.
CRISIL:	CRISIL Limited.
Company/Issuer/GRUH:	GRUH Finance Limited.
Crore(s):	One hundred lacs or ten million.
DEMAT:	Dematerialized (Electronic/Depository as the context may be).
DP:	Depository Participant.
Depository:	A depository registered with SEBI under the SEBI (Depository and Participant) Regulations, 1996, as amended from time to time.
Letter of Offer:	Letter of Offer of the Company for the Rights Issue of 79,50,000 Equity Shares of Rs. 10 each at a premium of Rs. 65 per share.
EBIDTA:	Earnings before Interest Depreciation, Tax and Amortization.
EGM:	Extra-Ordinary General Meeting.
EMI:	Equated Monthly Installments.
EPS:	Earnings Per Share.
Equity Shareholders:	Means a holder/beneficial owner of equity shares of the Company as on the Record Date i.e. September 2, 2006.
Equity Shares:	The Issued, Subscribed and Paid Up Equity Share Capital of the Company and the additional equity shares of the Company offered pursuant to the Rights Issue.
FCD(s):	Fully Convertible Debenture(s).
FCNR:	Foreign Currency (Non-Resident) Account Scheme
FEMA:	Foreign Exchange Management Act 1999, and the subsequent amendments thereto.
FERA:	Foreign Exchange Regulation Act, 1973.
FICCI:	Federation of Indian Chambers of Commerce and Industry.
FII:	Foreign Institutional Investor as defined Under SEBI (Foreign Institutional Investors) Regulations, 1995 registered with SEBI and as defined under FEMA (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000 and under other applicable laws in India.
FY:	Financial Year or fiscal.
GDP:	Gross Domestic Product.
GPLR:	GRUH's Prime Lending Rate.
GRA(s):	GRUH Referral Associate(s).

Guidelines/ SEBI Guidelines/	SEBI (Disclosure and Investor Protection).
SEBI (DIP) Guidelines	Guidelines, 2000 and subsequent amendments thereto.
HDFC:	Housing Development Finance Corporation Limited.
HDFC SL:	HDFC Standard Life Insurance Company Limited.
HFC:	Housing Finance Company.
IASC:	Indian Association for Savings and Credit
ICRA:	ICRA Limited.
IT:	Income Tax Act, 1961, as amended.
LoF/LOF:	Letter of Offer.
Lac(s); lac(s)	One hundred thousand.
Lead Manager:	DSP Merrill Lynch Limited.
Memorandum or MOA:	Memorandum of Association of the Company.
NCD:	Non Convertible Debenture.
NHB:	National Housing Bank.
NI:	Negotiable Instrument.
NPA:	Non Performing Assets.
NRE:	Non- Resident (External) Rupee Account Scheme.
NRO	Non-Resident Ordinary Rupee Account Scheme.
NSDL:	National Securities Depository Limited.
NSE:	National Stock Exchange of India Limited.
OCB(s):	Overseas Corporate Body(ies).
PAN/GIR No.:	Income Tax Permanent Account Number/General Index Reference Number.
PAT:	Profit after Tax.
PLR:	Prime Lending Rate.
Promoter:	HDFC.
RBI:	Reserve Bank of India.
RI:	Resident Indian.
ROC:	Registrar of Companies
Record Date:	September 2, 2006
Registrars/ Registrars To The Issue/ Registrar and Share Transfer Agent/ R&T Agents:	Intime Spectrum Registry Limited (“Intime”)
Rights Issue/Issue:	Present Issue of 79,50,000 Equity Shares of Rs. 10 each at a premium of Rs. 65 per share.
SBI:	State Bank of India.
SEBI:	Securities and Exchange Board of India.
Securitisation Act/SARFAESI Act:	The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.
SLR:	Statutory Liquidity Ratio.
Stock Exchanges:	BSE, NSE and ASE, referred to collectively.
UIN:	Unique Identification Number.

In this Letter of Offer, all references to “Rs.” or “INR” refer to Rupees, the lawful currency of India.

References to the singular also refer to the plural and one gender also refers to any other gender wherever applicable.

### **NO OFFER IN THE UNITED STATES**

The shares of the Company are not registered under the United States Securities Act of 1933, as amended. The rights referred to in this Letter of Offer are being offered in India but not in the United States of America. The offering to which this Letter of Offer relates is not, and under no circumstances is to be construed as, an offering of any shares or rights for sale in the United States of America, or the territories or possessions thereof, or as a solicitation therein of an offer to buy any of the said shares or rights. Accordingly, this Letter of Offer should not be forwarded to or transmitted in or into the United States of America at any time. The Company will not accept subscriptions from any person, or his agent, who appears to be, or who the Company has reason to believe is, a resident of the United States of America and to whom an offer, if made, would result in requiring registration of this Letter of Offer with the United States Securities and Exchange Commission. The Company is informed that there is no objection to a United States shareholder selling its rights in India.

## RISK FACTORS

*Prospective investors should carefully consider the risks described below, in addition to the other information contained in this Letter of Offer, before making any investment decision relating to the Shares. The occurrence of any of the following events could have a material adverse effect on the Company's business, results of operation, financial condition and future prospects and cause the market price of the Shares to fall significantly.*

### A. INTERNAL RISK FACTORS

**1. The Company is involved in certain legal proceedings incidental to the business and operations which, if determined against the Company, could have an adverse impact on the results of operations and financial condition of the Company.**

Against the Company:

Sr. No.	Type of Case	Number of cases	Aggregate amount of claims
1	Civil Suits	2	1,63,838.00
2	Consumer Protection Cases	9	6,78,492.65
3	Criminal	1	-
4	Tax Litigations	10	4,99,73,260.00

For further details of litigations pending against the company, please refer to the section on "Outstanding Litigations" on page 104 of this Letter of Offer.

#### **Against the Directors:**

Mr. S. M. Palia is one of the Directors of the Company. He was a non-executive independent director on the Board of IFB Finance Limited. He had resigned from the Board of IFB Finance Limited effective November 9, 1999. Reserve Bank of India has filed a complaint under the provisions of Section 200 of Criminal Procedure Code and under Section 58E(1) of the Reserve Bank of India Act 1934 against IFB Finance Limited and its Directors / officials for failure to comply with the Order passed by Company Law Board, Eastern Region Branch, Kolkata for repayment to the depositors as per the terms & conditions stipulated in the Orders dated January 2000 and March 2001. The complaint was filed in the Court of Chief Metropolitan Magistrate, Calcutta in the March 2002. State Bank of Mysore has filed a recovery application against IFB Finance Limited, its Directors and others, before Debt Recovery Tribunal, Bangalore under Section 19 of the Recovery of Debts due to the Banks and Financial Institutions Act, 1993 in the FY 2000 for recovery of its dues.

#### **Against the promoters:**

For details of litigations pending against the promoters, please refer to the section on "Outstanding Litigations" on page 106 of this Letter of Offer.

#### **Against the promoter group:**

For details of litigations pending against the promoter group, please refer to the section on "Outstanding Litigations" on page 107 of this Letter of Offer.

**2. As of the date of filing of the Letter of Offer the Company has disputed demands of Rs. 500 lacs in respect of income tax in appellate proceedings. A determination against the Company in respect of disputed tax assessments of Rs. 500 lacs may adversely impact the Company's financial performance.**

As of the date of filing of the Letter of Offer, the Company had contingent liabilities of Rs. 500 lacs in additional taxes by the Government of India's tax authorities in excess of its provisions. See "Outstanding Litigation and Material Developments" on page 104. The Company has appealed against all of these demands. While the Company expects that no additional liability will arise out of these disputed demands, there can be no assurance that these matters will be settled in the Company's favour or that no further liability will arise out of these demands. Any additional tax liability may adversely impact the Company's financial performance and the price of the Company's Equity Shares.

**3. The Company's business is predominantly concentrated in the states of Gujarat and Maharashtra.**

The Company's business activities are predominantly concentrated in the states of Gujarat and Maharashtra located in western India. As a result the Company is exposed to region-specific risks affecting these two states.

There has been no report of any impact on the property due to the recent flood situation in Gujarat and Maharashtra. Majority of GRUH's borrowers have taken property insurance, hence the impact, if any, is adequately protected. The floods may, however, affect cash flow of some affected borrowers in the short term,

and immediate future repayments may be delayed. Further, any natural calamities in the future may affect the business adversely.

**4. The demand for housing finance and rate of delinquencies in rural areas is affected by climate factors such as rain and/or drought and their impact on the rural economy. This poses a risk to the business of the Company as 47.94% of the total portfolio of the company is located in rural areas.**

47.94% of the Company's portfolio is located in rural areas. The rural economy is dependant on the level of monsoon activity and/or incidence of drought. As such, any adverse climate scenario and reduction in rural incomes has the potential of reducing demand for housing loans as well as increasing the level of delinquencies of the Company's existing loan portfolio.

**5. Original property documents are stored in the Company's retail offices and are, thus, at the risk of being stolen, destroyed or damaged in the event of theft, fire or other such occurrence in a particular location.**

The Company's retail offices maintain storage of the originals of the property documents relevant to the local customer base and asset portfolio. As such, in the event such documents are lost, destroyed or damaged because of theft, fire or other such event, the Company may be liable to recreate such documents by applying for duplicate copies of the above mentioned documents from the various agencies involved.

**6. The Company has recently implemented a new credit scoring methodology which may not be able to accommodate all risks effectively and the Company may not be able to gather all the relevant data to price loans appropriately. Further, if the new credit scoring methodology is not used appropriately by the Company's employees it may have an adverse impact on the Company's credit appraisal.**

The Company has recently implemented a new application scoring system of credit appraisal based on customer credit criteria. The Company believes that the new system will result in the application of uniform appraisal standards throughout the Company's offices and will improve credit analysis and hence asset quality. The methodology has been independently verified by CRISIL. However there can be no assurance that the model adopted by the Company is able to accommodate all risks effectively, or the Company is able to gather all the relevant data to price loans appropriately. Further, if the new credit scoring methodology is not used appropriately by the Company's employees then it may have an adverse impact on the Company's credit appraisal.

**7. A significant amount of the Company's disbursements are made to customers introduced by third party agents. This is a risk to the Company's business as the agents are free to shift their business to a competitor. Moreover, customers referred by third party agents tend to have a higher incidence of prepayment thereby increasing the Company's prepayment risk.**

In FY06, approximately 36.02% of loan disbursements made by the Company were on the basis of referrals made by third party agents. In FY05 this number was 20.68%. The increase in the number of loan sourced through third party agents is a risk to the Company's business because the Company does not have exclusive arrangements with any third party agent and agents are free to shift their business to a competitor housing finance company. Moreover, customers referred by third party agents tend to have a higher incidence of prepayment and, as such, an increase in the number of clients sourced through agents increases the Company's prepayment risk.

**8. The Company is diversifying its loan portfolio to customers who are in the "self employed and skilled workers" segment where formal income proofs are not easily available and therefore customers are perceived to carry a higher credit risk.**

The Company is offering a variant of a home loan product with a flexible repayment plan to certain customers under its GRUH *Suvidha* scheme. This product is specially designed for the self-employed and skilled workers segment where formal income proofs are not easily available and income flow is not uniform. The Company cannot provide any assurance on the quality of credit risk of providing loans to such customers.

**9. The Company may be unable to secure funding at competitive rates.**

The Company's funding consists of loans from various banks, refinance facility from the NHB and general financing through the domestic debt market. A portion of the Company's borrowings are contracted with a put/call option and the lenders may exercise such options. If the Company's lenders exercise such options during periods of tight liquidity and the Company is unable to secure new funding at competitive rates, then this would adversely affect the Company's liquidity and net interest margins and have an adverse effect on its financial condition and results of operations.



**10. A portion of the Company's funding consists of short term borrowings and deposits, while a portion of the Company's assets have a medium-term or long-term maturity profile, creating a potential for asset-liability mismatches.**

A portion of the Company's funding consists of short term borrowings and deposits. However a portion of the Company's assets have a medium-term or long-term maturity profile, creating a potential for asset-liability mismatches. In the event that lenders and/or depositors do not roll over funds on maturity, the Company's liquidity position and business could be adversely affected.

**11. If the Company is unable to control the level of NPAs in its loan portfolio, its financial position and results of operations may suffer.**

As of March 31, 2006 the Company's gross NPAs were Rs. 1,586 lacs or 1.48% of the outstanding loan portfolio, compared to Rs. 1,593 lacs or 1.95% of outstanding loans as of March 31, 2005. If the quality of the Company's loan portfolio deteriorates or the Company is unable to implement effective monitoring and collection methods, the Company's financial condition and results of operations may be affected. As a result, the Company cannot assure that there will not be significant additional NPAs in its loan portfolio in the future.

**12. The Company is not always able to foreclose on collateral when borrowers default on their obligations.**

12.1. The Company's policy is to secure all loans by real property and, in some cases, the Company has also taken further security by way of personal guarantees and the assignment of benefits under life insurance policies. An economic downturn could result in a fall in relevant collateral values, which may result in recovery of amounts less than the outstanding amounts due under defaulted loans.

12.2. Following the introduction of the Securitisation Act in 2002 and the extension of its application to HFCs in November 2003, the Company has a right to initiate the foreclosure proceedings on secured assets after 60 days' notice to the borrowers whose loan has been classified as non-performing. However, the Company may be unable to realize the full value of the secured assets as a result of factors including delays in foreclosure proceedings, defects in the perfection of collateral and fraud perpetuated by customers. A failure to recover the expected value of collateral security could expose the Company to a potential loss. Any such losses could adversely affect the Company's financial condition and results of operations.

12.3. The foreclosure on secured assets under the Securitisation Act is applicable with respect to NPA cases where the amount due is in excess of 20% of the principal amount and interest thereon of the secured debt and if the amount due is more than rupees one lac. Thus, in cases for recovery of debt where this criteria is not fulfilled, the Company will have to pursue other means in the Indian courts which can cause significant delay and result in the deterioration in the physical condition and market value of the assets.

**13. The interests of the Company's promoter and major shareholder, HDFC, may not be the same as those of other shareholders.**

As of March 31, 2006, HDFC holds 1,63,90,604 or 61.85% of the Company's outstanding Shares. There can be no assurance that HDFC will not have interests which are adverse to the interests of other shareholders or that HDFC will take positions with which other shareholders will agree. In addition, whilst the Company has no reason to believe that HDFC would divest its shareholding, no assurance to such effect can be given.

**14. The Company and its Promoter are in the same line of business, and there can be no assurance that there would be no conflict of interest between the Company and its Promoters**

The Company and its Promoter HDFC Limited are in business of financial services. Amongst other products the Company and its Promoters are engaged in the business of providing home loans. Therefore there may be a conflict of interest between the Company and its Promoters. Since the Company's Promoters have substantial holding in the Company they may be able to influence the decision in case of such conflict of interest. The Company cannot ensure that such a decision will be in its favour or in the best interest of our minority shareholders.

**15. Some of our Promoter Group entities have incurred losses.**

Some of our Promoter Group entities have, in recent years, incurred losses or have negative net worth, as set forth in the table below:

Name of Promoter Group entity	Years ended March 31,		
	2006	2005	2004
	<b>Profits / (Losses) in Rs. Lacs</b>		
HDFC Standard Life Insurance Company Limited	(12,876)	(8,973)	(2,343)
HDFC Realty Limited	13	110	(57)
HDFC Chubb General Insurance Company Limited	441	(799)	(2,219)

Name of Promoter Group entity	Years ended March 31,		
	2006	2005	2004
HDFC Venture Capital Limited	908	(9)	N.A.
HDFC Ventures Trustee Company Limited	17	(6)	N.A.
Home Loan Services India Private Limited	(179)	(136)	N.A.

Entities in the Promoter Group that had a negative net worth in the past three years:

Name of Promoter Group entity	Years ended March 31,		
	2006	2005	2004
	<b>Net Worth in Rs. Lacs</b>		
HDFC Realty Limited	(163)	(175)	(285)
HDFC Venture Capital Limited	265	(4)	N.A.
HDFC Ventures Trustee Company Limited	15	(1)	N.A.

For a detailed description of our Promoter Group entities, please see the section titled “Group Companies” on page 51 of this Letter of Offer.

**16. Future issuances or sales of the Shares could significantly affect the trading price of the Shares.**

The future issuance of Shares by the Company or the disposal of Shares by any of the Company’s major shareholders or the perception that such issuance or sales may occur may significantly affect the trading price of the Shares.

**17. Fraud and significant security breaches in the Company’s computer system and network infrastructure could adversely impact the Company’s business.**

The Company’s business operations are based on a high volume of transactions. Although the Company has taken adequate measures to safeguard against system-related and other fraud, there can be no assurance that the Company would be able to prevent fraud, physical or electronic break-ins, security breaches or other disruptive problems caused by the Company’s increased use of the Internet. Power disruptions could also affect the security of information stored in and transmitted through the Company’s computer systems and network infrastructure. Although the Company has implemented security technology and operational procedures to prevent such occurrences, there can be no assurance that these security measures will be successful. A significant failure in security measures could have a material adverse effect on the Company’s business, its future financial performance and the price of its Equity Shares.

**18. Any inability to attract and retain talented professionals may adversely impact the Company’s business.**

Attracting and retaining talented professionals is a key element of the Company’s strategy and the Company believes it to be a significant source of competitive advantage. The Company’s inability to attract and retain talented professionals or the loss of key management personnel could have an adverse impact on the Company’s business, its future financial performance and the price of its Equity Shares.

**19. The Company depends on the accuracy and completeness of information about customers and counterparties. The Company’s financial condition and results of operations could be negatively affected by relying on statements or information that is materially misleading.**

In deciding whether to extend a home loan or enter into other transactions with customers and counterparties, the Company may rely on information furnished to the Company by or on behalf of customers and counterparties, including financial statements and other financial information. The Company may also rely on certain representations as to the accuracy and completeness of that information. The Company’s financial condition and results of operations could be negatively affected by relying on statements or information that is materially misleading.

**20. You will not receive the Equity Shares you purchase in this Issue until several weeks after you pay for them, which will subject you to market risk.**

The Equity Shares you purchase in this Rights Issue will not be credited to your demat account with depository participants until approximately 30 working days from the Bid/Issue Closing Date. You can start trading your equity shares only after receipt of listing and trading approvals in respect of these shares which will require additional time after the credit of Shares into your demat account. Since the Company’s Equity Shares are already listed on the stock exchanges, you will be subject to market risk from the date you pay for the Equity Shares to the date they are listed.

## **B. EXTERNAL RISK FACTORS**

### **1. The housing finance industry is very competitive and increasing competition may result in declining margins and/or market share if the Company is unable to compete effectively.**

1.1. The Company operates in the retail housing loan market. Interest rate deregulation and other liberalization measures affecting the housing finance industry, together with increased supply of home finance, have increased the Company's exposure to competition. While liberalization has resulted in significant growth in the market, it has also led to increased access for customers to alternative sources of home finance funding, in particular from commercial banks. These banks may have greater financial resources than HFCs and, in particular, have access to retail deposits. In contrast, HFCs are reliant on higher cost syndicated loans and debentures for their funding requirements, decreasing their margins relative to banks.

1.2. As a result of increased participation in the housing finance industry, home loan products are becoming increasingly standardized. Growing competition has led to lending institutions adopting aggressive practices including high loan-to-value loans, softening of collateral requirements and competitive pricing. This aggressive lending approach adopted by some home-loan lenders, while increasing the market size, can potentially lead to a rise in rates of default.

1.3. The Company cannot provide any assurance that it will be able to compete with these or other market developments or compete effectively with new and existing players in the increasingly competitive housing finance industry. Increasing competition may have an adverse effect on the Company's net interest margin and other income, and if the Company is unable to compete successfully, the Company's market share will decline.

### **2. The Company's business is particularly vulnerable to volatility in interest rates.**

Over the last several years, the Government has substantially deregulated the financial sector. As a result, interest rates are now primarily determined by the market, which has increased the interest rate risk exposure of all banks and financial intermediaries, including housing finance companies. The Company's profitability is substantially dependent upon the level of the net interest income. Interest rates are highly sensitive to many factors beyond the Company's control, including the RBI's monetary policies, domestic and international economic and political conditions and other factors. Changes in interest rates could affect the interest rates charged on interest-earning assets differently than the interest rates paid on interest-bearing liabilities. There can be no assurance that the Company will be able to adequately manage interest rate risk in the future and if the Company is unable to do so, this would not have an adverse effect on the Company's net interest margin. In addition, in the case of a long-tenure floating rate loan, an increase in the interest rate can lead to a rise in defaults because increased EMI payments make it difficult for customers to keep servicing their loans.

### **3. The housing finance sector is regulated and may be adversely affected by future regulatory changes.**

The Company's business is regulated and the Company has reporting obligations to the NHB. The Company is also subject to corporate, taxation and other laws in effect in India which require continued monitoring and compliance. These laws and regulations and the way in which they are implemented and enforced may change from time to time and the Company cannot assure you that future legislative or regulatory changes will not have an adverse effect on the Company's business. If the Company is unable to comply with relevant NHB rules and regulations applicable to it, the Company could incur penalties or lose its status as recognized HFC, and its business reputation may suffer.

### **4. Borrowing for the purchase or construction of property may not continue to offer customers the same fiscal benefits it currently offers.**

The rapid growth in the housing finance industry in India is in part due to the introduction of fiscal benefits for homeowners. Since the early 1990s, interest and principal repayments on capital borrowed for the purchase or construction of housing have been tax deductible up to certain limits and tax rebates have been available for customers of such capital up to specified income levels. In addition the Government has provided for favourable tax treatment of long-term capital gains from real estate. There can be no assurance that the Government will continue to offer such tax benefits to customers at the current levels or at all. In addition, there can be no assurance that the Government will not introduce tax efficient investment options which are more attractive to customers than property investment. The demand for housing and/or housing finance may be reduced if any of these changes occur.

### **5. The housing sector may not continue to be regarded as a priority sector by the Government and RBI.**

The Government and RBI have provided incentives to the housing finance industry by extending priority sector status to housing loans and, as a result, funds are available to HFCs at below-prime lending rates. There can be no assurance that the Government will continue to make these benefits available to HFCs.

**6. HFCs may not continue to get funding at lower cost for lending in rural sector.**

HFCs get funding from NHB at subsidized rate for financing housing in the rural sector. There can be no assurance that NHB will continue to offer the Company low cost funding for rural housing on the same terms or at all. If they do not, this may have an adverse effect on the Company's cost of funds and its net profit.

**7. Political instability or changes in the Government could adversely affect economic conditions in India generally and the Company's business in particular.**

7.1. The Government has traditionally exercised and continues to exercise a significant influence over many aspects of the economy. The Company's business, and the market price and liquidity of its Shares may be affected by interest rates, changes in Government policy in areas such as taxation, social and civil unrest and other political, economic or other developments in or affecting India.

7.2. Since 1991, successive Governments have pursued policies of economic liberalization and financial sector reforms. However, there can be no assurance that such policies will be continued and a significant change in the Government's policies in the future could impact business and economic conditions in India and adversely affect the Company's financial condition and results of operations.

**8. If communal disturbances or riots erupt in India, or if regional hostilities increase, this would adversely affect the Indian economy, and could have a material impact upon the Company's business.**

8.1. India has experienced communal disturbances, terrorist attacks and riots during recent years, including in the Company's principal regions of business in Gujarat and Maharashtra. If such events recur, the Company's operational and marketing activities may be adversely affected, resulting in a decline in the Company's income.

**9. The market value of the Company's investment may fluctuate due to the volatility of the Indian securities market.**

Indian stock exchanges have, in the past, experienced substantial fluctuations in the prices of listed securities. Indian stock exchanges including the BSE and the NSE have experienced problems which, if such or similar problems were to continue or recur, could affect the market price and liquidity of the securities of Indian companies. These problems have included temporary exchange closures, broker defaults, settlement delays and strikes by brokers. In addition, the governing bodies of Indian stock exchanges have from time to time imposed restrictions on trading in certain securities, limitations on price movements and margin requirements. Furthermore, from time to time disputes have occurred between listed companies, stock exchanges and other regulatory bodies, which in some cases may have had a negative effect on market sentiment.

**C. NOTES TO RISK FACTORS**

**1.**

Pre-issue Net Worth (as on March 31, 2006)	Rs. 8,688.71 lacs
Adjusted Pre-issue Net Asset Value Per Share (as on March 31, 2006)	Rs. 32.79
Issue Size	Rs. 5,962.50 lacs

**2.** Cost per Share to the Promoter – Rs. 14.56

**3.** There is no interest of Promoter/Directors/Key Management Personnel other than as stated on page 47 of this Letter of Offer.

**4.** No transactions of the Equity Shares of the Company have taken place by the Promoters/Promoter Group during the last 6 months.

**5.** For related party disclosures under "Accounting Standard 18" issued by the Institute of Chartered Accountants of India please refer to "Related Party Transactions" on page 66 of this Letter of Offer.

**6.** The Lead Manager and the Company shall update this Letter of Offer and keep the shareholders and public informed of any material changes till the listing and trading commences.

Investors are free to contact the Lead Manager or the Compliance Officer for any clarification or information or any complaints pertaining to this Rights Issue. For contact details please refer to the cover page of this Letter of Offer.

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## SUMMARY

### Industry Overview

#### *The Housing Finance Industry*

HFCs and banks form two major groups of housing finance providers in India. While Housing Development Finance Corporation Limited, GRUH Finance Limited, GIC Housing Finance Limited, LIC Housing Finance Limited, PNB Housing Finance Limited, Dewan Housing Finance Limited and others are HFCs focused on the business of providing housing finance, banks such as State Bank of India and ICICI Bank Limited also provide housing finance as one of the various parts of their lending businesses.

As of May 29, 2006 there are 44 NHB approved HFCs in India. Public sector banks were allowed to provide housing loans directly to retail clients in 1998, following modifications in the RBI guidelines. In the last few years, banks have emerged as formidable competition to the HFCs and they have become increasingly prominent in the housing finance industry.

#### *Housing Loan Disbursements — Size and Growth*

According to NHB statistics, total disbursements of housing loans have increased from a level of Rs. 19,05,868 lacs in FY01 to Rs. 54,30,170 lacs in FY04 showing a CAGR of approximately 42%. As per the Tenth Plan of the Government (2002-07), the total number of houses cumulatively required during the plan period is estimated to be 224 lacs units, requiring a public investment of Rs. 4,15,00,000 lacs over this period.

#### *Industry Outlook*

The Indian economy has demonstrated robust performance in the last few years and there is a strong linkage of demand for housing with economic growth. With the country yet to catch up to global standards on quality and quantity of housing stocks, a huge potential exists in this regard. According to 2005 FICCI Survey Report on “Foreign Direct Investment in Real Estate”, the mortgage to GDP ratio in India is low as compared to that in developed countries where it ranges from 25% to 60%. The mortgage to GDP ratio stood at 2.5% in India in 2001 as against 57% in the UK, 54% in the USA, 40% in the EU, 7% in China and 14% in Thailand. This implies future growth potential for the housing finance business in India.

As per the NHB report on “Trend and Progress of Housing in India”, June 2004, the thrust provided by way of policy initiatives of the Government, the housing finance sector is expected to maintain the growth momentum witnessed during the last few years although renewed measures are required to address core issues to further improve the growth of housing development in the country.

The strong relationship between investments in housing and GDP growth makes housing finance a priority item on the national agenda. According to NHB, the multiplier effect of investment in housing has grown over the past years as the proportion of outstanding housing loans as a fraction of GDP has risen from 3.4% in 2001 to 6.1% by 2004. According to the Tenth Five Year Plan (2002–2007), the housing, real estate and construction sector contributes 9.6% of GDP and ranks third out of 14 sectors in terms of induced effect on the economy. Given the importance of the sector, the Government is in the process of rationalizing regulations which impede real estate development.

The Government is also committed to the goal of “Housing for All” in rural areas by the end of the Tenth Plan. This is expected to boost housing demand in rural India and HFCs and banks are increasingly looking at smaller towns for growth. The average loan size in these towns tends to be lower than in urban areas but yields are typically higher due to less competition among lenders. According to the census in 2001, 71.2% of India’s population lives in semi-urban and rural India. The majority of the population has no access to housing finance. Hence the semi-urban and rural areas can potentially contribute significantly to the incremental demand for housing finance.

However, a change in interest rate remains one of the key risks to the growth prospects of the industry. Though the major players in the industry offer housing loans at both fixed and floating rates, a major portion of the new loans disbursed are floating rate loans. As a result, a significant number of borrowers will be impacted in the form of increase in EMI and/or tenure as and when interest rates increase.

## Company Overview

### *History*

The Company was co-promoted by HDFC and AKFED on July 21, 1986 and commenced its lending operations in January 1988. The primary objective of the Company is to provide long term housing finance for residential purposes. The Company is recognized by NHB as an eligible housing finance company for refinance facility since 1989 and currently operates under the certificate of registration from NHB dated July 31, 2001. The Company became a subsidiary of HDFC in June 2000.

### *Overview*

1. The Company has its operations in five states of India: Gujarat, Maharashtra, Karnataka, Madhya Pradesh and Rajasthan. The Company endeavors to provide housing finance to customers in deeper geographical pockets in rural areas.
2. The main objects of the Company as set out in its Memorandum of Association are: To carry on the business of providing long-term finance to any person or persons, company or corporation, society or association of persons, with or without interest and with or without any security for the purpose of enabling such customer to construct or purchase or enlarge any house or dwelling unit or any part or portion thereof in India for residential purposes upon such terms and conditions as the Company may deem fit.
3. Since the commencement of its operations in 1988, the Company has disbursed loans aggregating Rs. 2,10,282 lacs to finance the development of 93,866 dwellings. As at March 31, 2006, the Company has staff strength of 231 employees and services a customer base of over 57,900 borrowers and over 22,900 depositors.

### *Products*

The Company's major focus has been to provide home loans to individuals and families for purchase, construction, extension, repair and renovation of houses. In pursuit of these objectives, the Company has been offering various products and services to suit the needs of different customer segments. Apart from extending home loans and repair loans under its *Suraksha* and *Sajavat* schemes respectively, the Company offers loans to families for purchase, construction, repair and renovation of non-residential properties like office premises, clinics, shops and nursing homes under its *Samruddhi* scheme. The Company has also introduced personal loans under the *Sahyog* scheme for its existing home loan customers with a view to meet their other financial needs like education, hospitalisation, holiday travel and wedding against the mortgage of residential properties.

The Company has designed a new variant of home loan product – *GRUH Suvidha* – to meet the requirement of a flexible repayment plan. Under this product, a customer is given an initial monthly installment that can match his present cash flows with an annual step up for each subsequent year over the tenure of the loan depending on likely future cash flow. If required, a repayment plan is also allowed with a negative amortisation in the initial years to match the corresponding cash flows. This product has been specifically designed for the self-employed and the skilled workers segment where formal income proofs are not easily available and income flow is not uniform. The Company also offers non-residential property loans to the self-employment segment for purchase and construction of shops under its *Shubh Labh* scheme.

With a view to enable a uniform processing of credit risk assessment, the Company has introduced risk-based pricing, with interest rate on an individual loan linked to a credit score based on the profile of the customers.

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**THE ISSUE**

Equity Shares proposed to be issued by the Company	79,50,000 Equity Shares of Rs. 10/- each
Rights Entitlement	Three Equity Shares for every Ten Equity Shares
Record Date	September 2, 2006
Issue Price per Equity Share	Rs. 75/-
Equity Shares outstanding prior to the Issue	2,65,00,000 Equity Shares
Equity Shares outstanding after the Rights Issue of Equity Shares	3,44,50,000 Equity Shares
Terms of the Issue	For more information, see “Terms of Issue” on page 122 of this Letter of Offer.

**Terms of Payment**

<b>Due Date</b>	<b>Amount</b>
On Right Issue application	Rs. 75/-, which constitutes 100% of the full amount of the Issue Price of Rs. 75/-

**SELECTED FINANCIAL INFORMATION**
**STATEMENT OF PROFIT AND LOSS ACCOUNT (AS ADJUSTED)**

Year Ended March 31, 2006

PARTICULARS	(Rs. in lacs)				
	2006	2005	2004	2003	2002
<b>INCOME</b>					
Operating Income	9,732.51	7,839.84	7,629.90	7,796.96	7,884.70
Fees and Other Charges	543.38	472.77	564.10	520.61	494.83
Profit/(Loss) on Sale of Investment(Net)	13.09	27.94	102.48	45.53	(4.45)
Profit/(Loss) on sale of Acquired Properties / Fixed Assets(Net)	51.85	(4.65)	(3.10)	(0.16)	0.89
Bad Debts Recovered	63.24	197.37	100.75	0.79	25.00
Other Income	16.38	16.41	45.83	9.83	6.49
	<b>10,420.45</b>	<b>8,549.68</b>	<b>8,439.96</b>	<b>8,373.56</b>	<b>8,407.46</b>
<b>EXPENDITURE AND CHARGES</b>					
Interest and Other charges	6,137.95	5,016.97	5,524.98	5,786.77	6,007.81
Staff Expenses	492.26	370.17	325.21	317.88	290.38
Establishment Expenses	166.23	134.71	119.49	109.56	111.50
Other Expenses	413.95	360.88	316.27	306.97	295.88
Depreciation	78.76	80.20	91.47	127.67	175.32
Bad Debts Written Off	183.40	244.43	267.98	297.60	537.29
Provision for Contingencies	325.00	275.00	225.00	225.00	75.00
	<b>7,797.55</b>	<b>6,482.36</b>	<b>6,870.40</b>	<b>7,171.45</b>	<b>7,493.18</b>
Profit Before Tax and Extraordinary Items	2,622.90	2,067.32	1,569.56	1,202.11	914.28
Less : - Provision for Taxes :					
Current Tax	650.00	520.00	440.95	215.14	69.78
Deferred Tax(Net)	(210.73)	(123.55)	(222.36)	8.28	41.63
Fringe Benefit Tax	16.00	0.00	0.00	0.00	0.00
	<b>455.27</b>	<b>396.45</b>	<b>218.59</b>	<b>223.42</b>	<b>111.41</b>
<b>Profit Before Extraordinary Items</b>	<b>2,167.63</b>	<b>1,670.87</b>	<b>1,350.97</b>	<b>978.69</b>	<b>802.87</b>
Less:- Extraordinary Items	0.00	0.00	0.00	0.00	0.00
<b>Profit After Extraordinary Items</b>	<b>2,167.63</b>	<b>1,670.87</b>	<b>1,350.97</b>	<b>978.69</b>	<b>802.87</b>



**STATEMENT OF ASSETS AND LIABILITIES (AS ADJUSTED)**

As At March 31, 2006

<b>PARTICULARS</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>(Rs. in lacs) 2002</b>
<b>Loans</b>					
Individual	105,964.77	81,048.50	57,694.29	55,129.56	47,038.59
Corporate Bodies	0.00	0.00	0.00	0.00	129.54
Others	948.00	604.19	468.45	424.39	865.14
	<b>106,912.77</b>	<b>81,652.69</b>	<b>58,162.74</b>	<b>55,553.95</b>	<b>48,033.27</b>
<b>Investments</b>					
	<b>2,311.10</b>	<b>2,180.26</b>	<b>1,884.57</b>	<b>2,062.56</b>	<b>1,549.65</b>
<b>Current Assets, Loans and Advances</b>					
Current Assets Loans and Advances	9,940.86	8,818.09	5,833.85	5,647.63	5,487.50
Less : Current Liabilities and Provisions	3,459.65	5,404.97	3,018.70	3,167.40	2,421.81
<b>Net Current Assets</b>	<b>6,481.21</b>	<b>3,413.12</b>	<b>2,815.15</b>	<b>2,480.23</b>	<b>3,065.69</b>
<b>Fixed Assets</b>					
Gross Block	1,716.35	1,639.00	1,606.73	2,041.08	2,199.54
Less : Depreciation	883.32	811.24	736.83	654.24	739.44
<b>Net Block</b>	<b>833.03</b>	<b>827.76</b>	<b>869.90</b>	<b>1,386.84</b>	<b>1,460.10</b>
<b>Deferred Tax Assets</b>	<b>130.83</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>TOTAL ASSETS</b>	<b>116,668.94</b>	<b>88,073.83</b>	<b>63,732.36</b>	<b>61,483.58</b>	<b>54,108.71</b>
Less :-					
<b>Loan Funds</b>					
Secured	88,421.36	61,905.11	39,864.53	36,000.07	30,007.86
Unsecured	19,558.87	18,743.40	17,333.79	19,539.97	18,695.85
	<b>107,980.23</b>	<b>80,648.51</b>	<b>57,198.32</b>	<b>55,540.04</b>	<b>48,703.71</b>
<b>Deferred Tax Liability</b>	<b>0.00</b>	<b>79.90</b>	<b>203.45</b>	<b>425.81</b>	<b>70.31</b>
<b>NET WORTH</b>	<b>8,688.71</b>	<b>7,345.42</b>	<b>6,330.59</b>	<b>5,517.73</b>	<b>5,334.69</b>
<b>REPRESENTED BY</b>					
Share Capital	2,650.00	2,650.00	2,650.00	2,650.00	2,650.00
Reserves and Surplus	6,038.71	4,695.42	3,680.59	2,867.73	2,684.69
	<b>8,688.71</b>	<b>7,345.42</b>	<b>6,330.59</b>	<b>5,517.73</b>	<b>5,334.69</b>

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## GENERAL INFORMATION

Dear Shareholder(s),

Pursuant to the resolution passed by the Board of Directors of the Company at its meeting held on April 21, 2006 it has been decided to make the following offer to the Equity Shareholders of the Company, with a right to renounce:

**ISSUE OF 79,50,000 FULLY PAID EQUITY SHARES WITH A FACE VALUE OF Rs. 10 EACH AT A PREMIUM OF Rs. 65 PER FULLY PAID EQUITY SHARE FOR AN AMOUNT AGGREGATING TO Rs. 5,962.50 LACS TO THE EXISTING EQUITY SHAREHOLDERS ON RIGHTS BASIS IN THE RATIO OF THREE FULLY PAID PAID EQUITY SHARES FOR EVERY TEN EXISTING EQUITY SHARES HELD BY THE EXISTING SHAREHOLDERS ON THE RECORD DATE, i.e. SEPTEMBER 2, 2006. TOTAL ISSUE AT A PRICE OF Rs. 75 EACH WOULD AGGREGATE TO Rs. 5,962.50 LACS. FOR MORE DETAILS, SEE “TERMS OF THE ISSUE” ON PAGE 122 OF THIS LETTER OF OFFER THE ISSUE PRICE IS 7.5 TIMES THE FACE VALUE OF THE SHARES OF THE COMPANY.**

### IMPORTANT

- a. This offer is applicable only to those Equity Shareholders whose names appear as beneficial owners as per the list to be furnished by the Depositories in respect of the shares held in the electronic form and on the Register of Members of the Company in respect of the shares held in physical form as on September 2, 2006, i.e. Record Date, fixed in consultation with BSE and NSE.
- b. Your attention is drawn to Risk Factors appearing on Page v of this Letter of Offer.
- c. Please ensure that you have received the CAF with this Letter of Offer.
- d. Please read this Letter of Offer and the instructions contained herein and in the CAF carefully, before filling in the CAF. The instructions contained in the CAF are an integral part of this Letter of Offer and must be carefully followed. Applications are liable to be rejected if they are not in conformity with the terms of the Letter of Offer or the CAF.
- e. All enquiries in connection with this Letter of Offer or CAF should be addressed to the Registrars to the Issue, Intime, quoting the Registered Folio Number/Depository Participant (DP) Number and Client ID Number and the CAF Numbers as mentioned in the CAF.
- f. In case the original CAF is not received, lost or misplaced by the shareholder, the Registrar will issue a duplicate CAF on the request of the shareholder who should furnish the registered folio number/DP ID/client ID number and his/her full name and address to the Registrar. Please note that those applicants who are making the application in the duplicate CAF should not utilize the original CAF for any purpose including renunciation, even if it is received/found subsequently. In case the original and the duplicate CAFs are lodged for subscription, allotment will be made on the basis of the duplicate CAF and the original CAF will be ignored.
- g. The offer will be kept open for a minimum period of thirty days. If extended, it will be kept open for a maximum period of sixty days.
- h. The funds received against the offer will be kept in separate bank account(s) and the Company will not have any access to such funds unless it satisfies the Designated Stock Exchange with suitable documentary evidence that the minimum subscription of 90% of the issue has been received by the Company. If the Company does not receive the minimum subscription of 90% of the issue, the entire subscription shall be refunded to the applicants within forty two days from the date of closure of the issue. The Promoter and the promoter group have undertaken to subscribe to the unsubscribed portion to ensure that the Issue is successful (or is 100% subscribed).

### 1. Registered Office of the Company:

- 1.1. "GRUH" Netaji Marg, Near Mithakali Six Roads, Ellisbridge, Ahmedabad – 380006
- 1.2. Registration No.04-8809 and new 21 digit registration number L65923GJ1986PLC008809
- 1.3. ROC – Gujarat, Dadar & Nagar Haveli, ROC Bhavan, Opp. Rupal Park Society, Behind Ankur Bus Stop, Naranpura, Ahmedabad - 380 013
- 1.4. The Equity Shares of the Company are listed on the BSE, NSE and ASE.

## 2. Board of Directors

For more details regarding the Company's Directors please refer to "Management" on page 39 of this Letter of Offer.

<b>Sr.No</b>	<b>Name, Designation</b>	<b>Age (years) (as on 31.3.2006)</b>	<b>Residential Address</b>
1.	<b>Mr. K.M. Mistry, Chairman</b>	51	Hasmukh Mansion Flat No.702 / 703, 7th Floor 39, Chitrakar Dhurandar Marg 14th Road Junction Khar (West) Mumbai - 400 052
2.	<b>Mr. S.M. Palia</b>	67	16, Ruchir Bungalows Vastrapur Ahmedabad – 380 015
3.	<b>Mr. Rohit C. Mehta</b>	75	"Nandanvan" Opp. Shapath IV Near Karnavati Club S G Road, Post Ambli, Ahmedabad – 380 058
4.	<b>Mr. Prafull Anubhai</b>	68	9, Pathik Shital Baug Ahmedabad - 380 007
5.	<b>Ms. R.S. Karnad</b>	53	BB-14, Greater Kailash Enclave II New Delhi 110 048
6.	<b>Mr. K.G. Krishnamurthy</b>	49	403 / 404, Meru Heights 268, Telang Road Matunga (E) Mumbai 400 019
7.	<b>Mr. R. K. Pandey</b>	52	A-74, Sarve Sanjhi Apartments, Plot No.8 Sector 9, Dwarka New Delhi - 110 075
8.	<b>Mr. Sudhin Choksey, Managing Director</b>	52	B –603, Rushin Towers, B/h. Bidiwala Park, Near Someshwara–2 Bungalows Lane Opp: OM Towers Off. Satelite Road Ahmedabad – 380 015

**3. Company Secretary and Compliance Officer**

**Marcus Lobo**  
GRUH Finance Limited  
"GRUH "Netaji Marg  
Near Mithakali Six Roads  
Ellisbridge  
Ahmedabad – 380 006  
Tel: (91 79) 2642 1671  
Fax: (91 79) 2656 0649  
Email: gruh\_rights@gruh.com

**4. Lead Manager to the Issue**

**DSP Merrill Lynch Limited**  
Mafatlal Centre, 10<sup>th</sup> Floor  
Nariman Point  
Mumbai – 400 021  
Tel: (91 22) 6632 8000  
Fax: (91 22) 2204 8518  
Email: gruh\_rights@ml.com  
Contact Person: Mr. Kartik Desai

**5. Legal Advisor to the Lead Managers**

AZB & Partners  
Express Towers, 23<sup>rd</sup> Floor  
Nariman Point  
Mumbai – 400 021  
Tel: (91 22) 6639 6880  
Fax: (91 22) 6639 6888  
E-mail: mumbai@azbpartners.com

**6. Auditors of the Company**

**Sorab S. Engineer & Co.**  
Chartered Accountants,  
Ismail Building  
381, Dr. D. Naoroji Road, Fort  
Mumbai – 400 001  
Tel: (91 22) 2204 1789, 2204 0861  
Fax: (91 22) 2284 6319  
Email: sorabs@hotmail.com

**7. Bankers/ Lenders of the Company**

**ABN AMRO Bank**  
71/72, 7th Floor  
Sakhar Bhavan  
Nariman Point  
Mumbai – 400 021  
Tel: (91 22) 5637 2555  
Fax: (91 22) 5637 2518  
Email: sheetal.mehta@in.abnamro.com

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**Bank of India**

Income Tax Char Rasta Branch  
Shanti Chambers  
Opp. Dinesh Hall  
Ashram Road  
Ahmedabad – 380 009  
Tel: (91 79) 2754 6233  
Fax: (91 79) 2754 6034  
Email: boiitcr@yahoo.com.in

**Dena Bank**

Navrangpura Branch  
Surya Complex  
Swastik Char Rasta  
Navrangpura,  
Ahmedabad – 380 009  
Tel: (91 79) 2643 1390  
Fax: (91 79) 2656 8623  
Email: navran@denabank.co.in

**HDFC Bank Limited**

Navrangpura Branch  
HDFC Bank House  
Mithakhali  
Navrangpura  
Ahmedabad – 380 006  
Tel: (91 79) 2642 1940  
Fax: (91 79) 2646 3146  
Email: milan.wani@hdfcbank.com

**IDBI Bank**

IDBI Complex  
Lal Bunglow  
Off C.G. Road  
Ahmedabad – 380 006  
Tel: (91 79) 2643 1902  
Fax: (91 79) 2656 5105  
Email: r\_singhvi@idbibank.com

**State Bank of Patiala**

Vasupujya Chambers  
Income Tax Circle  
Ashram Road  
Ahmedabad – 380 014  
Tel: (91 79) 2754 2432  
Fax: (91 79) 2754 1812  
Email: b5345@sbp.co.in

**State Bank of Saurashtra**

Usmanpura Branch  
1-Ajanta Commercial Centre  
Ashram Road  
Ahmedabad – 380 011  
Tel: (91 79) 2754 1075  
Fax: (91 79) 2754 2009  
Email: ahm.uspr@sbs.co.in

**Union Bank of India**

Industrial Finance Branch  
C.U. Shah Chambers  
Ashram Road  
Ahmedabad – 380 014  
Tel: (91 79) 2754 2123  
Fax: (91 79) 2754 0524  
Email: ifbahmedabad@unionbankofindia.com

**UTI Bank Limited**

"TRISHUL". Opp. Someshwar Temple  
Law Garden  
Ellisbridge  
Ahmedabad – 380 006  
Tel: (91 79) 5530 6111  
Fax: (91 79) 5530 6109  
Email: keerthinarayan@utibank.co.in

**8. Bankers to the Issue**

**HDFC Bank Limited**

"HDFC Bank House"  
Near Jain Derasar  
Navrangpura, Ahmedabad - 380 009  
Contact Person: Mr. Manish Motwani & Mr. Rayomond Kavina  
Tel No. (079) 6600 1203 & 6513 8811  
Fax No.(079) 2656 0503  
E-mail: manish.motwani@hdfcbank.com; rayomond.kavina@hdfcbank.com  
Website: www.hdfcbank.com

**9. Registrar to the Issue**

**Intime Spectrum Registry Limited  
(Unit GRUH)**

C-13, Pannalal Silk Mills Compound,  
LBS Marg, Bhandup (W),  
Mumbai- 400078.  
Contact person: Ms Awani Punjani  
Tel No. 022- 25960320(9 lines)  
Fax No. 022- 25960329  
Email ID: gruhfin-rights@intimespectrum.com  
SEBI REG.No. INR 000003761

**Registrar & Transfer Agents**

**MCS Ltd.**

**(Unit GRUH)**  
101 Shatdal Complex,  
Opp. Bata Showroom, Ashram Road,  
Ahmedabad 380 009 India  
Tel: (91 79) 3007 0671  
Fax: (91 79) 3007 0678  
Email : mcsamd@icenet.net  
Website: www.mcsind.com  
SEBI REG.No. INR 000000056

**10. Credit Rating**

This being an issue of equity shares, no credit rating is required.

**11. Inter-se Allocation of Responsibilities**

Not Applicable

**12. Trustees**

This being a Rights Issue of Equity Shares, appointment of Trustees is not required.

**13. Monetary Agency**

Not Applicable

**14. Appraising Entity**

Not Applicable

**15. Impersonation**

As a matter of abundant caution, attention of the applicants is specifically drawn to the provisions of subsection (1) of Section 68A of the Act which is reproduced below:

“Any person who makes in a fictitious name an application to a company for acquiring, or subscribing for, any shares therein, or otherwise induces a company to allot, or register any transfer of shares therein to him, or any other person in a fictitious name, shall be punishable with imprisonment for a term which may extend to five years”

**16. Minimum Subscription**

The issue will become undersubscribed after considering the number of shares applied as per the entitlement plus additional shares. The undersubscribed portion can be applied for only after the close of the Issue. The Promoter and the promoter group have undertaken to subscribe to the unsubscribed portion to ensure that the Issue is successful (or is 100% subscribed). This acquisition of additional Equity Shares, if allotted to the Promoter shall be in terms of proviso to regulation 3(1)(b)(ii) of the Takeover Code and will be exempt from the applicability of regulation 11 and 12 of Takeover Code. This disclosure is made in terms of the requirement of Regulation 3(1)(b)(ii) of the Takeover Code. Further this acquisition will not result in change of control of management of the Company.

However, if the Company does not receive the minimum subscription of 90% of the issue, the entire subscription shall be refunded to the applicants within forty two days from the date of closure of the issue. If there is delay in the refund of subscription by more than 8 days after the company becomes liable to pay the subscription amount (i.e. forty two days after closure of the issue), the company will pay interest for the delayed period, at rates prescribed under sub-sections (2) and (2A) of Section 73 of the Companies Act, 1956.

**Note:** Investors are advised to contact the Registrar to the Issue/ Compliance Officer in case of any pre-issue/post-issue related problems such as non-receipt of Letter of Offer/ letter of allotment/ share certificate(s)/ refund orders.

## CAPITAL STRUCTURE

### 1. Capital Structure of the Company

The Authorized shareholding Capital of the Company is Rs. 50,00,00,000/- divided into 5,00,00,000 equity shares of Rs. 10/- each.

	<b>Aggregate Nominal Value (In Rs. in lacs)</b>
<b>Authorized share capital before the Issue</b>	
5,00,00,000      Equity Shares of Rs. 10 each	5,000.00
<hr/>	
Total	5,000.00
<b>Issued and paid-up share capital before the Issue</b>	
2,65,00,000      Equity Shares of Rs. 10 each fully paid-up	2,650.00
<b>PROPOSED ISSUE</b>	
79,50,000      Equity Shares of Rs. 10 each at a premium of Rs. 65 i.e. at a price of Rs. 75	795.00
<b>Paid up capital after the Issue</b>	
3,44,50,000      Equity Shares of Rs. 10 each fully paid up	3,445.00
<b>Share premium account</b>	
Existing share premium account	1,012.80
Share premium account after the Issue	6,180.30

### 2. Build up of Equity Share Capital

The details of movement in share capital as at August 25, 2006 are as follows:

Description	Date of Allotment	No. of Shares	Price per Share (Rs.)	Face value (Rs.)	Cumulative Paid up Capital (Rs.)
Subscription by institutions	1987	20,00,000	10	10	2,00,00,000
Rights Issue	24-11-92	10,00,000	10	10	3,00,00,000
Public Issue	10-12-92	21,50,000	10	10	5,15,00,000
Reserved for allotment in Rights Issue (conversion of Part "A" of FCDs issued to GRUH Employees Welfare Trust)	02-11-94	1,25,000	25	10	5,27,50,000
Rights Issue (conversion of Part "A" of FCDs issued to Shareholders)	14-03-95	25,75,000	25	10	7,85,00,000
Reserved for allotment in Rights Issue (conversion of Part "B" of FCDs issued to GRUH Employees Welfare Trust)	02-05-95	2,50,000	25	10	8,10,00,000
Rights Issue (conversion of Part "B" of FCDs issued to Shareholders)	14-09-95	51,50,000	25	10	13,25,00,000
Rights Issue (conversion of FCDs issued to Shareholders)	09-09-99	1,32,50,000	10	10	26,50,00,000



### 3. Details of Share Premium Account

<b>Financial Year</b>	<b>Particulars</b>	<b>No. of Equity Shares</b>	<b>Premium per share</b>	<b>Amount (Rs. in lacs)</b>	<b>Cumulative Amount (Rs. in lacs)</b>
1994-1995	Rights Issue Conversion of Part "A"	27,00,000	15	405.00	405.00
1995-1996	Rights Issue Conversion of Part "B"	54,00,000	15	810.00	1,215.00
1997-98	1. Expenses on issue of shares	N.A	N.A	(28.49)	1,186.51
	2. Debenture issue expenses			(47.11)	1,139.40
1998-1999	Expenses on issue of FCD	N.A	N.A	(27.64)	1,111.76
2001-02	Expenses on issue of NCD	N.A	N.A	(8.55)	1,103.21
2004-05	Expenses on issue of NCD	N.A	N.A	(21.50)	1,081.71
2005-06	Expenses on issue of NCD	N.A	N.A	(68.91)	1,012.80

### 4. Details of Equity Shares Bought Back

The Company has not bought back any shares since inception.

### 5. Current shareholding pattern of the Company as on August 25, 2006 is as follows:

<b>Shareholders</b>	<b>No. of Equity Shares held pre-Issue</b>	<b>% of pre-Issue Capital</b>	<b>No. of Equity Shares post Issue</b>	<b>% of post Issue capital assuming allotment of all Equity Shares offered</b>
<b>I. PROMOTERS</b>				
a) Promoters	1,63,90,604	61.85	2,13,07,785	61.85
<b>II. NON PROMOTER HOLDING</b>				
<i>Institutional Investors</i>				
a) Financial Institutions, Mutual Funds and Banks	6,06,963	2.29	7,89,052	2.29
b) Foreign Institutional Investors	18,33,094	6.92	23,83,022	6.92
<i>Others</i>				
a) Private Corporate Bodies	9,41,035	3.55	12,23,346	3.55
b) Public – Resident Indians	56,88,716	21.47	73,95,331	21.47
c) NRIs/ OCBs	10,39,588	3.92	13,51,464	3.92
<b>TOTAL</b>	<b>2,65,00,000</b>	<b>100.00</b>	<b>34,450,000</b>	<b>100.00</b>

**6. Details of the shareholding of the Promoters, Promoter Group, directors of the promoter in the Company as on the date of filing of LOF is as follows:**

Name of entities	Percentage of shareholding	No. of Shares
<b>(a) Promoters</b>		
Housing Development Finance Corporation Limited	61.85	163,90,604
<b>(b) Promoter Group</b>		
Nil	Nil	Nil
<b>(c) Companies forming part of the Promoter Group</b>		
Nil	Nil	Nil
<b>Total Promoter and Promoter Group shareholding</b>	<b>61.85</b>	<b>163,90,604</b>

**7. Details of acquisition by the Company's Promoters**

Date of Investment / Disinvestment	No. of Shares	Amount	Purchase / Sale Price	Average Price	Remarks	Cumulative Holding	% holding
June-87	2,50,000	25,00,000	10.00	10.00		2,50,000	12.50%
November-92	2,75,000	27,50,000	10.00	10.00	Rights	5,25,000	17.50%
December-92	54,166	5,41,660	10.00	10.00	Public Issue	5,79,166	11.25%
March-95	4,41,670	1,10,41,750	25.00	16.49	Rights	10,20,836	13.00%
September-95	8,83,340	2,20,83,500	25.00	20.44	FCD Conversion	19,04,176	14.37%
September-98	56,45,846	5,64,58,460	10.00	12.63	FCD Conversion	75,50,022	28.49%
June-00	68,90,000	9,99,05,000	14.50	13.52	Gujarat Ambuja	1,44,40,022	54.49%
July-02	4,85,000	99,91,000	20.60	13.75	GRUH EWT	1,49,25,022	56.32%
July-02	13,15,582	2,76,27,222	21.00	14.34	ACC	1,62,40,604	61.29%
December-03	1,50,000	57,13,500	38.09	14.56	HDFC Securities (Secondary market)	1,63,90,604	61.85%

The promoter, HDFC by its certificate dated August 30, 2006 informed the Company that it has acquired all its shares in the Company in compliance with the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.

**8. Details of the transactions in Equity Shares by the Promoters and the promoter group during the last six months**

There was no transaction reported during the last six months from the date of Letter of Offer.

**9. Shareholders and entities holding more than 1% (as on August 25, 2006)**

The following is the list of persons and entities holding more than 1% of the shareholding in the Company.

(Face value of Rs. 10 per share)

Name of the shareholders	Total Shares	Percentage of pre issue capital
<b>PROMOTERS</b>		
Housing Development Finance Corporation Limited	1,63,90,604	61.85
<b>NON PROMOTERS</b>		
HSBC Financial Services (Middle East) Limited	10,24,758	3.87
Merrill Lynch Capital Markets ESPANA S.A.S.V.	6,75,102	2.55
Dr. Sanjeev Arora	5,19,410	1.96
National Housing Bank	4,47,919	1.69
Tata Investment Corporation Limited	3,50,000	1.32
<b>Total</b>	<b>1,94,07,793</b>	<b>73.24</b>

**10. List of top 10 shareholder of the Company and the number of Equity Shares held by them**

**a) Top ten shareholders on the date of filing of Letter of Offer is as follows:**

Sr.No.	Name	No. ofShares	% ofcapital
1	Housing Development Finance Corporation Limited	16,390,604	61.85
2	HSBC Financial Services (Middle East) Limited	10,24,758	3.87
3	Merrill Lynch Capital Markets ESPANA S.A.S.V.	6,75,102	2.55
4	Dr. Sanjeev Arora	5,19,410	1.96
5	National Housing Bank	4,47,919	<a href="#">1.69</a>
6	Tata Investment Corporation Limited	3,50,000	1.32
7	Tata Trustee Company Private Limited A/c. Tata Mutual Fund A/c. Tata Dividend Yield Fund	1,57,144	0.59
8	Rachna Amin	143,660	0.54
9	Platinum Jubilee Investments Limited	135,419	0.51
10	Aga Khan Fund for Eco. Dev. S.A. (AKFED)	125,000	0.47

**b) Top ten shareholders ten days prior to filing of Letter of Offer is as follows:**

Sr.No.	Name	No. ofShares	% ofcapital
1	Housing Development Finance Corporation Limited	16,390,604	61.85
2	HSBC Financial Services (Middle East) Limited	9,82,401	3.71
3	Merrill Lynch Capital Markets ESPANA S.A.S.V.	6,75,102	2.55
4	Dr. Sanjeev Arora	5,19,410	1.96
5	National Housing Bank	4,47,919	1.69
6	Tata Investment Corporation Limited	3,50,000	1.32

<u>Sr.No.</u>	<u>Name</u>	<u>No. ofShares</u>	<u>% ofcapital</u>
7	Tata Trustee Company Private Limited A/c. Tata Mutual Fund A/c. Tata Dividend Yield Fund	1,97,011	0.74
8	Rachna Amin	142,728	0.54
9	Platinum Jubilee Investments Limited	135,419	0.51
10	Aga Khan Fund for Eco. Dev. S.A. (AKFED)	125,000	0.47

c) **Top ten shareholders two years prior to filing of Letter of Offer with SEBI is as follows:**

<u>Sr.No.</u>	<u>Name</u>	<u>No. ofShares</u>	<u>% ofcapital</u>
1	Housing Development Finance Corp Ltd.	16,390,604	61.85
2	Administrator of the Specified Undertaking of Unit Trust Of India-Unit Scheme 1964	748,378	2.82
3	Dena Bank	736,500	<a href="#">2.78</a>
4	National Housing Bank	447,919	1.69
5	State Bank of Saurashtra	375,000	1.42
6	Dr. Sanjeev Arora	243,200	0.92
7	Central Bank of India	209,324	0.79
8	Platinum Jubilee Investments Ltd.	135,419	0.51
9	Aga Khan Fund for Eco. Dev. S.A. (AKFED)	125,000	0.47
10	Gujarat State Fertilizers Chemicals Limited	100,000	0.38

**Notes to the capital structure:**

- The total number of members of the Company as on March 31, 2006 was 16,102.
- The present Issue being a Rights Issue, as per extant SEBI guidelines, the requirement of promoters' contribution and lock-in are not applicable.
- The Company has not availed of "bridge loans" to be repaid from the proceeds of the Issue for incurring expenditure on the Objects of the Issue.
- The Promoters and Directors of the Company and Lead Managers of the Issue have not entered into any buy-back, standby or similar arrangements for any of the securities being issued through this Letter of Offer.
- The terms of issue to Non-Resident Equity Shareholders/Applicants have been presented under the section "Terms of the Issue" on page 122 of this Letter of Offer.
- At any given time, there shall be only one denomination of the Equity Shares of the Company and the Company shall comply with such disclosure and accounting norms specified by SEBI from time to time. The Equity Shareholders of the Company do not hold any warrant, option or convertible loan or debenture, which would entitle them to acquire further shares in the Company.
- The Company in its Annual General Meeting held on July 7, 2006 *inter alia* approved the reclassification of its existing authorised capital of Rs. 5,000 lacs comprising of 350 lacs equity shares and 15 lacs preference shares to authorised capital of Rs. 5,000 lacs comprising of 500 lacs equity shares and nil preference shares.
- The Company in its Annual General Meeting held on July 7, 2006 *inter alia* approved to create, issue, offer and allot 773,500 equity shares of Rs. 10 each aggregating to Rs. 77,35,000 (or such adjusted numbers for any bonus, stock splits or consolidation or other re-organisation of the capital structure of the Company as may be applicable from time to time) to the present and future permanent employees and directors of the

Company under Employee Stock Option Scheme(s) (ESOS) and on such terms and conditions and in such tranches as may be decided by the board in its absolute discretion.

9. No further issue of capital by way of issue of bonus shares, preferential allotment, Rights Issue or public issue or in any other manner which will affect the equity capital of the Company, shall be made during the period commencing from the filing of the Letter of Offer with the SEBI and the date on which the Equity Shares issued under the Letter of Offer are listed or application moneys are refunded on account of the failure of the Issue. Further, presently the Company does not have any intention to alter the equity capital structure by way of split/ consolidation of the denomination of the shares on a preferential basis or issue of bonus or rights or public issue of shares or any other securities within a period of six months from the date of opening of the Issue.
10. The Issue will remain open for 30 days. However, the Board will have the right to extend the Issue period as it may determine from time to time but not exceeding 60 days from the Issue Opening Date.
11. The issue will become undersubscribed after considering the number of shares applied as per the entitlement plus additional shares. The undersubscribed portion can be applied for only after the close of the Issue. The Promoter and the promoter group have undertaken to subscribe to the unsubscribed portion to ensure that the Issue is successful (or is 100% subscribed). This acquisition of additional Equity Shares, if allotted to the Promoter shall be in terms of proviso to regulation 3(1)(b)(ii) of the Takeover Code and will be exempt from the applicability of regulation 11 and 12 of Takeover Code. This disclosure is made in terms of the requirement of Regulation 3(1)(b)(ii) of the Takeover Code. Further this acquisition will not result in change of control of management of the Company.

However, if the Company does not receive the minimum subscription of 90% of the issue, the entire subscription shall be refunded to the applicants within forty two days from the date of closure of the issue. If there is delay in the refund of subscription by more than 8 days after the company becomes liable to pay the subscription amount (i.e. forty two days after closure of the issue), the company will pay interest for the delayed period, at rates prescribed under sub-sections (2) and (2A) of Section 73 of the Companies Act, 1956.

- For Equity Shares being offered on rights basis under this Issue, if the shareholding of any Equity Shareholders is less than 10 or not in multiples of 10, any fractional entitlement will be ignored. For a person who holds less than 4 shares, his fractional entitlement will be ignored and he will be sent a 0 entitlement form, which will be non-renounceable and non-negotiable. But he has a right to apply for more shares. Any person whose fractional entitlement is ignored and has been given the option to apply for additional shares will be given preferentially 1 share if he applies for additional shares as per the Basis of Allotment mentioned on page 133 of this Letter of Offer.

The Equity Shares needed for such shares will be first adjusted from the unsubscribed portion of the Issue, if any and should there be further requirement, from the Promoter and Promoter Group's entitlement at the time of allotment.

## OBJECTS OF THE ISSUE

### 1. Object of the Offering

- 1.1. To strengthen capital adequacy ratio as specified by NHB.
- 1.2. “The main objects and objects incidental or ancillary to the main objects set out in our Memorandum of Association enable us to undertake our existing activities and the activities for which funds are being raised by us through this Issue. The fund requirement and deployment is based on internal management estimates and has not been appraised by any bank or financial institution.”
- 1.3. As per the NHB Housing Finance Company Direction, 2001 dated 27th September 2001, every Housing Finance Company shall maintain a minimum CAR of 12%. The Company’s CAR as on 31<sup>st</sup> March 2006 is 14.2%. NHB vide its Direction No. NHBHFC.DIR.11/CMD/2005 dated October 1, 2005 increased the risk weightage for standard individual housing loan assets from 50% to 75%. The risk weightage for commercial assets has been increased from 100% to 125% effective December 19, 2005 and further from 125% to 150% effective June 6, 2006. In view of the additional business and to maintain the CAR above the minimum stipulated level of 12%, infusion of fresh capital is required.

1.4. Particular of the CAR for last five years is given below:

Particulars	Mar-06	Mar-05	Mar-04	Mar-03	Mar-02
Tier – I	9.60%	14.90%	17.79%	16.08%	15.35%
Tier – II	4.64%	0.81%	1.68%	2.18%	2.30%
Total Capital	12,888.71	7,745.41	6,937.09	6,719.19	7,663.88
Total Risk Adjusted Assets	90,475.15	49,298.98	35,614.56	36,799.81	43,430.00
CAR	14.24%	15.71%	19.47%	18.26%	17.65%

- 1.5. Capital adequacy ratio of the Company after the Rights Issue using the risk adjusted assets as on March 31, 2006 would be 20.83%

Particulars	Post Issue
Tier – I*	16.19%
Tier – II*	4.64%
Total Capital	18,851.21
Total Risk Adjusted Assets (as on March 31, 2006)	90,475.15
CAR*	20.83%

\* Using the post rights issue capital and the Risk Adjusted Asset as of March 31, 2006.

- 1.6. Proceeds from the Offering to be used:

Particulars	Amount
To strengthen capital adequacy norm as specified by NHB	5,862.50
For Issue expenses	100.00
Total	5,962.50

(Rs. in lacs)

### 2. Means of Finance

The above Objects of the Issue are proposed to be financed as follows:

Particulars	Amount
Rights Issue of 79,50,000 equity shares of Rs. 10/- each at a price of Rs. 75/- per share.	5,962.50
Total	5,962.50

(Rs. in lacs)

## BASIS OF ISSUE PRICE

### 1. Qualitative Factors

Please see “the Company’s Business” for a discussion of the Company’s strengths and strategy and “Risk Factors” for a discussion of internal and external risks associated with the Company’s business and industry.

### 2. Quantitative Factors

#### 2.1. Earning per Share (EPS)

Financial Year	EPS (Rs.)	Weight Used
2004	5.10	1
2005	6.31	2
2006	8.18	3
Weighted Average	7.04	

#### 2.2. Trailing Price Earnings Ratio (P/E Ratio)

2.2.1. Trailing Price Earning Ratio based on FY06 EPS and Issue price: **9.17**

2.2.2. Industry P/E

Highest	26.60
Average	13.39
Lowest	7.70

*(Based on price as on August 18, 2006 and EPS for FY06)*

#### 2.3. Return on Net Worth

Financial Year	Return on Net Worth (%)	Weight Used
2004	21.34	1
2005	22.75	2
2006	24.95	3
Weighted Average	23.62	

#### 2.4. Minimum Return on Net Worth after Issue Required for Maintaining Pre-Issue EPS of Rs. 8.18

EPS	Minimum Return on Net Worth After Issue to Maintain Pre-Issue EPS
8.18	19.23%

#### 2.5. Net Asset Value (NAV) Per Share

As on March 31, 2006	Rs. 32.79
After the issue based on March 31, 2006 results	Rs. 42.53
Issue Price	Rs. 75

## 2.6. Comparison of Key Ratios with Companies in the Same Industry Group

A comparison with some of the Housing Finance Companies in the same business as the Company is as follows:

(Financial figures and Market figures as on March 31, 2006)

Name of the Company	FY06	FY06	Market	FY06	FY06	Trailing P/E (x)	Price as on 31/3/06 (Rs.)
	Revenue (Rs. in lacs)	PAT (Rs. in lacs)	Capitalizati on as on 31/3/06 (Rs. in lacs)	Basic EPS (Rs.)	RON W (%)		
LIC Housing Finance Ltd.	1,26,598	20,903	1,61,032	24.61	15.35	7.70	189.6
Dewan Housing Finance Ltd.	22,680	4,171	32,674	8.32	18.03	7.84	65.2
GRUH Finance Ltd.	10,420	2,168	24,725	8.18	24.95	11.41	93.3
HDFC Ltd.	4,27,800	1,25,700	33,34,294	50.25	28.15	26.60	1,336.1

(Source: Company Results)

- The Lead Manager believes that the Issue Price of Rs. 75 is justified in view of the above qualitative and quantitative parameters. See the section titled "Risk Factors" on page v of this Letter of Offer and the section titled "Company's Business" on page 30 of this Letter of Offer in addition to the financials of the Company including important profitability and return ratios, as set out in the "Auditors Report" on page 68 of this Letter of Offer.

**The issue price is 7.5 times of the Face Value.**



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## STATEMENT OF TAX BENEFITS

Sorab S. Engineer & Co., auditors of the Company, have given their written consent for inclusion of income tax benefits in the form and content as appearing on page 119 of this Letter of Offer, accruing to the Company and its members.

### TAX BENEFITS UNDER THE INCOME TAX ACT, 1961

#### A. TO THE COMPANY

##### 1. Under Income Tax Act, 1961

- 1.1. In accordance with Section 32, the Company will be entitled to claim depreciation allowance at the prescribed rates on tangible and intangible assets as specified.
- 1.2. In accordance with Section 36 (1) (viii), the Company will be entitled to deduction of 40 % of the total housing income, credited to a 'Special Reserve' as provided under that section on fulfillment of conditions prescribed therein.
- 1.3. In accordance with Section 35DDA, the Company will be entitled to claim expenditure incurred in respect of voluntary retirement scheme in five equal annual installments.
- 1.4. In accordance with the provisions of Section 10(38), the long-term capital gains arising on the transfer of an equity share in a company or a unit of an equity oriented fund where:
  - 1.4.1. the transaction of sale of such equity share or unit is entered into on or after 01.10.2004 and
  - 1.4.2. such transaction is chargeable to Securities Transaction Tax under Chapter VII of Finance (No.2) Act, 2004, shall be exempt from income tax.
- 1.5. The long-term capital gains accruing to the Company otherwise than as mentioned in 4 above, shall be chargeable to tax in accordance with and subject to the provisions of Section 112 of the IT Act as follows:
  - 1.5.1. If long term capital gain is computed with indexation, at the rate of 20% (plus applicable surcharge and education cess)
  - 1.5.2. In the case of certain listed shares, securities, units and zero coupon bond, if long term capital gain is computed without indexation, at the rate of 10% (plus applicable surcharge and education cess)
- 1.6. The short-term capital gains accruing to the Company, from the transfer of a short-term capital asset, being an equity share in a company or a unit of an equity oriented fund where:
  - 1.6.1. the transaction of sale of such equity share or unit is entered into on or after 01.10.2004 and
  - 1.6.2. such transaction is chargeable to Securities Transaction Tax under Chapter VII of Finance (No.2) Act, 2004, shall be chargeable to tax at the rate of 10% (plus applicable surcharge and education cess).
- 1.7. The Company is eligible to claim exemption in respect of tax on long term capital gains under Section 54EC and 54ED if the amount of capital gains is invested in certain specified bonds / securities subject to the fulfillment of the conditions specified in those sections.
- 1.8. In accordance with Section 10(34), divided income (referred to in Section 115-O) declared, distributed or paid by the Domestic Company on shares held by the Company will be exempt from tax.
- 1.9. Company has unabsorbed losses/ allowances under the Act, which can be carried forward for set off against the income under the Act of future years as under:
  - 1.9.1. As per Section 72 of the Act, Company can carry forward the unabsorbed business losses for a period of eight assessment years immediately succeeding the assessment year in which the loss was first computed.
  - 1.9.2. As per Section 32 of the Act, Company can carry forward the unabsorbed depreciation allowance of earlier years for an indefinite period to be set off against business income under the Act of future years.
  - 1.9.3. As per Section 74 of the Act, Company can carry forward the unabsorbed long term capital losses for a period of eight assessment years immediately succeeding the assessment year in which the loss was first computed to be set off against long term capital gains under the Act of future years.
- 1.10. The Company is eligible to exemption under Section 10(35) in respect of

- 1.10.1. income by way of dividend received from mutual fund specified under Section 10(23D),
- 1.10.2. income received in respect of units from the Administrator of the specified undertaking and
- 1.10.3. income received in respect of units from specified companies.

**2. Under Wealth Tax Act, 1957**

The Company is liable to pay wealth tax as per the provisions of Wealth Tax Act, 1957 at the rate of 1% in respect of certain assets owned by the Company, subject to the basic exemption of Rs.15 lacs.

**B. TO THE DEBENTUREHOLDERS OF THE COMPANY**

**1.** The Debenture holders being individuals resident in India will be entitled to receive without deduction of Income Tax at Source provided:

- 1.1. The amount of interest payable during any FY does not exceed Rs. 5,000/- and interest paid by an account payee cheque; or
- 1.2. The debenture holders furnishes a declaration in writing in duplicate to the company in the prescribed manner to the effect that his estimated total income of the previous year in which such interest income will be earned, will be less than the minimum amount liable to Income Tax.

**C. TO THE SHAREHOLDERS OF THE COMPANY**

**1. Under the Income Tax Act**

**1.1. Residents**

- 1.1.1. In accordance with Section 10(34), dividend income declared, distributed or paid by the Company (referred to in Section 115-O) will be exempt from tax in the hands of the shareholders.
- 1.1.2. In accordance with the provisions of Section 10(38), the long-term capital gains arising on the transfer of an equity share in a company or a unit of an equity oriented fund where:
  - (a) the transaction of sale of such equity share or unit is entered into on or after 01.10.2004 and
  - (b) such transaction is chargeable to Securities Transaction Tax under Chapter VII of Finance (No.2) Act, 2004, shall be exempt from income tax.
- 1.1.3. In accordance with Section 111A, the short-term capital gains accruing to the members of the Company short-term capital asset, being an equity share in a company where:
  - (a) the transaction of sale of such equity share is entered into on or after 01.10.2004 and
  - (b) such transaction is chargeable to Securities Transaction Tax under Chapter VII of Finance (No.2) Act, 2004, shall be chargeable to tax at the rate of 10% (plus applicable surcharge and education cess).
- 1.1.4. In accordance with Section 112, the tax on capital gains on transfer of shares of the Company held as long-term capital assets, otherwise than as mentioned in point 2 above, will be the lower of:
  - (a) 20 per cent (plus applicable surcharge and education cess) of the capital gains as computed after indexation of the cost, or
  - (b) 10 per cent (plus applicable surcharge and education cess) of the capital gains as computed without indexation.
- 1.1.5. In accordance with Section 54EC and 54ED, long-term capital gains arising on transfer on the shares of the Company shall be exempted from tax if the gains are invested in long-term specified asset, subject to fulfillment of the conditions specified in those sections.

If only a part of the net consideration is so invested, so much of capital gain as bears to the whole of the capital gain the same proportion as the cost of the new long-term specified asset bears to the net consideration shall be exempt.

If the specified asset is transferred or converted into money at any time within a period of three years from the date of acquisition, the amount of capital gains on which tax was not charged earlier shall be deemed to be income chargeable under the head "Capital Gains" of the year in which the specified asset is transferred.



income chargeable under the head “Capital Gains” of the year in which the residential house is transferred.

- 1.2.7. In accordance with Section 90 (2) of the IT Act, if the provisions of the Double Taxation Avoidance Agreement (DTAA) between India and the country of residence of the non-resident are more beneficial, then the provisions of the DTAA shall be applicable.

### 1.3. **Non Resident Indians**

- 1.3.1. A Non-resident Indian (as defined in Section 115C(e) of the IT Act), being shareholders of an Indian Company, have the option of being governed by the provisions of Chapter XII-A of the IT Act which inter alia entitles them to the following benefits in respect of income from shares of an Indian Company acquired, purchased or subscribed to in convertible foreign exchange :

- 1.3.2. In accordance with Section 115E, Income from long-term capital gains on transfer of shares of the Company shall be taxed at the rate of 10% (plus applicable surcharge and education cess).

- 1.3.3. In accordance with Section 48, capital gains arising out of transfer of capital assets being shares in the Company shall be computed by converting the cost of acquisition, expenditure in connection with such transfer and the full value of the consideration received or acquiring as a result of the transfer of the capital assets into the same foreign currency as was initially utilised in the purchases of shares and the capital gains computed in such foreign currency shall be reconverted into Indian currency, such that the aforesaid manner of computation of capital gain shall be applicable in respect of capital gains accruing/arising from every reinvestment thereafter and sale of shares or debentures of an Indian company including the Company.

- 1.3.4. A non-resident Indian will not be eligible for adopting the indexed cost of acquisition and the indexed cost of improvement for the purpose of computation of long-term capital gain on sale of shares.

- 1.3.5. In accordance with Section 115F, subject to the conditions and to the extent specified therein, long-term capital gains arising from transfer of shares of the Company shall be exempt from capital gains tax entirely/proportionately if all or a portion of the net consideration is invested within six months of the date of transfer in any specified asset as defined in Section 115C (f) or any savings certificates referred to in Section 10(4B) of the IT Act. The amount so exempted shall, however, be chargeable to tax as long term capital gains under the provisions of Section 115F(2) if the specified assets are transferred or converted in to money within three years from the date of acquisition thereof as specified in the said section.

- 1.3.6. In accordance with Section 115G, it is not necessary for a Non-resident Indian to file a return of income under Section 139(1), if his total income consists only of investment income earned on shares of the Company or long-term capital gains earned on transfer of shares of the Company or both and the tax has been deducted at sources from such income under the provisions of Chapter XVII-B of the Income Tax Act.

- 1.3.7. In accordance with Section 115H, where a Non-resident Indian, in relation to any previous year, becomes assessable as a resident in India in respect of the total income of any subsequent year, he/she may furnish to the Assessing Officer a declaration in writing, along with his/her return of income under Section 139 of the IT Act for the assessment year for which he/she is so assessable, to the effect that the provisions of the Chapter XII-A shall continue to apply to him/her in relation to investment income derived from any foreign exchange asset, being an asset of the nature referred to in sub clause (ii) to clause (v) of clause (f) of Section 115C, in which case, the provisions of Chapter XII-A shall continue to apply to him/her in relation to such income for that assessment year until the transfer or conversion (otherwise than by transfer) into money of such assets.

- 1.3.8. In accordance with Section 115I, where a Non-resident Indian opts not to be governed by the provisions of Chapter XII-A for any assessment year, his total income for that assessment year (including income arising from investment in the Company) will be computed and tax will be charged according to the other provisions of the Income Tax Act.

### 1.4. **Foreign Institutional Investors (FIIs)**

- 1.4.1. In accordance with Section 10(34), dividend income declared, distributed or paid by the Company (referred to in Section 115-O) will be exempt from tax in the hands of the shareholders.

- 1.4.2. In accordance with the provisions of Section 10(38), the long-term capital gains arising on the transfer of an equity share in a company or a unit of an equity oriented fund where:

- (a) the transaction of sale of such equity share or unit is entered into on or after 01.10.2004 and
  - (b) such transaction is chargeable to Securities Transaction Tax under Chapter VII of Finance (No.2) Act, 2004, shall be exempt from income tax.
- 1.4.3. In accordance with Section 111A, the short-term capital gains accruing to the members of the Company short-term capital asset, being an equity share in a company where:
- (a) the transaction of sale of such equity share is entered into on or after 01.10.2004 and
  - (b) such transaction is chargeable to Securities Transaction Tax under Chapter VII of Finance (No.2) Act, 2004, shall be chargeable to tax at the rate of 10% (plus applicable surcharge and education cess).
- 1.4.4. In accordance with Section 115AD, FIIs will be taxed at 10% (plus applicable surcharge and education cess) on long-term capital gains (otherwise than as mentioned in 2 above) and at 30% (plus applicable surcharge and education cess) on short-term capital gain (otherwise than as mentioned in 3 above) arising on the sale of the shares of the Company. It is to be noted here that the benefits of indexation and foreign currency fluctuation protection as provided by Section 48 of the IT Act are not available to FIIs.
- 1.4.5. In accordance with Section 54EC and 54ED, long-term capital gains arising on transfer on the shares of the Company shall be exempted from tax if the gains are invested in long-term specified asset, subject to fulfillment of the conditions specified in those sections.
- 1.4.6. If only a part of the net consideration is so invested, so much of capital gain as bears to the whole of the capital gain the same proportion as the cost of the new long-term specified asset bears to the net consideration shall be exempt.
- 1.4.7. If the specified asset is transferred or converted into money at any time within a period of three years from the date of acquisition, the amount of capital gains on which tax was not charged earlier shall be deemed to be income chargeable under the head “Capital Gains” of the year in which the specified asset is transferred.
- 1.4.8. In accordance with Section 90 (2) of the IT Act, if the provisions of the Double Taxation Avoidance Agreement (DTAA) between India and the country of residence of the non-resident are more beneficial, then the provisions of the DTAA shall be applicable.
- 1.5. **Mutual Funds**
- In accordance with Section 10(23D), any income of a Mutual Fund registered under the Securities and Exchange Board of India Act, 1992 or Regulation made there under; such other Mutual Fund set up by a public sector bank or a public financial institution or authorized by the Reserve Bank of India subject to such conditions as the Central Government may, by notification in the Official Gazette, specify in this behalf will be exempt from Income Tax in the hands of the Mutual Fund.
- 2. Under the Wealth Tax Act**
- “Asset” as defined under Section 2 (ea) of the Wealth Tax Act, 1957 does not include shares in companies and hence, these are not liable to wealth tax.
- 3. Under the Gift Tax Act**
- Gift tax is not leviable in respect of any gifts made on or after Oct 1, 1998. Therefore any gift of shares will not attract gift tax.

## INDUSTRY OVERVIEW

### 1. Introduction

1.1. Home-buyers in India were traditionally debt averse and opted for external funding only as a last resort. Consequently, formal external funding of home purchase accounted for a relatively small proportion of housing finance. The balance amount was usually met from sources such as personal savings, sale of assets and borrowings from informal sources. However, a steady change in India's housing finance sector is currently underway, with mortgage financing being available more easily and debt being increasingly seen as an acceptable means of financing home purchase.

### 2. The Housing Finance Industry

2.1. HFCs and banks form two major groups of housing finance providers in India. While Housing Development Finance Corporation Limited, GRUH Finance Limited, GIC Housing Finance Limited, LIC Housing Finance Limited, PNB Housing Finance Limited, Dewan Housing Finance Limited and others are HFCs focused on the business of providing housing finance, banks such as State Bank of India and ICICI Bank Limited also provide housing finance as one of the various parts of their lending businesses.

2.2. NHB, a subsidiary of the RBI, regulates HFCs and provides them with refinancing to supplement their fund requirements. NHB came into existence after the National Housing Bank Act, 1987, was passed by Parliament.

2.3. The Act, *inter alia*, empowers NHB to:

- Issue directions to housing finance institutions to ensure their growth on sound lines;
- Make loans and advances and render any other form of financial assistance to scheduled banks and HFCs or to any authority established by or under any Central, State or Provincial Act and engaged in slum improvement; and
- Formulate schemes for the purpose of mobilization of resources and extension of credit for housing.

2.4. As of May 29, 2006 there are 44 NHB approved HFCs in India. Public sector banks were allowed to provide housing loans directly to retail clients in 1998, following modifications in the RBI guidelines. In the last few years, banks have emerged as formidable competition to the HFCs and they have become increasingly prominent in the housing finance industry.

### 3. Housing Loan Disbursements — Size and Growth

3.1. According to NHB statistics, total disbursements of housing loans have increased from a level of Rs. 19,05,868 lacs in FY01 to Rs. 54,30,170 lacs in FY04 showing a CAGR of approximately 42%. As per the Tenth Plan of the Government (2002-07), the total number of houses cumulatively required during the plan period is estimated to be 2.24 crores units, requiring a public investment of Rs. 4,15,00,000 lacs over this period.

3.2. Growth witnessed in the housing finance industry is attributable to the following factors:

3.2.1. Historical shortage of housing stock - The historical housing shortage over the last few decades is one of the major drivers of growth of the housing finance industry. This is especially true in rural and semi-urban areas though a significant level of shortage continues to persist in urban areas as well.

3.2.2. Increasing disposable income - The accessibility of housing finance has improved over the years with a growing number of customers willing and able to take loans to finance the purchase or construction of their homes. This has resulted from higher levels of disposable income among the salaried class.

3.2.3. Fiscal incentives - The Government has consistently provided greater incentives in the form of tax deductions to individuals availing themselves of housing loans. The deduction allowable for interest paid on home loans has been increased tenfold from Rs. 15,000 in 1999 to the current Rs. 150,000 allowable deduction. In addition the deduction allowable for principal repayments has increased from Rs 10,000 in FY 00 year to the current Rs. 100,000 in FY 06.

3.2.4. Regulatory incentives - The Government has introduced increasingly liberalized policies with respect to the housing sector which has helped sustain the growth of the housing finance industry. While the housing



delinquent customers from taking more credit. The sharing of the credit information will enable lenders to introducing differential pricing for differential credit risks being undertaken.

4.3. **Introduction of foreclosure norms** - With the implementation of the Securitisation Act and amendments to the National Housing Bank Act, foreclosure of mortgaged property on occurrence of defaults is expected to be easier and faster than in the past. Banks and HFCs have begun issuing notices to defaulters and foreclosing on properties. The Securitisation Act originally applied to banks only. However, in November 2003, its application was extended to HFCs.

4.4. **Increased securitisation** - Though the mortgaged based securitisation (MBS) market in India is not very deep by international standards, the recent past has witnessed movement towards greater securitisation. Securitisation offers an alternate and effective financing opportunity.

## 5. Industry Outlook

5.1. The Indian economy has demonstrated robust performance in the last few years and there is a strong linkage of demand for housing with economic growth. With the country yet to catch up to global standards on quality and quantity of housing stocks, a huge potential exists in this regard. According to FICCI Survey Report on “Foreign Direct Investment in Real Estate”, the mortgage to GDP ratio in India is low as compared to that in developed countries where it ranges from 25% to 60%. The mortgage to GDP ratio stood at 2.5% in India in 2001 as against 57% in the UK, 54% in the USA, 40% in the EU, 7% in China and 14% in Thailand. This implies future growth potential for the housing finance business in India.

5.2. As per the NHB report on “Trend and Progress of Housing in India”, June 2004, the thrust provided by way of policy initiatives of the Government, the housing finance sector is expected to maintain the growth momentum witnessed during the last few years although renewed measures are required to address core issues to further improve the growth of housing development in the country.

5.3. The strong relationship between investments in housing and GDP growth makes housing finance a priority item on the national agenda. According to NHB, the multiplier effect of investment in housing has grown over the past years as the proportion of outstanding housing loans as a fraction of GDP has risen from 3.4% in 2001 to 6.1% by 2004. According to the Tenth Five Year Plan (2002–2007), the housing, real estate and construction sector contributes 9.6% of GDP and ranks third out of 14 sectors in terms of induced effect on the economy. Given the importance of the sector, the Government is in the process of rationalizing regulations which impede real estate development.

5.4. The Government is also committed to the goal of “Housing for All” in rural areas by the end of the Tenth Plan. This is expected to boost housing demand in rural India and HFCs and banks are increasingly looking at smaller towns for growth. The average loan size in these towns tends to be lower than in urban areas but yields are typically higher due to less competition among lenders. According to the census in 2001, 71.2% of India’s population lives in semi-urban and rural India. The majority of the population has no access to housing finance. Hence the semi-urban and rural areas can potentially contribute significantly to the incremental demand for housing finance.

5.5. However, a change in interest rate remains one of the key risks to the growth prospects of the industry. Though the major players in the industry offer housing loans at both fixed and floating rates, a major portion of the new loans disbursed are floating rate loans. As a result, a significant number of borrowers will be impacted in the form of increase in EMI and/or tenure as and when interest rates increase.



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## HISTORY OF THE COMPANY AND OTHER CORPORATE MATTERS

The Company was incorporated on July 21, 1986 as Gujarat Rural Housing Finance Corporation Limited with the primary objective to provide long term housing finance for residential purposes. The Company obtained its Certificate of Commencement on August 6, 1986 and commenced its lending operations in January 1988. The Company was promoted by HDFC in association with AKFED. The Government of Gujarat extended initial support by providing a long term loan to the Company.

The Company received the certificate of registration from National Housing Bank and is recognized by NHB as an eligible housing finance company for refinance facility since 1989.

The name of the Company was changed to GRUH Finance Limited on August 21, 1995. The matter of name change was considered at 9<sup>th</sup> AGM of Company held on 20<sup>th</sup> July 1995. The reason for the change of name:

“Since inception, the company has been popularly known by its acronym “GRUH FINANCE” amongst its customers, investors, bankers and the general public.

The changed name will not only enable the company to project its desired identity but will also reflect the real name by which the Company is popularly known. Therefore the proposal to change name from Gujarat Rural Housing Finance Corporation Limited to GRUH FINANCE LIMITED.”

The Company went public in 1992 and became a public listed company on January 8, 1993. In 1995, the Company issued on Rights basis, 25,75,000 fully convertible debentures of face value Rs. 75 each for cash at par aggregating Rs. 1,931.25 lacs to the existing shareholders. In 1998, the Company issued on Rights basis, 1,32,50,000 12% unsecured fully convertible debentures of Rs. 10/- each for cash at par aggregating Rs. 1,325.00 lacs to existing shareholders.

The Company became a subsidiary of HDFC in 2000.

### **Objects of the Company**

The objects of the Company as contained in its Memorandum of Association include are to carry on the business of providing long-term finance to any person or persons, company or corporation, society or association of persons, with or without interest and with or without any security for the purpose of enabling such customer to construct or purchase or enlarge any house or dwelling unit or any part or portion thereof in India for residential purposes upon such terms and conditions as the Company may deem fit.

## COMPANY'S BUSINESS

### A. Overview

**1.** The Company has its operations in five states of India: Gujarat, Maharashtra, Karnataka, Madhya Pradesh and Rajasthan. The Company endeavors to provide housing finance to customers in deeper geographical pockets in semi-urban and rural areas.

**2.** The main objects of the Company as set out in its Memorandum of Association are: To carry on the business of providing long-term finance to any person or persons, company or corporation, society or association of persons, with or without interest and with or without any security for the purpose of enabling such customer to construct or purchase or enlarge any house or dwelling unit or any part or portion thereof in India for residential purposes upon such terms and conditions as the Company may deem fit.

**3.** Since the commencement of its operations in 1988, the Company has disbursed loans aggregating Rs. 2,10,282 lacs to finance the development of 93,866 dwellings. As at March 31, 2006, the Company has staff strength of 231 employees and services a customer base of over 57,900 borrowers and over 22,900 depositors.

Particulars	(Rs. in lacs)				
	FY06	FY05	FY04	FY03	FY02
Loan Disbursements	36,017	29,983	21,813	20,216	18,880
Loan Assets	1,06,912	81,653	58,163	55,554	48,033
Fixed Assets	833	828	870	1,387	1,460
Capital & Reserves	8,689	7,345	6,330	5,517	5,335
Borrowed Funds	1,07,980	80,649	57,198	55,540	48,704
PBT	2,623	2,067	1,570	1,202	914
PAT	2,168	1,671	1,351	979	803
Earning per Share (Rs.)	8.18	6.31	5.10	3.69	3.03
Adjusted Return on Net Worth (%)	24.95	22.75	21.34	17.74	15.05
Book Value per Share (Rs.)	32.79	27.72	23.89	20.82	20.13
Capital Adequacy Ratio (%)	14.24	15.71	19.47	18.26	17.65
Net NPA as a % of Loan Assets	0.23	0.66	0.30	0.81	2.43
Dividend	25%	21%	18%	15%	12%

### Loan disbursements geographical location wise:

Area	2006	2005	2004	2003	2002
Gujarat	19,986	18,260	14,166	13,057	11,660
Maharashtra	14,503	11,723	7,647	7,159	7,220
Rajasthan	304	-	-	-	-
Madhya Pradesh	655	-	-	-	-
Karnataka	569	-	-	-	-
<b>Total</b>	<b>36,017</b>	<b>29,983</b>	<b>21,813</b>	<b>20,216</b>	<b>18,880</b>

## 4. Products

4.1. The Company's major focus has been to provide home loans to individuals and families for purchase, construction, extension, repair and renovation of houses. In pursuit of these objectives, the Company has been offering various products and services to suit the needs of different customer segments. Apart from extending home loans and repair loans under its *Suraksha* and *Sajavat* schemes respectively, the Company offers loans to families for purchase, construction, repair and renovation of non-residential properties like office premises, clinics, shops and nursing homes under its *Samruddhi* scheme. the Company has also introduced personal loans under the *Sahyog* scheme for its existing home loan customers with a view to meet their other financial needs like education, hospitalisation, holiday travel and wedding against the mortgage of residential properties.

4.2. The Company has designed a new variant of home loan product – GRUH *Suvidha* – to meet the requirement of a flexible repayment plan. Under this product, a customer is given an initial monthly installment that can match his present cash flows with an annual step up for each subsequent year over the tenure of the loan depending on likely future cash flow. If required, a repayment plan is also allowed with a negative amortisation in the initial years to match the corresponding cash flows. This product has been specifically designed for the self-employed and the skilled workers segment where formal income proofs are not easily available and income flow is not uniform. the Company also offers non-residential property loans to the self-employment segment for purchase and construction of shops under its *Shubh Labh* scheme.

4.3. With a view to enable a uniform processing of credit risk assessment, the Company has introduced risk-based pricing, with interest rate on an individual loan linked to a credit score based on the profile of the customer.

4.4. The Company offers home loans to individuals on the basis of a fixed or floating rate of interest and as of March 31, 2006, 82.86% of such loans were priced on the basis of floating rate interest and 17.14% on fixed rate interest. The term of the Company's loans varies according to the purpose of the loan and loans are for a tenure from 5 to 30 years. The repayment of the Company's home loans is generally made on a monthly basis by EMI of principal and interest. As a security for the Company's home loans, the Company obtains equitable mortgage of the property of the borrowers financed by the Company by way of deposit of the title deeds of the property and/or such other collateral security as may be necessary. Customers may also be required to obtain a guarantee from a person acceptable to the Company and/or assign to the Company the benefit of a life insurance policy acceptable to the Company and covering the amount of the loan sanctioned.

4.5. In addition to the home loan schemes mentioned above, the Company also offers loans to developers for the construction of housing projects. As of March 31, 2006, total developer loans accounted for 0.89% of the Company's outstanding loan portfolio, compared to 0.74% as of March 31, 2005. Developer loans are typically for a term of between 2 to 3 years. Principal is repayable on agreed terms and interest is repayable on a monthly basis. The Company generally requires security by way of a mortgage over the property, a personal guarantee in respect of amounts due under the loan and other security, including security over an additional property, as the Company may require.

4.6. In FY06, total disbursements amounted to Rs. 36,017 lacs compared to Rs. 29,983 lacs in FY05. The Company believes that this increase was largely due to increased marketing efforts and increased demand for home loans due to better penetration at the *taluka* level and increased disposable income among the Company's target customer base.

## 5. Marketing and Distribution

5.1. The Company's corporate office is located in Ahmedabad and the Company has a distribution network of 65 retail offices across five states. The Company has 34 retail offices in Gujarat, 22 retail offices in Maharashtra, 5 retail offices in Karnataka, 2 retail offices in Madhya Pradesh and 2 retail offices in Rajasthan. The Company also conducts outreach programmes from each of its retail offices. The outreach programmes serve as a collection center for collecting installments besides providing services of enquiry handling, file opening and effecting disbursements.

5.2. In addition to the Company's retail distribution network, the Company has appointed third party agents known as GRAs to increase its distribution network and generate higher volumes of business, in particular in small towns and cities. As of March 31, 2006, there were 444 GRAs, which accounted for Rs. 12,975 lacs or 36.02% of the total disbursements made in FY06.

**5.3.** The Company does not hold registrations for its logo/trade mark under the provisions of the Trade Marks Act, 1999. However the Company is taking steps to expedite the filing and processing of its trade mark applications.

## **6. Risk Management**

6.1. The Company manages various risks associated with the mortgage business. These risks include credit risk, liquidity risk and interest rate risk. The Company manages credit risk through internal credit norms. Liquidity risk and interest rate risks arising out of maturity mismatch of assets and liabilities are managed through regular monitoring of the maturity profile.

6.2. The Audit Committee set up by the board has also been acting as the board level committee to oversee the implementation of the ALM position. The Audit Committee has been reviewing the ALM statements as prescribed by NHB on a half yearly basis and suggesting action to meet the ALM guidelines periodically.

6.3. A separate policy guideline on classification of the various constituents of the assets and liabilities, buying and selling of investments and limits within each time bucket has been laid down by the Audit Committee and the same are being followed by the Management.

## **7. Strengths**

The Company believes that it will be able to build on the following strengths to maintain and improve the its market position in the provision of housing finance:

### **7.1. Extensive experience in the housing finance industry**

The Company has been providing housing finance to individuals since 1988 and believes that customers are attracted by the its extensive experience in the housing finance industry and understanding of customers home finance needs. As of March 31, 2006, 92%, or Rs. 98,738 lacs of the Company's total outstanding loans were home finance loans to individuals. The Company is among the top 10 HFCs among 44 HFCs in terms of volume of disbursements in FY05. As a result of its extensive experience in the housing finance industry, the Company has been able to identify the property finance requirements of a different customer segments and innovate loan products to suit the needs of the market. Since incorporation till March 31, 2006, the Company has provided housing finance to over 93,866 customers, and cumulatively disbursed loans amounting to Rs. 2,10,282 lacs.

### **7.2. Strong brand name and parentage**

The Company was co-promoted by HDFC as a HFC in 1986 and now HDFC is the only promoter and the Company's major shareholder. As a result of the Company's relationship with HDFC, its extensive experience in the housing finance industry and reputation as an established HFC in western India, the Company has been able to build a strong customer awareness of its brand in Gujarat and Maharashtra. The Company has also taken steps to promote its corporate identity. The Company believes that customers recognize it as a company which they trust to provide housing finance at a competitive cost and which will offer them a wide range of housing finance products and local sales contacts.

The Company and HDFC are both involved in providing housing finance in India. However the Company's business does not have a conflict of interest with the business of HDFC because the Company and HDFC have different customer segments. While the Company targets customers located in mid-tier cities and rural areas who have a smaller average loan size, HDFC operates primarily in the major metropolitan centres like Mumbai, Delhi, Kolkatta and Chennai and has an average loan size which is substantially larger.

### **7.3. Extensive marketing network and wide customer base**

The Company has a marketing network comprising of 65 retail offices in Gujarat, Maharashtra, Karnataka, Madhya Pradesh and Rajasthan. In order to generate higher volumes of business, the Company has diversified its distribution channels and appointed 444 referral associates who are located throughout its major regions to market the Company's property finance solutions. As of March 31, 2006, the Company serves a customer base of over 57,900 home loan customers The Company believes that customers are attracted by the accessibility of its local sales contacts and response time in respect of loan applications.



The Company has diversified from its traditional home loan market into the segment in which formal income proofs are not available and income flow is not uniform. The Company is also seeking to diversify its asset base by increasing its exposure to loans for non-residential properties as well as loans to developers.

#### 8.1.4. ***Brand promotion***

In order to increase customer awareness of the Company's brand and its profile in the market, the Company has increased its advertising and promotion expenditure from Rs. 47.08 lacs in FY02 to Rs. 95.20 lacs in FY06. The increase in such expenditure is attributable to promotion of the Company's corporate identity, appointment of a professional marketing and advertising agency to assist with media coverage and a marketing campaign covering the regions of the Company's operations. The Company intends to maintain the focus on promotion of "GRUH" as a brand and increase its visibility to potential customers in rural India.

### 8.2. **Continue to implement measures to reduce costs**

The Company has implemented and will continue to implement measures to reduce the most significant costs of its business.

#### 8.2.1. ***Reduce funding costs***

During periods of declining interest rates, the Company has taken advantage of pre-payment options in the terms of its loans from commercial banks and NHB refinance, which provide the Company with the opportunity to re-price its funding at lower rates. Overall, the Company's average cost of funds was reduced from 12.82% in FY02 to 6.51% in FY06. The Company's domestic credit rating from CRISIL and ICRA allows it to secure low-cost funding in the domestic debt market.

#### 8.2.2. ***Reduce operating costs***

In FY06, the Company's other operating expenses as a percentage of outstanding loans were 0.69% as compared to 1.11% in FY02. The Company continues to focus on increasing its productivity and bring down the per unit operating cost on outstanding loans.

#### 8.2.3. ***Reduce NPAs and foreclose on defaulting loans***

As of March 31, 2002 and 2006, the Company's gross NPAs as a percentage of its outstanding loan portfolio were 3.53% and 1.48%, respectively. As of the same dates, the Company's net NPAs as a percentage of its outstanding loan portfolio were 2.43% and 0.23%, respectively. The Company will continue to implement measures to further reduce NPAs and other defaulting loans in order to reduce loan loss provisioning.

Following the extension of the application of the Securitisation Act to HFCs in November, 2003, the Company can now foreclose on collateral after 60 days' notice to a borrower whose loan has been classified as non-performing. To date, the Company has served more than 470 notices and, as a result, has regularized/settled/closed 130 accounts and recovered Rs. 204.50 lacs. Further, the Company has taken possession of 44 properties and sold 5 properties under the provisions of the Securitisation Act. The Company intends to continue issuing notices under the Securitisation Act to increase recovery on defaulted loans.

### 8.3. **Improve support services**

In order to improve efficiency and the quality of its services, the Company is focusing on the following areas:

#### 8.3.1. ***Effective use of technology***

The Company has developed an on-line software tool called "GRIT" which enables the Company to monitor and control its housing and deposit business at its retail offices spread across the states of Gujarat, Maharashtra, Karnataka, Madhya Pradesh and Rajasthan. Over the past five years, GRIT has been enhanced, modified and maintained by an internal information systems team in response to changes in the company's business environment.

#### 8.3.2. ***Human resource development and performance appraisal***

The Company offers its employees comprehensive on-going training to increase their competence level and job capability. The training is tailored to the Company's evolving business environment and corporate needs with the overall objective of improving customer service, employee loyalty and Company profitability. The Company has also implemented an annual performance appraisal system which allows the performance of its employees to be assessed through an objective and transparent process. The Company believes that its implementation of training and appraisal systems has resulted in a more productive and service-oriented workforce.

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## REGULATIONS AND POLICIES

### A. Regulatory Framework

The National Housing Bank (NHB) is the regulatory body for Housing Finance Companies (HFCs). NHB is a wholly owned subsidiary of Reserve Bank of India (RBI), the central bank of the country. NHB also provides refinance to registered HFCs.

The National Housing Bank (NHB) having considered it necessary in public interest had issued Housing Finance Companies (NHB) Directions 1989, to every housing finance company in exercise of the powers conferred on it under the NHB Act 1987.

NHB Act 1987 has been amended further by the National Housing Bank (Amendment) Act, 2000 (15 of 2000) further to enable the NHB to safeguard the interest of depositors and promote healthy and universal growth of Housing Finance Companies in the country. The NHB has, in exercise of powers conferred under Sections 30, 30A, 31 and 33 of the National Housing Bank Act 1987 issued the Housing Finance Companies (NHB) Directions, 2001.

NHB has issued guidelines/directions regarding accounting standards, prudential norms for asset classification, income recognition, provisioning, capital adequacy, concentration of credit, credit rating, Know Your Customer (“KYC”) guidelines and Anti Money Laundering (“AML”) Standards, real estate exposure and equity market participation.

NHB has also issued guidelines regarding Asset Liability Management (ALCO) for HFCs, exposure limits for real sector and stock markets etc. besides issuing guidelines from time to time to enable functioning of HFC’s. The Company has complied with all the guidelines prescribed by NHB from time to time.

With a view to safeguard the interest of retail depositors, NHB has also laid down guidelines for acceptance of deposits such as minimum and maximum tenure of deposits, cap on rate of interest for public deposits and brokerage, loans against public deposits, premature withdrawal of deposits etc.

NHB monitors the performance of HFCs through various returns and statements such as annual return for Deposits, Half Yearly Return on Asset Liability Matching and Capital Adequacy, Publishing of annual advertisement for Deposits, Quarterly statement for SLR etc.

### B. Some of the Salient Features of the NHB Guidelines are:

#### 1. *Income Recognition and Asset Classification*

The prudential guidelines issued by NHB for income recognition and asset classification specify the various instances under which an asset should be classified as a Non Performing asset. These norms have been separately listed for various asset groups such as loans, lease assets, hire purchase assets, Inter Corporate deposits etc. The Company does not have any lease or hire purchase assets or inter corporate deposits etc and since more than 91.64% of the assets of the company are loan assets, The Company is primarily guided by the norms for loans.

HFCs adopt accrual concepts in the preparation of the accounts. Repayment of housing loans is generally by way of Equated Monthly Installments (EMIs). Where the installment is overdue for more than 90 days, the entire outstanding loan is treated as Non Performing Asset (NPA) and the interest accrued on such accounts is not recognized. Housing Finance Companies classify their loans and advances and any other form of credit into four broad categories as illustrated below:

- Standard Asset – Standard Assets are loan assets which are not classified as NPAs i.e. loans wherein principal and interest are not outstanding for a period more than 90 days. In such accounts, no non recognition is required to be made.
- Substandard Asset: Substandard Assets are loan assets wherein the principal or interest on the loans is outstanding for more than 90 days i.e. accounts which have been identified as NPAs. A provision of 10% of the principal amount affected is made on the substandard assets and interest income accrued is not recognized in the books of accounts.



- **Bad and Doubtful Asset**—Bad and Doubtful assets are loan assets which have continued in the Sub Standard category for a period more than a year. The interest accrued on such loan assets is not recognized as income and provisioning requirement is to be made on a progressive basis as shown below :
  - Upto 1 year in the Bad and Doubtful category - 20% of the principal amount affected
  - Beyond one year and upto three years in the Bad and Doubtful category - 30% of the principal amount affected
  - More than three years in the Bad and Doubtful category - 50% of the principal amount affected
- **Loss Assets** – An asset can be flagged as a loss asset at a stage where the HFC believes that the dues are not recoverable. 100% provisions to the extent to which advance is not covered by realizable value of security to which the housing finance company has a valid recourse shall be made. The realizable value has been estimated on a realistic basis.

## **2. Capital Adequacy**

HFCs are to maintain a minimum capital adequacy norm of 12% of the risk weighted assets and off-balance sheet items. The capital may be either in the form of Tier I or Tier II capital subject that the total Tier II capital at any point in time shall not exceed one hundred percent of Tier I capital.

The risk weight on housing loans to individuals secured by mortgage of immovable property, which are classified as standard assets, is to be taken at 75% whereas the risk weight on fund based and non-fund based exposures secured by mortgages on commercial real estates is to be taken at 150%.

## **3. SLR Investments**

HFCs are to invest 12.50% of the Public Deposits and Unsecured borrowings, in specified SLR securities subject to a minimum of 6% of the Public Deposits and unsecured borrowings being invested in Government securities or Approved Securities.

## **C. Non-Banking Financial Companies and Miscellaneous Non-Banking Companies (Advertisement) Rules, 1977**

Every housing finance company soliciting public deposits shall comply with the provisions of the above said Rules. No housing finance company shall accept or renew any public deposit except on a written application from the depositors in the form to be supplied by the housing finance company, which form shall contain all the particulars specified in the above said Rules made under Section 58A of the Companies Act, 1956 and also contain the particulars of the specific category of the depositors.

## DIVIDEND

The Company has paid dividend for the year ending March 31, 2006 and the Company expects to continue to pay dividend in the future. The following are the dividend payouts for the last five years by the Company:

F. Y.	Dividend per Equity Share of Rs. 10 each (Amount in Rs.)	Amount (In Rs. lacs) <sup>(1)</sup>
2005-2006 <sup>(2)</sup>	2.50	662.50
2004-2005	2.10	556.50
2003-2004	1.80	477.00
2002-2003	1.50	397.50
2001-2002	1.20	318.00

(1) Excluding dividend tax where applicable

(2) Proposed dividend

## MANAGEMENT

### A. Board of Directors

The following table sets forth details regarding the Company's Board of Directors as on March 31, 2006

Sr.No	Name, Designation, Address, Occupation/Profession	Nationality	Age (years)	Directorships in other companies
1.	Mr. K.M. Mistry Chairman, GRUH Finance Limited Hasmukh Mansion Flat No.702 / 703, 7th Floor 39, Chitrakar Dhurandar Marg 14th Road Junction Khar (West) Mumbai - 400 052  Occupation: Managing Director – HDFC Ltd.	Indian	51	1. Housing Development Finance Corporation Ltd. 2. HDFC Developers Ltd. 3. HDFC Bank Ltd. 4. HDFC Trustee Company Ltd 5. HDFC Standard Life Insurance Co Ltd. 6. HDFC Chubb General Insurance Co Ltd. 7. Infrastructure Leasing & Financial Services Ltd. 8. Intelenet Global Services Pvt.Ltd. 9. Sun Pharmaceutical Industries Ltd 10. India Value Fund Advisors Pvt. Ltd. 11. Mahindra Holidays & Resorts India Ltd 12. The Great Eastern Shipping Co Ltd 13. NexGen Publishing Ltd. 14. Association of Leasing & Financial Service Cos
2.	Mr. S.M. Palia Independent Director 16, Ruchir Bunglows Vastrapur Ahmedabad - 380 015  Occupation: Company Director	Indian	67	1. Tata Steel Ltd 2. Champdany Industries Ltd 3. Saline Area Vitalisation Enterprises Ltd 4. Shibir India Ltd 5. The Associated Cement Companies Ltd
3.	Mr. Rohit C. Mehta Independent Director “Nandanvan” Opp. Shapath IV Near Karnavati Club S G Road, Post Ambli, Ahmedabad – 380 058  Occupation: Industrialist	Indian	75	1. Torrent Power AEC Ltd 2. Rajesh Malleables Ltd 3. Cama Hotels Ltd 4. Rampion Eyetech Pvt.Ltd. 5. Ramprasad Investments & Traders Pvt. Ltd. 6. R. M. Enterprises Pvt. Ltd 7. Gujarat Hotels Ltd
4.	Mr. Praful Anubhai Independent Director 9, Pathik Shital Baug Ahmedabad - 380 007  Occupation: Industrialist	Indian	68	1. Unichem Laboratories Ltd 2. Mahavir Spinning Mills Ltd. 3. Torrent Cables Limited 4. The H. K. Finechem Ltd. 5. Soma Textiles & Industries Ltd. 6. Management Structure & System Pvt.Ltd. 7. Baker Oil Tools (India) Pvt. Ltd. 8. Birla Sun Life Trustee Co Pvt.Ltd. 9. Niche Generics Ltd., UK 10. Centre for Science, Technology and Policy 11. The EMSAF -Mautitius

<b>Sr.No</b>	<b>Name, Designation, Address, Occupation/Profession</b>	<b>Nationality</b>	<b>Age (years)</b>	<b>Directorships in other companies</b>
5.	Ms. R.S. Karnad BB-14, Greater Kailash Enclave II New Delhi  Occupation: Executive Director, HDFC Ltd.	Indian	53	1. Housing Development Finance Corporation Ltd. 2. HDFC Asset Management Co. Ltd. 3. HDFC Realty Limited 4. Credit Information Bureau (India) Ltd. 5. Feedback Ventures Private Ltd 6. HDFC Chubb General Insurance Co Ltd. 7. HDFC Bank Ltd 8. Mother Dairy Fruit & Vegetable Private Ltd. 9. Ascendas Pte Limited, Singapore 10.ICI India Ltd 11.Intelnet Global Services Pvt. Ltd 12.Egyptian Housing Finance Companu, SAE 13.Home Loan Services India Private Ltd. 14.HDFC Venture Capital Ltd 15.Indraprastha Medical Corporation Ltd 16.HDFC Standard Life Insurance Company Ltd. 17. Intelnet BPO Services Ltd.
6.	Mr. K.G. Krishnamurthy 403 / 404, Meru Heights 268, Telang Road Matunga (E) Mumbai 400 019  Occupation: Sr. General Manager, HDFC Ltd.	Indian	49	1.THDC Ltd. 2.Inorbit Malls (India) Pvt.Ltd. 3.Rockfort Estate Developers Limited 4.HDFC Realty Limited 5.HDFC Venture Capital Limited 6.Indian Association for savings and Credit (IASC)
7.	Mr. R. K. Pandey Nominee Director (NHB) A-74, Sarve Sanjhi Apartments, Plot No.8 Sector 9, Dwarka New Delhi - 110 075  Occupation: Dy. General Manager, NHB	Indian	52	Nil
8.	Mr. Sudhin Choksey, Managing Director B –603, Rushin Towers, B/h. Bidiwala Park, Near Someshwara–2 Bungalows Lane Opp: OM Towers Off. Satelite Road Ahmedabad 380 015  Occupation: Company Executive	Indian	52	1.Gujarat State Financial Services Ltd 2.Deepak Nitrite Ltd

**B. Brief Biography of the Company's Directors**

**1. Mr. K.M. Mistry**, the non-executive Chairman of the Company is the Managing Director of Housing Development Finance Corporation Limited (HDFC). He is a Fellow Member of the Institute of Chartered Accountants of India. Mr. Mistry is the Chairman of Intelenet Global Services Pvt. Ltd. Mr. Mistry serves as a director on the board of reputed companies like HDFC Bank Ltd., HDFC Chubb General Insurance Co. Ltd., HDFC Standard Life Insurance Co. Ltd., The Great Eastern Shipping Co. Ltd., Sun Pharmaceutical Industries Ltd., NextGen Publishing Ltd., and Infrastructure Leasing & Financial Services Ltd. He has been on the board of the Company since 2000. He is a member of the Audit Committee and Compensation Committee of the Company.

**2. Mr. S.M. Palia**, is a development banker. He holds a degree in Commerce, Law and Banking (CAIIB, CAIB (London)) and has 25 years working experience in Industrial Development Bank of India (IDBI) in various capacities. He retired as Executive Director of IDBI in 1989. He is on the board of reputed companies like Tata Steel Ltd. and The Associated Cement Companies Ltd. He has been on the board of the Company since 1993. He was Vice Chairman of the Company from 1993 to 2000 and Chairman of the Company for one year from January 2001. He is Chairman of the Audit, Compensation and Shareholders'/ Investors' Grievance Committees of the Company.

**3. Mr. Rohit C. Mehta**, is a prominent and successful industrialist possessing a wide and varied experience in the management of business and industry. He is a Law Graduate from the Bombay University. He was International President of Lions Clubs International. He has also been the President of Federation of Indian Chambers of Commerce & Industry. He is the Chairman of Torrent Power AEC Ltd. and Rajesh Malleables Ltd. He is a director of Cama Hotels Ltd. and Gujarat Hotels Ltd. He has been on the board of the Company since 1987 and was Chairman of the Company from 1987 to 1998. He is a member of the Audit Committee of the Company.

**4. Mr. Prafull Anubhai**, is a management consultant and is associated with educational, research and cultural institutions like Indian Institute of Management (IIMA), Ahmedabad Education Society (AES), Centre for Science Technology and Policy (CSTEP), ATIRA, Saptak (An Indian Classical Music Organisation), etc. He has done his B.Sc.(Econ.) from the London School of Economics and attended PMD at Harvard Business School. He has 30 years of experience as a Chief Executive of Textile Manufacturing Operations and presently he is a Director in companies like Unichem Laboratories Limited, Torrent Cables Ltd., The EMSAF – Mauritius (The Emerging Markets South Asian Fund), Mahavir Spinning Mills Ltd. (Vardhman Group), Birla Sun Life Trustee Co. Pvt. Ltd. etc. He has been on the board of the Company since 1987. He is a member of the Audit Committee and the Shareholders'/ Investors' Grievance Committee of the Company.

**5. Ms. Renu S. Karnad** is the Executive Director of HDFC. She is a graduate in law and holds a Master's Degree in economics from the Delhi University. She has been employed with HDFC since 1978 and was appointed as the Executive Director of HDFC in 2000. She is in charge of overall lending business activities of HDFC. She is the Chairperson of HDFC Venture Capital Ltd. and Home Loan Services India Pvt. Ltd. She is also a director in companies like Credit Information Bureau (India) Ltd., HDFC Bank Ltd., HDFC Asset Management Co. Ltd., HDFC Chubb General Insurance Limited, HDFC Realty Ltd., HDFC Standard Life Insurance Company Limited, Intelenet BPO Services Ltd., Intelenet Global Services Pvt. Ltd. ICI India Ltd., etc. She has been on the board of the Company since 2000. She is a member of the Compensation Committee of the Company.

**6. Mr. K.G. Krishnamurthy**, is working with HDFC as Sr. General Manager – Technical Services and has been with HDFC for over 26 years. He has been currently deputed as a Director of HDFC Venture Capital Limited. He is a graduate from IIT, Kharagpur with a management degree from Jamnalal Bajaj Institute of Management, Mumbai. He has been appointed on the board of the Company since 2004. He is a director in companies like HDFC Realty Limited., THDC Limited. Inorbit Malls (India) Private Limited, Rockfort Estate Developers Limited and Indian Association for Savings and Credit (IASC).

**7. Mr. R.K. Pandey**, is working with the National Housing Bank (NHB) as Deputy General Manager (IT) and has been with the NHB since 1989. He is a nominee director of NHB. He holds a Master's degree in Physics. He has been on the board of the Company since 2003.

**8. Mr. Sudhin Choksey**, the Managing Director of the Company, is a Chartered Accountant from the Institute of Chartered Accountants of India. He has been employed with the Company since 1993. He was appointed as the CEO of the company in 1998 and the Managing Director in 2000. He has the working experience of handling functional areas of finance, commercial and general management both in India and abroad. He is a director of Gujarat State Financial Services Ltd. and Deepak Nitrite Ltd. He is a member of the Shareholders'/ Investors' Grievance Committee of the Company.

### C. Compensation of the Company's Directors

The following tables set forth all compensation paid by the Company to its directors for the fiscal year ended March 31, 2006

#### 1. Non-Executive Directors

Name of Director	Commission	Sitting Fees		Total
	Rs. In lacs	Meetings Attended	Amount (Rs.)	Rs.
Mr. K.M. Mistry	Nil	13	1,22,500	1,22,500
Mr. S M Palia	Nil	20	1,90,000	1,90,000
Mr. Rohit C Mehta	Nil	10	95,000	95,000
Mr. Prafull Anubhai	Nil	21	2,05,000	2,05,000
Ms. Renu S Karnad	Nil	9	85,000	85,000
Mr. K G Krishnamurthy	Nil	6	57,500	57,500
Mr. R K Pandey	Nil	6	57,500	57,500

#### 2. Executive Director

Name of Director	Total Remuneration (Rs. In lacs)
Mr. Sudhin Choksey, Managing Director	33.24

Pursuant to the resolution passed at the meeting of the board of director held on April 19, 2005 and confirmed in the 19th annual general meeting held on June 14, 2005 remuneration payable by our Company to Mr. Sudhin Choksey (Managing Director) is Rs. 33.24 lacs per annum with effect from April 1, 2005. Company has entered into a contract dated July 26, 2005 with Mr. Sudhin Choksey. As per the contract Mr. Choksey will be the Managing Director till March 31, 2010.

### D. Shareholding of the Directors in the Company

The following table details the shareholding of the Company's Directors in their personal capacity and either as sole or first holder, as at the date of this Letter of Offer.

Name of Directors	Number of Equity Shares Pre-Issue as on April 30, 2006	Number of Equity Shares (Post-Issue)*
Mr. K.M. Mistry	1500	1950
Mr. S M Palia	1600	2080
Mr. Rohit C Mehta	0	0
Mr. Prafull Anubhai	0	0
Ms. Renu S Karnad	200	260
Mr. K G Krishnamurthy	200	260
Mr. R K Pandey	0	0
Mr. Sudhin Choksey	15400	20020

\* The number of shares for the column entitled Number of Equity Shares (Post-Issue) has been calculated assuming full subscription to rights entitlement in this Issue

**E. Details of the transactions in Equity Shares by the Company's Directors and their relatives during the last six months:**

<b>Name of Director/Relative of Director</b>	<b>Date of Transaction</b>	<b>Details of Transaction</b>	<b>No. of Equity Shares of Rs. 10 each</b>	<b>Price per share (in Rs.)</b>
Mr. S M Palia	April 17, 2006	Sold	1000	Market rate

Except for the above, none of the Company's Directors have undertaken transactions in the Equity Shares of the Company during the last six months.

**F. Changes in the Company's Board of Directors during the last three years:**

<b>Sr. No.</b>	<b>Name of Directors</b>	<b>Date of changes</b>		<b>Reasons</b>
		<b>Date of appointment</b>	<b>Date of cessation</b>	
1	Mr. K G Krishnamurthy	January 17, 2004	-	Appointed as additional director.
2	Mr. Satish Mehta	-	January 17, 2004	Resigned.
3	Mr. R K Pandey	September 16, 2003	-	Nominated by National Housing Bank in place of Mr. R S Garg.
4	Mr. R S Garg	-	September 16, 2003	Withdrawal of nomination by National Housing Bank.

**G. Corporate Governance**

The Company has complied with SEBI guidelines in respect of Corporate Governance specially with respect to broad basing of Board and constituting the Committees. There are, *inter alia*, four major Board Level Committees in the Company, which have been constituted and function in accordance with the relevant provisions of the Act and the Listing Agreement. These are the (i) Audit Committee; (ii) Investor Grievance Committee; (iii) The Compensation Committee (Remuneration Committee) and (iv) The Compensation Committee – ESOS. A brief on each of these Committee, its scope, composition and meetings for the current year is given below:

**(i) Audit Committee**

Members

The Audit Committee is comprised of Mr. S.M. Palia (Chairman), Mr. K.M. Mistry, Mr. Rohit C. Mehta and Mr. Prafull Anubhai. The Audit Committee is chaired by an independent director. All the members of the committee are financially literate and have accounting and financial management expertise. The Audit Committee met four (4) times during FY06.

Scope and terms of reference

The Committee is constituted in accordance with the provisions of the listing agreement and the Companies Act, 1956. The terms of reference of the Audit Committee are in compliance with its requirements of the revised clause 49 of the listing agreement and include approving and implementing the audit procedures and techniques, reviewing the financial reporting systems, internal control systems and control procedures and ensuring compliance of the regulatory guidelines. Meetings of the Audit Committee are scheduled well in advance. The Committee also reviews the reports of the internal auditors and statutory auditors along with the comments, action taken reports of the management and the asset liability management system.

***(ii) Investors Grievances Committee***

**Members**

The Investors Grievances Committee is comprised of Mr. S.M. Palia (Chairman), Mr. Prafull Anubhai and Mr. Sudhin Choksey. The Investors Grievances Committee met four (4) times during FY06.

**Scope and Terms of Reference**

The Committee was constituted in terms of the mandatory requirement of Clause 49 of the Listing Agreement to look into the redressal of grievances of investors like non receipt of share certificates, non-receipt of balance sheet, non-receipt of dividend warrants etc. During this fiscal year, the Company received complaints from four (4) shareholders, all of which stand resolved as on May 15, 2006.

In order to expedite the process of share transfer, the board has delegated the authority to approve share transfers to Mr. Sudhin Choksey-Managing Director and Mr. Marcus Lobo-Company Secretary/Compliance Officer. Share transfer formalities are normally attended to three times in a month. The details of share transfers are reported to the Board of Directors.

***(iii) Remuneration Committee***

**Members**

The Remuneration Committee is comprised of Mr. S.M. Palia, (Chairman), Mr. K.M. Mistry and Ms. R.S. Karnad. The Remuneration Committee met once during the FY06.

**Scope and Terms of Reference**

The Committee was constituted in terms of the mandatory requirement of Clause 49 of the Listing Agreement to determine on behalf of shareholders and on behalf of the shareholders with agreed terms of reference, the company's policy on specific remuneration packages for executive directors including pension rights and any compensation payment.

***(iv) Compensation Committee***

The Compensation Committee is comprised of Mr. S.M. Palia, (Chairman), Mr. K.M. Mistry, Mr. Rohit C Mehta, Mr. Prafull Anubhai and Ms. Renu S. Karnad. The Compensation Committee met twice during 2005-06.

**Scope and Terms of Reference**

The Committee was constituted for granting of stock options to employees in terms of the mandatory requirement of the SEBI Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999. The Compensation Committee is responsible for framing and implementing the stock option scheme granted to employees of the company.



## H. Key Managerial Personnel

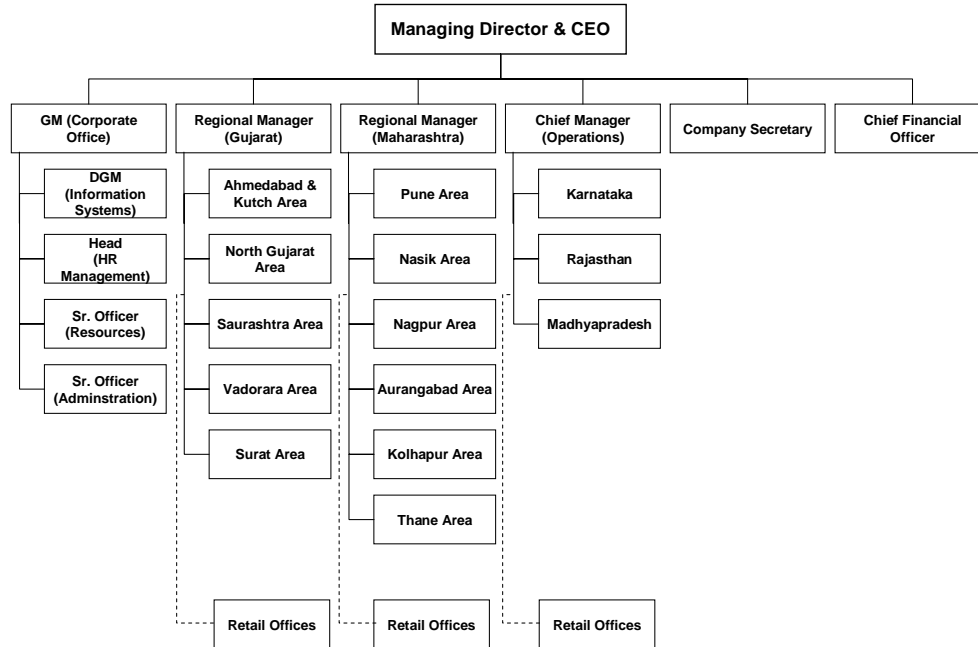
The details of the Company's Key Managerial Personnel are as follows:

<u>Name</u>	<u>Designation</u>	<u>Date of Joining</u>	<u>Qualification</u>	<u>No. of years with GRUH</u>	<u>Total No. of years' of Experience</u>	<u>Previous Employer</u>	<u>Cost to Company (2005-06) (Rs in lacs)</u>
Mr. Kamlesh Shah	General Manager (Corporate Office)	13-Dec-90	B.Com., CA	15	24	HDFC Ltd.	8.93
Mr. Avinash Srivastava	Dy. General Manager (Maharashtra)	13-Jun-97	B.Com, MBA	9	16	GLFL Housing Finance Ltd.	7.56
Mr. Amit Chokshi	Dy. General Manager (Gujarat)	6-Nov-87	B.Com, LL.B.	19	25	Gujarat Steel Tubes Ltd.	6.76
Mr. Utpal Kapadia	DGM (Information Systems)	20-May-96	B.Sc., MCM	10	14	Blue Dart Ltd.	6.72
Mr. Suresh Iyer	Chief Manager (Operations)	2-Jun-97	B.Sc., MBA	9	9	-	5.84
Mr. Jayesh Jain	Chief Financial Officer	24-Sep-01	B.Com., CA	5	6	E-Com Opportunities Pvt. Ltd.	3.20
Mr. Marcus Lobo	Company Secretary	21-May-94	B.Com, LLB, FCS	12	24	Ahmedabad Electricity Co. Ltd.	4.77

All the abovementioned key managerial personnel are permanent employees of the Company. The remuneration of each of the Company's key personnel is as per the statement pursuant to Section 217(2A) of the Act and the Companies (Particulars of Employees) Rules, 1975.

## I. Organisational Structure Chart

The organisational structure of the Company is given below:



## J. Shareholding of key managerial personnel in the Company as on March 31, 2006

Name of Key Managerial Personnel	No. of Equity Shares held (Pre-Issue)
Mr. Kamlesh Shah	8,500
Mr. Avinash Srivastava	Nil
Mr. Amit Chokshi	Nil
Mr. Utpal Kapadia	100
Mr. Suresh Iyer	1,000
Mr. Marcus Lobo	3,432
Mr. Jayesh Jain	Nil

## K. Shareholding of persons related to the key managerial personnel in the Company as on March 31, 2006

Name of Key Managerial Personnel	Name of Equity Shareholder related to Key Managerial Personnel	No. of Equity Shares held (Pre-Issue)
Mr. Kamlesh Shah	Nil	N.A.
Mr. Avinash Srivastava	Nil	N.A.
Mr. Amit Chokshi	Nil	N.A.
Mr. Utpal Kapadia	Nil	N.A.
Mr. Suresh Iyer	Nil	N.A.
Mr. Marcus Lobo	Nil	N.A.
Mr. Jayesh Jain	Nil	N.A.

## **L. Interest of Promoters, Directors and Key Managerial Personnel**

Except as stated in “Related Party Transactions” on page 66 of this Letter of Offer, and to the extent of shareholding in the Company, the Company’s Promoters and promoter group do not have any other interest in the Company’s business.

All Directors of the Company may be deemed to be interested to the extent of fees, if any, payable to them for attending meetings of the Board or a Committee. The managing director will be interested to the extent of remuneration paid to him for services rendered by him as officer of the Company. All the Company’s directors may also be deemed to be interested to the extent of Equity Shares, if any, already held by them or their relatives in the Company, or that may be subscribed for and allotted to them, out of the present Issue in terms of the Letter of Offer and also to the extent of any dividend payable to them and other distributions in respect of the said Equity Shares. The Directors may also be regarded as interested in the Equity Shares, if any, held by or that may be subscribed by and allotted to the companies, firms and trust, in which they are interested as directors, members, partners and/or trustees.

The key managerial personnel of the Company do not have any interest in the Company other than to the extent of the remuneration or benefits to which they are entitled to as per their terms of appointment, including loans and reimbursement of expenses incurred by them during the ordinary course of business and to the extent of the Equity Shares held by them in the Company and options granted under the ESOS, if any

## **M. Details of options availed under the ESOP scheme by the Company’s key managerial personnel**

<b>Name</b>	<b>No of Options Granted</b>	<b>No of Options Exercised</b>
Mr. Kamlesh Shah	8900	NIL
Mr. Avinash Srivastava	7500	NIL
Mr. Amit Chokshi	8500	NIL
Mr. Utpal Kapadia	7500	NIL
Mr. Suresh Iyer	7000	NIL
Mr. Marcus Lobo	6000	NIL
Mr. Jayesh Jain	5000	NIL

## **N. Details of loans taken by key managerial personnel in the Company**

<b>Name</b>	<b>Loan Amount Outstanding as on March 31, 2006 (Rs. in lacs)</b>	<b>Nature of Loan</b>
Mr Kamlesh Shah	2.00	Staff loan
Mr Avinash Srivastava	6.59	Staff loan
Mr Amit Chokshi	8.00	Staff loan
Mr Utpal Kapadia	3.25	Staff loan
Mr. Suresh Iyer	6.31	Staff loan
Mr. Jayesh Jain	2.53	Staff loan

Except as disclosed on page 42 of this Letter of Offer, the Company has not entered into any contract, agreement or arrangement during the preceding two years from the date of this Letter of Offer in which the Company’s Directors are interested directly or indirectly and no payments have been made to them in respect of these contracts, agreements or arrangements or are proposed to be made to them. The Company’s Directors and the key managerial personnel have not taken any loan from the Company.

## **O. Changes in the Company’s key managerial personnel during the last three years**

The change in key managerial personnel over the last three years is as follows:

<b>Name</b>	<b>Designation</b>	<b>Date of Leaving</b>	<b>Reason</b>
Mr. Kalyanaraman Iyer	Regional Manager	4th February, 2005	Resignation
Mr. Nilesh Mehta	Head - Human Resource Management	31 <sup>st</sup> July, 2006	Resignation

## PROMOTERS AND PROMOTER GROUP

1. HDFC was incorporated as a public limited company on October 17, 1977 with an initial share capital of Rs. 1,000 lacs, with the objective of specialising in the provision of housing finance to individuals, co-operative societies and the corporate sector. HDFC was the first private sector retail housing finance company to be set up in India. HDFC has been in operation for 29 years during which it has financed approximately 28 lacs dwelling units. HDFC also services over 10 lacs depositors, 50,000 agents and approximately 91,000 shareholders.
2. The Company was promoted by HDFC Limited and became a subsidiary of HDFC in June 2000. HDFC holds 16,390,604 equity shares or 61.85% of the share capital of the Company as on March 31, 2006.

### 3. Common Pursuits

The Company and its Promoter HDFC Limited are in business of financial services. Amongst other products the Company and its Promoters are engaged in the business of providing home loans.

### 4. Shareholding Pattern

The equity shares of HDFC are listed on the BSE and NSE. Its shareholding pattern as of March 31, 2006 is as given below:

Name / Category	Shareholding (%)
Foreign Institutional Investors	67.92
Indian Public	12.46
Others (FDI)	11.23
Banks, Financial Institutions and Insurance Companies	4.68
Private Corporate Bodies	1.61
Mutual Funds and UTI	1.47
Directors / Relatives Not in Company	0.45
NRIs/OCBs	0.15
Clearing Members / Depository	0.03
<b>Total</b>	<b>100.00</b>

(Source: BSE)

### 5. Directors

The Directors on the Board of HDFC are:

Name	Designation
Mr. Deepak S. Parekh	Chairman
Mr. Keshub Mahindra	Vice Chairman
Mr. Shirish B. Patel	Director
Mr. B. S. Mehta	Director
Mr. D. M. Sukthankar	Director
Mr. D. N. Ghosh	Director
Dr. S. A. Dave	Director
Mr. S. Venkitaramanan	Director
Dr. Ram S. Tarneja	Director
Mr. N. M. Munjee	Director
Mr. D. M. Satwalekar	Director
Ms. Renu S. Karnad	Executive Director
Mr. Keki M. Mistry	Managing Director

## 6. Financial Performance

The following are selected financials of HDFC for the past three years:

Particulars	(Rs. in lacs)		
	FY06	FY05	FY04
Sales and Other Income	4,27,800	3,41,000	3,07,800
Profit After Tax	1,25,700	1,03,700	85,200
Equity Capital	25,000	24,900	24,700
Reserves and Surplus	4,21,900	3,63,400	3,14,700
Net Worth	4,46,600	3,88,300	3,39,400
Earnings Per Share – Basic (Rs.) (Face Value Rs. 10)	50.25	41.74	34.62

The company is not a sick company within the meaning of the Sick Industrial Companies (Special Provisions) Act, 1995.

## 7. The monthly high and low price and the volume of shares of HDFC traded at the Bombay Stock Exchange Limited (BSE) and the National Stock Exchange of India Limited (NSE) during the past twelve months.

Month	BSE			NSE		
	Share Price		Volume of Shares traded	Share Price		Volume of Shares traded
	Highest (Rs.)	Lowest (Rs.)		Highest (Rs.)	Lowest (Rs.)	
August 2005	965.00	868.05	39,61,046	965.00	868.05	72,45,326
September 2005	1,079.90	899.00	36,66,717	1,079.90	899.00	73,66,158
October 2005	1,045.00	901.00	42,36,082	1,045.00	901.00	96,82,370
November 2005	1,160.05	961.25	35,82,476	1,160.05	961.25	1,01,28,424
December 2005	1,303.50	1,095.00	83,93,584	1,303.50	1,095.00	1,33,06,443
January 2006	1,345.00	1,122.00	62,66,432	1,345.00	1,122.00	1,61,80,926
February 2006	1,406.05	1,283.20	34,14,796	1,419.70	1,281.10	92,77,451
March 2006	1,388.80	1,258.00	60,96,277	1,391.95	1,260.00	87,99,090
April 2006	1,377.00	1,222.20	32,40,863	1,379.00	1,205.20	83,86,479
May 2006	1,420.15	1,070.00	32,95,849	1,420.20	1,075.00	1,23,76,811
June 2006	1,235.00	962.00	1,19,31,790	1,235.00	962.00	1,29,41,818
July 2006	1,249.00	1,040.00	13,20,541	1,249.00	1,041.00	69,33,532
August 2006	1,322.00	1,162.10	11,57,210	1,334.50	1,160.20	55,88,337

## 8. Changes in Capital Structure in the last 6 months

Particulars	No. of shares Issued (of Rs. 10 each)		Year / date of issue
Allotment under ESOS	4,43,201		Between April 2005 to March 2006
Allotment under ESOS	10,014		August 4, 2006

## **9. Mechanism Evolved by the Company for Redressal of Investor Grievances**

The transfer and other related work is handled by HDFC Limited. The Secretarial Department actively interacts with HDFC Limited for expeditious redressal of investor grievances and takes care of complaints received from statutory bodies such as SEBI, Stock Exchanges, Department of Company Affairs, etc. Investor grievances are settled expeditiously and satisfactorily by the Company.

## **10. Subsidiaries and Affiliates**

HDFC has the following subsidiary and associate companies as on March 31, 2006

- i. HDFC Asset Management Company Limited (HDFC AMC);
- ii. HDFC Standard Life Insurance Company Limited (HDFC SL);
- iii. HDFC Developers Limited (HDFC Developers);
- iv. HDFC Realty Limited (HDFC Realty);
- v. HDFC Chubb General Insurance Company Limited;
- vi. HDFC Investments Limited;
- vii. HDFC Holdings Limited;
- viii. HDFC Trustee Company Limited;
- ix. HDFC Venture Capital Limited (HVCL);
- x. HDFC Ventures Trustee Company Limited;
- xi. Home Loan Services India Private Limited (HLSIL)
- xii. Indian Association for Savings and Credit;
- xiii. HDFC Bank Limited (HDFC Bank).
- xiv. Intelenet Global Services Private Limited;

For details of the Promoter Group Company refer to the section “Group [Companies](#)” on page [51](#)

## **11. Litigation Details Pertaining to HDFC**

For details on litigations and disputes pending against the Promoter and defaults made by the Promoter please refer to the section titled “Outstanding Litigations and Defaults” on page [106](#) of this Letter of Offer.

The Company confirms that the Permanent Account Numbers, Bank Account Numbers, the Company Registration Numbers and the addresses of the Registrars of Companies where the promoters are registered have been submitted to the BSE (designated stock exchange), NSE and ASE.

## GROUP COMPANIES

The details of the Promoter Group Companies are as under:

### **A. HDFC Asset Management Company Limited (HDFC AMC)**

**1.** HDFC AMC was incorporated on December 10, 1999, and was approved to act as an Asset Management Company for HDFC Mutual Fund by SEBI on June 30, 2000. It is primarily in the business of managing the assets of the Mutual fund and also into Investment Advisory Services. It has also obtained registration from SEBI to provide portfolio management/advisory services.

#### **1.1. Directors of HDFC AMC as at March 31, 2006**

- Mr. Deepak S. Parekh, Chairman
- Mr. Norman Keith Skeoch
- Mr. Mark Connolly
- Mr. Humayun Dhanrajgir
- Mr. Hoshang Billimoria
- Mr. P. M. Thampi
- Dr. Deepak B. Phatak
- Ms. Renu S. Karnad
- Mr. Rajeshwar R. Bajaj
- Mr. Milind Barve, Managing Director

#### **1.2. The Registered office of HDFC AMC is situated at**

3rd Floor, Ramon House  
H. T. Parekh Marg,  
169, Backbay Reclamation,  
Churchgate, Mumbai – 400 020.

#### **1.3. Shareholders of HDFC AMC as at March 31, 2006**

Name	Shareholding (%)
HDFC Limited	50.10
Standard Life Investments Limited	49.90

#### **1.4. Key Financials of HDFC AMC**

Particulars	Years ended March 31,		
	2006	2005	2004
Equity Capital	2,516	2,516	2,516
Preference Capital	2,500	2,500	5,000
Reserves and Surplus	5,954	3,700	2,446
Total Income	13,640	10,085	9,811
Total Expenditure	6,635	5,152	5,370
Profit before Tax	7,005	4,933	4,441
Profit after Tax	4,548	3,161	2,854
Earnings per share (Rs.) (Face Value Rs.10)	16.94	10.78	10.02
Book Value per equity share (Rs.)	33.66	24.71	19.72

The company is not a sick company within the meaning of the Sick Industrial Companies (Special Provisions) Act, 1995.

**1.5. Contingent Liabilities as at March 31, 2006**

Contingent Liability of disputed income tax demand of Rs. 4 lacs.

**2. HDFC Standard Life Insurance Company Limited (HDFC Standard Life Insurance)**

2.1. **HDFC Standard Life Insurance** is a joint venture between HDFC Limited and Standard Life Assurance Company, one of Europe's largest mutual life companies. It was incorporated on August 14, 2000.

The products offered by HDFC Standard Life Insurance inter alia include Endowment Assurance Plan, Money Back Plan, Term Assurance Plan, Loan Cover Term Assurance Plan, HDFC Assurance Plan, Unit Linked Endowment Plan.

**2.2. Directors of HDFC Standard Life Insurance as at March 31, 2006**

- Mr. Deepak S Parekh - Chairman
- Mr. Keki M Mistry
- Ms. Renu S Karnad
- Mr. Alexander M Crombie
- Ms. Marcia D Campbell
- Mr. Norman Keith Skeoch
- Mr. G N Bajpai
- Mr. Ranjan Pant
- Mr. Gautam R Divan
- Mr. Ravi Narain
- Mr. Deepak M Satwalekar - Managing Director & CEO

**2.3. The Registered office of HDFC Standard Life Insurance is situated at**

Ramon House, H. T. Parekh Marg,  
169, Backbay Reclamation,  
Churchgate, Mumbai – 400 020.

**2.4. Shareholding Pattern of HDFC Standard Life Insurance as at March 31, 2006**

Name	Shareholding (%)
HDFC Limited	78.82
Standard Life Assurance Company	18.24
HDFC Standard Life ESOP Trust	1.35
HDFC Employee Welfare Trust	0.34
Individuals	1.25

**2.5. Key Financials of HDFC Standard Life Insurance**

Particulars	Years ended March 31,		
	2006	2005	2004
Equity Capital	62,000	32,000	25,550
Reserves and Surplus	659	(18,782)	(9,808)
Total Income	1,277	679	1,534
Total Expenditure	14,153	9,652	3,877
Profit / (Loss) before Tax	(12,876)	(8,973)	(2,343)



Particulars	Years ended March 31,		
	2006	2005	2004
Profit / (Loss) after Tax	(12,876)	(8,973)	(2,343)
Earnings per share (Rs.) (Face Value Rs. 10)	(2.92)	(3.38)	(1.00)
Book Value per share (Rs.)	5.11	4.11	6.13

The company is not a sick company within the meaning of the Sick Industrial Companies (Special Provisions) Act, 1995.

### 2.6. Contingent Liabilities as at March 31, 2006

Contingent liability not provided for – Rs. 1,198 lacs.

### 3. HDFC Developers Limited

3.1. HDFC Developers Limited was incorporated on January 14, 1981. HDFC Developers Limited a wholly owned subsidiary of HDFC Limited undertakes housing projects on a selected basis in various regions of the country.

### 3.2. Directors of HDFC Developers Limited as at March 31, 2006

- Mr. S. B. Patel
- Mr. D. M. Sukthankar
- Mr. K. M. Mistry

### 3.3. The Registered office of HDFC Developers Limited is situated at

Ramon House,  
H. T. Parekh Marg,  
169, Backbay Reclamation,  
Churchgate, Mumbai – 400 020.

### 3.4. Shareholding Pattern of HDFC Developers Limited as at March 31, 2006

HDFC Developers Limited is a wholly owned subsidiary of HDFC Limited.

### 3.5. Key Financials of HDFC Developers Limited

(Rs. lacs)

Particulars	Years ended March 31,		
	2006	2005	2004
Equity Capital	5.00	5.00	5.00
Reserves and Surplus	421.43	416.12	419.86
Total Income	14.84	34.27	38.69
Total Expenditure	6.29	8.05	6.80
Profit before Tax	8.55	26.22	31.89
Profit after Tax	5.31	16.21	22.37
Earnings per share (Rs.) (Face Value Rs. 10)	10.62	32.42	44.74
Book Value per share (Rs.)	852.85	842.23	849.71

The company is not a sick company within the meaning of the Sick Industrial Companies (Special Provisions) Act, 1995.

### 3.6. **Contingent Liabilities as at March 31, 2006**

There were no contingent liabilities as at March 31, 2006.

## 4. **HDFC Realty Limited (HDFC Realty)**

HDFC Realty was incorporated on March 14, 2000. It was formed by HDFC Limited and provides an exhaustive database of properties. It acts as a one-stop online hub for information, comparative analyses, transactions, market reach and comprehensive professional services for property anywhere in India. HDFCRealty.com is the new, organized electronic marketplace for properties.

### 4.1. **Directors of HDFC Realty as at March 31, 2006**

- Mr. R. V. S. Rao
- Ms. Renu S. Karnad
- Mr. K. G. Krishnamurthy

### 4.2. **The Registered office of HDFC Realty is situated at**

Ramon House,  
H. T. Parekh Marg,  
169, Backbay Reclamation,

### 4.3. **Churchgate, Mumbai – 400 020. Shareholding Pattern of HDFC Realty as at March 31, 2006**

HDFC Realty is a wholly owned subsidiary of HDFC Limited.

### 4.4. **Key Financials of HDFC Realty**

Particulars	(Rs. lacs)		
	Years ended March 31,		
	2006	2005	2004
Equity Capital	400.01	400.01	400.01
Reserves and Surplus	(562.67)	(575.18)	(685.13)
Total Income	33.93	158.99	75.86
Total Expenditure	21.32	49.04	132.73
Profit / (Loss) before Tax	12.61	109.95	(56.87)
Profit / (Loss) after Tax	12.51	109.95	(56.87)
Earnings per share (Rs.) (Face Value Rs. 10)	0.31	2.75	(1.42)
Book Value per share (Rs.)	(4.07)	(4.38)	(7.15)

The company is not a sick company within the meaning of the Sick Industrial Companies (Special Provisions) Act, 1995.

### 4.5. **Contingent Liabilities as at March 31, 2006**

There were no contingent liabilities as at March 31, 2006.

## 5. **HDFC Chubb General Insurance Company Limited (HDFC Chubb)**

5.1. HDFC Chubb is a partnership that leverages the strengths of two financial powerhouses - combining the trust and local experience of HDFC, India's premier financial services company, with the 120 years' proven expertise of Chubb, a global leader in non-life insurance backed by a network offices in 31 countries.

HDFC Chubb provides non-life insurance solutions. It provides specialised products that cover Personal Accident, Travel and Health Insurance as well as Motor Insurance, Home Insurance and Commercial and Specialty Insurance offerings for businesses.

HDFC Chubb was incorporated on February 8, 2002. The shareholders of the company are HDFC Limited (74%) and Chubb Global Financial Services Corporation (26%).

**5.2. Directors of HDFC Chubb General Insurance Company Limited as at March 31, 2006**

- Mr. Deepak S. Parekh, Chairman
- Mr. Shrirang V. Samant, Managing Director & CEO
- Mr. Michael Casella
- Mr. Keki. M. Mistry
- Ms. Renu S. Karnad

**5.3. The Registered office is situated at**

Ramon House,  
H. T. Parekh Marg,  
169, Backbay Reclamation,  
Churchgate, Mumbai – 400 020.

**5.4. Shareholding Pattern of HDFC Chubb General Insurance Company Ltd. as at March 31, 2006**

Name	Shareholding (%)
HDFC Limited	74.00
Chubb Global Financial Services Corporation	26.00

**5.5. Key Financials of HDFC Chubb General Insurance Company Ltd.**

(Rs. lacs)

Particulars	Years ended March 31,		
	2006	2005	2004
Equity Capital	12,500	12,000	12,000
Reserves and Surplus	(3,210)	(3,651)	(2,852)
Total Income	15,082	12,874	5,231
Total Expenditure	14,602	13,673	7,450
Profit / (Loss) before Tax	480	(799)	(2,219)
Profit / (Loss) after Tax	441	(799)	(2,219)
Earnings per share (Rs.) (Face Value Rs. 10)	0.36	(0.67)	(2.13)
Book Value per share (Rs.)	7.33	6.79	7.38

The company is not a sick company within the meaning of the Sick Industrial Companies (Special Provisions) Act, 1995.

**5.6. Contingent Liabilities as at March 31, 2006**

There is no Contingent liability as at March 31, 2005.

**6. HDFC Investments Limited**

6.1. The company was incorporated on December 20, 1994 and is a wholly owned subsidiary company of HDFC Limited. The company undertakes the business of investments in stocks, shares, debentures and other securities. The Company is registered as a non-banking financial company with the Reserve Bank of India.

**6.2. Directors of HDFC Investments Limited as at March 31, 2006**

- Mr. D. M. Satwalekar
- Mr. Conrad D'Souza
- Mr. V. Srinivasa Rangan

6.3. **The Registered office of HDFC Investments Limited is situated at**

Ramon House,  
H. T. Parekh Marg,  
169, Backbay Reclamation,  
Churchgate, Mumbai – 400 020.

6.4. **Shareholding Pattern of HDFC Investments Limited as at March 31, 2006**

HDFC Investments Limited is a wholly owned subsidiary of HDFC Limited.

6.5. **Key Financials of HDFC Investments Limited**

Particulars	(Rs. lacs)		
	Years ended March 31,		
	2006	2005	2004
Equity Capital	3,267.05	3,267.05	3,267.05
Reserves and Surplus	5,630.98	5,406.67	5,281.01
Total Income	1,439.44	1,128.06	993.34
Total Expenditure	0.54	0.47	1.66
Profit / (Loss) before Tax	1,438.90	1,127.59	991.68
Profit / (Loss) after Tax	1,416.40	1,104.57	963.59
Earnings per share (Rs.) (Face Value Rs. 10)	4.34	3.38	2.95
Book Value per share (Rs.)	27.24	26.55	26.16

The company is not a sick company within the meaning of the Sick Industrial Companies (Special Provisions) Act, 1995.

6.6. **Contingent Liabilities as at March 31, 2006**

There were no contingent liabilities as at March 31, 2006.

**7. HDFC Holdings Limited**

7.1. HDFC Holdings Limited was incorporated on January 17, 2000 and is a wholly owned subsidiary company of HDFC Limited. The company undertakes the business of investments in stocks, shares, debentures and other securities and is registered as a non-banking financial company with the Reserve Bank of India.

7.2. **Directors of HDFC Holdings Limited as at March 31, 2006**

- Mr. D. M. Satwalekar
- Mr. R. V. S. Rao
- Mr. Conrad D'Souza

7.3. **The Registered office of HDFC Holdings Limited is situated at**

Ramon House,  
H. T. Parekh Marg,  
169, Backbay Reclamation,  
Churchgate, Mumbai – 400 020.

7.4. **Shareholding Pattern of HDFC Holdings Limited as at March 31, 2006**

HDFC Holdings Limited is a wholly owned subsidiary of HDFC Limited.

**7.5. Key Financials of HDFC Holdings Limited**

Particulars	(Rs. lacs) Years ended March 31,		
	2006	2005	2004
Equity Capital	80.01	80.01	80.01
Reserves and Surplus	180.97	174.63	168.89
Total Income	6.75	8.72	10.47
Total Expenditure	0.37	0.32	5.37
Profit / (Loss) before Tax	6.38	8.40	5.10
Profit / (Loss) after Tax	6.33	5.74	3.30
Earnings per share (Rs.) (Face Value Rs. 10)	0.79	0.72	0.41
Book Value per share (Rs.)	32.62	31.83	31.11

The company is not a sick company within the meaning of the Sick Industrial Companies (Special Provisions) Act, 1995.

**7.6. Contingent Liabilities as at March 31, 2006**

There were no contingent liabilities as at March 31, 2006.

**8. HDFC Trustee Company Limited (HDFC Trustee)**

8.1. HDFC Trustee was incorporated on December 10, 1999 and is a wholly owned subsidiary of HDFC Limited. The company acts as a Trustee of HDFC Mutual Fund.

- **Directors of HDFC Trustee as at March 31, 2006** Mr. Anil Hirjee, Chairman
- Mr. James Aird
- Mr. Shishir Diwanji
- Mr. K. M. Mistry
- Mr. Ranjan Sanghi

**8.2. The Registered office of HDFC Trustee is situated at**

Ramon House, 3<sup>rd</sup> floor,  
H. T. Parekh Marg,  
169, Backbay Reclamation,  
Churchgate, Mumbai – 400 020.

**8.3. Shareholding Pattern of HDFC Trustee as at March 31, 2006**

HDFC Trustee is a wholly owned subsidiary of HDFC Limited.

**8.4. Key Financials of HDFC Trustee**

Particulars	(Rs. lacs) Years ended March 31,		
	2006	2005	2004
Equity Capital	10.00	10.00	10.00
Reserves and Surplus	4.38	3.46	2.68
Total Income	177.48	141.23	117.60
Total Expenditure	176.56	140.45	115.01
Profit / (Loss) before Tax	0.92	0.78	2.59
Profit / (Loss) after Tax	0.92	0.78	2.52
Earnings per share (Rs.) (Face Value Rs. 10)	0.92	0.78	2.52
Book Value per share (Rs.)	14.38	13.46	12.68

The company is not a sick company within the meaning of the Sick Industrial Companies (Special Provisions) Act, 1995.

8.5. **Contingent Liabilities as at March 31, 2006**  
 Contingent liability not provided for – Rs. 0.57 lacs.

**9. HDFC Venture Capital Limited**

9.1. HDFC Venture Capital Limited was incorporated on October 29, 2004 and received the Certificate for Commencement of Business from the Registrar of Companies, Maharashtra on November 29, 2004.

HDFC Venture Capital Limited has taken steps towards establishing infrastructure in the areas of investor servicing, operations, systems, compliance and fund management. It has been appointed as Investment Manager to HDFC Property Fund in terms of Indenture of Trust settled by HDFC Limited. In terms of the said trust, HDFC Ventures Trustee Company Limited has been appointed as the trustee to HDFC Property Fund.

9.2. **Directors of HDFC Venture Capital Limited as at March 31, 2006**

- Ms. R. S. Karnad
- Mr. K. G. Krishnamurthy
- Mr. V. Srinivasa Rangan
- Mr. Ashwini Kumar Sharma

9.3. **The Registered office of HDFC Venture Capital Limited is situated at**

Ramon House,  
 H. T. Parekh Marg,  
 169, Backbay Reclamation,  
 Churchgate, Mumbai – 400 020

9.4. **Shareholding Pattern of HDFC Venture Capital Limited as on March 31, 2006**

Name	Shareholding (%)
HDFC Limited	80.50
SBI	19.50

9.5. **Key Financials of HDFC Venture Capital Limited**

Particulars	(Rs. lacs) Years ended March 31,		
	2006	2005*	2004
Equity Capital	50.00	5.00	N.A.
Reserves and Surplus	214.98	(9.26)	N.A.
Total Income	1,611.41	Nil	N.A.
Total Expenditure	207.52	9.26	N.A.
Profit / (Loss) before Tax	1,403.89	(9.26)	N.A.
Profit / (Loss) after Tax	908.39	(9.26)	N.A.
Earnings per share (Rs.) (Face Value Rs. 10)	239.57	(18.51)	N.A.
Book Value per share (Rs.)	53.00	(8.51)	N.A.

*\*pertains to the period October 29, 2004 (date of incorporation) to March 31, 2005.*

The company is not a sick company within the meaning of the Sick Industrial Companies (Special Provisions) Act, 1995.

9.6. **Contingent Liabilities as at March 31, 2006**

There were no contingent liabilities as at March 31, 2006.

## **10. HDFC Ventures Trustee Company Limited**

10.1. HDFC Ventures Trustee Company Limited was incorporated on October 29, 2004 and it received the Certificate for Commencement of Business from the Registrar of Companies, Maharashtra on November 29, 2004. It has been appointed as trustee to HDFC Property Fund, a trust settled by HDFC Limited.

### **10.2. Directors of HDFC Ventures Trustee Company Limited as at March 31, 2006**

- Mr. S. N. Shroff
- Mr. R. Anand
- Mr. M. Ramabhadran

### **10.3. The Registered office of HDFC Ventures Trustee Company Limited is situated at**

Ramon House,  
H. T. Parekh Marg,  
169, Backbay Reclamation,  
Churchgate, Mumbai – 400 020

### **10.4. Shareholding Pattern of HDFC Venture Trustee Company Limited as at March 31, 2006**

HDFC Venture Trustee Company Limited is a wholly owned subsidiary of HDFC Limited.

### **10.5. Key Financials of HDFC Ventures Trustee Company Limited**

<b>Particulars</b>	<b>(Rs. lacs)</b>		
	<b>Years ended March 31,</b>		
	<b>2006</b>	<b>2005*</b>	<b>2004</b>
Equity Capital	5.00	5.00	N.A.
Reserves and Surplus	10.34	(6.30)	N.A.
Total Income	26.59	Nil	N.A.
Total Expenditure	3.45	6.30	N.A.
Profit / (Loss) before Tax	23.14	(6.30)	N.A.
Profit / (Loss) after Tax	16.64	(6.30)	N.A.
Earnings per share (Rs.) (Face Value Rs. 10)	33.29	(12.61)	N.A.
Book Value per share (Rs.)	30.68	(2.61)	N.A.

\*pertains to the period October 29, 2004 (date of incorporation) to March 31, 2005.

The company is not a sick company within the meaning of the Sick Industrial Companies (Special Provisions) Act, 1995.

### **10.6. Contingent Liabilities as at March 31, 2006**

There were no contingent liabilities as at March 31, 2006.

## **11. HDFC Loan Services India Private Limited (HLSIL)**

11.1. HLSIL was incorporated on January 23, 2004. It was formed with the intent of strengthening HDFC Limited's marketing and sales efforts and providing the latter with a dedicated sales force to sell home loans. The company also assists with personnel required for processing work to HDFC Limited.

### **11.2. Directors of HLSIL as at March 31, 2006**

- Mrs. R. S. Karnad
- Ms. Manju Malkani
- Mr. Suresh Menon

- Mr. Mathew Joseph
- Mr. Gautam Bhagat

11.3. **The Registered office of HLSIL is situated at**

Ramon House,  
H. T. Parekh Marg,  
169, Backbay Reclamation,  
Churchgate, Mumbai – 400 020

11.4. **Shareholding Pattern of HLSIL as on March 31, 2006**

Name	Shareholding (%)
HDFC Limited	33.34
HDFC Holding Limited*	33.33
HDFC Investments Limited*	33.33

\*wholly-owned subsidiary of HDFC Limited. Consequently, HLSIL is deemed to be a subsidiary company of HDFC Limited.

11.5. **Key Financials of HLSIL**

Particulars	(Rs. lacs)		
	Years ended March 31,		
	2006	2005*	2004
Equity Capital	401.00	201.00	N.A.
Reserves and Surplus	(315.22)	(136.29)	N.A.
Total Income	1,987.11	491.45	N.A.
Total Expenditure	2,161.54	627.74	N.A.
Profit / (Loss) before Tax	(174.43)	(136.29)	N.A.
Profit / (Loss) after Tax	(178.94)	(136.29)	N.A.
Earnings per share (Rs.) (Face Value Rs. 10)	(7.65)	(54.74)	N.A.
Book Value per share (Rs.)	2.14	3.22	N.A.

\*pertains to the period January 23, 2004 (date of incorporation) to March 31, 2005.

The company is not a sick company within the meaning of the Sick Industrial Companies (Special Provisions) Act, 1995.

11.6. **Contingent Liabilities as at March 31, 2006**

There were no contingent liabilities as at March 31, 2006.

**12. Indian Association for Savings and Credit (IASC)**

12.1. Indian Association for Savings and Credit (IASC) was incorporated on February 19, 1998 for carrying on the operations as a Community Based Financial Institution with equal equity from Housing Development Finance Corporation Ltd and a Non- Governmental Organisation Palmyrah Workers Development Society (PWDS). The objective of the institution is to extend all financial services to poor households that have been excluded from the purview of mainstream banks and other financial institutions, through a professional approach, which is down-to-earth and cost effective. During the past eight years the institution has extended its services to nine districts in Tamilnadu and Kerala and has so far extended over Rs 4,000 lacs as micro-loans to 22,000 poor families. This institution also caters to the micro-insurance needs and social intermediation requirements of its customers.



12.2. **Directors of IASC as at March 31, 2006**

- Mr. K G Krishnamurthy, Chairman
- Mr. D T Reji Chandra
- Mr. R V S Rao
- Mr. Gabriel Robinson
- Mr. Samuel J Amirtham
- Mr. K Manmathan Nair
- Mr. C V Ignatius

12.3. **The Registered office of IASC is situated at**

Ramon House, H. T. Parekh Marg,  
169, Backbay Reclamation,  
Churchgate, Mumbai - 400 020.

12.4. **Shareholding Pattern of IASC as at March 31, 2006**

Name	Shareholding (%)
Housing Development Finance Corporation Limited	49.99
Palmyrah Workers Development Society	49.99
Individual Shareholders	0.02

12.5. **Key Financials of IASC**

Particulars	Years ended March 31,		
	(Rs. lacs)		
	2006	2005	2004
Equity Capital	60.00	60.00	60.00
Preference Capital	-	-	-
Reserves and Surplus	29.72	27.00	21.00
Total Income	337.09	272.03	189.31
Total Expenditure	323.64	253.16	152.43
Profit before Tax	13.45	18.87	36.88
Profit after Tax	2.85	6.19	8.49
Earnings per share (Rs.) (Face Value Rs. 10)	0.47	1.03	1.42
Book Value per equity share (Rs.)	15	14.48	13.45

The company is not a sick company within the meaning of the Sick Industrial Companies (Special Provisions) Act, 1995.

12.6. **Contingent Liabilities as at March 31, 2006**

12.6.1. Income tax liability under dispute:

The Association's application for registration u/s. 11 / 12A of the Income Tax Act, 1961 has been rejected by the Director of Income-Tax Exemptions, Mumbai and the order is being contested before the Income Tax Appellate Tribunal. In the event of the appeal being decided against the Association, it may have to pay income tax along with penal interest for the assessment years beginning from 2002 - 03. The likely liability on account of income tax is estimated at Rs. 50.56 lacs (Previous year: Rs 41.06 lacs) and has been provided for as Provision for Contingencies. However, the Association has been paying the advance tax and

other dues towards this liability under protest. The total amount paid under protest upto 31<sup>st</sup> March 2006 amounts to Rs. 44.32 lacs (Previous year: 41.32 lacs).

Consequently, the Association has also accounted the fringe benefit tax liability for the year amounting to Rs. 1.10 lacs as Provision for Contingencies and the fringe benefit tax paid under protest upto 31<sup>st</sup> March 2006 amounts to Rs. 0.81 lacs.

Considering the uncertainty regarding the tax position of the Association, deferred tax on timing differences have not been accounted under Accounting Standard 22 'Taxes on Income' issued by The Institute of Chartered Accountants of India.

12.6.2. Details of Provision for Contingencies as per Accounting Standard 29 "Provisions, Contingent Liabilities and Contingent Assets" issued by The Institute of Chartered Accountants of India:

Particulars	(Rs lacs)		
	As on 31.03.2005	Created during the year	As on 31.03.2006
Provision for contingent tax liabilities	41.06	10.60	51.66

### **13. HDFC Bank Limited (HDFC Bank)**

13.1. HDFC Bank was incorporated on August 13, 1994, and was granted a licence January 5, 1995 from Reserve Bank of India to carry on the banking operations. The Bank had started its operations by opening its first branch on January 16, 1995. HDFC Bank has three principal business activities: retail banking, wholesale banking and treasury operations. At March 31, 2006, the company had 535 branches, deposits were Rs. 55,79,700 lacs and advances were Rs. 35,06,100 lacs

#### **13.2. Directors of HDFC Bank as at March 31, 2006**

- Mr. Jagdish Capoor, Chairman
- Mr. Aditya Puri, Managing Director
- Mr. Keki M Mistry
- Dr. Venkat Rao Gadwal
- Mrs. Renu S Karnad
- Mr. Arvind Pande
- Mr. Bobby Parikh
- Mr. Ashim Samanta
- Mr. Vineet Jain

#### **13.3. The Registered office of HDFC Bank is situated at**

HDFC Bank House,  
Senapati Bapat Marg,  
Lower Parel,  
Mumbai 400 013.

#### **13.4. Shareholding Pattern of HDFC Bank as at March 31, 2006**

Name	Shareholding (%)
Promoter Holding	21.99
Foreign Institutional Investors	32.48
ADS Depository (J P Morgan Chase Bank)	19.27
Bennett, Colemn Group	5.17
Life Insurance Corporation of India	3.04
Other Bodies Corporate	2.01

Name	Shareholding (%)
Banks, Mutual Funds & Financial Institutions	1.71
Indocean Financial Holdings Limited	1.27
GIC & its subsidiaries	0.41
Overseas Corporate Bodies	0.40
Foreign Direct Investment	11.23
Directors	0.19
NRI's	0.18
Others	11.88

13.5. The monthly high and low price and the volume of shares of HDFC Bank traded at the Bombay Stock Exchange Limited (BSE) and the National Stock Exchange of India Limited (NSE) during the past twelve months.

Month	BSE			NSE		
	Share Price		Volume of Shares traded	Share Price		Volume of Shares traded
	Highest (Rs.)	Lowest (Rs.)		Highest (Rs.)	Lowest (Rs.)	
February 2006	776.00	705.25	23,20,754	775.00	706.00	1,01,12,739
March 2006	790.00	726.00	1,70,09,416	812.00	721.00	1,19,44,203
April 2006	865.00	740.90	31,74,611	865.00	740.90	99,99,085
May 2006	898.00	710.00	38,55,140	895.00	710.00	1,25,76,578
June 2006	810.90	620.00	29,28,796	814.80	615.20	1,10,63,656
July 2006	819.00	693.10	35,23,646	816.00	680.00	81,52,300
August 2006	870.00	764.00	29,75,524	870.00	764.05	68,44,633

13.6. Market Capitalization as on August 31, 2006 - Rs. 26,79,550 lacs

13.7. Changes in Capital Structure in the last 6 months

Particulars	No. of shares Issued (of Rs. 10 each)	Year / date of issue
Allotment under ESOS	2,17,100	January 6, 2006
Allotment under ESOS	3,87,100	February 2, 2006
Allotment under ESOS	1,35,900	March 1, 2006
Allotment under ESOS	2,21,000	March 24, 2006
Allotment under ESOS	5,50,500	May 8, 2006
Allotment under ESOS	1,57,000	June 16, 2006
Allotment under ESOS	98,000	July 14, 2006
Allotment under ESOS	1,58,100	August 8, 2006

13.8. Mechanism Evolved by the Company for Redressal of Investor Grievances

The transfer and other related work is handled by MCS Limited. The Secretarial Department actively interacts with MCS Limited for expeditious redressal of investor grievances and takes care of complaints received from statutory bodies such as SEBI, Stock Exchanges, Department of Company Affairs, etc. Investor grievances are settled expeditiously and satisfactorily by the Company.

**13.9. Key Financials of HDFC Bank**

Particulars	(Rs. lacs)		
	Years ended March 31,		
	2006	2005	2004
Equity Capital	31,314	30,988	28,479
Preference Capital	-	-	-
Reserves and Surplus	4,98,639	4,20,997	2,40,709
Total Income	5,59,932	3,74,483	3,02,896
Total Expenditure	4,72,854	3,07,927	2,51,946
Profit before Tax	1,25,351	97,894	71,896
Profit after Tax	87,078	66,556	50,950
Earnings per share*(Rs.) (Face Value Rs. 10)	27.92	22.92	17.96
Book Value per equity share (Rs.)	169.24	145.86	94.52

\*Basic

The company is not a sick company within the meaning of the Sick Industrial Companies (Special Provisions) Act, 1995.

**13.10. Contingent Liabilities**

Contingent Liabilities as at March 31, 2006	(Rs. in lacs)
I. Claims against the bank not acknowledged as debts -Taxation	24,397
II. Claims against the bank not acknowledged as debts -Others	1,310
III. Liability on account of outstanding forward exchange contracts	73,47,337
IV. Liability on account of outstanding derivative contracts	1,31,96,984
V. Guarantees given on behalf of constituents- in India	3,08,877
VI. Acceptances, endorsements and other obligations	2,41,037
VII. Other items for which the Bank is contingently liable	3,58,292
	<b>2,14,78,234</b>

**14. Intelenet Global Services Private Limited (Intelenet)**

14.1. Intelenet was incorporated on October 11, 2000. Intelenet is a business process outsourcing venture between HDFC and Barclays Bank Plc., each holding 50% equity stake.

**14.2. Directors of Intelenet as at March 31, 2006**

- Mr. Keki Mistry
- Mr. John Callender (Resigned wef March 31, 2006)
- Ms. Renu S. Karnad
- Ms. Wai Au
- Mr. V. S. Rangan
- Mr. Klaus Kaempfer

**14.3. The Registered office of Intelenet is situated at**

Ramon House,  
H. T. Parekh Marg,  
169, Backbay Reclamation,  
Churchgate, Mumbai – 400 020

14.4. **Shareholding Pattern of Intelenet Global Services Private Limited as at March 31, 2006**

Name	Shareholding (%)
Housing Development Finance Corporation Limited	50.00
Barclays Bank Plc	50.00

14.5. **Key financials of Intelenet are as follows:**

Particulars	(Rs lacs)		
	Years ended March 31,		
	2006	2005	2004
Total Income	11,700	25,000	27,200
Total Expenditure	10,600	23,700	25,600
Profit (Loss) before tax	1,100	1,300	1,500
Profit (Loss) after tax	800	1,300	1,500
Share Capital	5,500	6,600	6,800
Reserves & Surplus	400	6,600	8,700

The company is not a sick company within the meaning of the Sick Industrial Companies (Special Provisions) Act, 1995.

14.6. **Contingent Liabilities as at March 31, 2006**

Contingent liability not provided for – Rs. 17.03 lacs

## RELATED PARTY TRANSACTIONS

The Company has various transactions including some transactions with related parties. As a policy, the Company enters into transactions with related parties on an arms-length basis.

The list of related parties and the transactions entered into are as follows:

Sr. No.	FY	Name of the Party	Nature of Transaction	Amount	
1.	2001-02	Housing Development Finance Corporation Limited ( Holding Company)	Interest/ Fees Charges paid	48,58,220	
			Dividend Paid	1,15,52,018	
			Sale of Home Loans	75,09,88,499	
				NCD - Amount Payable	10,00,00,000
		Mr. Sudhin Choksey (Managing Director)	Remuneration paid	16,53,436	
		HDFC Standard Life Insurance Company Limited (Fellow Subsidiary Company )	Commission received	989	
		2.	2002-03	Credit Information Bureau India Ltd. (Fellow Subsidiary Company )	Registration Charges paid
HDFC Standard Life Insurance Company Limited (Fellow Subsidiary Company )	Commission received			1,61,281	
	Rent Received			1,81,440	
Housing Development Finance Corporation Limited (Holding Company)	Dividend Paid			1,94,88,725	
	Sale of Home Loans			86,85,16,895	
				NCD - Amount Payable	10,00,00,000
				Interest/ Fees Charges paid	1,21,54,835
Mr. Sudhin Choksey (Managing Director)	Remuneration paid			17,94,071	
	Staff Loan Balance Receivable			4,53,000	
	Interest on Staff Loan			1,242	
3.	2003-04	HDFC Asset Management Company Limited (Fellow Subsidiary Company )	Rent Received	4,60,845	
		HDFC Standard Life Insurance Company Limited (Fellow Subsidiary Company )	Commission received	19,389	
			Rent received	1,66,320	
		Housing Development Finance Corporation Limited ( Holding Company)	Interest/ Fees Charges paid	1,29,55,445	
			Dividend Paid	2,43,60,906	
			Sale of Home Loans	1,24,99,81,705	
				NCD - Amount Payable	10,00,00,000
		Mr. Sudhin Choksey (Managing Director)	Remuneration paid	21,26,777	
			Staff Loan Balance Receivable	4,15,260	
Repayment of Loan -Principal amount	37,740				

			Repayment of Loan - Interest Amount	18,120
4.	2004-05	HDFC Asset Management Company Limited (Fellow Subsidiary Company )	Rent Received	6,14,460
		HDFC Standard Life Insurance Company Limited (Fellow Subsidiary Company )	Commission received	10,818
		Housing Development Finance Corporation Limited ( Holding Company )	Interest/ Fees Charges paid	95,38,356
			Dividend Paid	2,95,03,087
			Sale of Home Loans	40,13,87,920
			Buyback of Home Loans	1,03,36,07,821
			NCD - Amount Payable	10,00,00,000
		Mr. Sudhin Choksey (Managing Director)	Remuneration paid	24,93,900
			Staff Loan Balance Receivable	3,76,010
			Repayment of Loan -Principal amount	39,250
			Repayment of Loan - Interest Amount	16,610
5.	2005-06	HDFC Asset Management Company Limited (Fellow Subsidiary Company )	Rent Received	6,14,460
		HDFC Standard Life Insurance Company Limited (Fellow Subsidiary Company )	Commission received	5,82,556
		Housing Development Finance Corporation Limited ( Holding Company )	Interest/ Fees Charges paid	95,00,000
			Dividend Paid	3,44,20,268
			Buy Back of Home Loans	35,15,77,384
			NCD - Amount Payable	10,00,00,000
		Mr. Sudhin Choksey (Managing Director)	Remuneration paid	33,23,890
			Staff Loan Balance Receivable	3,35,190
			Repayment of Loan -Principal amount	40,820
			Repayment of Loan – Interest Amount	15,040

During the FY06 commission of Rs. 28,029 is received from HDFC Mutual Fund for marketing/distributing the units of the schemes of HDFC Mutual Fund.

## AUDITORS REPORT

### EXTRACTS FROM THE AUDITOR'S REPORT

To,  
The Board of Directors  
GRUH Finance Limited.

Dear Sirs,

**Re : Proposed Rights Issue**

Offer to issue and allot 79,50,000 Equity Shares of Rs. 10/- each at a premium of Rs. 65/- on Rights basis in the ratio of 3 Equity Share for every 10 Equity Shares held.

We have examined the financial information contained in the statements annexed to this report i.e. Annexures 1 to 12 which are proposed to be included in the Letter of Offer of GRUH Finance Limited in connection with the proposed Rights Issue as required by Clause B of Part II of Schedule II of the Companies Act, 1956 and Guidelines titled Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 ('Guidelines') issued by the Securities and Exchange Board of India (SEBI) in pursuance of Section 11 of the Securities and Exchange Board of India Act, 1992, and we report that:

1. We have examined the 'Statement of Profit and Loss Account' of the Company for each of the financial years ending 31st March, 2002, 31st March, 2003, 31st March, 2004, 31st March, 2005 and 31st March, 2006 and 'Statement of Assets and Liabilities' as at those dates enclosed as **Annexure - 1** and **Annexure - 2** to this report and confirm that:
  - i. These statements reflect the profits and assets and liabilities for each of the relevant periods as extracted from the Profit and Loss Accounts for the Financial years ended 31st March, 2002, 31st March 2003, 31st March 2004, 31st March 2005 and 31st March, 2006 and the Balance Sheets as on those dates audited by us, after making therein the disclosures and adjustments required to be made in accordance with the provisions of paragraph 6.18.7 (iv)(a) & (b) of the Guidelines, to the extent applicable.
  - ii. The Significant Accounting Policies adopted by the Company and Notes to Accounts for the year ended as on March 31, 2006 are enclosed as **Annexure - 3** to this report.
  - iii. The significant changes in Accounting Policies made by the Company during last five years are enclosed as **Annexure - 3A** to this report.
2. We have examined the 'Statement Showing Key Accounting Ratios' of the Company for each of the five financial years ended 31st March 2002, 31st March 2003, 31st March 2004, 31st March 2005 and 31st March, 2006 enclosed as **Annexure - 4** to this report and confirm that they have been correctly computed from the figures as stated in the 'Statement of Profit and Loss Account' and 'Statement of Assets and Liabilities' of the Company referred to in paragraph 1 (i) above.
3. We have examined the accompanying 'Statement of Related Party Disclosure' for each of the five financial years ended 31st March 2002, 31st March 2003, 31st March 2004, 31st March 2005 and 31st March, 2006 enclosed as **Annexure - 5** to this report and confirm that the relationships and transactions between the Company and its related parties have been appropriately reported in accordance with 'AS-18' Related Party Disclosures' issued by The Institute of Chartered Accountants of India.
4. We have examined the 'Statement Showing Dividend Paid' by the Company in respect of each of the five financial years ended 31st March, 2002, 31st March, 2003, 31st March, 2004, 31st March, 2005 and 31st March, 2006 on the Shares of the Company, enclosed as **Annexure - 6** to this report and confirm that it correctly records the dividend paid in respect of each of those years.
5. We have examined the 'Statement of Tax Shelter' for each of the five financial years ended 31st March, 2002, 31st March, 2003, 31st March, 2004, 31st March, 2005 and 31st March, 2006 enclosed as **Annexure - 7** to this report and report that, in our opinion it correctly reflects the 'Tax Shelter' for each of those years.



6. We have examined the 'Cash Flow Statement' in respect of each of the five financial years ended 31st March, 2002, 31st March, 2003, 31st March, 2004, 31st March, 2005 and 31st March, 2006 enclosed as **Annexure - 8** to this report and confirm that, in our opinion, these statements have been prepared by the Company in accordance with the requirement of 'AS-3 - Cash Flow Statements' issued by the Institute of Chartered Accountants of India.
7. We have examined the 'Statement of Secured and Unsecured Loans' as on 31st March, 2006 enclosed as **Annexure - 9** and **Annexure - 10** to this report and confirm that they have been correctly extracted from the figures as stated in the 'Statement of Assets and Liabilities' of the Company referred to in paragraph 1 (i) above.
8. We have examined the 'Statement of Capitalization' as on 31st March, 2006 enclosed as **Annexure - 11** to this report and confirm that they have been correctly extracted from the figures as stated in the 'Statement of Assets and Liabilities' of the Company referred to in paragraph 1 (i) above.
9. We have examined the 'Statement of Other Income' in respect of each of the five financial years ended 31st March, 2002, 31st March, 2003, 31st March, 2004, 31st March, 2005 and 31st March, 2006 enclosed as **Annexure - 12** to this report and confirm that they have been correctly extracted from the figures as stated in the 'Statement of Profit and Loss Account' of the Company referred to in paragraph 1 (i) above.

We further report that the information mentioned in the above paras 2-9 above has been correctly computed from the figures as stated in the statements of Profit and Loss Account and Assets and Liabilities referred to in paragraph 1 above.

This report is intended solely for your information for inclusion in the Letter of Offer in connection with the proposed Rights Issue of the Company and is not to be used, referred to or distributed for any other purpose without our prior written consent.

For SORAB S. ENGINEER & CO.  
**Chartered Accountants**

CA. S. B. Chokshi  
Partner  
Membership NO.100892

May 25, 2006  
Ahmedabad

**Annexure – 1**  
(To the Auditor's Report mentioned in page 68)

**STATEMENT OF PROFIT AND LOSS ACCOUNT (AS ADJUSTED)**

(Rs. in lacs)

PARTICULARS	Year Ended March 31,				
	2006	2005	2004	2003	2002
<b>INCOME</b>					
Operating Income	9,732.51	7,839.84	7,629.90	7,796.96	7,884.70
Fees and Other Charges	543.38	472.77	564.10	520.61	494.83
Profit/(Loss) on Sale of Investment(Net)	13.09	27.94	102.48	45.53	(4.45)
Profit/(Loss) on sale of Acquired Properties / Fixed Assets(Net)	51.85	(4.65)	(3.10)	(0.16)	0.89
Bad Debts Recovered	63.24	197.37	100.75	0.79	25.00
Other Income	16.38	16.41	45.83	9.83	6.49
	<b>10,420.45</b>	<b>8,549.68</b>	<b>8,439.96</b>	<b>8,373.56</b>	<b>8,407.46</b>
<b>EXPENDITURE AND CHARGES</b>					
Interest and Other charges	6,137.95	5,016.97	5,524.98	5,786.77	6,007.81
Staff Expenses	492.26	370.17	325.21	317.88	290.38
Establishment Expenses	166.23	134.71	119.49	109.56	111.50
Other Expenses	413.95	360.88	316.27	306.97	295.88
Depreciation	78.76	80.20	91.47	127.67	175.32
Bad Debts Written Off	183.40	244.43	267.98	297.60	537.29
Provision for Contingencies	325.00	275.00	225.00	225.00	75.00
	<b>7,797.55</b>	<b>6,482.36</b>	<b>6,870.40</b>	<b>7,171.45</b>	<b>7,493.18</b>
<b>Profit Before Tax and Extraordinary Items</b>	<b>2,622.90</b>	<b>2,067.32</b>	<b>1,569.56</b>	<b>1,202.11</b>	<b>914.28</b>
Less : - Provision for Taxes :					
Current Tax	650.00	520.00	440.95	215.14	69.78
Deferred Tax(Net)	(210.73)	(123.55)	(222.36)	8.28	41.63
Fringe Benefit Tax	16.00	0.00	0.00	0.00	0.00
	455.27	396.45	218.59	223.42	111.41
<b>Profit Before Extraordinary Items</b>	<b>2,167.63</b>	<b>1,670.87</b>	<b>1,350.97</b>	<b>978.69</b>	<b>802.87</b>
<b>Less:- Extraordinary Items</b>	0.00	0.00	0.00	0.00	0.00
<b>Profit After Extraordinary Items</b>	<b>2,167.63</b>	<b>1,670.87</b>	<b>1,350.97</b>	<b>978.69</b>	<b>802.87</b>

**Annexure – 2**

(To the Auditor's Report mentioned in page 68)

**STATEMENT OF ASSETS AND LIABILITIES (AS ADJUSTED)**

(Rs. in lacs)

PARTICULARS	AS AT MARCH 31,				
	2006	2005	2004	2003	2002
<b>Loans</b>					
Individual	1,05,964.77	81,048.50	57,694.29	55,129.56	47,038.59
Corporate Bodies	0.00	0.00	0.00	0.00	129.54
Others	948.00	604.19	468.45	424.39	865.14
	<b>1,06,912.77</b>	<b>81,652.69</b>	<b>58,162.74</b>	<b>55,553.95</b>	<b>48,033.27</b>
<b>Investments</b>	<b>2,311.10</b>	<b>2,180.26</b>	<b>1,884.57</b>	<b>2,062.56</b>	<b>1,549.65</b>
<b>Current Assets, Loans and Advances</b>					
Current Assets Loans and Advances	9,940.86	8,818.09	5,833.85	5,647.63	5,487.50
Less : Current Liabilities and Provisions	3,459.65	5,404.97	3,018.70	3,167.40	2,421.81
<b>Net Current Assets</b>	<b>6,481.21</b>	<b>3,413.12</b>	<b>2,815.15</b>	<b>2,480.23</b>	<b>3,065.69</b>
<b>Fixed Assets</b>					
Gross Block	1,716.35	1,639.00	1,606.73	2,041.08	2,199.54
Less : Depreciation	883.32	811.24	736.83	654.24	739.44
<b>Net Block</b>	<b>833.03</b>	<b>827.76</b>	<b>869.90</b>	<b>1,386.84</b>	<b>1,460.10</b>
Deferred Tax Assets	130.83	0.00	0.00	0.00	0.00
<b>TOTAL ASSETS</b>	<b>1,16,668.94</b>	<b>88,073.83</b>	<b>63,732.36</b>	<b>61,483.58</b>	<b>54,108.71</b>
Less :-					
<b>Loan Funds</b>					
Secured	88,421.36	61,905.11	39,864.53	36,000.07	30,007.86
Unsecured	19,558.87	18,743.40	17,333.79	19,539.97	18,695.85
	1,07,980.23	80,648.51	57,198.32	55,540.04	48,703.71
<b>Deferred Tax Liability</b>	<b>0.00</b>	<b>79.90</b>	<b>203.45</b>	<b>425.81</b>	<b>70.31</b>
<b>NET WORTH</b>	<b>8688.71</b>	<b>7345.42</b>	<b>6330.59</b>	<b>5517.73</b>	<b>5334.69</b>
<b>REPRESENTED BY</b>					
Share Capital	2650.00	2650.00	2650.00	2650.00	2650.00
Reserves and Surplus	6038.71	4695.42	3680.59	2867.73	2684.69
	<b>8688.71</b>	<b>7345.42</b>	<b>6330.59</b>	<b>5517.73</b>	<b>5334.69</b>

## **SIGNIFICANT ACCOUNTING POLICIES**

### **1. ACCOUNTING CONVENTION**

These accounts have been prepared in accordance with historical cost convention, applicable Accounting Standards issued by the Institute of Chartered Accountants of India and relevant provisions of the Companies Act, 1956.

The preparation of financial Statements requires the management to make estimates and assumptions in the reported amounts of assets and liabilities (including current liabilities) as of the date of the financial statements and the reported income and expenses during the reporting period. Management believes that the estimates used in preparation of the financial statements as prudent and reasonable. Future results could differ from these estimates.

### **2. SYSTEM OF ACCOUNTING**

The Company adopts the accrual concept in the preparation of the accounts. The Balance Sheet and the Profit and Loss Account of the company are prepared in accordance with the provisions contained in Section 211 of the Companies Act, 1956, read with Schedule VI thereto.

### **3. INFLATION**

Assets and Liabilities are recorded at historical cost to the company. These costs are not adjusted to reflect the changing value in the purchasing power of money.

### **4. INTEREST ON HOUSING LOANS**

Repayments of housing loans is by way of Equated Monthly Instalments (EMIs) / Equated Half-yearly Instalments (EHYIs) comprising principal and interest. Interest on loans is computed either on an annual rest or on a monthly rest basis. EMIs / EHYIs commence once the entire loan is disbursed. Pending commencement of EMIs / EHYIs, Pre-EMI interest is payable every month.

### **5. SURPLUS ON SALE/ TRANSFER/ ASSIGNMENT OF LOANS**

The surplus arising as the difference between the EMIs recoverable on the individual home loans sold/ transferred/ assigned and amounts payable to the purchaser of such home loans over the tenure of the loan is being recognised by way of surplus since risks and rewards of ownership of loan have been assigned on sale / transfer / assignment of loans. However, depending on the terms of such individual home loans, the company sets aside part of the surplus to Contingencies for Loans Sold. During each subsequent year the Contingencies on Sold Loans is adjusted to recognise the balance surplus depending on the remaining tenure and outstanding loan amount after considering prepayments, if any received during the year.

### **6. INCOME FROM INVESTMENT**

Income from investment is accounted on an accrual basis. The gains/loss on account of investments in debentures/bonds and government securities held as long-term investments and acquired at a discount/premium, is recognised over the life of the security on a pro-rata basis.

### **7. INVESTMENTS**

Investments are stated at cost inclusive of related expenses. Provision for diminution in value of investments is made if management perceives that there is significant permanent diminution in value of investments or in accordance with the norms prescribed by the National Housing Bank and Accounting Standard 13 issued by the Institute of Chartered Accountants of India.

### **8. BROKERAGE ON DEPOSIT**

Brokerage, other than incentives, paid on deposits is amortised over the period of the deposit. Incentives, which is payable to agents who achieve certain collection targets, is charged to the Profit and Loss Account.

## **9. STOCK OF ACQUIRED & DEVELOPED PROPERTIES**

Stock of acquired & developed properties is valued at realisable value, which includes appropriate share of development expenses.

## **10. DEFERRED TAX**

Deferred tax is recognised for all timing differences, being the differences between the taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. The carrying amount of deferred tax asset/liability is reviewed at each Balance Sheet date and consequential adjustments are carried out.

## **11. FIXED ASSETS**

Fixed Assets are capitalised at cost inclusive of legal and/or installation expenses.

## **12. DEPRECIATION**

- i) Depreciation is provided on all assets except office premises, residential premises and leased assets on “Written Down Value Method” under Section 205 (2) (a) at the rates and in the manner prescribed under schedule XIV of the Companies Act, 1956.
- ii) Depreciation on office premises and residential premises is provided on “Straight Line Method “ under Section 205 (2) (b) at the rates and in the manner prescribed under schedule XIV of the Companies Act, 1956.

## **13. PROVISION FOR CONTINGENCIES**

The Company’s policy is to ensure that the balance in Provision for Contingencies is sufficient to cover the provisions as required by Housing Finance Companies (NHB) Directions, 2001, on principal amount affected as non-performing loan asset and other credit exposure.

## **14. RETIREMENT BENEFITS**

The company has various schemes of retirement benefits, such as Provident Fund, Superannuation Fund and Gratuity Fund. All these funds and the schemes thereunder are recognised by the Income-Tax authorities and are administered by various trustees. The company’s contributions to these funds are charged to the Profit & Loss Account every year. The contribution to the Gratuity Fund is made, based on the actuarial valuation determined each year.

The company also has a scheme, which enables employees to encash the accumulated privilege leave on retirement. The company’s liability in respect of this leave encashment scheme is also determined on the basis of actuarial valuation, and the same is charged to the Profit & Loss Account.

## **15. CONTINGENT LIABILITIES**

Contingent liabilities, if any, are disclosed in the notes on accounts. Provision is made in the accounts in respect of those contingencies which are likely to materialise into liabilities after the year end till the adoption of accounts by Board of Directors and which have material effect on the position stated in the Balance Sheet.

## **NOTES FORMING PART OF THE ACCOUNTS**

- a) Special Reserve has been created over the years in terms of Section 36(1) (viii) of the Income-tax Act, 1961 out of the distributable profits of the company.
- b) Secured Loans:

- a) Refinance from National Housing Bank (NHB) and Term Loans from Banks are secured against negative lien on all the assets of the company excluding specific immovable property mortgaged in favour of Debenture Trustee against Secured Redeemable Non-Convertible Debentures.
- b) Secured Redeemable Non-Convertible Debentures Series A-001, A-002, A-003, A-004 and A-005 are secured by mortgage of specific immovable property and by a negative lien on the assets of the Company.
- c) Unsecured Loans
- a) During the year, the company has raised Rs. 4,000 lacs through the issue of long term Unsecured Redeemable Non-Convertible Debentures in addition to the existing long term Unsecured Redeemable Non-Convertible Debentures of Rs. 1,000 lacs raised in March, 2002. These debts are subordinated to present and future senior indebtedness of the Company and qualify as Tier II Capital under National Housing Banks (NHB's) guidelines for assessing capital adequacy.
- b) Commercial Papers (Unsecured) includes Rs. 500,000,000/- (Previous Year Rs. 500,000,000/-) due within one year.
- c) Deposits (Unsecured) include Rs. 409,852,783/- (Previous Year Rs. 585,478,289/-) due within one year.
- d) Loans granted by the Company are secured or partly secured by :
- a. Equitable mortgage of property and / or
- b. Pledge of shares, Units, Other Securities, assignments of Life Insurance policies and/or
- c. Hypothecation of assets and / or
- d. Bank guarantees, Company guarantees or Personal guarantees and / or
- e. Undertaking to create a security.
- e) (a) The Company has complied with the norms for recognising Non-Performing Assets (NPA) in preparation of Accounts and provisions have been made accordingly. As per the norms, NPA's are recognised on the basis of 90 days overdue. NPA's are to be treated as Bad & Doubtful, if they remain outstanding for more than 15 months.
- (b) Classification of loans and provision made for Non-Performing Loan Assets is given below:

<b>Particulars</b>	<b>Standard</b>	<b>Sub – Standard</b>	<b>Bad &amp; Doubtful</b>	<b>Total</b>
<b>As on March 31, 2006 :</b>				
<b>Home loans :</b>				
Individuals	9,717,000,813	76,012,090	80,739,755	9,873,752,658
Others	94,800,562	0	0	94,800,562
<b>Total</b>	<b>9,811,801,375</b>	<b>76,012,090</b>	<b>80,739,755</b>	<b>9,968,553,220</b>
<b>Other Loans :</b>				
Individuals	720,904,075	1,554,945	265,041	722,724,061
<b>Total</b>	<b>10,532,705,450</b>	<b>77,567,035</b>	<b>81,004,796</b>	<b>10,691,277,281</b>
Percentage (%)	98.52	0.72	0.76	100.00
<b>Provision</b>				
As on 31.03.2005		30,182,511	75,050,666	105,233,177
Provided during the year		22,436,972	5,954,130	28,391,102
<b>Total as on 31.03.2006</b>		<b>52,619,483</b>	<b>81,004,796</b>	<b>133,624,279</b>
<b>Net NPA</b>	<b>24,947,552</b>			
<b>Net NPA as a % of Loan Asset</b>	<b>0.23</b>			

Particulars	Standard	Sub – Standard	Bad & Doubtful	Total
<b>As on March 31,2005 :</b>				
<b>Home loans :</b>				
Individuals	7,587,031,789	84,223,281	75,050,666	7,746,305,736
Others	60,418,675	0	0	60,418,675
<b>Total</b>	<b>7,647,450,464</b>	<b>84,223,281</b>	<b>75,050,666</b>	<b>7,806,724,411</b>
<b>Other Loans :</b>				
Individuals	358,544,131	0	0	358,544,131
<b>Total</b>	<b>8,005,994,595</b>	<b>84,223,281</b>	<b>75,050,666</b>	<b>8,165,268,542</b>
<b>Percentage (%)</b>	<b>98.05</b>	<b>1.03</b>	<b>0.92</b>	<b>100.00</b>
<b>Provision</b>				
As on 31.03.2004		60,596,323	19,838,733	80,435,056
Provided during the year		(30,413,812)	55,211,933	24,798,121
<b>Total as on 31.03.2005</b>		<b>30,182,511</b>	<b>75,050,666</b>	<b>105,233,177</b>
<b>Net NPA</b>	<b>54,040,770</b>			
<b>Net NPA as a % of Loan Asset</b>	<b>0.66%</b>			

- f) Loans includes Rs. 335,190/- (Previous Year Rs. 376,010/-) given to the Managing Director under the Staff Loan Scheme of the Company. The aggregate maximum balance due at any time during the year in respect of the above, amounted to Rs. 376,010/- (Previous year Rs. 415,260/-).
- g) Stock of acquired and developed properties under Current Assets is valued at realisable value, which includes appropriate share of development expenses.
- h) (a) Out of the total Loans and Advances, amounts aggregating to Rs. 69,525,052/- (Previous Year Rs. 51,086,019/-) are secured.
- (b) Advances recoverable in cash or kind include Advance Tax of Rs. 250,812,859/- (Previous Year Rs. 191,057,440/-) after adjusting Rs. 216,749,063/- (Previous Year Rs. 150,149,063/-) towards Provision for Taxation.
- i) Pursuant to the provisions of Section 205C of the Companies Act, 1956, as on the balance sheet date the company is not required to transfer any amount due for transfer to Investor Education and Protection Fund.
- j) (a) Interest on loans includes income from home loans Rs. 857,355,143 /- (Previous Year Rs. 669,507,394/-), Income from other loans Rs. 53,602,256 /- (Previous Year Rs. 21,678,547/-), Income on Sold Loans Rs. 22,836,053/- (Previous Year Rs. 52,720,937/-).
- (b) Other operating income includes Income from Long Term Investments amounting to Rs. 21,236,732/- (Previous Year Rs. 18,383,902/-) and Dividend from Mutual Funds Rs. 15,306,094/- (Previous Year Rs. 7,321,772/-).
- k) Salaries and Bonus include Rs. 1,759,695/- (Previous Year Rs. 1,289,243/-) towards provision made as per actuarial valuation in respect of accumulated leave salary encashable on retirement, in accordance with Accounting Standard 15 issued by the Institute of Chartered Accountants of India.
- l) The Company has disputed demands of Rs. 143,206,844/- (Previous year Rs. 106,823,676/-) in respect of Income Tax and Interest Tax in the appellate proceedings. The Company expects to succeed in these proceedings and hence no additional provision is considered necessary.
- m) In the opinion of the company, there is only one identified reportable segment i.e. Housing Finance Business Segment for the purpose of Accounting Standard – 17 “Segment Reporting”.

- n) Consequent to the mandatory Accounting Standard – 18 issued by ICAI on “Related Party Disclosure” following persons will be considered as related persons for the period ended as on 31<sup>st</sup> March 2006.

<b>Sr. No.</b>	<b>Name of the Related Party</b>	<b>Nature of Relationship</b>
1.	Housing Development Finance Corporation Limited (HDFC)	Holding Company
2.	HDFC Developers Limited	Fellow Subsidiary
3.	HDFC Investments Limited	Fellow Subsidiary
4.	HDFC Holdings Limited	Fellow Subsidiary
5.	HDFC Asset Management Co. Limited	Fellow Subsidiary
6.	HDFC Trustee Co Limited	Fellow Subsidiary
7.	HDFC Standard Life Insurance Co. Limited	Fellow Subsidiary
8.	HDFC Realty Limited	Fellow Subsidiary
9.	HDFC Chubb General Insurance Co. Limited	Fellow Subsidiary
10.	Home Loan Services of India Private Limited	Fellow Subsidiary
11.	HDFC Venture Capital Limited	Fellow Subsidiary
12.	HDFC Ventures Trustee Company Limited	Fellow Subsidiary
13.	Mr. Sudhin Choksey, Managing Director	Key Management Personnel

(Related party relationships are as identified by the company)

The nature and volume of transactions of the company during the year with the above-related parties were as follows:

<b>(Rupees)</b>			
<b>2005-2006</b>			
<b>Particulars</b>	<b>Holding Company</b>	<b>Fellow Subsidiary Companies</b>	<b>Key Management Personnel</b>
Commission Received	Nil	6,10,585	Nil
Interest/Fees Charges	95,00,000	Nil	Nil
Dividend Paid	3,44,20,268	Nil	Nil
Rent Received	Nil	6,14,460	Nil
Remuneration	Nil	Nil	33,23,890
Sale of Home Loans	Nil	Nil	Nil
Purchase(Buyback) of Home Loans	3,515,77,384	Nil	Nil
Deposits Accepted	Nil	Nil	Nil
Deposits Paid	Nil	Nil	Nil
Repayment of loan	Nil	Nil	40,820
Interest Income	Nil	Nil	15,040
Balance as on 31.03.2006			
Account Payable	10,00,00,000	Nil	Nil
Account Receivable	Nil	Nil	3,35,190



**2004-2005**

<b>Particulars</b>	<b>Holding Company</b>	<b>Fellow Subsidiary Companies</b>	<b>Key Management Personnel</b>
Commission Received	Nil	10,818	Nil
Interest/Fees Charges	95,38,356	Nil	Nil
Dividend Paid	295,03,087	Nil	Nil
Rent Received	Nil	6,14,460	Nil
Remuneration	Nil	Nil	24,93,900
Sale of Home Loans	40,13,87,920	Nil	Nil
Purchase(Buyback) of Home Loans	1,03,36,07,821	Nil	Nil
Deposits Accepted	20,00,00,000	Nil	Nil
Deposits Paid	20,00,00,000	Nil	Nil
Repayment of loan	Nil	Nil	39,250
Interest Income	Nil	Nil	16,610
<b>Balance as on 31.03.2005</b>			
Account Payable	10,00,00,000	Nil	Nil
Account Receivable	Nil	Nil	3,76,010

o) In accordance with the Accounting Standard on 'Earning Per Share' (AS 20) issued by the Institute of Chartered Accountant of India, the EPS are as follows

a) The Earning Per Share (EPS) is calculated as follows :

	<b>2005-06</b>	<b>2004-05</b>
(A) Net profit attributable to Equity Share Holders	21,67,62,499	16,70,87,567
(B) Number of Equity Shares	2,65,00,000	2,65,00,000
(C) EPS - (Basic)	8.18	6.31
(D) EPS - (Diluted)	8.17	6.31

b) The Basic Earning Per Share have been computed by dividing the net Profit After Tax by the weighted average number of equity shares for the respective periods. Whereas the Diluted Earning Per Share have been computed by dividing the net Profit After Tax by the weighted average number of equity shares, after giving dilute effect of outstanding Stock Options for the respective periods. The relevant details are as follows:

	<b>2005-06</b>	<b>2004-05</b>
Weighted Average number of shares for computation of Basic Earning Per Share	2,65,00,000	2,65,00,000
Dilute effect of outstanding Stock Options	21,272	0
Weighted Average number of shares for computation of Diluted Earning Per Share	2,65,21,272	2,65,00,000

- p) In accordance with mandatory Accounting Standard – 22 issued by ICAI on “Accounting for Taxes on Income”, the company is accounting for deferred tax.

Break up of deferred tax liability as on 31<sup>st</sup> March,

Description	2006	2005
<b>(Rupees)</b>		
<b>(A) Deferred Tax Liability</b>		
Brokerage paid in advance	12,84,734	19,57,160
Depreciation	76,57,798	76,97,697
Sale of Home Loans	1,93,39,318	3,00,13,786
Prepayment and Rate revision charge	8,010,242	98,85,471
<b>Total (A)</b>	<b>3,62,92,092</b>	<b>4,95,54,114</b>
<b>(B) Deferred Tax Assets</b>		
Provision for NPA	4,49,77,932	3,85,07,451
Other Provisions	43,97,251	30,56,656
<b>Total (B)</b>	<b>4,93,75,183</b>	<b>4,15,64,107</b>
<b>Net (Assets) / Liability</b>	<b>(1,30,83,091)</b>	<b>79,90,007</b>

**q) Employee Share Based Payment**

- a) During the year, the Company had formulated Employee Stock Option Scheme - 2005 plan, the features of the same are as follows:

Date of Grant	October 26, 2005
Number of Options Granted	2,00,000
Exercise Price Per option	Rs. 67/-
Date of Vesting	On October 26, 2006 or on the last date of the calendar month in which the eligible employee (other than the directors) completes 3 years of continuous service in the company, whichever is later. In respect of Eligible Employees being directors, the options will Vest on October 26, 2006.
Exercise Period	Within 3 years from the date of respective vesting.
Method of settlement	Through allotment of one Equity Share for each option granted.

- b) Intrinsic Value Method has been used to account for the employee share based payment plans. The intrinsic value of each stock option granted in the employee stock option plan is Rs. Nil since the market price of the underlying share at the grant date is same as the exercise price.
- c) Further details of the stock option plans is as follows :

	Number of options	Weighted average exercise price
Outstanding at start of year	Nil	Nil
Granted	2,00,000	Rs. 67
Forfeited	2,900	Nil
Exercised	Nil	Nil
Outstanding at end of year	1,97,100	Rs. 67
Exercisable at end of year	1,97,100	Rs. 67

d) Fair Value of Option

- i. If the fair value method were to be used, the estimated value of each stock option granted in the general employee stock option would have been Rs. 13/- as per the Black-Scholes-Mertons Option Pricing Model. The model inputs were the share price at grant date of Rs. 67, exercise price of Rs. 67, expected volatility of 30 per cent, dividends yield rate is considered at 5 per cent, the expected life of the option has been taken as 38 months, and a risk free interest rate of 6.38 per cent. The expected volatility is determined at 30 per cent which is marked up by 3 per cent on historical volatility of 27 per cent.
- ii. If the fair value method would have been used to account the employee share based payment plan, the Staff Expenses would have been higher by Rs. 1,217,667/- and the Profit After Tax for the year and Reserves and Surplus would have been lower to that extent. The EPS under such a method would have been as follows:

	(Rupees) 2005-06
Net Profit After Tax	21,67,62,499
Less : Amortisation of ESOP Cost	12,17,667
Net profit attributable to Equity Share Holders	21,55,44,832
EPS - (Basic)	8.13
EPS - (Diluted)	8.13

r) **Managerial Remuneration :**

	2005-06	(Rupees) 2004-05
Salary and Allowances	9,60,000	7,80,000
Contribution to Provident Fund and Superannuation Fund	2,59,200	2,10,600
Contribution to Gratuity Fund	3,64,690	98,300
Perquisites	9,60,000	7,80,000
Ex-Gratia	7,80,000	6,25,000
	<b>33,23,890</b>	<b>24,93,900</b>

s) There are no amounts payable to any Small Scale Industrial Undertaking.

t) Amount remitted during the year in foreign currency on account of dividend

	2005-06	2004-05
i) Number of Non-resident Shareholders	1	1
ii) Number of shares held by them	1,25,000	1,25,000
iii) Year to which dividend relates	2004-05	2003-04
iv) Amount remitted (Rs.)	2,62,500	2,25,000

u) Figures for the Previous Year have been re-grouped wherever necessary.

**SIGNIFICANT CHANGES IN ACCOUNTING POLICIES DURING LAST FIVE YEARS**

**1. NHB Regulations:**

During the five consecutive financial years ended March 31, 2006 NHB has issued various guidelines on Income Recognition, Asset Classification, Provisioning in respect of Standard Assets, Non Performing Advances, other Assets Classification, Classification of Investments and Valuations thereof, and treatment of depreciation on investments/fixed/leased assets. The company in confirmation with the NHB guidelines carried out necessary amendments in the accounting policies.

**2. Surplus on Sale / Transfer / Assignments of Loan for the year 2003-04:**

As per the accounting policy followed by the company so far, the Contingencies on Loans Sold created out of surplus on Sale / Transfer / Assignment of loan were treated as Reserves for Contingencies and were shown as a part of Reserves and Surplus. Accordingly, company has created Reserve for Contingencies amounting to Rs. 1179.73 lacs upto March 31, 2003, which were shown under schedule - "Reserves and Surplus".

During the year 2003-04, the company has changed the accounting policy. Since the Contingencies on Loans Sold has been created out of the residual surplus arising out of sale of home loans and specifically to meet the contingencies, if any on account of prepayment and recovery expenses, the balance in the Contingencies on Loans Sold (earlier treated as Reserves for Contingencies) has been treated as Provision for Contingencies and the same has been reduced from EMI recoverable.

Due to such change, the Reserves and Surplus and the Current Assets as on March 31, 2004 are lower by Rs. 2545.20 lacs.

**Annexure – 4**  
(To the Auditor's Report mentioned in page 68)

**STATEMENT SHOWING KEY ACCOUNTING RATIOS**

**As at March 31, 2006**

<b>PARTICULARS</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Earning Per Share - Basic (Rs.)	8.18	6.31	5.10	3.69	3.03
- Diluted (Rs.)	8.17	6.31	5.10	3.69	3.03
Return on Networth (%)	24.95	22.75	21.34	17.74	15.05
Net Asset Value Per Share (Rs.)	32.79	27.72	23.89	20.82	20.13

**Definition:**

1	Earning Per Share	Adjusted Profit After Tax / Weighted Average Number of Equity Shares
2.	Return on Net Worth	Adjusted Profit After Tax / Networth * 100
3.	Net Asset Value Per Share	Adjusted Networth / Number of Equity Share

**Annexure - 5**

(To the Auditor's Report mentioned in page 68)

**DISCLOSURE REQUIRED AS PER ACCOUNTING STANDARD 18 (AS-18) - RELATED PARTY  
DISCLOSURE**

<b>Sr. No.</b>	<b>FY</b>	<b>Name of the Party</b>	<b>Nature of Transaction</b>	<b>Amount</b>		
1.	2001-02	Housing Development Finance Corporation Limited ( Holding Company )	Interest/ Fees Charges paid	48,58,220		
			Dividend Paid	1,15,52,018		
			Sale of Home Loans	75,09,88,499		
				NCD - Amount Payable	10,00,00,000	
			Mr. Sudhin Choksey (Managing Director)	Remuneration paid	16,53,436	
			HDFC Standard Life Insurance Company Limited (Fellow Subsidiary Company )	Commission received	989	
2.	2002-03	Credit Information Bureau India Ltd. ( Fellow Subsidiary Company )	Registration Charges paid	2,00,000		
		HDFC Standard Life Insurance Company Limited (Fellow Subsidiary Company )	Commission received	1,61,281		
			Rent Received	1,81,440		
		Housing Development Finance Corporation Limited (Holding Company)	Dividend Paid	1,94,88,725		
			Sale of Home Loans	86,85,16,895		
			NCD - Amount Payable	10,00,00,000		
				Interest/ Fees Charges paid	1,21,54,835	
		Mr. Sudhin Choksey (Managing Director)	Remuneration paid	17,94,071		
			Staff Loan Balance Receivable	4,53,000		
Interest on Staff Loan	1,242					
3.	2003-04	HDFC Asset Management Company Limited (Fellow Subsidiary Company )	Rent Received	4,60,845		
		HDFC Standard Life Insurance Company Limited (Fellow Subsidiary Company )	Commission received	19,389		
			Rent received	1,66,320		
		Housing Development Finance Corporation Limited ( Holding Company )	Interest/ Fees Charges paid	1,29,55,445		
			Dividend Paid	2,43,60,906		
			Sale of Home Loans	1,24,99,81,705		
				NCD - Amount Payable	10,00,00,000	
		Mr. Sudhin Choksey (Managing Director)	Remuneration paid	21,26,777		
			Staff Loan Balance Receivable	4,15,260		
Repayment of Loan -Principal amount	37,740					
Repayment of Loan - Interest Amount	18,120					

4.	2004-05	HDFC Asset Management Company Limited (Fellow Subsidiary Company )	Rent Received	6,14,460
		HDFC Standard Life Insurance Company Limited (Fellow Subsidiary Company )	Commission received	10,818
		Housing Development Finance Corporation Limited ( Holding Company )	Interest/ Fees Charges paid	95,38,356
			Dividend Paid	2,95,03,087
			Sale of Home Loans	40,13,87,920
			Buyback of Home Loans	1,03,36,07,821
			NCD - Amount Payable	10,00,00,000
		Mr. Sudhin Choksey (Managing Director)	Remuneration paid	24,93,900
			Staff Loan Balance Receivable	3,76,010
			Repayment of Loan -Principal amount	39,250
			Repayment of Loan - Interest Amount	16,610
5.	2005-06	HDFC Asset Management Company Limited (Fellow Subsidiary Company )	Rent Received	6,14,460
		HDFC Standard Life Insurance Company Limited (Fellow Subsidiary Company )	Commission received	5,82,556
		Housing Development Finance Corporation Limited ( Holding Company )	Interest/ Fees Charges paid	95,00,000
			Dividend Paid	3,44,20,268
			Buy Back of Home Loans	35,15,77,384
			NCD - Amount Payable	10,00,00,000
		Mr. Sudhin Choksey (Managing Director)	Remuneration paid	32,23,890
			Staff Loan Balance Receivable	3,35,190
			Repayment of Loan -Principal amount	40,820
			Repayment of Loan – Interest Amount	15,040

During the FY06 commission of Rs. 28,029 was received from HDFC Mutual Fund for marketing/distributing the units of the schemes of HDFC Mutual Fund.

**Annexure - 6**  
(To the Auditor's Report mentioned in page 68)

**STATEMENT SHOWING DIVIDEND PAID**

**Year Ended March 31,**

<b>PARTICULARS</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Equity Capital ( Rs. in lacs )	2,650.00	2,650.00	2,650.00	2,650.00	2,650.00
Amount of Dividend* (Rs.)	662.50	556.50	477.00	397.50	318.00
Percentage	25.00%	21.00%	18.00%	15.00%	12.00%

*\* Excluding Dividend Tax wherever applicable*



**Annexure - 7**  
(To the Auditor's Report mentioned in page 68)

**STATEMENT OF TAX SHELTER**

(Rs. in lacs)

		Year Ended March 31,				
PARTICULARS		2006	2005	2004	2003	2002
<b>I</b>	<b>Profit as per Profit and Loss Account (As Adjusted)</b>	<b>2622.89</b>	<b>2067.32</b>	<b>1569.56</b>	<b>1202.11</b>	<b>914.28</b>
<b>A</b>	<b>Tax at Notional Rates</b>	<b>882.86</b>	<b>756.48</b>	<b>563.08</b>	<b>441.78</b>	<b>326.40</b>
<b>B</b>	<b>Permanent Difference</b>					
	1) Deduction U/s. 36(1)(viii)	1175.00	800.00	847.64	375.92	240.00
	2) Exempt Income - U/s. 10(33)	153.06	73.22	8.15	0.00	8.88
	3) Income from Capital Gains	(13.09)	(22.40)	(102.49)	(73.41)	10.48
	4) Others	83.71	46.50	109.21	54.83	(2.39)
	<b>Sub Total (B)</b>	<b>1398.68</b>	<b>897.32</b>	<b>862.51</b>	<b>357.34</b>	<b>256.97</b>
<b>C</b>	<b>Timing Difference</b>					
	1) Depreciation	14.22	25.64	36.87	35.09	46.71
	2) Securitisation Income	(245.66)	(235.63)	(396.34)	169.23	579.22
	3) 43 B	0.00	(0.35)	0.00	15.37	5.78
	4) Others	(434.01)	(115.38)	(247.75)	49.80	(118.35)
	<b>Sub Total (C)</b>	<b>(665.45)</b>	<b>(325.72)</b>	<b>(607.22)</b>	<b>269.49</b>	<b>513.36</b>
<b>D</b>	<b>Net Adjustment(B+C)</b>	<b>733.23</b>	<b>571.60</b>	<b>255.29</b>	<b>626.83</b>	<b>770.33</b>
<b>E</b>	<b>Tax Saving thereon :</b>	<b>246.81</b>	<b>209.16</b>	<b>91.59</b>	<b>230.36</b>	<b>275.01</b>
<b>F</b>	<b>Total Taxation(A-E)</b>	<b>636.05</b>	<b>547.32</b>	<b>471.49</b>	<b>211.42</b>	<b>51.39</b>
	Less:- Taxation on extraordinary items	0.00	0.00	0.00	0.00	0.00
<b>G</b>	<b>Tax on profits before extraordinary items:</b>	<b>636.05</b>	<b>547.32</b>	<b>471.49</b>	<b>211.42</b>	<b>51.39</b>
<b>H</b>	<b>Deffered Tax Adjustment</b>	<b>(210.73)</b>	<b>(123.56)</b>	<b>(222.35)</b>	<b>8.28</b>	<b>41.63</b>
		425.32	423.76	249.14	219.70	93.02
<b>I</b>	<b>Provision for Taxation</b>	<b>650.00</b>	<b>520.00</b>	<b>440.95</b>	<b>215.14</b>	<b>69.78</b>
<b>II</b>	<b>Carried Forward/(Set off) - Capital Loss</b>	<b>0.00</b>	<b>(95.41)</b>	<b>0.00</b>	<b>48.62</b>	<b>10.48</b>
<b>III</b>	<b>Carried Forward/(Set off) - MAT Credit</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>(46.55)</b>	<b>0.00</b>

1. Figures in bracket indicates increase in tax liability.
2. The figures for the financial year 2002, 2003 2004 and 2005 have been computed as per the relevant income tax return filed with the Income Tax Department. Since return of income for the assessment year 2006-07 is still not finalized, certain figures are calculated on provisional basis.
3. Provision for taxation for the financial year 2002 has been made as per MAT Rate.

**CASH FLOW STATEMENT**

(Rupees)

Year Ended March 31

	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Profit before tax and extraordinary items	262,289,401	206,732,066	156,956,461	120,211,095	91,427,916
<b>Adjustments for :</b>					
Depreciation	7,876,415	8,019,562	9,146,404	13,440,080	18,749,748
Brokerage Expenses written off	3,839,681	6,256,775	8,629,138	12,205,013	11,623,661
Bad Debts Written off	18,340,011	24,443,353	26,797,928	29,760,000	53,729,313
Retirement benefits	1,759,695	1,289,243	1,539,970	752,717	524,407
Provision for Contingencies	28,391,102	24,798,121	21,278,784	22,500,000	7,053,457
Provision for Loss on Redemption of Investments	4,108,898	2,701,879	1,221,216	0	446,543
Profit on sale of Fixed Assets	(292,455)	(102,784)	91,684	15,982	(89,636)
Operating Profit before Working Capital Changes	326,312,748	274,138,215	225,661,585	198,884,887	183,465,409
<b>Adjustments for :</b>					
Current Assets	59,942,092	57,483,414	74,990,201	(64,483,885)	(120,007,882)
Current Liabilities	(237,094,478)	202,658,269	(46,845,776)	54,553,093	(21,814,090)
Brokerage paid	(2,307,951)	(3,734,060)	(5,959,667)	(10,923,645)	(12,726,673)
Investments (Net)	(17,192,873)	(32,271,000)	16,577,650	(48,467,191)	(36,270,217)
Cash generated from operations	129,659,538	498,274,838	264,423,993	129,563,259	(7,353,453)
Income Tax Paid (Net)	(59,755,419)	(69,349,533)	(56,891,188)	(24,997,044)	(5,177,054)
<b>Net cash from operating activities</b>	<b>69,904,119</b>	<b>428,925,305</b>	<b>207,532,805</b>	<b>104,566,215</b>	<b>(12,530,507)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Purchase of Fixed assets	(9,035,022)	(4,541,935)	(4,174,359)	(6,372,821)	(60,316,748)
Sale of Fixed Assets	924,008	839,700	98,560	243,722	451,944
<b>Net cash used in Investing activities</b>	<b>(8,111,014)</b>	<b>(3,702,235)</b>	<b>(4,075,799)</b>	<b>(6,129,099)</b>	<b>(59,864,804)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
NCD issue expenses	(6,890,924)	(2,149,419)	0	0	(855,000)
Borrowings (Net)	2,733,172,156	2,345,019,125	165,828,371	683,632,191	365,768,871
Loans disbursed (Net)	(2,544,348,750)	(2,373,437,418)	(287,677,214)	(800,796,731)	(337,579,029)
Dividend paid	(55,137,383)	(47,293,511)	(39,349,241)	(31,439,876)	(20,963,673)
Dividend tax paid	(7,804,913)	(6,233,796)	(5,092,969)	0	0
Unclaim Dividend Paid	(187,308)	(169,264)	(212,329)	(14,293)	(15,087)
Net cash from financing activities	118,802,878	(84,264,283)	(166,503,382)	(148,618,709)	6,356,082
<b>Net increase in cash &amp; cash equivalent</b>	<b>180,595,983</b>	<b>340,958,787</b>	<b>36,953,624</b>	<b>(50,181,593)</b>	<b>(66,039,229)</b>
<b>Cash and cash equivalent as at the beginning of the year</b>	<b>488,642,294</b>	<b>147,683,507</b>	<b>110,729,883</b>	<b>160,911,476</b>	<b>226,950,705</b>
<b>Cash and cash equivalent as at the end of the year</b>	<b>669,238,277</b>	<b>488,642,294</b>	<b>147,683,507</b>	<b>110,729,883</b>	<b>160,911,476</b>

**Annexure - 9**

(To the Auditor's Report mentioned in page 68)

**STATEMENT SHOWING DETAILS OF SECURED LOANS AS ON MARCH 31, 2006**

(Rs. in lacs)

<b>Sr. No.</b>	<b>Name of Institution / Bank / Series</b>	<b>Sanctioned Amount</b>	<b>Outstanding Amount</b>	<b>Rate of Interest (%)</b>	<b>Over Due</b>	<b>Repayment Schedule</b>
<b>I</b>	<b>National Housing Bank Refinance</b>	55515.35	36088.03	6.65% @	Nil	(*)The NHB refinance are payable in quarterly instalments spread over 12 years to 13 years
	<b>Total (I)</b>	<b>55515.35</b>	<b>36088.03</b>			
<b>II</b>	<b>Bank Term Loans</b>					
a	Bank of Nova Scotia	2000.00	2000.00	6.75%	Nil	One year loan repayable on 8/12/06
b	IDBI Bank Ltd.	3000.00	1250.00	6.75%	Nil	Three year loan repayable on 11-12-06
c	IDBI Bank Ltd.	2000.00	2000.00	6.75%	Nil	Three year loan repayable on 5-5-07
d	IDBI Bank Ltd.	2750.00	2750.00	6.75%	Nil	Three year loan repayable on 27-6-08
e	State Bank of Patiala	7500.00	7500.00	7.00%	Nil	One year loan repayable on 8-12-06
f	Union Bank of India	7500.00	7500.00	6.00%	Nil	One year loan repayable on 10-11-06
g	ABN AMRO Bank	2500.00	2500.00	5.90%	Nil	One year loan repayable on 30-11-06
h	State Bank of Saurashtra	2500.00	833.33	5.50%	Nil	Instalment of Rs. 833.33 lacs payable on 15/09/06
i	State Bank of Saurashtra	2500.00	2500.00	6.00%	Nil	One year loan repayable on 6-11-06
j	UTI Bank Ltd.	5000.00	5000.00	7.50%	Nil	Repayable in five equal instalment of Rs. 1000.00 beginning 1-4-07.
k	UTI Bank Ltd.	5000.00	5000.00	7.50%	Nil	Repayable in five equal instalment of Rs. 1000.00 beginning 1-4-07.
l	UTI Bank Ltd.	5000.00	5000.00	7.50%	Nil	One year loan repayable on 28-3-2007
	<b>Total (II)</b>	<b>47250.00</b>	<b>43833.33</b>			
<b>III</b>	<b>Non Convertible Debentures (**)</b>					
a	Series A-002	5000.00	1000.00	6.93%	Nil	Normal Repayment 15/02/10 and Put/Call Option every year on 15th Feb
b	Series A-003	2500.00	2500.00	6.05%	Nil	Normal Repayment 24/05/10 and Put/Call Option every year on 24th May
c	Series A-004	2500.00	2500.00	6.94%	Nil	Normal Repayment 08/08/10 and Put/Call Option every year on 8th August
d	Series A-005	2500.00	2500.00	7.10%	Nil	Normal Repayment

<b>Sr. No.</b>	<b>Name of Institution / Bank / Series</b>	<b>Sanctioned Amount</b>	<b>Outstanding Amount</b>	<b>Rate of Interest (%)</b>	<b>Over Due</b>	<b>Repayment Schedule</b>
						12/09/10 and Put/Call Option every year on 12th September
	<b>Total (III)</b>	<b>12500.00</b>	<b>8500.00</b>			
	<b>Total Secured Loan (I + II + III)</b>	<b>115265.35</b>	<b>88421.36</b>			

(@) Weighted Average Cost of funds

(\*\*) NCD issued under Series A were offered under a Shelf Information Memorandum for NCD aggregating to Rs. 15,000 lacs filed with the NSE on September 21, 2004.

*Notes on Security:*

1. Refinance from National Housing Bank (NHB) and Term loans from Banks are secured against negative lien on all assets of the company excluding the specific immovable property mortgaged in favour of Debenture Trustees against Secured Redeemable Non-Convertible Debentures.
2. Secured Redeemable Non-Convertible Debentures are secured by mortgage of specific immovable property and by negative lien on the assets of the Company.

**Annexure - 10**  
(To the Auditor's Report mentioned in page 68)

**STATEMENT SHOWING DETAILS OF UNSECURED LOANS  
AS ON MARCH 31, 2006**

<b>S. NO</b>	<b>PARTICULARS</b>	<b>DETAILS</b>	<b>DETAILS</b>	<b>(Rs. in lacs) Amount</b>
<b>1</b>	<b>Fixed Deposits</b>			<b>9558.87</b>
	<b>A) Maturity profile of deposits</b>			
	<b>Period in months</b>	<b>Amount</b>		
	1- 12 months	4103.11		
	13 - 24 months	2691.54		
	25 - 36 months	1697.88		
	37 - 60 months	949.70		
	More than 60 months	116.64		
	<b>Total</b>	<b>9558.87</b>		
	<b>B) Profile of deposits bases on rate of interest</b>			
	<b>Rate of Interest</b>	<b>Amount</b>		
	<= 6%	835.09		
	>6% & <=7%	4868.85		
	>7% & <=8%	1409.94		
	>8% & <=9%	534.24		
	>9% & <=10%	918.19		
	>10% & <=11%	754.07		
	>11% & <=15%	238.49		
	<b>Total</b>	<b>9558.87</b>		
<b>2</b>	<b>Commercial Paper</b>			<b>5000.00</b>
		<b>Account I</b>	<b>Account II</b>	
	Face Value	2500.00	2500.00	
	Tenure of C.P. (days)	362	364	
	C.P. Begin Date	23-Jun-05	17-Aug-05	
	Maturity Date	20-Jun-06	16-Aug-06	
<b>3</b>	<b>Non Convertible Debentures</b>			<b>5000.00</b>
		<b>Maturity Date</b>	<b>Amount</b>	
	<b>From Holding Company( HDFC Ltd.)</b>			
	9.50 % NCD repayable at Par	28-Aug-07	1000.00	
	<b>From Others</b>			
	8.18% NCD repayable at Par	13-Feb-13	4000.00	
	<b>Total Unsecured loans</b>			<b>19558.87</b>

**CAPITALISATION STATEMENT AS ON MARCH 31, 2006**

(Rs. in lacs)

PARTICULARS	PRE ISSUE	POST ISSUE
<b>BORROWINGS</b>		
Short- Term Debt	38186.44	38186.44
Long - Term Debt	69793.79	69793.79
<b>Total Debt</b>	<b>107980.23</b>	<b>107980.23</b>
<b>SHARE HOLDERS FUND</b>		
Share Capital	2650.00	3445.00
Reserves and Surplus	6038.71	11206.21
<b>Total Share Holders Fund</b>	<b>8688.71</b>	<b>14651.21</b>
<b>Long term Debt/ Equity Ratio</b>	<b>8.03 : 1</b>	<b>4.76 : 1</b>

*Note:-*

1. Long Term Debt is debt payable beyond one year.
2. The company does not have any Revaluation Reserve.

**Annexure - 12**

(To the Auditor's Report mentioned in page 68)

**STATEMENT SHOWING DETAILS OF OTHER INCOME**
**Year Ended March 31,  
(Rs. in lacs)**

<b>PARTICULARS</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Rent Income *	6.14	6.29	8.87	7.81	6.12
Insurance Commission *	5.79	0.11	0.19	1.61	0.00
Miscellaneous Income *	4.45	10.01	36.77	0.41	0.37
	16.38	16.41	45.83	9.83	6.49

\* *Recurring Income arisen out of business activity.*

**UNAUDITED FINANCIAL RESULTS FOR THE QUARTER ENDED JUNE 30, 2006**

Sr. No.	Particulars	(Rs. in Lacs)	
		Quarter ended June 30, 2006	Year ended March 31, 2006 (Audited)
1	Income from Operations	2847.46	10275.89
2	Other Income	11.18	81.32
<b>3</b>	<b>Total Expenditure</b>	<b>2441.37</b>	<b>7655.55</b>
	Interest Expenses	1894.59	6137.95
	Staff Expenses	137.03	492.26
	Other Expenses	409.75	1025.34
<b>4</b>	<b>Gross Profit ( After Interest but before Depreciation, Taxation and Provisions )</b>	<b>417.27</b>	<b>2701.66</b>
5	Depreciation	18.24	78.76
<b>6</b>	<b>Profit Before Tax</b>	<b>399.03</b>	<b>2622.90</b>
7	Provision for Tax		
	Current Tax (Net of Deffered Tax)	75.86	439.27
	Fringe Benefit Tax	4.10	16.00
<b>8</b>	<b>Net Profit</b>	<b>319.07</b>	<b>2167.63</b>
9	Paid-up Equity Share Capital ( Face Value of Rs. 10/- each )	2650.00	2650.00
10	Reserve and Surplus		
11	Earning per Share - Basic ( Rs. )	1.20	8.18
	Diluted ( Rs. )	1.19	8.17
12	Aggregate of Non-Promoter Shareholding		
	(No. of Shares)	10109396	10109396
	(% of Shareholding)	38.15	38.15



## STOCK MARKET DATA FOR EQUITY SHARES OF THE COMPANY

1. The following is the movement in the share price of the Company on the BSE over the last three years:

Year	High			Low			Average Price (Rs.)
	Date	Rs.	Volume	Date	Rs.	Volume	
2003	15/10/2003	42.50	5,41,083	17/03/2003	15.50	1,033	23.89
2004	28/12/2004	39.90	1,57,432	22/03/2004	25.35	11,165	31.46
2005	23/05/2005	81.20	2,51,836	17/01/2005	33.85	8,442	62.17
2006	17/05/2006	158.95	38,910	23/03/2006	81.10	21,018	106.96

2. The following is the movement in the share price of the Company on the NSE over the last two years:

Year	High			Low			Average Price (Rs.)
	Date	Rs.	Volume	Date	Rs.	Volume	
2004*	28/12/2004	39.85	1,92,277	19/10/2004	29.50	16,720	32.54
2005	23/05/2005	81.90	43,146	06/01/2005	34.05	35,982	62.19
2006	17/05/2006	159.60	40,833	23/03/2006	81.25	15,435	107.10

\*The company was listed on the NSE in September 2004.

3. The closing market price of the equity shares of the Company on the first business day after the Board approved the Issue (i.e. Monday April 24, 2006) was Rs. 91.15 per share on the BSE and Rs. 91.10 per share on the NSE.

4. The high and low price, and associated volume of securities traded during the preceding six months on the BSE and NSE is as follows:

BSE	High			Low			Average Price (Rs.)
	Month	Date	Rs.	Volume	Date	Rs.	
February 06	27/02/2006	97.7	90,926	03/02/2006	84.05	15,244	89.66
March 06	31/03/2006	93.3	48,729	23/03/2006	81.1	21,018	86.87
April 06	12/04/2006	99.55	1,84,617	24/04/2006	91.15	34,774	95.66
May 06	17/05/2006	158.95	38,910	2/05/2006	96.90	25,840	128.05
June 06	30/06/2006	124.45	6,081	08/06/2006	98.80	19,354	113.75
July 06	12/07/2006	131.25	7,862	21/07/2006	116.25	18,023	124.38
August 06	25/08/2006	133.10	9,964	03/08/2006	119.95	6,982	125.70

NSE		High		Low			Average Price
Month	Date	Rs.	Volume	Date	Rs.	Volume	(Rs.)
February 06	27/02/2006	97.15	1,19,868	03/02/2006	83.5	20,277	89.57
March 06	01/03/2006	93.55	21,884	23/03/2006	81.25	15,435	86.88
April 06	12/04/2006	100.5	1,81,722	24/04/2006	91.1	42,269	95.87
May 06	17/05/2006	159.6	40,833	02/05/2006	96.55	70,375	128.50
June 06	27/06/2006	124.85	16,795	08/06/2006	98.75	20,166	114.07
July 06	12/07/2006	130.85	6,270	21/07/2006	116.75	18,625	124.44
August 06	25/08/2006	132.95	10,307	03/08/2006	120.25	7,157	125.57

5. The Equity Shares of the Company are actively traded on The Bombay Stock Exchange Limited (BSE), the National Stock Exchange of India Limited (NSE) and the Ahemdabad Stock Exchange Limited (ASE). For the purposes of the Offering, the Bombay Stock Exchange Limited (BSE) is the designated stock exchange.

6. Please refer to page 43 of this Letter of Offer for details regarding transactions in the securities of the Company undertaken by the promoters and directors of the Company during the last six months, from date of filing of Offer document with SEBI and updated till date.

#### 7. Mechanism Evolved by the Company for Redressal of Investor Grievances

7.1 The transfer and other related work is handled by MCS Limited. The Secretarial Department actively interacts with MCS Limited for expeditious redressal of investor grievances and takes care of complaints received from statutory bodies such as SEBI, Stock Exchanges, Department of Company Affairs, etc. The name of the Company has never appeared in fortnightly press release on investor complaints of SEBI.

7.2 The Company's investor grievances arising out of the issue will be handled by Intime, Registrars to the issue. The Registrars will have a separate team of personnel handling only the post issue correspondence of the Company.

7.3 Investor grievances are settled expeditiously and satisfactorily by the Company. The agreement between the Company and the Registrars will provide for retention of records with the Registrars for a period of at least one year from the last date of dispatch of letter of allotment certificate/refund order to enable the Registrars to redress grievances of investors.

7.4 All grievances relating to the Issue may be addressed to the Registrars to the Issue giving full details such as folio number, name and address of the first applicant, number of equity shares applied for, Application Form serial number, amount paid on application and the Bank Branch where the application was deposited, along with a photocopy of the acknowledgement slip. In case of renunciation, the same details of the renounee should be furnished.

7.5 The average time taken by the Registrars for attending to routine grievances will be 15 days from the date of receipt. In case of non-routine grievances where verification at other agencies is involved, it would be the endeavour of the Registrars to attend to them as expeditiously as possible. The Company undertakes to resolve its investor grievances in a time bound manner.

All investors are hereby informed that the Company has appointed a Compliance Officer who may be contacted in case of any pre-issue/post-issue related problems. Please see the cover page of this Offer document for contact information of the Registrar and Compliance Officer.

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## MANAGEMENT DISCUSSION AND ANALYSIS

**Note** – In the Company’s management discussion and analysis, all references to “this year” or “current year” are to FY06 and all references to “previous year” refer to FY05.

### Disbursements

#### 1. Disbursement

- 1.1 The Company disbursed Rs. 36,017 lacs during the year as against Rs. 29,983 lacs in the previous year and registered a growth of 20.12%.
- 1.2 The Company disbursed Rs. 31,205 lacs (previous year Rs. 26,820 lacs) for home loan purchase, repair and renovation and registered a growth of 16.35% in the retail home loan segment. The Company disbursed home loans to 10,737 families (previous year 10,152 families) and the average home loan to individuals was Rs. 2.91 lacs.
- 1.3 The Company disbursed Rs. 4,262 lacs (previous year Rs. 2,774 lacs) for purchase of Non Residential Properties and Rs. 550 lacs (previous year Rs. 389 lacs) to developers.
- 1.4 Cumulative disbursements as at March 31, 2006 stood at Rs. 2,10,282 lacs.

#### 2. Insurance Products

- 2.1 The Company continued to persuade its customers to take insurance of the property mortgaged to the Company. To assist customers in this regard, the Company has an arrangement with the Oriental Insurance Company Limited for providing insurance at the most competitive rates. During the year, the Company assisted 10,065 customers in obtaining property insurance cover under this arrangement.
- 2.2 The Company has also been assisting its customers in obtaining loan cover from HDFC Standard Life Insurance Company Limited (HDFC SL) with a view to mitigate difficulties, if any, that may arise in servicing of home loans in case of a death of an earning member of a family. During the year, the Company referred 3605 customers for life cover of Rs. 9,530 lacs.
- 2.3 Till date, the Company has assisted 52,959 families in taking property insurance and 5,673 families in taking HDFC SL Loan Cover Term Assurance policy.

#### 3. Loans

- 3.1 The loan approval process at the Company is decentralized with varying approval limits. Approvals of lending proposals are carried out by retail sanctioning committees up to the limits delegated. Approvals beyond certain limits are referred to the committee of management. Larger proposals, as appropriate, are referred to the Board of Directors.
- 3.2 During the year, the Company’s total outstanding loan increased to Rs. 1,06,913 lacs from Rs. 81,653 lacs at the beginning of the year. The total outstanding loans at variable rate stood at Rs. 87,803 lacs (previous year Rs. 59,397 lacs) which was 82.13% (previous year 72.74%) of the total outstanding loan portfolio. The Company’s outstanding home loans to individuals aggregating to Rs. 98,738 lacs constituted 92.35% of the total outstanding loans. The Company experienced a prepayment ratio of 7.79% as against 9.04% during the previous year.
- 3.3 The outstanding loans to developers of Rs. 948 lacs and other loans to individuals for Non-Residential Properties of Rs. 7,227 lacs constituted 0.89% and 6.76% respectively of the total outstanding loans.
- 3.4 During the year, the Company’s Prime Lending Rate increased by 125 basis points. The PLR was 12.00% per annum as at March 31, 2006.
- 3.5 Loans to total assets stood at 91.64% as at March 31, 2006.

#### **4. Recoveries and Provision for Contingencies**

- 4.1 As per the prudential norms of NHB, NPAs are classified as sub standard if they remain outstanding for more than 90 days but upto 15 months. Beyond this period, the amounts are to be classified as bad and doubtful. The provisions are to be made at the rate of 10% on sub standard and between 20% to 50% on bad and doubtful loan assets depending on the age and security available. The Company complied with these norms in preparation of annual accounts as at March 31, 2006.
- 4.2 The principal amount affected as NPA as at March 31, 2006 was Rs. 1,586 lacs (previous year Rs. 1,593 lacs) which was 1.48% (previous year 1.95%) of the outstanding loans of Rs 1,06,913 lacs (previous year Rs. 81,653 lacs).
- 4.3 As per the prudential norms of NHB, the Company was required to carry a provision of Rs. 313 lacs on NPAs of Rs. 1,586 lacs as at March 31, 2006. Additional provision of Rs. 284 lacs was made during the year taking the total provision to Rs. 1,336 lacs. As a result, the Company carried excess provision of Rs. 1,023 lacs in its books to meet contingencies, if any. With this provision, the Company's net NPAs stood at Rs. 250 lacs (previous year Rs. 541 lacs) which is 0.23% (previous year 0.66%) of the outstanding loans of Rs. 1,06,913 lacs as at March 31, 2006.
- 4.4 During the year, the Company wrote off loans aggregating to Rs. 183 lacs in respect of individual loan accounts where it had become difficult to effect recoveries in near future. The Company continued its efforts for recovery of loans written off in earlier years and recovered Rs. 63 lacs during the year.
- 4.5 The Company's efforts against willful defaulting borrowers under the Securitisation Act has proved useful. These efforts yielded favourable results with recoveries of Rs. 204.50 lacs.
- 4.6 The Company carried properties aggregating to Rs. 1,242 lacs acquired in settlement of dues at the beginning of the year. During the year, the Company acquired properties aggregating to Rs. 101 lacs in settlement of dues under the Securitisation Act. The Company also made efforts to dispose off the acquired properties and sold properties worth Rs. 544 lacs during the year. As at March 31, 2006, the Company carried properties worth Rs. 799 lacs which was 9.20% of the Company's net worth, well within 20% the limit stipulated by NHB.

#### **5. Sale of Individual Home Loans**

- 5.1 During the year, the Company did not sell home loans (previous year Rs. 4,014 lacs). However, the Company continues to service the loans sold in the earlier years as receiving and paying agent.
- 5.2 During the year, net interest income of Rs. 237 lacs (previous year Rs 381 lacs) on loans sold as a price differential between the interest rates contracted with the customers and the interest rate at which the loans were sold, was recognized as income. The average yield of such interest income on average outstanding home loans sold and serviced was 3.07% for the year under review as against 2.68% for the previous year.
- 5.3 As at March 31, 2006, loans being serviced aggregated to Rs. 5,245 lacs (previous year Rs. 10,190 lacs).

#### **6. Investments**

- 6.1 The Investment Committee constituted by the Board of Directors is responsible for approving investments in line with the limits as set out by the board. The decisions to buy and sell up to the approved limit delegated by the board are taken by the Managing Director who is assisted by two senior managers. The investment function is carried out primarily to support the core business of housing finance to ensure adequate levels of liquidity and to maintain statutory liquidity.
- 6.2 As per NHB guidelines, HFCs are required to maintain a Statutory Liquidity Ratio of 12.50% in respect of deposits and unsecured borrowings. As at March 31, 2006, the Company carried investment of Rs. 2,392 lacs in Government securities and approved securities apart from Rs. 330 lacs in bank deposits to comply with the SLR requirement. The Company has also made investments of Rs. 0.15 lacs in 1,500 equity shares of Rs. 10/- each of Hunnar Shaals Foundation for Building Technology and Innovations, a company registered under Section 25 of the Companies Act, 1956, for promotion of low cost housing. Apart from this, all other investments are held for fulfilling the SLR requirement.

6.3 As at March 31, 2006, the investments had a weighted average balance period to maturity of 72 months. The average pre-tax yield on the investments for the year was 6.65% per annum (previous year 7.53%).

6.4 The Company classified its investments as long term investments and valued them at cost. The Company carries provision of Rs. 81 lacs towards losses, if any, to arise on redemption of investments on their maturity.

## **7. Borrowed Funds**

7.1 The major sources for borrowings have been refinance from NHB, term loans from banks, private placement of NCDs, commercial paper and public deposits. A prudent mix of fixed rate borrowings and variable rate borrowings is being maintained with a view to minimise interest rate risks. As at March 31, 2006, the total outstanding borrowings were Rs. 1,07,980 lacs. The total outstanding borrowings at fixed rate stood at Rs. 76,594 lacs (previous year Rs. 52,216 lacs) which was 70.93% (previous year 64.74%) of the total outstanding borrowings of Rs. 1,07,980 lacs (previous year Rs. 80,649 lacs).

7.2 During the year, the Company raised Rs. 23,870 lacs from NHB and prepaid refinance of Rs. 2,558 lacs carrying high rate of interest by effecting payment of prepayment charge of Rs. 50 lacs. The prepayment charges are being deferred over the balance period of the refinance claims prepaid.

7.3 Until last year, NHB refinance was secured by specific charge on the book debts. During the year, NHB waived the requirement of creating specific charge on the book debts and agreed to provide refinance by negative lien on all assets of the Company. Accordingly, NHB refinance outstanding as at March 31, 2006 of Rs. 36,088 lacs is secured by a negative lien on all assets of the Company excluding the specific immovable property mortgaged in favour of the Debenture Trustees for issuance of NCDs. Outstanding balance of refinance from NHB constituted 33.42% of the total outstanding borrowings as at March 31, 2006.

7.4 The Company continued to borrow for both long and short tenure from the banking sector at competitive rates. The Company raised fresh loans from banks aggregating to Rs. 44,375 lacs during the year. These borrowings were also utilised to prepay bank loans carrying high rate of interest and repay loans on maturity aggregating to Rs. 26,958 lacs.

7.5 Term loans from banks are secured by a negative lien on all assets of the Company excluding the specific immovable property mortgaged in favour of the Debenture Trustees for issuance of NCDs. Outstanding balance of bank loans of Rs. 43,833 lacs constituted 40.60% of the total outstanding borrowings as at March 31, 2006.

7.6 During the year, the Company filed a Shelf Information Memorandum for issuance of Secured Redeemable Non Convertible Debentures (NCDs) for Rs. 16,000 lacs and Unsecured Sub Ordinated Non Convertible Debentures for Rs 4,000 lacs as per the Securities and Exchange Board of India guidelines. The Company's NCDs have been listed on the Wholesale Debt Market segment of the National Stock Exchange of India Limited.

7.7 During the year, the Company raised Unsecured Subordinate NCDs of Rs. 4,000 lacs on a private placement basis by issuance of 400 NCDs of Rs. 10 lacs each for a tenure of 7 years. The Company raised these funds at fixed interest rate of 8.18% per annum to meet the Tier II Capital requirement.

7.8 The Company's NCDs are rated LAA (+) by ICRA indicating high safety with regard to timely payment of interest and principal.

7.9 The Company also raised Secured Redeemable NCDs aggregating to Rs. 7,500 lacs on private placement basis from the market during the year. The NCDs were raised for a tenure of 5 years. These NCDs have been raised as part of the Shelf Offer Document filed with the NSE for Rs. 15,000 lacs during the previous year. The NCDs are secured by mortgage of a specific immovable property and negative lien on all assets of the Company. These NCDs are rated AA by CRISIL, indicating high safety as regards repayment of principal and interest.

7.10 During the year, the Company received fresh deposits of Rs. 801 lacs and renewed deposits of Rs. 1,697 lacs and experienced outflow of deposits of Rs. 5,682 lacs. The renewal ratio, the ratio of deposits renewed to the deposits maturing during the year, experienced by the Company was 23.00%, as against

29.66% in the previous year. The Company has been witnessing a net outflow of deposits over the past few years on account of other attractive avenues available to depositors in the retail market. The outstanding deposits have reduced from Rs. 12,743 lacs at the beginning of the year to Rs. 9,559 lacs by the end of the year.

- 7.11 Rates of interest on deposits offered for 1 year term and 7 years' term were 6.75% per annum and 8.00% per annum respectively. The Company also offered 0.25% per annum higher interest rate to Senior Citizens and Trust deposits. The Company's retail deposit program is rated by ICRA and CRISIL. Both the agencies retained the Company's deposit rating at MAA (+) and FAA (+) respectively. The ratings indicate high safety as regards repayment of principal and interest on deposits.
- 7.12 The Company has been offering brokerage to its deposit agents. The brokerage structure is linked to the tenure of deposits mobilised. The Company has been amortizing the brokerage paid over the tenure of deposits mobilised.
- 7.13 The Company raised Rs. 10,000 lacs through issuance of Commercial Paper and retired Rs. 10,000 lacs during the year. The Company's Commercial Paper is rated P1 (+) by CRISIL, indicating highest safety as regards repayment. As at March 31, 2006, outstanding Commercial Paper aggregated to Rs. 5,000 lacs.
- 7.14 The Company had raised a loan of Rs. 60.77 lacs from HDFC under the line of credit – KfW in the year 1995 for the purpose of onward lending to economically weaker section of the society for construction of low cost dwelling units. Since the home loans have been repaid by the beneficiaries to the Company, the Company in turn has repaid the loan to HDFC. During the year, the Company has repaid the outstanding loan of Rs. 44.55 lacs to HDFC.

## **8. Interest Rates**

- 8.1 The average yield on individual home loans declined from 9.91% at the beginning of the year to 9.63% by the end of the year. The average yield on the developer loans realised was 11.68% (previous year 12.00%) while the average yield on other loans was 9.91% (previous year 8.89%). The average yield realized on the total portfolio of Rs. 1,06,913 lacs during the year was 9.66% (previous year 9.89%).
- 8.2 While, the weighted average cost of NHB refinance and bank loans experienced during the year reduced from 7.06% to 6.99% and from 6.83% to 4.62% respectively, the weighted average cost of NCDs and Commercial Paper experienced during the year increased from 6.02% to 7.60% and from 5.48 % to 10.41% respectively. In spite of the outflow of deposits experienced during the year, the Company could manage to reduce the cost of deposit from 9.36% to 8.24%. The average cost of total borrowings experienced during the year was 6.51% per annum (previous year 7.22%).
- 8.3 The ratio of net interest margin to average assets for the year was 3.51% as against 3.72% for the previous year.

## **9. NHB Guidelines and Prudential Norms**

- 9.1 The Company classified its loan assets as standard, sub-standard and bad and doubtful. As at March 31, 2006, the Company had total loan assets of Rs. 1,06,913 lacs of which Rs. 1,05,327 lacs (98.52%) were standard assets, Rs. 776 lacs (0.72%) were sub-standard and Rs. 810 lacs (0.76%) were bad and doubtful assets. The Company was required to carry a provision of Rs. 313 lacs as per norms of NHB, however, as a measure of caution, carried a provision of Rs. 1,336 lacs on NPAs of Rs. 1,586 lacs.
- 9.2 The Company's Capital Adequacy Ratio as at March 31, 2006 was 14.24% as against NHB's prescribed limit of 12%. The Capital Adequacy on account of Tier I Capital was 9.60% while the Capital Adequacy on account of the Tier II Capital was 4.64%.
- 9.3 The Company had no investment in excess of the limits prescribed by NHB with any one company or any single group of companies. The Company made no investment in any of the promoter group companies or in the stock markets.
- 9.4 The Company's total borrowings as at March 31, 2006 of Rs. 1,07,980 lacs were within the permissible limit of 16 times of net worth. Of this, the public deposits of Rs. 9,558 lacs were also within the limit of 5 times of net worth as prescribed by NHB.



for taxation of Rs. 440.95 lacs and Rs. 215.14 lacs respectively, the profit after tax as on March 31, 2004 stood at Rs. 1,351 lacs as against Rs. 979 lacs for March 31, 2003. Profit before tax grew at 30.57% and profit after tax by 38.04%

- 13.2 The Company's loan book increased to Rs. 58,163 lacs from Rs. 55,554 lacs in the previous year. The loan book increased by 4.70% during the year.
- 13.3 EPS increased to Rs. 5.10 in the current year from Rs. 3.69 in the previous year.
14. The directors of the Company hereby state that in their opinion there have not arisen any circumstances since the date of the last financial statements as disclosed in the Letter of Offer which materially and adversely affect or is likely to affect the trading or profitability of the issuer company, or the value of its assets, or its ability to pay its liabilities within the next twelve months.



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## INFRASTRUCTURE

### **Property**

The Company has several premises which are owned, leased or rented in various locations in India.

#### *Office Premises of the Company:*

The registered office of the Company is situated at “GRUH”, Netaji Marg Near Mithakhali Six Roads, Ellisbridge, Ahmedabad – 380 009. In addition, the Company has various offices, including in Pune, Rajkot, Thane and Ahmedabad. These premises are held by the Company on freehold or leasehold basis.

#### *Residential Premises of the Company:*

The Company has various residential properties at Baroda, Rajkot, Ahmedabad, Pune and Thane.

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## EMPLOYEE STOCK OPTION SCHEME

At the 19th annual general meeting held on June 14, 2005, shareholders had approved the issue of 7,95,000 stock options representing 7,95,000 equity shares of Rs. 10/- each to the employees and Directors of the Company. The compensation committee of directors – ESOS, at its meeting held on October 26, 2005, granted 2,00,000 stock options under employees stock option scheme-2005 (ESOS-05) at an exercise price of Rs. 67/- per option. The said price was determined in accordance with the pricing formulae approved by shareholders i.e. at the latest available closing price on the stock exchange having highest trading volume. The options granted under ESOS-05, will vest on October 26, 2006 or on the last date of the calendar month in which the eligible employee (other than Directors) completes 3 (three) years of continuous service in the company, whichever is later. In respect of eligible employees being Directors, the options will vest on October 26, 2006. The options are exercisable over a period of 3 years from the date of vesting. None of the options have vested during the year (and consequently no options have been exercised).

As provided under Clause 5.3(f) of the SEBI (Employee Stock Option Scheme and Stock Purchase Scheme) Guidelines, 1999, the Board of the Company or any committee thereof will make appropriate adjustment to the number and price of the said 2,00,000 granted stock options in such manner that the value of the said options remain the same after the right issue. Further, a proposal to grant the balance 5,95,000 ungranted stock options along with an additional 30% (to give effect to the right issue) i.e in all 7,73,500 stock options, under a new scheme with modified eligibility criteria, has been approved by the Board shareholders at the AGM held on July 7, 2006.

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**DESCRIPTION OF CERTAIN INDEBTEDNESS**

1. The company has following indebtedness as on March 31, 2006

<b>Sr.No</b>	<b>Particulars</b>	<b>Amount Outstanding as at March 31, 2006</b>
1.	National Housing Bank	3,60,88,03,453
2.	Banks	4,38,33,33,334
3.	6.93% Redeemable Non Convertible Debentures	10,00,00,000
4.	6.05% Redeemable Non Convertible Debentures	25,00,00,000
5.	6.94% Redeemable Non Convertible Debentures	25,00,00,000
6.	7.10% Redeemable Non Convertible Debentures	25,00,00,000
7.	9.50% Redeemable Non Convertible Debentures	10,00,00,000
8.	8.18% Redeemable Non Convertible Debentures	40,00,00,000
9.	Commercial Papers	50,00,00,000
10.	Public Deposits including interest accrued and due	95,58,86,531

## OUTSTANDING LITIGATIONS AND DEFAULTS

*Except as described below, there are no outstanding litigation, suits or criminal or civil prosecutions, proceedings or tax liabilities against the Company, its Directors, its Promoters or group companies and there are no defaults, non payment of statutory dues, over dues to banks/ financial institutions, defaults against banks/ financial institutions, defaults in dues payable to holders of any debentures, bonds or fixed deposits, issued by the Company (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act, 1956). The following are the outstanding or pending litigations or suits or proceedings against the Company and criminal complaints or cases, defaults, non-payment or overdues of statutory dues, proceedings initiated for any economic or civil offences and disciplinary action taken by SEBI, NHB or stock exchanges against the Company, its subsidiaries and other group companies and the outstanding or pending litigations or suits or proceedings against the subsidiaries and other group companies.*

### A. Litigations against the Company

#### 1. Civil Suits

Sr. No.	Name of Plaintiff	Court where Suit is pending	Particulars of the Case	Status	Financial Implications, if any, in case of non-favourable outcome
1.	Mr. Poonamchand Grover	City Civil Court at Ahmedabad	Suit filed by borrower praying for an injunction restraining the company from proceeding further under the provisions of the SARFAESI Act.	Pending hearing for main petition	Rs. 1,63,838/-
2.	Mr. Mayur Parikh	City Civil Court at Ahmedabad	Suit filed by borrower for an interim injunction against the construction company seeking injunction for restraining handing over of certain property to a third party. GRUH named as one of the defendants.	Pending hearing for main petition	N. A.

#### 2. Consumer Protection Cases

Customers have filed complaints before various Consumer Forums. As on August 18, 2006, there are nine cases filed and pending before the Consumer Forum authorities, wherein the Company is not in agreement with the customer's contention. The aggregate amount of claim before the various Consumers Forums is Rs. 6.78 Lacs.

#### 3. Criminal

Complaint filed by the Labour Enforcement Officer (Central) at the Court of Metropolitan Magistrate, Ahmedabad for violation of provisions of the Payment of Gratuity Act for delayed payment of interests to the staff leaving the organisation. The Company has asked for the dismissal of the complaint.

#### 4. Taxation Litigations

Sr.No.	Asst. Year	Authority before which pending / Case No.	Nature of the case particulars	Status	Amount of claim involved (Rs.)
1	1997-1998	Income Tax Appellate Tribunal, Ahmedabad.	The Company has filed an appeal against the order passed by the Commissioner of Income Tax (Appeal) for charging interest tax on following incomes:- other interest, prepayment charges and interest portion of lease rent.	Pending	Rs. 20,02,792/- The major issue has been disposed off by concern CIT(A) in favour of GRUH
2	2000-2001	Income Tax Appellate Tribunal, Ahmedabad.	The Company has filed an appeal against the order passed by the Commissioner of Income Tax (Appeal) for charging interest tax on following incomes:- other interest, prepayment charges and interest portion of lease rent.	Pending	Rs. 3,24,811/- The major issue has been disposed off by concern CIT(A) in favour of GRUH
3	1995-1996	Income Tax Appellate Tribunal, Ahmedabad.	The Company has filed an appeal against the order passed by the Commissioner of Income Tax (Appeal) for disallowance of lease depreciation.	Pending	Rs. 1,10,68,177/- The Company has already deposited the disputed amount with the concerned authority
4	1996-1997	Income Tax Appellate Tribunal, Ahmedabad.	The Company has filed an appeal against the order passed by the Commissioner of Income Tax (Appeal) for disallowance of lease depreciation.	Pending	Rs. 1,05,73,112/- The Income tax department has set off disputed demand against Company's subsequent year refund dues.
5	1997-1998	Income Tax Appellate Tribunal, Ahmedabad.	The Company has filed an appeal against the order passed by the Commissioner of Income Tax (Appeal) for disallowance of lease depreciation and interest tax liability charged to profit & loss account.	Pending	Rs. 46,75,577/- The Income tax department has set off disputed demand against Company's subsequent year refund dues.
6	1998-1999	Income Tax Appellate Tribunal, Ahmedabad.	The Company has filed an appeal against the order passed by the Commissioner of Income Tax (Appeal) for not allowing deduction under Section 36(1)(viii) of the Income Tax Act, 1961.	Pending	Rs. 16,59,825/- The Company has already deposited the disputed amount with the concerned authority
7	2001-2002	Income Tax Appellate Tribunal, Ahmedabad.	The Company has filed an appeal against the order passed by the Commissioner of Income Tax (Appeal) for disallowance of lease depreciation and bad debts written off by the company.	Pending	Rs. 63,30,175/- The Company has already deposited the disputed amount with the concerned authority
8	1997-1998	Commissioner of Income Tax (Appeals)	The Company has filed an appeal against the order passed by the Assistant Commissioner of Income Tax for levy of penalty under Section 271(1)(c) of the Income Tax Act, 1961.	Pending	Rs. 19,00,850 The Company has deposited the disputed amount with the concerned authority
9	1995-1996	Income Tax Appellate Tribunal, Ahmedabad.	The Company has filed an appeal against the order passed by the Commissioner of Income Tax (Appeal) for confirming levy of penalty imposed by the Assistant Commissioner of Income Tax under Section 271(1)(c) of the Income Tax Act, 1961.	Pending	Rs. 72,44,860 The Company has deposited the disputed amount with the concerned authority
10	2001-2002	Commissioner of Income Tax (Appeals)	The Company has filed an appeal against the order passed by the Asst. Commissioner of Income Tax for levy of penalty under section 271(1)(c) of the Income Tax Act, 1961.	Pending	Rs. 41,93,081 The Amount yet to be paid.
<b>Total</b>					<b>4,99,73,260</b>

## **B. Litigations against the Directors**

### **1. Criminal**

Mr. S. M. Palia is one of the Directors of GRUH. He was a non-executive independent director on the Board of IFB Finance Limited. He had resigned from the Board of IFB Finance Limited effective November 9, 1999. Reserve Bank of India has filed a complaint under the provisions of Section 200 of Criminal Procedure Code and under Section 58E(1) of the Reserve Bank of India Act 1934 against IFB Finance Limited and its Directors / officials for failure to comply with the Order passed by Company Law Board, Eastern Region Branch, Kolkata for repayment to the depositors as per the terms & conditions stipulated in the Orders dated January 2000 and March 2001. The complaint was filed in the Court of Chief Metropolitan Magistrate, Calcutta in the year March 2002. State Bank of Mysore has filed a recovery application against IFB Finance Limited and its Directors & others, before Debt Recovery Tribunal, Bangalore under Section 19 of the Recovery of Debts due to the Banks and Financial Institutions Act, 1993 in the year 2000 for recovery of its dues.

### **C. Defaults**

There has been no default in meeting any of the statutory dues, institutional dues and dues towards holders of debentures, bonds, fixed deposits and equity shares, other than unclaimed liabilities of GRUH.

## **D. Litigations against Promoter/Group Companies**

### **1. Promoter Company**

HDFC has certified that there are no contingent liabilities not provided for, outstanding litigations, disputes, non-payment of statutory dues, overdues to banks/financial institutions, defaults against banks/financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares issued by it or any other liabilities, proceedings initiated for economic/civil/any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act, 1956) against it save and except the following:

### **2. Contingent liabilities not provided :**

- Contingent Liability in respect of guarantees provided by the Corporation – Rs. 19,367 lacs;
- Contingent liability in respect of income-tax demands (net of amounts provided for and disputed by the Corporation) – Rs. 21,066 lacs. The matters in dispute are under appeal.
- Contingent Liability in respect of corporate undertakings provided by the Corporation for securitisation of receivables – Rs. 10,238 lacs. The outflows would arise in the event of a shortfall if any in the cash flows of the pool of the securitized receivables.

### **3. Outstanding Litigations :**

HDFC has certified that:

- There are no litigations against it which, to the best of its knowledge, will have a material adverse effect on its operations.
- There are also no outstanding litigations against it or any of its Directors for any alleged offence under the enactments specified in paragraph I of part I of Schedule XIII to the Companies Act, 1956.

**4. Non payment of statutory dues : NIL**

**5. Overdue Interest/principal as on current date : NIL**

**6. Defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares/other liabilities as on current date : NIL**

**E. Group Companies**

**1. HDFC Asset Management Company Limited**

1.1. HDFC Asset Management Company Limited has certified that there are no contingent liabilities not provided for, outstanding litigations, disputes, non-payment of statutory dues, overdues to banks/financial institutions, defaults against banks/financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares issued by it or issued by the company / other liabilities, proceedings initiated for economic/civil/any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act, 1956) against it save and except the following:

1.2. **Contingent liabilities not provided :**  
Disputed Income Tax demand of Rs. 4 lacs.

1.3. **Outstanding Litigations :**  
No material outstanding litigations.

1.4. **Non payment of statutory dues : NIL**

1.5. **Overdue Interest/principal as on current date : NIL**

1.6. **Defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares/other liabilities as on current date : NIL**

**2. HDFC Standard Life Insurance Company Limited**

2.1. HDFC Standard Life Insurance Company Limited has certified that there are no contingent liabilities not provided for, outstanding litigations, disputes, non-payment of statutory dues, overdues to banks/financial institutions, defaults against banks/financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares issued by it or issued by the company / other liabilities, proceedings initiated for economic/civil/any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act, 1956) against it save and except the following:

2.2. **Contingent liabilities not provided :**  
Contingent liabilities in respect of Service Tax demand, not provided for is Rs. 1,198 lacs.

2.3. **Outstanding Litigations :**

<u>S. No.</u>	<u>Forum/Type of Cases</u>	<u>No. of cases pending</u>	<u>Aggregate amount of Suit (Rs.)</u>
1.	Consumer Forum	28	76,65,108
2.	Writ Petition – High Court	1	1,00,000
3.	Civil Matters	3	12,45,000
4.	Criminal Matters	1	5,50,000
	<b>TOTAL</b>	<b>33</b>	<b>95,60,108</b>

**Note:**

1. The Amounts stated above, may vary with the judgement of the honorable court/forum.
2. The cases are clubbed as the aggregate amount of claims/liability on each case is below Rs. 100 lacs.
3. None of the cases stated aforesaid pose a significant threat to the Company or its associates/group companies.

- 2.4. **Non payment of statutory dues** : NIL
- 2.5. **Overdue Interest/principal as on current date** : NIL
- 2.6. **Defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares/other liabilities as on current date** : NIL

### **3. HDFC Developers Limited**

3.1. HDFC Developers Limited has certified that there are no contingent liabilities not provided for, outstanding litigations, disputes, non-payment of statutory dues, overdues to banks/financial institutions, defaults against banks/financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares issued by it or issued by the company / other liabilities, proceedings initiated for economic/civil/any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act, 1956) against it save and except the following:

- 3.2. **Contingent liabilities not provided** : NIL.
- 3.3. **Outstanding Litigations** : NIL
- 3.4. **Non payment of statutory dues** : NIL
- 3.5. **Overdue Interest/principal as on current date** : NIL
- 3.6. **Defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares/other liabilities as on current date:**

Not applicable.

### **4. HDFC Realty Limited**

4.1. HDFC Realty Limited has certified that there are no contingent liabilities not provided for, outstanding litigations, disputes, non-payment of statutory dues, overdues to banks/financial institutions, defaults against banks/financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares issued by it or issued by the company / other liabilities, proceedings initiated for economic/civil/any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act, 1956) against it save and except the following:

- 4.2. **Contingent liabilities not provided** : NIL.
- 4.3. **Outstanding Litigations** : NIL
- 4.4. **Non payment of statutory dues** : NIL
- 4.5. **Overdue Interest/principal as on current date** : NIL
- 4.6. **Defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares/other liabilities as on current date:**

Not applicable.

### **5. HDFC Chubb General Insurance Company (“HDFC CHUBB”)**

5.1. HDFC CHUBB has certified that there are no contingent liabilities not provided for, outstanding litigations, disputes, non-payment of statutory dues, overdues to banks/financial institutions, defaults against banks/financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares issued by it or issued by the company / other liabilities, proceedings initiated for economic/civil/any other offences (including past cases where penalties may or may not have been



awarded and irrespective of whether they are specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act, 1956) against it save and except the following:

5.2. **Contingent liabilities not provided** : NIL

5.3. **Outstanding Litigations :**

Except for the disputes in respect of matters arising from repudiation of claims of the insured, either in full or in part and referred to in various Consumer Forums, Offices of Insurance Ombudsman, etc. or claims registered with Motor Accident Claims Tribunal under the Motor Vehicles Act there are no other outstanding litigations. The aggregate of the amount under dispute as aforesaid is not significant.

5.4. **Non payment of statutory dues** : NIL

5.5. **Overdue Interest/principal as on current date** : NIL

5.6. **Defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares/other liabilities as on current date** : NIL

## **6. HDFC Investments Limited**

6.1. HDFC Investments Limited has certified that there are no contingent liabilities not provided for, outstanding litigations, disputes, non-payment of statutory dues, overdues to banks/financial institutions, defaults against banks/financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares issued by it or issued by the company / other liabilities, proceedings initiated for economic/civil/any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act, 1956) against it save and except the following:

6.2. **Contingent liabilities not provided** : NIL

6.3. **Outstanding Litigations:**

Except for the disputes in respect of matters arising from repudiation of claims of the insured, either in full or in part and referred to in various Consumer Forums, Offices of Insurance Ombudsman, etc. or claims registered with Motor Accident Claims Tribunal under the Motor Vehicles Act there are no other outstanding litigations. The aggregate of the amount under dispute as aforesaid is not significant.

6.4. **Non payment of statutory dues** : NIL

6.5. **Overdue Interest/principal as on current date** : NIL

6.6. **Defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares/other liabilities as on current date** : NIL

## **7. HDFC Holdings Limited**

7.1. HDFC Holdings Limited has certified that there are no contingent liabilities not provided for, outstanding litigations, disputes, non-payment of statutory dues, overdues to banks/financial institutions, defaults against banks/financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares issued by it or issued by the company / other liabilities, proceedings initiated for economic/civil/any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act, 1956) against it save and except the following:

7.2. **Contingent liabilities not provided** : NIL

7.3. **Outstanding Litigations** : NIL

7.4. **Non payment of statutory dues** : NIL

7.5. **Overdue Interest/principal as on current date** : NIL

7.6. **Defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares/other liabilities as on current date:**

Not applicable.

**8. HDFC Trustee Company Limited**

8.1. HDFC Trustee Company Limited has certified that there are no contingent liabilities not provided for, outstanding litigations, disputes, non-payment of statutory dues, overdues to banks/financial institutions, defaults against banks/financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares issued by it or issued by the company / other liabilities, proceedings initiated for economic/civil/any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act, 1956) against it save and except the following:

8.2. **Contingent liabilities not provided** \_\_\_\_\_ :  
Income Tax demand of Rs. 0.57 lacs

8.3. **Outstanding Litigations** : NIL

8.4. **Non payment of statutory dues** : NIL

8.5. **Overdue Interest/principal as on current date** : NIL

8.6. **Defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares/other liabilities as on current date:**

Not applicable.

**9. HDFC Venture Capital Limited**

9.1. HDFC Venture Capital Limited has certified that there are no contingent liabilities not provided for, outstanding litigations, disputes, non-payment of statutory dues, overdues to banks/financial institutions, defaults against banks/financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares issued by it or issued by the company / other liabilities, proceedings initiated for economic/civil/any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act, 1956) against it save and except the following:

9.2. **Contingent liabilities not provided** : NIL

9.3. **Outstanding Litigations** : NIL

9.4. **Non payment of statutory dues** : NIL

9.5. **Overdue Interest/principal as on current date** : NIL

9.6. **Defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares/other liabilities as on current date** : NIL

**10. HDFC Ventures Trustee Company Limited**

10.1. HDFC Ventures Trustee Company Limited has certified that there are no contingent liabilities not provided for, outstanding litigations, disputes, non-payment of statutory dues, overdues to banks/financial institutions, defaults against banks/financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares issued by it or issued by the company / other liabilities, proceedings initiated for economic/civil/any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act, 1956) against it save and except the following:

10.2.	<b>Contingent liabilities not provided</b>	:	NIL
10.3.	<b>Outstanding Litigations</b>	:	NIL
10.4.	<b>Non payment of statutory dues</b>	:	NIL
10.5.	<b>Overdue Interest/principal as on current date</b>	:	NIL
10.6.	<b>Defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares/other liabilities as on current date</b>	:	NIL

**11. Home Loan Services India Private Limited (HLSIL)**

11.1. HLSIL has certified that there are no contingent liabilities not provided for, outstanding litigations, disputes, non-payment of statutory dues, overdues to banks/financial institutions, defaults against banks/financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares issued by it or issued by the company / other liabilities, proceedings initiated for economic/civil/any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act, 1956) against it save and except the following:

11.2.	<b>Contingent liabilities not provided</b>	:	NIL
11.3.	<b>Outstanding Litigations</b>	:	NIL
11.4.	<b>Non payment of statutory dues</b>	:	NIL
11.5.	<b>Overdue Interest/principal as on current date</b>	:	NIL
11.6.	<b>Defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares/other liabilities as on current date</b>	:	NIL

**12. Indian Association for Savings and Credit (IASC)**

12.1. IASC has certified that there are no contingent liabilities not provided for, outstanding litigations, disputes, non-payment of statutory dues, overdues to banks/financial institutions, defaults against banks/financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares issued by it or issued by the company / other liabilities, proceedings initiated for economic/civil/any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act, 1956) against it save and except the following:

12.2.	<b>Contingent liabilities not provided</b>	:	NIL
12.3.	<b>Outstanding Litigations:</b> Only one case filed for loan default against Indira Baby on February 29, 2004 in Kuzhithuri, Kanyakumari district for an amount of Rs. 11,885 along with interest.		
12.4.	<b>Non payment of statutory dues</b>	:	NIL
12.5.	<b>Overdue Interest/principal as on current date</b>	:	NIL
12.6.	<b>Defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares/other liabilities as on current date</b>	:	NIL

**13. HDFC Bank Limited (HDFC Bank)**

13.1. HDFC Bank has certified that there are no contingent liabilities not provided for, outstanding litigations, disputes, non-payment of statutory dues, overdues to banks/financial institutions, defaults against banks/financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits issued by HDFC Bank or issued by the company and arrears on cumulative preference shares issued by it or any other liabilities, proceedings initiated for economic/civil/any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act, 1956) against it save and except the following:

13.2. **Contingent liabilities not provided :**

<b>Sr. No.</b>	<b>Particulars</b>	<b>Amt. (Rs. in lacs)</b>
I	Claims against the bank not acknowledged as debts – taxation	24,397
II	Claims against the bank not acknowledged as debts - others	1,310
III	Liability on account of outstanding forward exchange contracts	73,47,337
IV	Liability on account of outstanding derivative contracts	1,31,96,984
V	Guarantees given on behalf of constituents – in India	3,08,877
VI	Acceptances, endorsements and other obligations	2,41,037
VII	Other items for which the bank is contingently liable	3,58,292
	<b>Total</b>	<b>2,14,78,234</b>

13.3. **Outstanding Litigations:**

The following are the details of the pending litigation against HDFC Bank where the amount involved is more than 100 lacs. With regard to all other pending litigations filed against HDFC Bank, the amount involved is not significant and will not have a material adverse impact on the company.

<b>Sr. No.</b>	<b>Name of the Party</b>	<b>Name of the Branch</b>	<b>Court in which case is pending and case no.</b>	<b>Details</b>	<b>Amount involved (Rs. in lacs)</b>
1	The Udhna Citizen Co-operative Bank Limited	Surat Branch	First Class Judicial Magistrate, Court III, Surat, Case No. 202/2003	There was a deal of about Rs. 300 lacs for purchase of Government security between Udhna Citizen Co-op. Bank Limited (Udhna) and its broker. The Bank had received remittance and forwarded the same to the broker. The broker has alleged to have defaulted in delivering the securities to Udhna. The litigation is for the recovery of the amount remitted from the Bank.	300
2.	Mr. Sanjay Hirala Shah	Baroda Branch	Civil Court, Baroda, Special Summary Suit 202 of 2001	This case is for the dishonour of the payable at par cheques aggregating to Rs. 600 lacs issued by a customer, which is a co-operative bank. The plaintiff contends that these are at par cheques and demand drafts. The case is pending before the Civil Court, Baroda	708
3.	Ms. Suchitra Iyer	Coimbatore Branch	Judicial Magistrate III, Coimbatore, Case No. 343/03	The case is for transfer of funds amongst customer's own accounts inter se which are alleged by the customer as unauthorized and illegal. The case is pending in the court of Judicial Magistrate III, Coimbatore	200
4.	Centurian Bank Limited	D.N. Road Branch of erstwhile Times Bank Limited	Sessions Court	A Letter of Credit (LC) of Rs. 350 lacs was discounted with the erstwhile Times Bank Limited in March 1997. The LC opening Bank subsequently informed Times Bank that the LC for Rs. 350 lacs was forged document. Upon assuming a	336

<b>Sr. No.</b>	<b>Name of the Party</b>	<b>Name of the Branch</b>	<b>Court in which case is pending and case no.</b>	<b>Details</b>	<b>Amount involved (Rs. in lacs)</b>
				possibility that the LC issuing Bank may not honour its commitment under the LC, Times Bank took recourse to the beneficiary and recovered the amount as per the normal banking practice. Alleging that Times Bank had been paid by the beneficiary out of the funds collected through fraudulent means, the Police Authorities directed Times Bank to deposit the funds with the Superintendent of Police, State CID (Crime) under protest. The case was decided in favour of HDFC Bank. Centurian Bank is filing a revision petition.	
5.	Mr. Ramchandra Jayawanty Prabhu	Panjim Branch	Complaint No. 104 of 2005, National Consumer Disputes Redressal Commission at New Delhi	The Bank had remitted UDS 1,60,000 to Mizako Bank, Tokyo on the written instructions of Mr. R. J. Prabhu. This has been disputed by him stating that the documents were forged. He has filed a complaint in the National Consumer Disputed Redressal Forum, New Delhi. The Bank has averred that it has carried out the bonafide instructions of its client and has got the writings in the documents and the signature verified by handwriting experts. Based on the examinations, the bank has arrived at the conclusion that the instructions based on which the bank carried out the transactions were genuine.	102

13.4. **Non payment of statutory dues : NIL**

13.5. **Overdue Interest/principal as on current date : NIL**

13.6. **Defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares/other liabilities as on current date: NIL**

#### **14. Intelenet Global Services Private Limited (IGSPL)**

14.1. **Intelenet Global Services Private Limited (IGSPL)** has certified that there are no contingent liabilities not provided for, outstanding litigations, disputes, non-payment of statutory dues, overdues to banks/financial institutions, defaults against banks/financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares issued by it or any other liabilities, proceedings initiated for economic/civil/any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act, 1956) against it save and except the following:

#### **14.2. Contingent liabilities not provided :**

Claims by a contractor against the Company not provided for - Rs. 17,02,837/-.

#### **14.3. Outstanding Litigations:**

14.3.1. There is no outstanding litigation launched against the Company or any of its Directors for any alleged offence under the enactments specified in paragraph (i) of part 1 of Schedule XIII of the Companies Act, 1956.

14.3.2. Except for the petition referred hereunder there are no litigations against the Company whose outcome will have a material adverse effect on the operations of the Company.

M/s. Bharat Copy Centre has presented a petition in the Hon'ble High Court of Judicature at Bombay under the provisions of section 433 and 434 of the Companies Act, 1956 for an alleged failure and neglect for the payment of Rupees 13,40,612.48 only along with an interest of 18% p.a. for the delay from the date of the bill. The Company after a thorough internal audit has evidence enough to prove that the case is filed with malafide intent after it was realized that the Plaintiff had resorted to the fraud and forgery during the currency of services of the Plaintiff to the Company. The Company has filed an Affidavit – in – Reply with the Hon'ble High Court and is vigorously contesting this Petition on the above lines.

- 14.4. **Non payment of statutory dues** : NIL
- 14.5. **Overdue Interest/principal as on current date** : NIL
- 14.6. **Defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares/other liabilities as on current date** : NIL

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## GOVERNMENT APPROVALS

In view of the approvals listed below, the Company can undertake this Issue and its current business activities and no further material approvals are required from any Government authority to continue such activities. The Company has received the following Government approvals that are material to its business:

### **General**

PAN Number – AAACG7010K

**Service Tax code number:** AAACG7010K001

### **Approvals:**

#### **Approval for carrying out Housing Finance Business**

Certificate of registration No. 01.0015.01 dated July 31, 2001 from NHB under Section 29A of the NHB Act, 1987 to the Company to carry on the business of a housing finance institution.

The Corporate Office of GRUH is registered under the Bombay Shops and Establishment Act, 1948 bearing registration number PII/EL/00/004332

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## STATUTORY AND OTHER INFORMATION

### Authority for the Issue

Pursuant to the resolution passed by the Board of Directors of the Company at its meeting held on April 21, 2006 it has been decided to make this offer to the Equity Shareholders of the Company with a right to renounce.

### Consent of Lenders

The agreements in respect of some of the debt taken by the Company contain certain covenants *inter-alia* for altering the Company's share capital and for the Company's expansions and diversifications plans, including the expansion proposed to be funded out of the proceeds of this Issue. The Company has obtained all these consents from the Company's lenders.

### Prohibition by SEBI

Neither the Company, nor its Directors or the Promoter Group Companies, or companies with which the Company's Directors are associated with as directors or promoters, have been prohibited from accessing or operating in the capital markets under any order or direction passed by SEBI. Further, none of the directors or person(s) in control of the Promoters (as applicable) have been prohibited from accessing the capital market under any order or direction passed by SEBI.

### Eligibility for the Issue

The Company is an existing company registered under the Indian Companies Act, 1956 whose Equity Shares are listed on the BSE/NSE/ASE. It is eligible to offer this Issue in terms of Clause (2.4.1(iv)) of the SEBI DIP Guidelines. The Company, its Promoter, its Directors or any of the Company's associates or group companies are currently not prohibited from accessing the capital market under any order or direction passed by SEBI. Further the Promoter, their relatives (as per Act), the Company, group companies, associate companies, directors are not detained as willful defaulters by RBI / Government authorities except as otherwise provided under the section titled "Outstanding Litigation and Default" on page 104 of this Letter of Offer.

### Disclaimer Clause

**AS REQUIRED, A COPY OF THE LETTER OF OFFER HAS BEEN SUBMITTED TO THE SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI). IT IS TO BE DISTINCTLY UNDERSTOOD THAT THE SUBMISSION OF THE LETTER OF OFFER TO SEBI SHOULD NOT, IN ANY WAY BE DEEMED/ CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE ISSUE IS PROPOSED TO BE MADE, OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THIS LETTER OF OFFER. THE LEAD MANAGER, DSP MERRILL LYNCH LIMITED, HAS CERTIFIED THAT THE DISCLOSURES MADE IN THIS LETTER OF OFFER ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI GUIDELINES FOR DISCLOSURE AND INVESTOR PROTECTION IN FORCE FOR THE TIME BEING. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING INVESTMENT IN THE PROPOSED ISSUE. IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE ISSUER COMPANY IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE LETTER OF OFFER, THE LEAD MANAGERS ARE EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE COMPANY DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE THE LEAD MANAGER HAS FURNISHED TO SEBI A DUE DILIGENCE CERTIFICATE DATED JUNE 9, 2006 WHICH READS AS FOLLOWS:**

- 1. WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, DISPUTES WITH COLLABORATORS, ETC. AND OTHER MATERIALS MORE PARTICULARLY REFERRED TO IN THE ANNEXURE HERETO IN CONNECTION WITH THE FINALISATION OF THE LETTER OF OFFER PERTAINING TO THE SAID ISSUE;**
- 2. ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE COMPANY, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE ISSUE, PRICE**



**JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE COMPANY;**

**WE CONFIRM THAT:**

**THE LETTER OF OFFER FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE ISSUE;**

**ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID ISSUE AS ALSO THE GUIDELINES, INSTRUCTIONS ETC., ISSUED BY SEBI, THE GOVERNMENT AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH;**

**THE DISCLOSURES MADE IN THE LETTER OF OFFER ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL-INFORMED DECISION AS TO INVESTMENT IN THE PROPOSED ISSUE;**

**3. WE CONFIRM THAT BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE LETTER OF OFFER ARE REGISTERED WITH SEBI AND TILL DATE SUCH REGISTRATION IS VALID; AND**

The filing of this Letter of Offer does not, however, absolve the Company from any liabilities under Section 63 or Section 68 of the Act or from the requirement of obtaining such statutory or other clearance as may be required for the purpose of the proposed Issue. SEBI further reserves the right to take up, at any point of time, with the Lead Managers any irregularities or lapses in this Letter of Offer.

**Caution**

The Company and the Lead Managers accept no responsibility for statements made otherwise than in this Letter of Offer or in any advertisement or other material issued by the Company or by any other persons at the instance of the Company and anyone placing reliance on any other source of information would be doing so at his own risk.

The Lead Managers and the Company shall make all information available to the Equity Shareholders and no selective or additional information would be available for a section of the Equity Shareholders in any manner whatsoever including at presentations, in research or sales reports etc. after filing of this Letter of Offer with SEBI.

**Disclaimer with respect to jurisdiction**

This Letter of Offer has been prepared under the provisions of Indian Laws and the applicable rules and regulations thereunder. Any disputes arising out of this Issue will be subject to the jurisdiction of the appropriate court(s) in Ahmedabad, India only.

This Letter of Offer has been prepared under the provisions of Indian Law and the applicable rules and regulations thereunder. The distribution of the Letter of Offer and the Issue of Equity Shares on a Rights basis to persons in certain jurisdictions outside India may be restricted by the legal requirements prevailing in those jurisdictions. Persons in whose possession this Letter of Offer may come are required to inform themselves about and observe such restrictions. Any disputes arising out of this Issue will be subject to the jurisdiction of the appropriate court(s) in Ahmedabad, India only.

No action has been or will be taken to permit this Issue in any jurisdiction where action would be required for that purpose, except that the Draft Letter of Offer has been filed with SEBI for observations and SEBI has given its observations. Accordingly, the Equity Shares represented thereby may not be offered or sold, directly or indirectly, and this Letter of Offer may not be distributed in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of this Letter of Offer nor any sale hereunder, shall under any circumstances create any implication that there has been no change in the Company's affairs from the date hereof or that the information contained herein is correct as of any time subsequent to this date.

### **Designated Stock Exchange**

The Designated Stock Exchange for the purpose of the Issue will be the Bombay Stock Exchange Limited.

### **Disclaimer Clause of the BSE**

The Bombay Stock Exchange Limited (“the Exchange”) has given vide its letter dated July 11, 2006 permission to the Company to use the Exchange’s name in this Letter of Offer as one of the Stock Exchanges on which this Company’s securities are proposed to be listed. The Exchange has scrutinized this Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Company. The Exchange does not in any manner: (i) warrant, certify or endorse the correctness or completeness of any of the contents of this Letter of Offer; or (ii) warrant that this Company’s securities will be listed or will continue to be listed on the Exchange; or (iii) take any responsibility for the financial or other soundness of this Company, its Promoters, its management or any scheme or project of this Company; and it should not for any reason be deemed or construed that this Letter of Offer has been cleared or approved by the Exchange. Every person who desires to apply for or otherwise acquires any securities of this Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.

### **Disclaimer Clause of the NSE**

As required, a copy of this Letter of Offer has been submitted to National Stock Exchange of India Limited (hereinafter referred to as NSE). NSE has given vide its letter Ref No. NSE/LIST/25951-N dated July 19, 2006 permission to the Issuer to use NSEs name in this Letter of Offer as one of the Stock Exchanges on which this Issuer’s securities are proposed to be listed. NSE has scrutinized this Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Issuer. It is to be distinctly understood that the aforesaid permission given by NSE should not in any way be deemed or construed that the Letter of Offer has been cleared or approved by NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Letter of Offer; nor does it warrant that this Issuer’s securities will be listed or will continue to be listed on NSE; nor does it take any responsibility for the financial or other soundness of this Issuer, its Promoters, its management or any scheme or project of this Issuer.

Every person who desires to apply for or otherwise acquires any securities of this Issuer may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the NSE whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.

### **Disclaimer Clause of the ASE**

Ahmedabad Stock Exchange Limited, vide its letter dated July 19, 2006, has given permission to the Company to use the ASE’s name in this Letter of Offer as one of the Stock Exchanges on which this Company’s securities are proposed to be listed. ASE has scrutinized this Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Company. ASE does not in any manner:

- (i) warrant, certify or endorse the correctness or completeness of any of the contents of this Letter of Offer; or
- (ii) warrant that this Company’s securities will be listed or will continue to be listed on ASE; or
- (iii) take any responsibility for the financial or other soundness of this Company, its Promoters, its management or any scheme or project of this Company;

and it should not for any reason be deemed or construed that this Letter of Offer has been cleared or approved by ASE. Every person who desires to apply for or otherwise acquires any securities of this Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the ASE whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.

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**Filing**

The Letter of Offer was filed with SEBI, Mittal Court, Nariman Point, Mumbai 400 021. The Letter of Offer has been filed with the Designated Stock Exchange as per the requirements of the law. All the legal requirements applicable till the date of filing the Letter of Offer with the Stock Exchanges have been complied with.

**Dematerialised Dealing**

The Company has agreements dated July 14, 2000 and December 19, 2001 with NSDL and CDSL respectively) and its Equity Shares bear the ISIN No. INE580B01011.

**Listing**

The existing Equity Shares are listed on the BSE/NSE/ASE. The Company has made applications to the BSE/NSE/ASE for permission to deal in and for an official quotation in respect of the Equity Shares being offered in terms of this Letter of Offer. The Company has received in-principle approvals from BSE, NSE and ASE by letters dated July 11, 2006, July 19, 2006 and July 19, 2006 respectively. The Company will apply to the BSE/NSE/ASE for listing of the Equity Shares to be issued pursuant to this Issue.

If the permission to deal in and for an official quotation of the securities is not granted by any of the Stock Exchanges mentioned above, within 42 days from the Issue Closing Date, the Company shall forthwith repay, without interest, all monies received from applicants in pursuance of this Letter of Offer. If such money is not paid within 8 days after the Company becomes liable to repay it, then the Company and every Director of the Company who is an officer in default shall, on and from expiry of 8 days, be jointly and severally liable to repay the money with interest as prescribed under the Section 73 of the Companies Act, 1956.

**Consents**

Consents in writing of the Auditors, Lead Managers, Legal Advisors, Registrar to the Issue, Monitoring Agency and Banker to the Issue to act in their respective capacities have been obtained and filed with SEBI, along with a copy of the Letter of Offer and such consents have not been withdrawn up to the time of delivery of this Letter of Offer for registration with the stock exchanges.

Necessary consents of all the lenders for this rights issue have been obtained and the same have been submitted to SEBI on August 1, 2006.

The Auditors of the Company have given their written consent for the inclusion of their Report in the form and content as appearing in this Letter of Offer and such consents and reports have not been withdrawn up to the time of delivery of this Letter of Offer for registration for registration with the stock exchanges.

Sorab S. Engineer & Co., auditors have given their written consent for inclusion of income tax benefits in the form and content as appearing in this Letter of Offer, accruing to the Company and its members.

There are no other consents required for making this Issue. However, should the need arise, necessary consents shall be obtained by the Company.

**Expert Opinion, if any**

The Company has not obtained any expert opinion in relation to this issue.

**Fees Payable to the Lead Managers to the Issue**

The fee payable to the Lead Manager to the Issue is set out in the relevant documents entered into by the Company with DSPML, copies of which are available for inspection at the Registered Office of the Company.

**Fees Payable to the Registrars to the Issue**

The fee payable to the Registrars to the Issue is as set out in the relevant documents, copies of which are kept open for inspection at the Registered Office of the Company.

### Underwriting commission, brokerage and selling commission

No underwriting commission, brokerage and selling commission will be paid for this Issue.

### Other Expenses of the Issue

The other expenses of the Issue payable by the Company including, printing and distribution expenses, publicity, listing fees, stamp duty and other expenses are estimated at Rs. 25 lacs (around 0.42% of the total Issue size) and will be met out of the proceeds of the Issue. The following table provides a break up of estimated issue expenses:

<b>Particulars</b>	<b>In Rs. Lacs</b>	<b>% of Issue Expenses</b>	<b>% of Issue</b>
Advertisement Budget	10.00	10.00%	0.17%
Lead Manager and Legal Advisor fee	50.00	50.00%	0.84%
Postage, Printing and Stationery	18.00	18.00%	0.20%
Others & Contingencies	12.00	12.00%	0.47%
<b>Total</b>	<b>100.00</b>	<b>100.00%</b>	<b>1.68%</b>

### Promise versus Performance

#### The Company

- a) Initial public issue in 1992, of 21,50,000 equity shares of Rs. 10 each for cash at par aggregating to Rs. 215 lacs

<b>Issue Open Date</b>	<b>Issue Close Date</b>	<b>Objects of the Issue</b>
October 14, 1992	October 24, 1992	<ul style="list-style-type: none"> <li>i. To meet the working capital needs of the company</li> <li>ii. Broad-base the Shareholding pattern of the company</li> <li>iii. To enlist the Shares of the Company on recognized Stock Exchanges</li> </ul>

- b) Rights issue in 1995, of 25,75,000 zero coupon unsecured fully convertible debentures of face value Rs. 75 each for cash at par aggregating to Rs 1,931.25 lacs

<b>Issue Open Date</b>	<b>Issue Close Date</b>	<b>Objects of the Issue</b>
January 17, 1995	February 16, 1995	<ul style="list-style-type: none"> <li>i. To augment the long term resources of the company for the purpose of meeting the increasing demand for housing finance.</li> <li>ii. To enhance and strengthen the equity base of the Company so as to maintain the debt-equity and Capital Adequacy Ratios within prudential norms</li> </ul>

- c) Rights issue in 1998, of 1,32,50,000 unsecured fully convertible debentures of Rs. 10 each for cash at par aggregating to Rs 1,325 lacs

<b>Issue Open Date</b>	<b>Issue Close Date</b>	<b>Objects of the Issue</b>
July 16, 1998	August 13, 1998	<ul style="list-style-type: none"> <li>i. To augment the long term resources of the company for the purpose of meeting the increasing demand for housing finance.</li> <li>ii. To enhance and strengthen the equity base of the Company so as to maintain the debt-equity and Capital Adequacy Ratios within prudential norms</li> </ul>

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HDFC Limited

- a) Issue of 23,62,500 Fully Convertible Debentures of Rs 800/- each for cash at par in the year 1992 aggregating to Rs 18,900 lacs

<u>Issue Open Date</u>	<u>Issue Close Date</u>	<u>Objects of the Issue</u>
November 23, 1992	December 22, 1992	<ul style="list-style-type: none"> <li>i. To augment the long term resources of the Corporation to meet the increasing demand of housing finance</li> <li>ii. To strengthen the equity base of the Corporation, so as to maintain the Debt Equity and Capital adequacy ratios within prudential norms</li> </ul>

HDFC Bank

- a) Public Issue of 5,00,00,000 equity shares of Rs 10/- each for cash at par in the year 1995

<u>Issue Open Date</u>	<u>Issue Close Date</u>	<u>Objects of the Issue</u>
March 14, 1995	March 16, 1995	<ul style="list-style-type: none"> <li>i. To have an issued, subscribed and paid-up capital of Rs 20,000 lacs.</li> <li>ii. To get enlistment of the Bank's Equity Shares on the BSE</li> </ul>

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## TERMS OF THE ISSUE

The Equity Shares, now being issued, are subject to the terms and conditions contained in this Letter of Offer, the enclosed Composite Application Form (“CAF”), the Memorandum and Articles of Association of the Company, the provisions of the Act, guidelines issued by SEBI, guidelines, notifications and regulations for issue of capital and for listing of securities issued by Government of India and/or other statutory authorities and bodies from time to time, terms and conditions as stipulated in the allotment advice or letter of allotment or security certificate and rules as may be applicable and introduced from time to time.

### 1. Authority for the Issue

This Issue is being made pursuant to the resolution passed at the meeting of the Board of Directors of the Company on April 21, 2006. The objects of the present Rights Issue has also been authorized by the Board at its meeting held on April 21, 2006.

### 2. Basis for the Issue

The Equity Shares are being offered for subscription for cash to those existing equity shareholders whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the shares held in Electronic Form and on the Register of Members of the Company in respect of shares held in the physical form at the close of business hours on the Record Date, i.e., September 2, 2006 fixed in consultation with BSE, the Designated Stock Exchange.

### 3. Rights Entitlement

As your name appears as beneficial owner in respect of the shares held in electronic form or appears in the Register of Members as an equity shareholder of the Company as on September 2, 2006 (Record Date), you are entitled to the number of shares in Block I of Part A of the enclosed CAF.

### 4. Rights Entitlement Ratio

4.1 The eligible shareholders shall be entitled to the following:

**Three Equity shares for every Ten Equity Shares held on the Record Date.**

4.2 Rights entitlement on shares held in the pool account of the clearing members on the record date shall be considered, and such claimants are requested to:

- (a) Approach the concerned depository through the clearing member of the Stock exchange with requisite details; and
- (b) Depository in turn should furnish details of the transaction to the Registrar.

Only upon receipt of the aforesaid details, rights entitlement of the claimants shall be determined.

### 5. Principal Terms of the Issue

The Equity Shares, now being issued, subject to the provisions of the Act, terms and conditions contained in this Letter of Offer, the enclosed CAF, the Memorandum and Articles of Association of the Company, guidelines issued by SEBI, Foreign Exchange Management Act 1999 (“FEMA”), guidelines, notifications and regulations for issue of capital and for listing of securities issued by Government of India and/or other statutory authorities and bodies from time to time, terms and conditions as stipulated in the allotment advice or letter of allotment or security certificate and rules as may be applicable and introduced from time to time.

### 6. Face Value

Each Equity Share shall have a face value of Rs. 10.

### 7. Issue Price

Each Equity Share is being offered at a price of Rs. 75 each for cash at a premium of Rs. 65 per equity share.

## 8. Terms of payment

Full amount of Rs. 75 per share is payable on application. The payment towards the equity shares offered would be as under:

	Towards Share Capital	Towards Share Premium Account
For Resident Applicants:		
On Application	Rs. 10 per share	Rs. 65 per share
For Non-Resident Applicants:		
On Application	Rs. 10 per share	Rs. 65 per share

## 10. Fractional Entitlements

- 10.1 For Equity Shares being offered on rights basis under this Issue, if the shareholding of any Equity Shareholders is less than 10 or not in multiples of 10, any fractional entitlement will be ignored. For a person who holds less than 4 shares, his fractional entitlement will be ignored and he will be sent a 0 entitlement form, which will be non-renounceable and non-negotiable. But he has a right to apply for more shares. Any person whose fractional entitlement is ignored and has been given the option to apply for additional shares will be given preferentially 1 share if he applies for additional shares as per the Basis of Allotment mentioned on page 133 of this Letter of Offer.
- 10.2 The Equity Shares needed for such shares will be first adjusted from the unsubscribed portion of the Issue, if any, and should there be further requirement, from the Promoter group's entitlement at the time of allotment.

## 11. Joint-Holders

Where two or more persons are registered as the holders of any Equity Shares, they shall be deemed to hold the same as joint-holders with benefits of survivorship subject to provisions contained in the Articles of Association of the Company.

## 12. Ranking of the Equity Shares

The Equity Shares certificates shall be subject to the Memorandum and Articles of Association of the Company. The Equity Shares allotted in this Issue shall be ranked *pari passu* with the existing Equity Shares in all respects including dividend. For more details see "Main Provisions of the Company's Articles of Association" on page 142 of this Letter of Offer.

Subject to applicable laws, the equity shareholders shall have the following rights:

- Right to receive dividend, if declared;
- Right to attend general meetings and exercise voting powers, unless prohibited by law;
- Right to vote on a poll either in person or by proxy;
- Right to receive offers for rights shares and be allotted bonus shares, if announced;
- Right to receive surplus on liquidation;
- Right to free transferability; and
- Such other rights, as may be available to a shareholder of a listed public Company under the Companies Act and the Company's Memorandum and Articles.

## 13. Payment of Refund

13.1 Applicants should note that on the basis of name of the applicant, Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number provided by them in the Composite Application Form, the Registrar to the Issue will obtain from the depositories the applicant's bank account details including nine digit MICR code. **Hence, applicants are advised to immediately update their bank account details as appearing on the records of the depository participant.** Please note that failure to do so could result in delays in credit of refunds to applicant at the applicant's sole risk and neither the Lead Managers nor the Company shall have any responsibility and undertake any liability for the same.

13.2 The payment of refund, if any, shall be undertaken in any of the following manners:

1. **NEFT**

Payment of refund shall be undertaken through NEFT wherever the applicants' bank has been assigned the Indian Financial System Code (IFSC), which can be linked to a Magnetic Ink Character Recognition (MICR) , if any, available to that particular bank branch. IFSC Code will be obtained from the website of RBI as on a date immediately prior to the date of payment of refund, duly mapped with MICR numbers. Wherever the applicants have registered their nine digit MICR number and their bank account number while opening and operating the Demat account, the same will be duly mapped with the IFSC Code of that particular bank branch and the payment of refund will be made to the applicants through this method.

2. **ECS**

Payment of refund shall be undertaken through ECS for applicants having an account at any of the following fifteen centres: Ahmedabad, Bangalore, Bhubaneswar, Kolkata, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Kanpur, Mumbai, Nagpur, New Delhi, Patna and Thiruvananthapuram. This mode of payment of refunds would be subject to availability of complete bank account details including the MICR code as appearing on a cheque leaf, from the Depositories. One of the methods for payment of refund is through ECS for applicants having a bank account at any of the above mentioned fifteen centers.

3. **Direct Credit**

Applicants having bank accounts with the Banker(s) to the Issue, in this case being, HDFC Bank Ltd shall be eligible to receive refunds through direct credit. Charges, if any, levied by the Bank(s) to the Issue for the same would be borne by the Issuer.

4. **RTGS**

Applicants having a bank account at any of the abovementioned fifteen centres and whose refund amount exceeds Rs. 10 lacs, have the option to receive refund through RTGS. Such eligible applicants who indicate their preference to receive refund through RTGS are required to provide the IFSC code in the CAF. In the event the same is not provided, refund shall be made through ECS. Charges, if any, levied by the Refund Bank(s) for the same would be borne by such applicant opting for RTGS as a mode of refund. Charges, if any, levied by the applicant's bank receiving the credit would be borne by the applicant.

**Note:** The Company expects that all payments including where refund amounts exceed Rs. 1,000,000 (Rupees Ten Lacs) shall be made through NEFT, however in some exceptional circumstances where refund amounts exceed Rs. 1,000,000 (Rupees Ten Lacs), refunds may be made through RTGS.

5. For all other applicants, including those who have not updated their bank particulars with the MICR code, the refund orders shall be dispatched under Certificate of Posting for value up to Rs. 1,500 and through Speed Post/ Registered Post for refund orders of Rs. 1,500 and above. Such refunds will be made by cheques, pay orders or demand drafts drawn on the Collection Bank (s) and payable at par at the places where applications are accepted. Bank charges, if any, for cashing such cheques, pay orders or demand drafts at other centres will be borne by the Applicants.

14. **Notices**

All notices to the Equity Shareholder(s) required to be given by the Company shall be published in one English national daily with wide circulation, one Hindi national daily with wide circulation and one



regional language daily newspaper in Gujarat with wide circulation and/or, will be sent by ordinary post/ to the registered holders of the Equity Share from time to time.

## 15. Market lot

Since trading of the Company's equity shares is in dematerialized form, the tradable lot is one equity share. In case of physical certificates the Company would issue one certificate for the Equity shares allotted to one person (Consolidated Certificate). In respect of the consolidated certificate, the Company will only upon receipt of a request from the Equity shareholders, split such consolidated certificate into smaller denomination within week's time from the date of the request from the Equity shareholders. No fee would be charged by the Company for splitting the consolidated certificate.

## 16. Nomination facility

16.1 In accordance with Section 109A of the Companies Act, the sole or first holder, along with other joint holder, may nominate any one person in whom, in the event of the death of sole holder or in case of joint holders, death of all the holders, as the case may be, the Equity Shares allotted, if any, shall vest. A person, being a nominee, entitled to the Equity Shares by reason of the death of the original holder(s), shall in accordance with Section 109A of the Companies Act, be entitled to the same advantages to which he or she would be entitled if he or she were the registered holder of the equity share(s). Where the nominee is a minor, the holder(s) may make a nomination to appoint, in the prescribed manner, any person to become entitled to equity share(s) in the event of his or her death during the minority. A nomination shall stand rescinded upon a sale/ transfer/ alienation of equity share(s) by the person nominating. A buyer will be entitled to make a fresh nomination in the manner prescribed. Fresh nomination can be made only on the prescribed form available on request at the Company's Registered / Corporate Office or to the Company's Registrar and Transfer Agents.

16.2 **Only one nomination would be applicable for one folio.** Hence, in case the Equity Shareholder(s) has already registered the nomination with the Company, no further nomination needs to be made for Equity Shares to be allotted in this Issue under the same folio.

**In case the allotment of Equity Shares is in dematerialised form, there is no need to make a separate nomination for the Equity Shares to be allotted in this Issue. Nominations registered with respective DP of the applicant would prevail. If the applicant requires changing the nomination, they are requested to inform their respective DP.**

## 17. Offer to Non-Resident Equity Shareholders/Applicants

17.1 As on August 18, 2006 10,38,206 Equity Shares aggregating to 3.92% of the present issued capital are held by NRIs/FIIs/OCBs on repatriation basis. Applications received from NRIs and other NR shareholders for allotment of Equity Shares shall be, inter alia, subject to the conditions imposed from time to time by the RBI under the FEMA in the matter of refund of application moneys, allotment of Equity Shares, issue of Letter of Allotment / share certificates, payment of interest, dividends, etc. General permission has been granted to any person resident outside India to apply shares offered on rights basis by an Indian Company in terms of FEMA and the rules and regulations thereunder. Vide notification dated June 18, 2003, bearing number FEMA 94/2003, RBI has granted general permission to Indian companies to issue rights/bonus shares to existing non-resident shareholders. The existing non-resident shareholders may apply for issue of additional shares and the Company may allot the same subject to the condition that the overall issue of shares to non-residents in the total paid up capital does not exceed the sectoral cap. In other words, nonresidents may subscribe for additional shares over and above shares offered on rights basis by the Company and renounce the shares offered in full or part thereof in favour of a person named by them. Non-Residents may subscribe for additional shares over and above the shares offered on rights basis by the Company and also renounce the shares offered either in full or part thereof in favour of a person named by them. The Equity Shares issued under the Rights Issue and purchased by NR shall be subject to the same conditions including restrictions in regard to the repatriability as are applicable to the previously held Equity Shares against which Equity Shares under the Rights Issue are issued. However, as per the provisions of AP (DIR) circular No. 14 dated September 16, 2003 (issued by the RBI), such shareholders who have been allotted the Equity Shares as OCBs would not be permitted to participate in the Rights Issue. Accordingly, shareholders/ applicants who are OCBs and wishing to participate in the Rights Issue would be required to submit approvals in relation thereto from the FIPB and the RBI. The Board of Directors may at its absolute discretion, agree to such

terms and conditions as may be stipulated by RBI while approving the allotment of Equity Shares, payment of dividend etc. to the Equity Shareholders who are NR.

17.2 Abridged Letter of Offer and CAF shall be dispatched to non-resident Equity Shareholders in India only.

## **18. Procedure for Application**

The CAF would be mailed to all the shareholders. In case the original CAF is not received by the applicant or is misplaced by the applicant, the applicant may request the Registrars to the Issue for issue of a duplicate CAF, by furnishing the registered folio number, DP ID Number, Client ID Number and their full name and address. Non-resident shareholders can obtain a copy of the CAF from the Registrars to the Issue by furnishing the registered folio number, DP ID number, Client ID number and their full name and address.

## **19. Acceptance of the Issue**

You may accept the Issue and apply for the Equity Shares offered, either in full or in part by filling Part A of the enclosed CAF and submit the same along with the Application Money payable to the Bankers to the Issue at any of the branches as mentioned on the reverse of the CAF before the close of the banking hours on or before the Issue Closing Date or such extended time as may be specified by the Board thereof in this regard. Applicants at centers not covered by the branches of collecting banks can send their CAF together with the cheque drawn on a local bank at Mumbai or a demand draft payable at Mumbai, for an amount net of bank and postal charges, to the Registrar to the Issue (Intime Spectrum Registry Limited (Unit GRUH), C-13, Pannalal Silk Mills Compound, LBS Marg, Bhandup (W), Mumbai- 400078) by registered post. Such applications sent to anyone other than the Registrar to the Issue are liable to be rejected.

## **20. Options available to the Equity Shareholders**

20.1 The CAF clearly indicates the number of Equity Shares that the Equity Shareholder is entitled to.

20.2 If the Equity Shareholder applies for an investment in Equity Shares, then he can:

- Apply for his entitlement in part; or
- Apply for his entitlement in part and renounce the other part; or
- Apply for his entitlement in full; or
- Apply for his entitlement in full and apply for additional Equity Shares; or
- Renounce his entitlement in full to one or more than one person.

## **21. Additional Equity Shares**

21.1 You are eligible to apply for additional Equity Shares over and above the number of Equity Shares you are entitled to, provided that you have applied for all the Equity Shares offered without renouncing them in whole or in part in favor of any other person(s). If you desire to apply for additional Equity Shares, please indicate your requirement in the place provided for additional shares in Part A of the CAF. Applications for additional Equity Shares shall be considered and allotment shall be in the manner prescribed under the section entitled 'Basis of Allotment' on page 133 of this Letter of Offer. The renounees applying for all the Equity Shares renounced in their favor may also apply for additional Equity Shares.

21.2 In case of change of status of holders i.e. from Resident to Non-Resident, a new demat account shall be opened for the purpose.

21.3 Where the number of additional Equity Shares applied for exceeds the number available for allotment, the allotment would be made on a fair and equitable basis in consultation with the Designated Stock Exchange (BSE).

## 22. Renunciation

- 22.1 This Issue includes a right exercisable by you to renounce the Equity Shares offered to you either in full or in part in favour of any other person or persons subject to the approval of the Board. Such renounees can only be Indian Nationals (including minor through their natural/legal guardian)/limited companies incorporated under and governed by the Act, statutory corporations/institutions, trusts (registered under the Indian Trust Act), societies (registered under the Societies Registration Act, 1860 or any other applicable laws) provided that such trust/society is authorised under its constitution/bye laws to hold equity shares in a company and cannot be a partnership firm, foreign nationals or nominees of any of them (unless approved by RBI or other relevant authorities) or more than three persons including joint-holders HUF, any person situated or having jurisdiction where the offering in terms of this Letter of Offer could be illegal or require compliance with securities laws of such jurisdiction or any other persons not approved by the Board.
- 22.2 Any renunciation from Resident Indian Shareholder(s) to Non-Resident Indian(s) or from Non-Resident Indian Shareholder(s) to other Non-Resident Indian(s) or from Non-Resident Indian Shareholder(s) to Resident Indian(s) is subject to the renouncer(s)/renounee(s) obtaining the approval of the FIPB and/ or necessary permission of the RBI under the Foreign Exchange Management Act, 1999 (FEMA) and other applicable laws and such permissions should be attached to the CAF. **Applications not accompanied by the aforesaid approval are liable to be rejected.**
- 22.3 By virtue of the Circular No. 14 dated September 16, 2003 issued by the RBI, Overseas Corporate Bodies (“OCBs”) have been derecognized as an eligible class of investors and the RBI has subsequently issued the Foreign Exchange Management (Withdrawal of General Permission to Overseas Corporate Bodies (OCBs)) Regulations, 2003. Accordingly, the existing Equity Shareholders of the Company who do not wish to subscribe to the Equity Shares being offered but wish to renounce the same in favour of renounees shall not renounce the same (whether for consideration or otherwise) in favour of OCB(s).
- 22.4 Your attention is drawn to the fact that the Company shall not allot and/or register any Equity Shares in favor of:
- More than three persons including joint holders
  - Partnership firm(s)
  - Minors (unless guardian appointed)
  - Hindu Undivided Family
  - Any Trust or Society (unless the same is registered under the Societies Registration Act, 1860 or any other applicable Trust laws and is authorized under its Constitutions to hold Equity Shares of a Company)

**The right of renunciation is subject to the express condition that the Board/ Committee of Directors shall be entitled in its absolute discretion to reject the request for allotment to renounee(s) without assigning any reason thereof.**

- 22.5 Part A of the CAF must not be used by any person(s) other than those in whose favour this offer has been made. If used, this will render the application invalid. Submission of the enclosed CAF to the Banker to the Issue at its collecting branches specified on the reverse of the CAF with the form of renunciation (Part B of the CAF) duly filled in shall be conclusive evidence for the Company of the person(s) applying for Equity Shares in Part C to receive allotment of such Equity Shares. The renounees applying for all the Equity Shares renounced in their favour may also apply for additional Equity Shares. Part ‘A’ must not be used by the renounee(s) as this will render the application invalid. Renounee(s) will also have no further right to renounce any shares in favour of any other person. Renouncer will not be entitled to apply for additional Equity Shares.

## 23. Procedure for Renunciation

- (a) *To renounce the whole offer in favour of one renounee*

If you wish to renounce the offer indicated in Part A, in whole, please complete Part B of the CAF. In case of joint holding, all joint holders must sign Part B of the CAF. The person in whose favor renunciation has been made should complete and sign Part C of the CAF. In case of joint renounees, all joint renounees must sign this part of the CAF.

**(b) *To renounce in part/or renounce the whole to more than one person(s)***

If you wish to either accept this offer in part and renounce the balance or renounce the entire offer in favour of two or more renounees, the CAF must be first split into requisite number of forms.

Please indicate your requirement of split forms in the space provided for this purpose in Part D of the CAF and return the entire CAF to the Registrar to the Issue so as to reach them latest by the close of business hours on September 29, 2006. On receipt of the required number of split forms from the Registrar, the procedure as mentioned in paragraph above shall have to be followed.

In case the signature of the Equity Shareholder(s), who has renounced the Equity Shares, does not agree with the specimen registered with the Company, the application is liable to be rejected.

**(c) *Renounee(s)***

The person(s) in whose favour the Equity Shares are renounced should fill in and sign Part C of the Application Form and submit the entire Application Form to the Bankers to the Issue on or before the Issue Closing Date along with the application money.

**(d) *Change and or introduction of additional holders***

If you wish to apply for Equity Shares jointly with any other person(s), not more than three, who is/are not already a joint holder with you, it shall amount to renunciation and the procedure as stated above for renunciation shall have to be followed. Even a change in the sequence of the name of joint holders shall amount to renunciation and the procedure, as stated above shall have to be followed.

**24. *Splitting of Composite Application Forms***

Only the person to whom this Letter of Offer has been addressed to and not the renounee(s) shall be entitled to renounce and to apply for split application forms. Request for split forms should be sent to the Registrars to the Issue, namely Intime before the closure of business hours on or before September 29, 2006 by filling in Part D of the CAF along with entire CAF. Split Forms cannot be re-split. The renounee(s) shall not be entitled to split form(s). Split forms shall be sent to the applicant by post at the applicant's risk. Requests for Split forms should be made for Equity Shares in multiples of 1 only.

**25. *How to Apply***

**25.1 *Resident Equity Shareholders***

Applications should be made on the enclosed CAF provided by the Company. The enclosed CAF should be completed in all respects, as explained in the instructions indicated in the CAF. Applications will not be accepted by the Lead Managers or by the Registrar to the Issue or by the Company at any offices except in the case of postal applications as per instructions given elsewhere in the Letter of Offer.

The CAF consists of four parts:

Part A: Form for accepting the Equity Shares offered and for applying for additional Equity Shares

Part B: Form for renunciation

Part C: Form for application for renounees

Part D: Form for request for split application forms

**25.2 *Non-resident Equity Shareholders***

Applications received from the Non-Resident Equity Shareholders for the allotment of Equity Shares shall, *inter alia*, be subject to the conditions as may be imposed from time to time by the RBI, in the matter of refund of application moneys, allotment of Equity Shares, issue of letters of allotment/certificates/ payment of dividends etc. Abridged Letter of Offer and CAF shall be dispatched to non-resident Equity Shareholders in India only.

The summary of options available to the Equity Shareholder is presented below. You may exercise any of the following options with regard to the Equity Shares offered, using the enclosed CAF:

<b>Option</b>	<b>Option Available</b>	<b>Action Required</b>
A.	Accept whole of your entitlement without renouncing the balance.	Fill in and sign Part A of the CAF (All joint holders must sign) OR
B.	Accept your entitlement in full and apply for additional Equity Shares	Fill in and sign Part A including Block III relating to the acceptance of entitlement and Block IV relating to additional Equity Shares (All joint holders must sign) OR
C.	Accept only a part of your entitlement of the Equity Shares offered to you (without renouncing the balance)	Fill and sign Part A of the CAF (All joint holders must sign) OR
D.	Renounce your entitlement in full to one person (Joint renounees not exceeding three are considered as one renounee).	Fill in and sign Part B (all joint holders must sign) indicating the number of Equity Shares renounced and hand over the entire CAF to the renounee. The renounees must fill in and sign Part C of the CAF (All joint renounees must sign) OR
E.	Accept a part of your entitlement and renounce the balance to one or more renounee(s)	Fill in and sign Part D (all joint holders must sign) requesting for Split Application Forms. Send the CAF to the Registrar to the Issue so as to reach them on or before the last date for receiving requests for Split Forms. Splitting will be permitted only once.  On receipt of the Split Form take action as indicated below.  (i) For the Equity Shares you wish to accept, if any, fill in and sign Part A of one split CAF.  (ii) For the Equity Shares you wish to renounce, fill in and sign Part B indicating the number of Equity Shares renounced and hand over the split CAFs to the renounees.  (iii) Each of the renounees should fill in and sign Part C for the Equity Shares accepted by them. OR
F.	Renounce your entitlement to all the Equity Shares offered to you to more than one renounee.	Follow the procedure stated in (E) above for obtaining the required number of Split Application Forms and on receipt of Split Application Forms follow the procedure as stated in (E) (ii) and (iii) above OR
G.	Introduce a joint holder or change the sequence of joint holders	This will be treated as a renunciation. Fill in and sign Part B and the renounees must fill in and sign Part C.

Applications for Equity Share should be made only on the CAF, which are provided by the Company. The CAF should be completed in all respects as explained under the head "INSTRUCTIONS" indicated on the reverse of the CAF before submission to the Banker to the Issue at its collecting branches mentioned on the reverse of the CAF on or before the closure of the subscription list. Non Resident Shareholders/Renounee should forward their applications to Banker to the Issue as mentioned in the CAF for Non-Resident Equity Share-holders. No part of the CAF should be detached under any circumstances. Applicants must provide information in the CAF as to their savings / current / NRE / NRO

/ FCNR bank account and the name of the bank with whom such account is held to enable the Registrar to print the said details in the refund orders after the name of the payees.

25.3 *For applicants residing at places other than designated Bank collecting branches.*

- (i) Applicants residing at places other than the cities where the Bank collection centres have been opened should send their completed CAF by registered post/speed post to the Registrars to the Issue, Intime, along with bank drafts payable at Mumbai in favour of "GRUH - Rights Issue" crossed "A/c Payee only" so that the same are received on or before closure of the Issue (i.e. October 13, 2006).
- (ii) The Company will not be liable for any postal delays and applications received through mail after the closure of the Issue, are liable to be rejected and returned to the applicants. Applications by mail should not be sent in any other manner except as mentioned below.
- (iii) All application forms duly completed together with cash/ cheque/demand draft for the application money net of banking and postal charges must be submitted before the close of the subscription list to the Bankers to the Issue named herein or to any of its branches mentioned on the reverse of the CAF. The CAF along with application money must not be sent to the Company or the Lead Managers to the Issue or the Registrars to the Issue except as mentioned above.
- (iv) The applicants are requested to strictly adhere to these instructions. Failure to do so could result in the application being liable to be rejected with the Company, the Lead Managers and the Registrars not having any liabilities to such applicants.

25.4 *Availability of duplicate CAF*

In case the original CAF is not received, or is misplaced by the applicant, the Registrar to the Issue will issue a duplicate CAF on the request of the applicant who should furnish the registered folio number/ DP and Client ID number and his/ her full name and address to the Registrar to the Issue. Please note that those who are making the application in the duplicate form should not utilize the original CAF for any purpose including renunciation, even if it is received/ found subsequently. Thus in case the original and duplicate CAFs are lodged for subscription, allotment will be made on the basis of the duplicate CAF and the original CAF will be ignored.

25.5 *Application on Plain Paper*

- (i) An Equity Shareholder who has neither received the original CAF nor is in a position to obtain the duplicate CAF may make an application to subscribe to the Issue on plain paper, along with an Account Payee Cheque drawn on a local bank at Mumbai/ Demand Draft payable at Mumbai which should be drawn in favor of "GRUH - Rights Issue" in case of resident shareholders and non-resident shareholders applying on nonrepatriable basis and in favour of "GRUH - Rights Issue - NR" in case of non-resident shareholders applying on repatriable basis and marked "A/c Payee Only" and send the same by registered post directly to the Registrar to the Issue so as to reach them on or before the closure of the Issue. The envelope should be superscribed "GRUH - Rights Issue" in case of resident shareholders and non-resident shareholders applying on nonrepatriable basis and in favour of "GRUH - Rights Issue - NR" in case of non-resident shareholders applying on repatriable basis.
- (ii) The application on plain paper, duly signed by the applicants including joint holders, in the same order as per specimen recorded with the Company, must reach the office of the Registrar to the Issue before the Issue Closing Date and should contain the following particulars:
  - Name of Issuer, being GRUH Finance Limited.
  - Name and address of the Equity Shareholder including joint holders
  - Registered Folio Number/ DP ID No. and Client ID No.
  - Number of shares held as on Record Date

- Certificate numbers and distinctive numbers, if held in physical form.
  - Number of Rights Equity Shares entitled
  - Number of Rights Equity Shares applied for
  - Number of additional Equity Shares applied for, if any
  - Total number of Equity Shares applied for out of entitlement
  - Total amount paid on application at the rate of Rs. 75/- (application amount only) per Equity Share
  - Particulars of cheque/draft
  - Savings/Current Account Number and name and address of the bank where the Equity Shareholder will be depositing the refund order. In case of depository the bank account details shall be obtained from the information available with the depositories.
  - PAN/GIR number, Income Tax Circle/Ward/District, photocopy of the PAN card/ PAN communication / Form 60 / Form 61 declaration where the application is for Equity Shares of a total value of Rs. 50,000 or more for the applicant and for each applicant in case of joint names
  - Signature of Equity Shareholders to appear in the same sequence and order as they appear in the records of the Company.
  - In case of Non Resident Shareholders, NRE/ FCNR/ NRO A/c No. Name and Address of the Bank and Branch;
  - If payment is made by a draft purchased from NRE/ FCNR/ NRO A/c No., as the case may be, an Account debit certificate from the bank issuing the draft, confirming that the draft has been issued by debiting NRE/ FCNR/ NRO Account.
- (iii) Payments in such cases, should be through a cheque/ demand draft payable at Mumbai be drawn in favor of "GRUH - Rights Issue" in case of resident shareholders and non-resident shareholders applying on nonrepatriable basis and in favour of "GRUH - Rights Issue - NR" in case of non-resident shareholders applying on repatriable basis and marked "A/c Payee Only".
- (iv) Attention of the shareholders is drawn to the fact that those shareholders making the application otherwise than on the CAF (i.e. on a plain paper as stated above) shall not be entitled to renounce their rights and should not utilise the CAF for any purpose including renunciation even if it is received subsequently. In case the original and duplicate CAFs and application on the plain paper or any two of these applications are lodged or if any shareholder violates any of these requirements, the company will have the absolute right to reject any one or both of his/her/their application and refund the application money received. However, the Company is not liable to pay any interest whatsoever on money so refunded.

## **26. Last date of Application**

- 26.1 The last date for submission of the duly filled in CAF is October 13, 2006. The Board or any committee thereof will have the right to extend the said date for such period as it may determine from time to time but not exceeding 60 (sixty) days from the Issue Opening Date.
- 26.2 If the CAF together with the amount payable is not received by the Banker to the Issue/ Registrar to the Issue on or before the close of banking hours on the aforesaid last date or such date as may be extended by the Board/ Committee of Directors, the offer contained in this Letter of Offer shall be deemed to have been declined and the Board/ Committee of Directors shall be at liberty to dispose off the Equity Shares hereby offered, as provided under the section entitled "Basis of Allotment".

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**INVESTORS MAY PLEASE NOTE THAT THE EQUITY SHARES OF THE COMPANY CAN BE TRADED ON THE STOCK EXCHANGES ONLY IN DEMATERIALIZED FORM.**

**27. Mode of payment for Resident Equity Shareholders/ Applicants**

- (i) All cheques / drafts accompanying the CAF should be drawn in favour of "GRUH - Rights Issue" and marked 'A/c Payee only'.
- (ii) Applicants residing at places other than places where the bank collection centres have been opened by the Company for collecting applications, are requested to send their applications together with Demand Draft of amount net of bank and postal charges, for the full application amount favouring "GRUH - Rights Issue" and marked 'A/c Payee only' payable at Mumbai directly to the Registrar to the Issue by registered post so as to reach them on or before the Issue Closing Date. The Company or the Registrar to the Issue will not be responsible for postal delays or loss of applications in transit, if any.
- (iii) Applications will not be accepted by the Lead Manager or by the Company.

**28. Mode of payment for Non-Resident Equity Shareholders/ Applicants**

As regards the application by non-resident equity shareholders, the following further conditions shall apply:

Payment by non-residents must be made by demand draft / cheque payable at Mumbai or funds remitted from abroad in any of the following ways:

**29. Application with repatriation benefits**

29.1 Payment by NRIs/ FIIs/ foreign investors must be made by demand draft/cheque payable at Mumbai or funds remitted from abroad in any of the following ways:

- By Indian Rupee drafts purchased from abroad and payable at Mumbai or funds remitted from abroad (submitted along with Foreign Inward Remittance Certificate); or
- By cheque / draft on a Non-Resident External Account (NRE) or FCNR Account maintained in Mumbai; or
- By Rupee draft purchased by debit to NRE/ FCNR Account maintained elsewhere in India and payable in Mumbai; or
- FIIs registered with SEBI must remit funds from special non-resident rupee deposit account.
- All cheques/drafts submitted by non-residents applying on repatriable basis should be drawn in favour of "GRUH - Rights Issue - NR" payable at Mumbai and crossed 'A/c Payee only' for the amount payable.

29.2 A separate cheque or bank draft must accompany each application form. Applicants may note that where payment is made by drafts purchased from NRE/FCNR accounts as the case may be, an Account Debit Certificate from the bank issuing the draft confirming that the draft has been issued by debiting the NRE/FCNR account should be enclosed with the CAF. In the absence of the above the application shall be considered incomplete and is liable to be rejected.

29.3 In the case of NRIs who remit their application money from funds held in FCNR/NRE Accounts, refunds and other disbursements, if any shall be credited to such account details of which should be furnished in the appropriate columns in the CAF. In the case of NRIs who remit their application money through Indian Rupee Drafts from abroad, refunds and other disbursements, if any will be made in US Dollars at the rate of exchange prevailing at such time subject to the permission of RBI. The Company will not be liable for any loss on account of exchange rate fluctuation for converting the Rupee amount into US Dollars or for collection charges charged by the applicant's Bankers.





option to apply for additional shares will be given preferentially 1 share if he applies for additional shares as per the Basis of Allotment mentioned on page 133 of this Letter of Offer.

The Equity Shares needed for such shares will be first adjusted from the unsubscribed portion of the Issue, if any and should there be further requirement, from the Promoter group's entitlement at the time of allotment.

- (c) Allotment to the Equity Shareholders who having applied for all the Equity Shares offered to them as part of the Issue and have also applied for additional Equity Shares. The allotment of such additional Equity Shares will be made as far as possible on an equitable basis having due regard to the number of Equity Shares held by them on the Record Date, provided there is an under-subscribed portion after making full allotment in (a) and (b) above. The allotment of such Equity Shares will be at the sole discretion of the Board/Committee of Directors in consultation with the Designated Stock Exchange.
- (d) Allotment to the renounees who having applied for the Equity Shares renounced in their favour have also applied for additional Equity Shares, provided there is an under-subscribed portion after making full allotment in (a), (b) and (c) above. The allotment of such additional Equity Shares will be made on a proportionate basis at the sole discretion of the Board/ Committee of Directors but in consultation with the Designated Stock Exchange.
- (e) Equity Shares remaining unsubscribed after making full allotments under (a), (b), (c) and (d) above, shall be disposed of by the Board in manner as it in its sole discretion deems fit and the decision of the Board in this regard shall be final and binding.

32.2 If the Company does not receive the minimum subscription of 90% of the issue, the entire subscription shall be refunded to the applicants within forty two days from the date of closure of the issue. If there is delay in the refund of subscription by more than 8 days after the company becomes liable to pay the subscription amount (i.e. forty two days after closure of the issue), the company will pay interest for the delayed period, at rates prescribed under sub-Sections (2) and (2A) of Section 73 of the Companies Act, 1956.

32.3 The issue will become undersubscribed after considering the number of shares applied as per the entitlement plus additional shares. The undersubscribed portion can be applied for only after the close of the Issue. The Promoter and the promoter group have undertaken to subscribe to the undersubscribed portion of the issue to ensure that the Issue is 100% subscribed. This acquisition of additional Equity Shares due to undersubscription, if allotted to the Promoter shall be in terms of proviso to regulation 3(1)(b)(ii) of the Takeover Code and will be exempt from the applicability of regulation 11 and 12 of Takeover Code. This disclosure is made in terms of the requirement of Regulation 3(1)(b)(ii) of the Takeover Code. Further this acquisition of additional Equity Shares will not result in change of control of management of the Company.

32.4 To the equity shareholders who have applied for their full rights entitlement of equity shares, have applied for additional equity shares, provided there is a surplus after making the allotment under (a), (b), (c), (d) & (e) above. The allotment of such additional equity shares shall be made as far as possible on equitable basis with reference to the number of equity shares held on Record Date September 2, 2006, within the overall size of Rights Issue at the sole and absolute discretion of the Board of Directors or Committee thereof in consultation with the Designated Stock Exchange.

32.5 Allotment to Promoters of any unsubscribed portion, over and above their entitlement shall be done in compliance with Clause 40A of the Listing Agreement and the other applicable laws prevailing at that time.

32.6 The Basis of Allotment shall be approved by the Bombay Stock Exchange Limited or BSE, which is the Designated Stock Exchange for the issue.

32.7 The Company undertakes to complete the allotment within a period of 30 days from the date of closure of the Issue in accordance with the listing agreement with the Bombay Stock Exchange Limited and National Stock Exchange.

32.8 The Company shall retain no oversubscription.

### 33. Underwriting

The present Issue is not underwritten.

### 34. Disposal of Application and Application money

- 34.1 The Board reserves the right to reject applications in case the application concerned is not made in terms of this Letter of Offer. In case an application is rejected in full the whole of the application money received will be refunded to the first named applicant and where an application is rejected in part, the excess application money will be refunded to the first named applicant within 6 weeks from the date of closure of the subscription list in accordance with Section 73 of the Act. If there is delay of refund of application money by more than 8 days after the Company becomes liable to pay (i.e. forty-two days after the closure of Issue), the Company will pay interest for the delayed period at the rate prescribed under sub-Section (2) and (2A) of Section 73 of the Act.
- 34.2 The subscription monies received in respect of this Issue will be kept in a separate bank account and the Company will not have access to nor appropriate the funds until it has satisfied the Stock Exchange with suitable documentary evidence that minimum subscription of 90% of the application money for the Issue has been received.
- 34.3 No acknowledgment will be issued for the application monies received by the Company. However, the Bankers to the Issue at its collection branches to the Issue receiving the CAF as applicable as per the terms of this Letter of Offer, will acknowledge its receipt by stamping and returning the acknowledgment slip at the bottom of each CAF. Except for the reasons stated under “**Grounds for Technical Rejections**” on page 139 of this Letter of Offer and subject to valid application, acknowledgement of receipt of application money given by the collection agent shall be valid and binding on issuer and other persons connected with the Issue.

### 35. Letters of allotment or refund orders

- 35.1 Equity Share certificates/Letters of Allotment or Letter(s) of Regret together with refund orders exceeding Rs 1,500/-, if any, will be dispatched by registered post/speed post at the sole/first named applicant’s address within 30 days from the date of the closing of the Issue.
- 35.2 Mode of payment of refund would be made as mentioned in section Terms of the Issue clause 13 on page 124 of this Letter of Offer.
- 35.3 Company shall ensure despatch of refund orders, if any, by under the Certificate of Posting or registered post or speed post or through modes as mentioned in section Terms of the Issue clause 13 on page 124 of this Letter of Offer, as applicable, only at the sole or First Applicant’s sole risk within 30 days of closure of the Rights Issue, and adequate funds for making refunds to unsuccessful applicants as per the mode(s) disclosed shall be made available to the Registrar to the Issue by the issuer.

In case of those shareholders who have opted to receive their Right Entitlement Shares in dematerialised form by electronic credit under the depository system, an advice regarding the credit of the Equity Shares shall be given separately.

Refunds will be made by cheques or pay orders drawn on the Collection Bank(s) and payable at par at the places where applications are accepted. Bank charges, if any, for encashing such cheques or pay orders will be borne by the Applicants.

Allotment of Equity Shares to non-residents and the issue of letters of allotment/share certificates to non-residents shall be subject to the approval received from RBI, as mentioned on page 120 of this Letter of Offer.

For Non-Resident Applicants, refunds, if any, will be made as under:

- Where applications are accompanied by Indian Rupee Drafts purchased abroad and payable at Mumbai, India, refunds will be made in convertible foreign exchange equivalent to Indian Rupees to be refunded. Indian Rupees will be converted into foreign exchange at the rate of

exchange, which is prevailing on the date of refund. The exchange rate risk on such refunds shall be borne by the concerned applicant and the Company shall not bear any part of the risk.

- Where the applications made are accompanied by NRE/FCNR/NRO cheques, refunds will be credited to NRE/FCNR/NRO accounts respectively, on which such cheques are drawn and details of which are provided in the CAF.

### **36 Letters of Allotment / Share Certificates / Demat Credit**

Letter(s) of allotment/ share certificates/ demat credit or letters of regret along with refund order will be dispatched to the registered address of the first named applicant or respective beneficiary accounts will be credited within 6 (six) weeks, from the date of closure of the subscription list. In case the Company issues letters of allotment, the relative share certificates will be dispatched within three months from the date of allotment. Allottees are requested to preserve such letters of allotment (if any) to be exchanged later for share certificates. Export of letters of allotment (if any)/ share certificates/ demat credit to non-resident allottees will be subject to the approval of RBI.

37. In accordance with the requirements of the Stock Exchange and SEBI Guidelines, the Company undertakes that:

#### **37.1 Interest in case of delay in dispatch of Allotment Letters/ Refund Orders in case of Rights Issues**

The Company will issue and dispatch letters of allotment/ share certificates and/ or letters of regret along with refund order or credit the allotted securities to the respective beneficiary accounts, if any within a period of six weeks from the date of closure of the Issue. If such money is not repaid within 8 days from the day the Company becomes liable to pay it, the Company shall pay that money with interest at the rate of 15% per annum as stipulated under Section 73 of the Act.

### **38. Option to receive Equity Shares in Dematerialized Form**

38.1 Applicants to the Equity Shares of the Company issued through this Issue shall be allotted the securities in dematerialised (electronic) form at the option of the applicant. The Company signed agreements dated July 14, 2000 and December 19, 2001 with NSDL and CDSL respectively, which enables the Investors to hold and trade in securities in a dematerialised form, instead of holding the securities in the form of physical certificates.

38.2 In this Issue, the allottees who have opted for Equity Shares in dematerialised form will receive their Equity Shares in the form of an electronic credit to their beneficiary account with a depository participant. The CAF shall contain space for indicating number of shares applied for in demat and physical form or both. Investor will have to give the relevant particulars for this purpose in the appropriate place in the CAF. Applications, which do not accurately contain this information, will be given the securities in physical form. No separate applications for securities in physical and/or dematerialized form should be made. If such applications are made, the application for physical securities will be treated as multiple applications and is liable to be rejected. In case of partial allotment, allotment will be done in demat option for the shares sought in demat and balance, if any, will be allotted in physical shares.

38.3 The Equity Shares of the Company will be listed on the BSE, NSE and ASE.

38.4 Procedure for availing the facility for allotment of Equity Shares in this Issue in the electronic form is as under:

- Open a beneficiary account with any depository participant (care should be taken that the beneficiary account should carry the name of the holder in the same manner as is exhibited in the records of the Company. In the case of joint holding, the beneficiary account should be opened carrying the names of the holders in the same order as with the Company). In case of Investors having various folios in the Company with different joint holders, the Investors will have to open separate accounts for such holdings. Those Equity Shareholders who have already opened such Beneficiary Account (s) need not adhere to this step.

- For Equity Shareholders already holding Equity Shares of the Company in dematerialized form as on the Record Date, the beneficial account number shall be printed on the CAF. For those who open accounts later or those who change their accounts and wish to receive their Equity Shares pursuant to this Issue by way of credit to such account, the necessary details of their beneficiary account should be filled in the space provided in the CAF. It may be noted that the allotment of Equity Shares arising out of this Issue may be made in dematerialized form even if the original Equity Shares of the Company are not dematerialized. Nonetheless, it should be ensured that the Depository Account is in the name(s) of the Equity Shareholders and the names are in the same order as in the records of the Company.

38.5 Responsibility for correctness of information (including applicant's age and other details) filled in the CAF vis-à-vis such information with the applicant's depository participant, would rest with the applicant. Applicants should ensure that the names of the applicants and the order in which they appear in CAF should be the same as registered with the applicant's depository participant.

38.6 If incomplete / incorrect beneficiary account details are given in the CAF the applicant will get Equity Shares in physical form.

38.7 The Equity Shares pursuant to this Issue allotted to investors opting for dematerialized form would be directly credited to the beneficiary account as given in the CAF after verification. Allotment advice, refund order (if any) would be sent directly to the applicant by the Registrar to the Issue but the applicant's depository participant will provide to him the confirmation of the credit of such Equity Shares to the applicant's depository account.

38.8 Renouncees will also have to provide the necessary details about their beneficiary account for allotment of securities in this Issue. In case these details are incomplete or incorrect, the application is liable to be rejected.

### **39. Minimum Subscription**

39.1 If the Company does not receive the minimum subscription of 90% of the issue, on the date of closure of the issue, the entire subscription shall be refunded to the applicants within 42 days from the date of closure of the Issue. If there is a delay in the refund of subscription by more than 8 days after the Company becomes liable to pay the subscription amount (i.e. 42 days after closure of the issue), the Company shall pay interest for the delayed period, at rates prescribed under sub-Sections (2) and (2A) of Section 73 of the Companies Act 1956.

The issue will become undersubscribed after considering the number of shares applied as per the entitlement plus additional shares. The undersubscribed portion can be applied for only after the close of the Issue. The Promoter and the promoter group have undertaken to subscribe to the unsubscribed portion to ensure that the Issue is 100% subscribed. This acquisition of additional Equity Shares, if allotted to the Promoter shall be in terms of proviso to regulation 3(1)(b)(ii) of the Takeover Code and will be exempt from the applicability of regulation 11 and 12 of Takeover Code. This disclosure is made in terms of the requirement of Regulation 3(1)(b)(ii) of the Takeover Code. Further this acquisition will not result in change of control of management of the Company.

39.2 In case the permission to deal in and for an official quotation of the Equity Shares is not granted by the Stock Exchanges, the Issuer shall forthwith repay without interest, all monies received from the applicants in pursuance of this Letter of Offer within 42 days after closure of the issue, and if such money is not repaid within 8 days after the day from which the Issuer is liable to repay it, the Issuer shall pay interest as prescribed under Section 73 (2) / 73 (2A) of the Companies Act 1956.

### **40. General instructions for applicants**

- (a) Please read the instructions printed on the enclosed CAF carefully.
- (b) Application should be made on the printed CAF, provided by the Company except as mentioned under the head Application on Plain Paper and should be completed in all respects. The CAF found incomplete with regard to any of the particulars required to be given therein, and/ or which are not completed in conformity with the terms of this Letter of Offer are liable to be rejected and the

money paid, if any, in respect thereof will be refunded without interest and after deduction of bank commission and other charges, if any. The CAF must be filled in English and the names of all the applicants, details of occupation, address, father's / husband's name must be filled in block letters.

- (c) The CAF together with cheque / demand draft should be sent to the Bankers to the Issue / Collecting Bank or to the Registrar to the Issue and not to the Company or Lead Managers to the Issue. Applicants residing at places other than cities where the branches of the Bankers to the Issue have been authorised by the Company for collecting applications, will have to make payment by Demand Draft payable at Mumbai of amount net of bank and postal charges, and send their application forms to the Registrar to the Issue by Registered Post / Speed Post. If any portion of the CAF is / are detached or separated, such application is liable to be rejected.
- (d) PAN/ GIR Number: Applications for a total value of Rs. 50,000 or more, i.e. where the total number of securities applied for multiplied by the Issue price, is Rs. 50,000 or more the applicant or in the case of application in joint names, each of the applicants, should mention his/ her PAN number allotted under the Income-Tax Act, 1961 and also submit a photocopy of the PAN card(s) or a communication from the Income Tax authority indicating allotment of PAN ("PAN Communication") along with the application for the purpose of verification of the number. Applicants who do not have PAN are required to provide a declaration in Form 60 / Form 61 prescribed under the I.T.Act along with the application. **Application Forms without this photocopy/ PAN Communication/ declaration will be considered incomplete and are liable to be rejected.**
- (e) Bank Account Details: It is mandatory for applicants to provide information as to their savings/current account number and the name of the Company with whom such account is held in the CAF to enable the Registrar to the Issue to print the said details in the refund orders, if any, after the names of the payees. Application not containing such details is liable to be rejected. **Shareholders may please note that for shares held in DEMAT mode, the bank account details shall be obtained from the depositories. Shareholders may ensure that the bank account details are updated with the depositories.**
- (f) Payment by cash: The payment against the application should not be effected in cash if the amount to be paid is Rs. 20,000 or more. In case payment is effected in contravention of this, the application may be deemed invalid and the application money will be refunded and no interest will be paid thereon. Payment against the application if made in cash, subject to conditions as mentioned above, should be made only to the Bankers to the Issue.
- (g) Signatures should be either in English or Hindi or in any other language specified in the Eight Schedule to the Constitution of India. Signatures other than in English or Hindi and thumb impression must be attested by a Notary Public or a Special Executive Magistrate under his/ her official seal. The Equity Shareholders must sign the CAF as per the specimen signature recorded with the Company or depositories.
- (h) In case of an application under power of attorney or by a body corporate or by a society, a certified true copy of the relevant power of attorney or relevant resolution or authority to the signatory to make the relevant investment under this Issue and to sign the application and a copy of the Memorandum and Articles of Association and / or bye laws of such body corporate or society must be lodged with the Registrar to the Issue giving reference of the serial number of the CAF. In case the above referred documents are already registered with the Company, the same need not be a furnished again. In case these papers are sent to any other entity besides the Registrar to the Issue or are sent after the Issue Closing Date, then the application is liable to be rejected. In no case should these papers be attached to the application submitted to the Bankers to the Issue.
- (i) In case of joint holders, all joint holders must sign the relevant part of the CAF in the same order and as per the specimen signature(s) recorded with the Company. Further, in case of joint applicants who are renounees, the number of applicants should not exceed three. In case of joint applicants, reference, if any, will be made in the first applicant's name and all communication will be addressed to the first applicant.
- (j) Application(s) received from Non-Resident / NRIs, or persons of Indian origin residing abroad for allotment of Equity Shares shall, inter alia, be subject to conditions, as may be imposed from time

to time by the RBI under FEMA in the matter of refund of application money, allotment of Equity Shares, subsequent issue and allotment of Equity Shares, interest, export of share certificates, etc. In case a Non-Resident or NRI Equity Shareholder has specific approval from the RBI, in connection with his shareholding, he should enclose a copy of such approval with the CAF.

- (k) All communication in connection with application for the Equity Shares, including any change in address of the Equity Shareholders should be addressed to the Registrar to the Issue prior to the date of allotment in this Issue quoting the name of the first / sole applicant Equity Shareholder, folio numbers and CAF number. Please note that any intimation for change of address of Equity Shareholders, after the date of allotment, should be sent to Registrar to the Company; MCS Limited, in the case of Equity Shares held in physical form and to the respective depository participant, in case of Equity Shares held in dematerialized form.
- (l) Split forms cannot be re-split.
- (m) Only the person or persons to whom Equity Shares have been offered and not renounee(s) shall be entitled to obtain split forms.
- (n) Applicants must write their CAF number at the back of the cheque / demand draft.
- (o) Only one mode of payment per application should be used. The payment must be either in cash or by cheque / demand draft drawn on any of the banks, including a co-operative bank, which is situated at and is a member or a sub member of the Bankers Clearing House located at the centre indicated on the reverse of the CAF where the application is to be submitted.
- (p) A separate cheque / draft must accompany each CAF. Outstation cheques / demand drafts or post-dated cheques and postal / money orders will not be accepted and applications accompanied by such cheques / demand drafts / money orders or postal orders will be rejected. The Registrar will not accept payment against application if made in cash. (For payment against application in cash please refer point (f) above)
- (q) No receipt will be issued for application money received. The Bankers to the Issue / Collecting Bank/ Registrar will acknowledge receipt of the same by stamping and returning the acknowledgment slip at the bottom of the CAF.

#### **41. Grounds for Technical Rejections**

Applicants are advised to note that applications are liable to be rejected on technical grounds, including the following:

- Amount paid does not tally with the amount payable for;
- In case of physical shareholders, bank account details (for refund) are not given;
- Age of first applicant not given in case of renounee(s);
- PAN photocopy/ Communication/ Form 60 / Form 61 declaration not given if Application is for Rs. 50,000 or more;
- In case of Application under power of attorney or by limited companies, corporate, trust, etc., relevant documents are not submitted;
- If the signature of the existing shareholder does not match with the one given on the Application Form and for renounees if the signature does not match with the records available with their depositories;
- If the Applicant desires to have shares in electronic form, but the CAF does not have the Applicant's depository account details;

- CAFs are not submitted by the Applicants within the time prescribed as per the CAF and the Letter of Offer;
- Applications not duly signed by the sole/joint Applicants;
- Applications by OCBs unless accompanied by specific approval from the RBI permitting the OCBs to invest in the Issue;
- Applications accompanied by Stockinvest;
- In case no corresponding record is available with the Depositories that matches three parameters, namely, names of the Applicants (including the order of names of joint holders), the Depository Participant's identity (DP ID) and the beneficiary's identity;
- Applications by ineligible Non-residents (including on account of restriction or prohibition under applicable local laws) and where last available address in India has not been provided;
- Multiple applications.

#### **42. Utilisation of Issue Proceeds**

The Board of Directors declares that:

- (i) The funds received against this Issue will be transferred to a separate bank account other than the bank account referred to sub-Section (3) of Section 73 of the Companies Act, 1956.
- (ii) Details of all moneys utilised out of the Issue shall be disclosed under an appropriate separate head in the balance sheet of the Company indicating the purpose for which such moneys has been utilised.
- (iii) Details of all such unutilised moneys out of the Issue, if any, shall be disclosed under an appropriate separate head in the balance sheet of the Company indicating the form in which such unutilised moneys have been invested.

The funds received against this Issue will be kept in a separate bank account and the Company will not have any access to such funds unless it satisfies the Designated Stock Exchange with suitable documentary evidence that the minimum subscription of 90% of the Issue has been received by the Company.

#### **43. Undertakings by the Company**

The Company undertakes that:

1. The complaints received in respect of the Issue shall be attended to by the Company expeditiously and satisfactorily.
2. All steps for completion of the necessary formalities for listing and commencement of trading at all Stock Exchanges where the securities are to be listed will be taken within seven working days of finalization of basis of allotment.
3. The funds required for dispatch of refund orders/ refund instructions/ allotment letters/ certificates by registered post shall be made available to the Registrar to the Issue.
4. Where refunds are made through electronic transfer of funds, a suitable communication shall be sent to the applicant within 42 days after the closure of the Issue giving details of the bank where refunds shall be credited along with amount and expected date of electronic credit or refund.
5. The certificates of the securities/refund orders to the non resident Indians shall be dispatched within specified time.





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## MAIN PROVISIONS OF THE ARTICLES OF ASSOCIATION OF GRUH FINANCE LIMITED

### 1. Share Capital and Variation of Rights

#### 1.1 *Allotment of Shares*

Article 7 of the AoA provides that subject to and in accordance with Section 81 of the Act and the Articles, the shares of the company shall be under the control of the Directors who may issue, allot or otherwise dispose off the same or any of them on such terms and conditions and at such times and either at a premium or at par or (subject to the provisions of Section 79 of the Act) at a discount as the Board may deem fit and with the sanction of the Company in General Meeting to give to any person or persons the option or right to call for any shares either at premium or at par during such time and for such consideration as the Directors think fit, and may issue and allot shares in the capital of the company on payment in full or part of any property sold and transferred or for any services rendered to the company in the conduct of its business and any shares which may so be allotted may be issued as fully paid up shares and if so issued, shall be deemed to be fully paid shares. Provided that option of right to call of shares shall not be given to any person or persons without the sanction of the company in the General Meeting.

#### 1.2 *Different classes of shares*

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, subject to the provisions of Sections 106 and 107 of the Act, and whether or not the company is being wound up, be varied with the consent by way of a special resolution passed at a separate meeting of the holders of the shares of that class.

#### 1.3 *Variation of rights*

Article 67 of the AoA provides that rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

#### 1.4 *Holding of shares upon trust*

Article 14 of the AoA provides that except as required by law, no person shall be recognized by the company as holding any share upon any trust, and the company shall not be bound by, or be compelled in any way to recognize (even when having notice) any equitable, contingent, future or partial interest in any share, or any interest in any fractional part of a share, or (except only as by these Articles or by law otherwise provided) any other rights in respect of share except an absolute right to the entirety thereof in the registered holder.

### 2. Underwriting and Brokerage

Article 9 of the AoA provides that the Company may subject to the provisions of Section 76 and other applicable provisions (if any) of the Act at any time pay a commission to any person in consideration of his subscribing or agreeing to subscribe, for any shares or debentures of the Company.

### 3. Lien

#### 3.1 *First lien*

Article 40 of the AoA provides that the company shall have a first and paramount lien on every share (not being a fully-paid share), for all moneys (whatever presently payable or not) called, or payable at a fixed time, but not paid in respect of that share and the lien shall extend to all dividends payable on that share. Additionally, unless otherwise agreed, the registration of a transfer of shares shall operate as a waiver of the company's lien if any, on such shares.



### 5.3 *Suspension of registration*

Article 52 of the AoA states that subject to the provisions of Section 154 of the Act and the applicable clauses of the Listing Agreements of the Stock Exchanges on which the Company's shares maybe listed, the registration of transfers may be suspended at such times and for such periods as the Board may from time to time determine.

## **6. Transmission of Shares**

### 6.1 *Recognition of title to shares*

Article 53 of the AoA provides that on the death of a member, the survivor/s where the member was a joint holder, and his legal representatives where he was a sole holder, shall be the only persons recognized by the company as having any title to his interest in the shares.

### 6.2 *Notice for registration*

Article 55 provides that if the person who becomes entitled to the a share in consequence of the death or insolvency of a member, shall elect to be registered as holder of the share himself, he shall deliver or send to the company a notice in writing signed by him stating that he so elects.

### 6.3 *Entitlement to dividends and other advantages*

Article 56 of the AoA provides that a person becoming entitled to a share by reason of the death or insolvency of the holder shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share.

## **7. Forfeiture of shares**

### 7.1 *Notice for payment of call*

Article 23 of the AoA provides that if a member fails to pay any call or installment of a call, on the day appointed for the payment thereof, the Board may, at any time thereafter during such time as any part of the call or installment remains unpaid, serve a notice on him requiring payment of so much of the call or installment as is unpaid, together with any interest which may have accrued.

### 7.2 *Resolution of forfeiture*

Article 32 of the AoA states that if the requirements of any such notice are not complied with, any share in respect of which the notice has been given may, at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect.

### 7.3 *Transfer of forfeited share*

Articles 38 and 39 of the AoA state that a duly verified declaration in writing that the declarant is a Director, the manager or the secretary of the company, and that a share in the company has been duly forfeited on a date stated in the declaration, shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share. The company may receive the consideration, if any, given for the share on any sale or disposal thereof and may execute a transfer of the share in favour of the person to whom the share is sold or disposed of. The transferee shall thereupon be registered as the holder of the share and shall not be bound to see to the application of the purchase money, if any, nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the share.

### 7.4 *Non-payment of any sum*

Article 45 of the AoA provides that the provisions of the Articles relating to forfeiture shall apply in the case of non-payment of any sum which by the terms of issue of a share, becomes payable at a fixed time, whether on account of the nominal value of the share or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

## **8. Alteration of Capital**

### *8.1 Increase of share capital*

- (a) Article 62 and 63 of the AoA provides that the Company may, from time to time, by resolution passed in the General Meeting increase the share capital by such sum and with such terms and conditions as may be specified in the resolution.
- (b) Article 66 of the AoA provides that the company may by ordinary resolution consolidate and divide all or any of its share capital into shares of larger amount than its existing shares; sub-divide its existing shares or any of them into shares of smaller amount than is fixed by the memorandum, subject, nevertheless, to the provisions of clause (d) of Section (1) of Section 94 of the Act; cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person.
- (c) Article 65 of the AoA states that the company may, by special resolution, reduce in any manner and with, and subject to, any incident authorized and consent required, by law its share capital.

## **9. Issue of Debentures, etc.**

- 9.1 Article 72 of the AoA provides that any debentures, debenture-stock or other securities may be issued at a discount, premium or otherwise and may be issued on condition that they shall be convertible into shares of any denomination and with any privileges and conditions as to redemption, surrender, drawing, allotment of shares, attending (but not voting) at the General Meeting, appointment of Directors or otherwise. Debentures with the right to conversion into or allotment of shares shall be issued only with the consent of the company in the General Meeting.

## **10. General Meetings**

### *10.1 Power of Board*

Article 80 of the AoA states that the Board may, whenever it thinks fit, call an extraordinary general meeting. If at any time there are not within India directors capable of acting who are sufficient in number to form a quorum, any director or any two members of the company may call an extraordinary general meeting, in the same manner as nearly as possible, as that in which such a meeting may be called by the Board.

## **11. Proceedings at General Meetings**

### *11.1 Quorum necessary for business*

Article 90 of the AoA provides that no business shall be transacted at any general meeting unless a quorum of members is present at the time when the meeting proceeds to business and that five members present in person, shall be a quorum.

### *11.2 Chairman*

Article 91 provides that the Chairman, if any, of the Board shall preside as chairman at every general meeting of the company. If there is no such Chairman, or if he is not present within fifteen minutes after the time appointed for holding the meeting, or is unwilling to act as chairman of the meeting, the directors present shall elect one of their number to be chairman of the meeting. It provides further that if no director is willing to act as chairman or if no director is present within fifteen minutes after the time appointed for holding the meeting, the members present shall choose one of their number to be chairman of the meeting.

### *11.3 Power to adjourn meeting*

Article 99 of the AoA states that the Chairman may, with the consent of any meeting at which a quorum is present, and shall, if so directed by the meeting, adjourn the meeting from time to time and from place

to place. It is further provided that no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

#### 11.4 *Poll*

Article 100 of the AoA provides that any business other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll.

### **12. Votes of Members**

#### 12.1 *Instrument appointing proxy*

- (a) Article 114 of the AoA states that the instrument appointing a proxy and the power of attorney or other authority, if any under which it is signed or a notrially certified copy of that power or authority, shall be deposited at the registered office of the company not less than 48 hours before the time for holding meeting at which the person named in the instrument proposes to vote and in default of the instrument of proxy shall not be treated as valid.
- (b) Article 115 provides that a vote given in accordance with the terms of an instrument of proxy shall be valid, notwithstanding the previous death or insanity of the principal or the revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that no intimation in writing of such death, insanity, revocation or transfer shall have been received by the company at its office before the commencement of the meeting or adjourned meeting at which the proxy is used.

### **13. Board of Directors**

#### 13.1 *Number of Directors*

Article 120 of the AoA provides that the number of directors shall not be less than three and not more than fifteen.

#### 13.2 *Other payments to directors*

Article 126 (b) of the AoA provides that in addition to the remuneration payable to them in pursuance of the Act, the directors may be paid all traveling, hotel and other expenses properly incurred by them in attending and returning from meetings of the Board of directors or committee thereof or general meetings of the company or in connection with the business of the company.

#### 13.3 *Qualification shares*

Article 125 of the AoA states that the directors shall not be required to hold any qualification shares in the company.

#### 13.4 *Preliminary expenses*

Article 158(1) of the AoA states that the Board may pay all expenses incurred in getting up and registering the company.

#### 13.5 *Negotiable instruments*

Article 158 (15) of the AoA provides that all cheques, promissory notes, drafts, hundis, bills of exchange and other negotiable instruments, and all receipts for moneys paid to the company, shall be signed, drawn, accepted, endorsed or otherwise executed, as the case may be, by such person and in such manner as the board shall from time to time by resolution determine.

#### 13.6 *Additional Directors*

Article 121 of the AoA provides that the Board shall have power at any time, and from time to time, to appoint a person as an additional director, provided the number of the directors and additional directors together shall not at any time exceed the maximum strength fixed for the Board by the articles. Such

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person shall hold office only up to the date of the next annual general meeting of the company but shall be eligible for appointment by the company as a director at that meeting subject to the provisions of the Act.

#### **14. Proceedings of Board**

##### *14.1 Voting at a Board meeting*

Article 144 of the AoA states that save as otherwise expressly provided in the Act, questions arising at any meeting of the Board shall be decided by a majority of votes and in case of an equality of votes, the chairman of the Board, if any, shall have a second or casting vote.

##### *14.2 Election of Chairman*

Article 145 of the AoA provides that the Board may elect a Chairman of its meetings and determine the period for which he is to hold office and if no such Chairman is elected, or if at any meeting the Chairman is not present at the time appointed for holding the meeting, the directors present may choose one of their number to be Chairman of the meeting.

##### *14.3 Committees of Directors*

Article 147 of the AoA provides that the Board may, subject to the provisions of the Act, delegate any of its powers to committees consisting of such member or members of its body as it thinks fit and any committee so formed shall, in the exercise of the powers so delegated, conform to any Articles that may be imposed on it by the Boards.

##### *14.4 Acts of Committees*

Article 149 of the AoA states that all acts done by any meeting of the Board or of a committee thereof or by any person acting as a director, shall, notwithstanding that it may be afterwards discovered that there was some defect in the appointment of any one or more of such directors or of any person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such director or such person had been duly appointed and was qualified to be a director.

#### **15. The Seal**

Article 164 of the AoA states that the Board shall provide for the safe custody of the seal and that every instrument to which the Seal shall be affixed, shall be signed by atleast two Directors and countersigned by the secretary or such other person as may be authorized by the board..

#### **16. Dividends and Reserve**

##### *16.1 Declaration of Dividend*

Article 169 of the AoA states that the company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Board.

##### *16.2 Interim Dividend*

Article 173 of the AoA further provides that the Board may from time to time pay to the members such interim dividends as appear to it to be justified by the profits of the company.

##### *16.3 Payment of dividends*

Article 172 of the AoA provides that all dividends shall be apportioned and paid proportionately to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid; but if any share is issued on terms providing that it shall rank for dividend as from a particular date, such share shall rank for dividend accordingly.

#### 16.4 *Board's power*

Article 178 of the AoA provides that the Board may deduct from any dividend payable to any member all sums of money, if any, presently payable by him to the company on account of calls or otherwise in relation to the shares of the company.

#### 16.5 *Payment by post*

Article 180 of the AoA provides that any dividend, interest or other moneys payable in cash in respect of shares may be paid by cheque or warrant sent through the post directed to the registered address of the holder or, in the case of joint holders, to the registered address of one of the joint holders who is first named on the register of members, or to such person and to such address as the holder or joint holders may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent.

#### 16.6 *Receipts from joint holders*

Any one of two or more joint holders of a share may give effectual receipts for any dividend, bonuses or other moneys payable in respect of such share.

### 17. **Accounts**

Article 187 of the AoA states that the Board shall from time to time determine whether and to what extent and at what times and places and under what conditions the accounts and books of the company shall be open to the inspection of members not being directors. No member (not being a director) shall have any right of inspecting any account or book or document of the company except as conferred by law or authorized by the Board or by the company in general meeting.

### 18. **Capitalisation of Profits**

18.1. Article 183 of the AoA provides that the company in general meeting may, upon the recommendation of the Board, resolve that it is desirable to capitalise any part of the amount for the time being standing to the credit of any of the company's reserve accounts or to the credit of the profit and loss account or otherwise available for distribution, and that such sum be accordingly set free for distribution in the manner specified amongst the members who would have been entitled thereto, if distributed by way of dividend and in the same proportions. The sum aforesaid shall not be paid in cash but shall be applied, either in or towards paying up any amounts for the time being unpaid on any shares held by such members respectively; paying up in full, unissued shares of the company to be allotted and distributed, credited as fully paid up, to and amongst such members in the proportions aforesaid; It is further provided that a share premium account and capital redemption reserve account may, for the purposes of this regulation, only be applied in the paying up of unissued shares to be issued to members of the company as fully paid bonus shares.

18.2. Article 183 (d) of the AoA then provides that the Board shall have full power to make such provision by the issue of fractional certificates or by payment in cash or otherwise as it thinks fit, for the case of shares or debentures becoming distributable in fraction; and also to authorize any person to enter, on behalf of all the members entitled thereto, into an agreement with the company providing for the allotment to them respectively, credited as fully paid up, of any further shares to which they may be entitled upon such capitalisation, or (as the case may require) for the payment up by the company on their behalf, by the application thereto of their respective proportions of the profits resolved to be capitalized, of the amounts or any part of the amounts remaining unpaid on their existing shares. Any agreement made under such authority shall be effective and binding on all such members.

### 19. **Winding up**

Articles 207, 208 and 209 of the AoA provides that in case of winding up of the company, the liquidator may, with the sanction of a special resolution of the company and any other sanction required by the Act, divide amongst the members in specie or kind the whole or any part of the assets of the company, whether they shall consist of property of the same kind or not. For this purpose, the liquidator may set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. He may also, with like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the liquidator, with the like sanction shall think fit, but so that no member shall be compelled to accept any shares or other securities whereon there is any liability.



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## MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

The following contracts (not being contracts entered into in the ordinary course of business carried on by the Company or entered into more than two years before the date of this Letter of Offer) which are or may be deemed material have been entered or are to be entered into by the Company. These contracts and also the documents for inspection referred to hereunder, may be inspected at the Registered Office of the Company situated at "GRUH " Netaji Marg, Near Mithakali Six Roads, Ellisbridge, Ahmedabad – 380006 , India from 10.00 AM] to 12.00 Noon from the date of the Letter of Offer until the date of closure of the Rights Issue.

### A. Material Contracts

1. MOU dated June 8, 2006 between Company & Lead Managers
2. MOU dated June 7, 2006 with Registrar to the Issue
3. The company has entered into loan arrangements with UTI Bank dated March 4,2006 and March 29,2006, IDBI Bank dated December 12,2003, State Bank of Patiala dated December 8,2005, Bank of Nova Scotia dated December 8,2005, ABN Amro Bank dated November 28,2005, Union Bank of India dated November 11, 2005, State Bank of Saurashtra dated September 15, 2003 and October 5, 2005, (“Lenders”) All the loans are taken for the purpose of business of the Company. All the loan agreements are subject to negative lien on company assets except for the assets specifically charged in favour of Non Convertible Debenture and National Housing Bank. The agreements provide that the company shall inform the lenders about any change in the capital structure.

### B. Documents

1. Certificate of Incorporation of the Company dated July 21, 1986.
2. Memorandum and Articles of the Company.
3. Certificate on change of name to GRUH FINANCE LIMITED dated August 21, 1995.
4. Shareholders Resolution passed at the Annual General Meeting held on June 14, 2005 and July 7, 2006 appointing Sorab S. Engineer & Co., Chartered Accountants, as statutory auditors for the financial year 2005-2006 and 2006-07 respectively.
5. Copy of the Board Resolution dated April 21, 2006 approving this Issue.
6. Consents of the Directors, Auditors, Lead Managers to the Issue, Legal Counsel to the Issue, Bankers to the Issue and Bankers to the Company, Registrars to the Issue and Registrars to the Company, to include their names in the Letter of Offer to act in their respective capacities.
7. Appointment of Company Secretary as Compliance Officer and consent thereto.
8. Letter dated May 25, 2006 from the Auditors of the Company confirming Tax Benefits as mentioned in this Letter of Offer.
9. The Report of the Auditors, Sorab S. Engineer & Co., Chartered Accountants as set out herein dated May 25, 2006 in relation to the restated financials of the Company for the last five financial years.
10. Annual Reports of the Company for the last five Financial Years.
11. Application made for In-principle listing approval dated June 9, 2006, to the BSE, NSE and ASE.
12. In-principle listing approval for the current Rights Issue dated July 11, 2006, July 19, 2006 and July 19, 2006 from BSE, NSE and ASE respectively.
13. Letter No. CFD/DIL/ISSUES/SC/74385/2006 dated August 16, 2006 issued by SEBI for the Issue.
14. Due Diligence certificate dated June 9, 2006.
- 15 Tripartite agreement with NSDL & CDSL dated July 14, 2000 and December 19, 2001 respectively.
16. Copy of resolution appointing the Managing Director of the Company.
17. Copy of the contract appointing the Managing Director of the Company dated July 26, 2005

## DECLARATION

No statements made in this Letter of Offer shall contravene any of the provisions of the Companies Act, 1956 and the rules made thereunder. All the legal requirements connected with the said issue as also the guidelines, instructions etc. issued by SEBI, Government and any other Competent Authority in this behalf have been duly complied with.

Yours faithfully,

For **GRUH FINANCE LIMITED**

Signed by Directors, Chief Executive Officer and Chief Financial Officer

Mr. Keki M. Mistry, Chairman

Sd/-

Mr. S. M. Palia, Director

Sd/-

Mr. Rohit C. Mehta, Director

Sd/-

Mr. Praful Anubhai, Director

Sd/-

Ms. Renu S. Karnad, Director

Sd/-

Mr. K. G. Krishnamurthy, Director

Sd/-

Mr. R. K. Pandey, Director

Sd/-

Mr. Sudhin Choksey, Managing Director & CEO

Sd/-

Mr. Marcus Lobo, Company Secretary

Sd/-

Mr. Jayesh Jain, CFO

Sd/-

Place : Ahmedabad

Dated : September 1, 2006