10 things you must know about the company

1 Shrachi Infrastructure Finance Limited is among top 10 commercial vehicle finance companies in India.

2 Shrachi finances the acquisition of commercial vehicles (heavy, light and multi-utility), two-wheelers, passenger cars and construction equipment.

3 Shrachi finances intending and existing entrepreneurs with a preference for small fleet operators and first-time users.

4 Shrachi enjoys a pan-Indian presence; its 81 branches/service centres are located in semi-urban and rural India (B and C class towns).

5 Shrachi finances commercial vehicles and construction equipment on behalf of its alliance partners Citicorp and HDFC Bank.

6 Shrachi employs 762 people (as on 31.03.2006).

7 Shrachi is a publicly held company with shares listed on the Mumbai and Kolkata stock exchanges and a market capitalisation of Rs. 37.50 cr. (as on 31.03.2006).

8 Shrachi has been promoted and managed by the Kolkata-based Todis, flagship of their Rs. 1000 cr. industrial conglomerate.

9 Shrachi complies with all RBI guidelines, has never defaulted on loans or interest obligations and enjoyed a credit rating of MA (as on 31 March 2006) for fixed deposits.

10 Shrachi is a consistently growing company; it clocked disbursements of Rs. 702.25 cr. in 2005-06, 30 per cent over 2004-05; a total income of Rs. 32.04 cr., 26.23 per cent over 2004-05 and a net profit of Rs. 5.91 cr. during the year under review, 9.49 per cent over 2004-05.

Shrachi and we outperformed industry growth in 2005-06

Shrachi's performance in 2005-06 must be viewed against the background of its sector, country and world. In a business that became progressively challenging as the year wore on, the company performed creditably.

GDP growth: The GDP growth of a nation directly influences the offtake of commercial vehicles and the performance of the company. As per the advance estimates of the Central Statistical Organisation (CSO), India posted a robust GDP growth of 8.3 per cent in 2005-06.

Infrastructure index: The Infrastructure Index is increasingly relevant in a country passing through an infrastructure boom and in view of the company's proposed extension to the funding of infrastructure products. India's Infrastructure Index grew 4.9 per cent in 2005-06.

Index of Industrial Production: IIP registered a growth of 8.0 per cent during FY06, marginally lower than 8.4 per cent in the previous year. While the manufacturing sector led the growth on a sectoral basis, capital goods and consumer goods categories recorded 15.5 per cent and 11.6 per cent growth rates respectively on a use-based classification.

Inflation: During 2005-06, the Wholesale Price Index of the country grew by 4.5 per cent compared to a growth of 6.5 per cent in the previous fiscal (source: CMIE).

Interest rates and liquidity: Fiscal 2005-06 commenced with favourable interest rates and a comfortable liquidity position. However, increased credit demand, funds outflow on account of redemption of the IMD scheme bonds by SBI and a reduction in deposit growth resulted in a tightening of this liquidity and firming up of interest rates. Consequently, corporate loans were re-priced by around 200 bps.

Freight: Freight rates in India's road transport sector rose 24 per cent y-o-y growth (as per the Freight Rate Index). The increase in freight rates was led by a surge in construction activity, infrastructure and industrial growth. The implementation of the ban on overloading announced by the Supreme Court also contributed to the increase during the third and fourth quarters of the fiscal. A part of the increase was cost-pushed as the Diesel Price Index increased 17.5 per cent y-o-y during the year under review.

National Highway Development Project (NHDP): Phase III of NHDP envisages four-laning of about 10,000 km of existing National Highways (other than NHDP Phase – I&II) and is proposed to be undertaken on a BOT basis. NHDP Phase-III will provide connectivity to important points not covered under NHDP Phase-I & II including the connectivity of state capitals with NHDP Phase-I & II, high-density corridors as well as places of tourist and economic importance. Nearly 36 per cent of the targeted 18,328 km of national road development had been completed as on 31st March 2006 following the commencement of the Phase III of NHDP.

Railways: The Indian railways posed stiff competition to the country's road transport sector through aggressive pricing and improved efficiency. The rail freight corridor proposed to be built along the Golden Quadrilateral is expected to compete directly with the road transport sector for freight movement in the country. During the year under review, the freight earnings of the Indian railways increased 17.5 per cent and freight volumes increased 10.7 per cent y-o-y during the period.

> Freight rates in India's road transport sector rose 24 per cent y-o-y growth (as per the Freight Rate Index).

Outlook

As per the Reserve Bank of India, the projected GDP growth for the fiscal 2006-07 was retained at 7.5-8.0 per cent.

Growth in industrial and services sectors is expected to drive the economic growth. However, increase in global oil prices, interest rates and inflation could dampen GDP growth recorded in the last two fiscals. It is expected that while the pressure on liquidity will ease in the short term, interest rates will firm up following pressures on liquidity, hike in US Fed rates and secondary pass through of an increase in global oil prices. In view of this, the company is cautiously optimistic of its prospects during the current financial year.

The Indian commercial vehicles industry – a synopsis

Size and growth: Rs. 24000 cr. market. ~80 per cent of the CVs are purchased on credit and there is an estimated replacement market of 1 mn vehicles (CVs older than 10 years).

Growth drivers: Low financing rates (down to 10 per cent from 16 per cent in three years and as low as 7 per cent for new vehicles to large operators), easy finance availability, increasing replacement demand due to a quicker retirement of old vehicles (Euro II norms).

Concern areas: Increase in fuel costs (indirect correlation), increase in finance rates and freight rates.

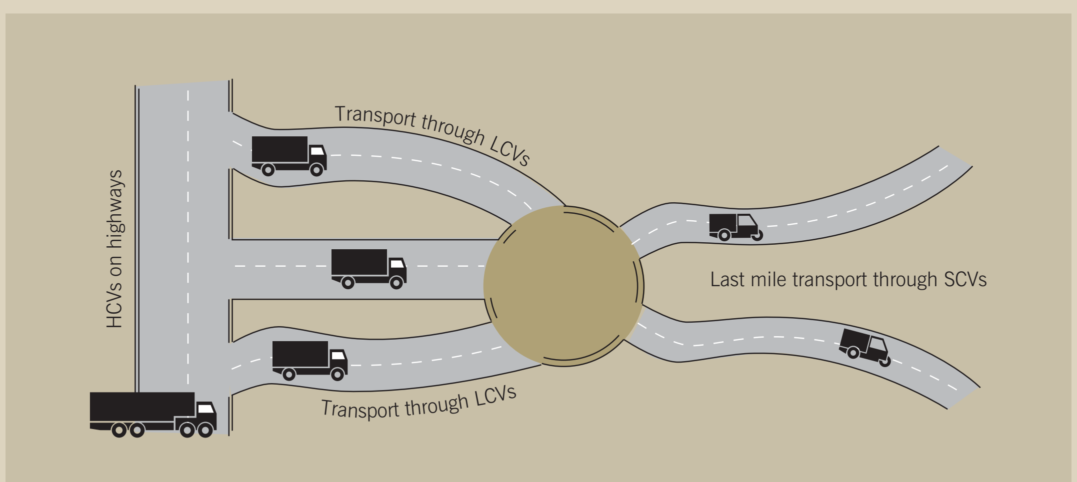
Market share: Traditionally dominated by NBFCs, but increasing competition from commercial banks. Increasing trend of manufacturing companies launching their own finance companies. (Diagram below)

Heavy commercial vehicles and medium commercial vehicles are usually used to transport goods on national and state highways (inter-state and inter-city logistics) while in some places, they are also used in intra-city logistics. However, with recent restrictions by the city municipalities - banning the entry of heavy and medium commercial vehicles into cities during the day hours - the demand for light commercial vehicles (LCVs) and small commercial vehicles (SCVs) is increasing.

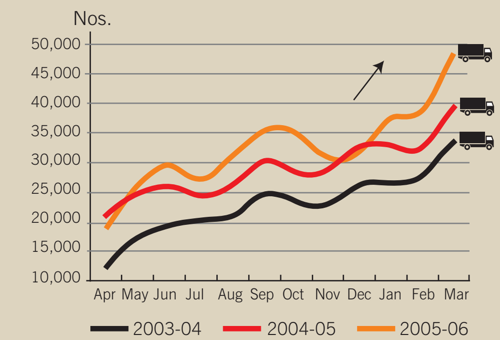
Commercial vehicles, 2005-06

	2005-06	2004-05
Production	391078	353703
Domestic sales	350683	318430

Source: Society of Indian Automobile Manufacturers



Commercial vehicles monthly sales trend



Source: CRIS INFAC

After reporting a negative growth in the first quarter, the Indian commercial vehicles industry ended 2005-06 on a positive note. Commercial vehicle domestic sales increased 12.2 per cent in 2005-06. LCV sales grew 25 per cent, mainly on account of an increased offtake of the 'less than 3.5 tonne' category.

The offtake of commercial vehicles was affected by the Mumbai floods in July 2005. The M&HCV segment was the worst affected as sales growth dropped to 3.7 per cent from a high of 28.6 per cent (sales of 1.97 lac units in 2005 as against 1.9 lac units in 2004). Goods carrier growth declined to 3 per cent from 33.3 per cent in 2004.

There was a significant rebound in March 2006, when commercial vehicle sales increased 22.2 per cent over March 2005. While sales of M&HCVs (medium and heavy commercial vehicles) grew 10.4 per cent, LCVs increased 43.7 per cent in March 2006.

Growth drivers

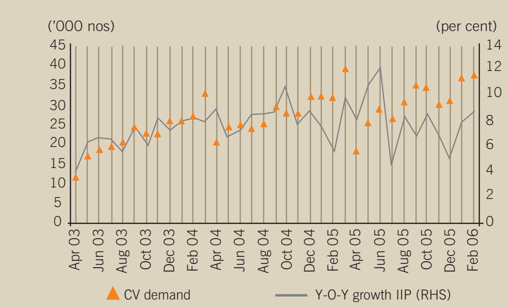
- The Supreme Court ban on overloading commercial vehicles strengthened the demand for medium and heavy commercial vehicles.
- With an estimated 39 per cent of CVs plying on the roads being 10 years old, replacement demand increased.

Age	no. of trucks
0-3 yrs old	535685
4-6 yrs old	619670
7-10 yrs	784260
Beyond 10 yrs	1007930
	2947545

- Higher crop output, industrial growth and a broadly favourable interest rate environment helped.
- Government spending on infrastructure in roads and airports and a higher GDP growth could benefit the auto sector in general.

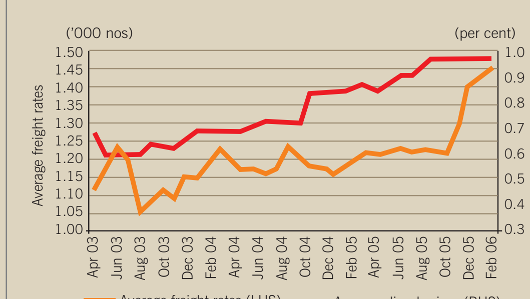
While the industry is cyclical in nature, we expect this factor to weaken in the medium term arising out of structural changes in the industry.

CV demand and y-o-y growth in IIP



Source: CRIS INFAC

Trend in freight and diesel prices



Source: CRIS INFAC

As per industry estimates, increase in freight cost more than covered an increase in diesel prices, enhancing profitability for truck owners.

Outlook

Our outlook is positive for the following reasons:

- A 36 per cent growth in the CV industry (medium and heavy) in 2002-05.
- The CV segment accounts for more than 60 per cent of the total freight in India; it is a Rs. 240 bn market with 80 per cent of the purchases on credit.
- There is an active replacement market of more than one million vehicles comprising CVs older than 10 years.
- India's infrastructure and automobile industries are strongly positive based on an infrastructure thrust by the Government in the Union Budget 2005-06 and capacity expansions by all major auto companies.
- Construction of the S-E-W-N corridor and the commissioning of the Golden Quadrilateral will provide more and better roads, shrinking delivery turnaround and providing a rationale for the increased offtake of commercial vehicles.

Shrachi in 2005-06

The company's performance during the year under review can be summarised as follows:

- Total disbursement increased 30 per cent from Rs. 540.35 cr. in 2004-05 to Rs. 702.25 cr. in 2005-06.
- Total assets increased 45.09 per cent from Rs. 130.86 cr. in 2004-05 to Rs. 189.86 cr. in 2005-06.
- Total income increased 26.23 per cent from Rs. 25.39 cr. in 2004-05 to Rs. 32.04 cr. in 2005-06.
- Net profit increased 9.49 per cent from Rs. 5.40 cr. in 2004-05 to Rs. 5.91 cr. in 2005-06.
- Own disbursements increased by 79.60 per cent from 49 cr. in 2004-05 to Rs.88 cr. in 2005-06.
- Average cost of debt on loans availed during the year declined 43 basis points from 9.50 per cent in 2004-05 to 9.07 per cent in 2005-06.
- Capital adequacy ratio continued to be around 15 per cent compared with 12 per cent required as per RBI norms.
- NPA accounted for 1.44 per cent of total assets in 2005-06 as against 1.53 per cent in 2004-05.
- The company financed 6450 trucks (LCVs, MCVs and HCVs) in 2005-06 as against 7100 trucks in 2004-05, mainly on account of higher number of cases financed for construction equipment during the year under review.

Interest spread analysis

(Rs. cr.)

Particulars	2003-04	2004-05	2005-06
Average interest bearing assets (1)	78.09	100.46	127.86
Interest income (2)	16.68	23.73	30.62
Average interest bearing liabilities	59.95	79.26	118.80
Total interest expense (3)	6.40	7.99	8.89
Ratio of total interest earning asset to average interest bearing liabilities (%)	130.27	126.75	107.63
Interest expenses apportioned to interest-earning assets (4)	8.34	10.12	9.57
Net interest income (5)	8.34	13.61	21.05
Net interest margin (%) (6)	10.68	10.08	7.49
Gross yield (%) (7)	21.36	23.62	23.95
Average cost of borrowing (%) (8)	10.68	10.08	7.49
Yield spread (%) (9)	10.69	13.54	16.46

(1) Average interest-earning assets, net block of leased assets and stock on hire purchase as on March, 2006.

(2) Interest income consists of income from interest-earning assets as defined above.

(4) Interest expense apportioned to interest-earning assets is calculated by multiplying the total interest expense by the ratio of average interest-earning assets to average interest-bearing liabilities.

(5) Net interest income consists of interest income for the period minus interest expense, apportioned to interest-earning assets for the period.

(6) Net interest margin equals interest income divided by average interest-earning assets. This method of computation conforms to the method used to compute the yield spread given in this table.

(7) Gross yield equals interest income divided by average interest-earning assets.

(8) Average cost of loan funds is the total interest expense (including interest tax) divided by average interest-bearing liabilities.

(9) Yield spread represents the difference between gross yield and average cost of loan funds.

The yield spread enjoyed by the company increased by 292 basis points in 2005-06 due to the reduced cost of borrowing.

Acceleration

Ratio: 30 per cent increase in disbursements, 2005-06

Q&A session

What made the performance creditable?

We were pleased with our performance – we continued to be among the top ten commercial vehicles financing companies in India even when it wasn't an easy year for our industry. For instance, the commercial vehicles industry grew 22 per cent in 2004-05. While we expected robust growth in 2005-06 as well, the reality is that offtake slowed to 10 per cent.

So during the second half of the financial year under review, there was an imbalance between a high growth in willing financiers at one end and a relative slowdown in the number of people who wished to avail of it. In the face of such challenges, Shrachi reported a topline growth of 30 per cent.

How did the company outperform the industry growth in this challenging environment?

Through a resolve that if a market didn't exist, we would have to create one, that if intending customers were turning hesitant, we would have to give them the confidence to turn entrepreneurial and that if the new entrants looked a little lost in the circumstances, we would have to hand hold them with regard to profitable routes and business opportunities.

The result was that rather than reconcile ourselves to the slowdown – however temporary – we continued to mobilise lower cost funds, expand our branch network, rationalise sub-optimal branches, recruit additionally, extend to the financing of used vehicles and tie up with a leading automobile manufacturer to collect receivables on its behalf.

In the circumstance, was there any underperformance?

I must confess that we had targeted a total disbursement of Rs. 1000 cr. for 2005-06, but ended up with a disbursement of Rs. 702.25 cr. This 'underperformance' was the result of a high liquidity that prompted a number of financing companies to finance commercial vehicles irrespective of whether they could be profitably deployed or not. So even as the economy continued to do well, there was a temporary oversupply – and hence a stagger in fresh offtake - of commercial vehicles that affected profitable deployment. In turn, this affected offtake and related financing.

Let me state that it was at this point that our character was tested: we did not compromise our stringent credit appraisal with the objective to maximise loans and achieve our target; we did not yield to the temptation of discount financing whereby we would attract customers with the prospect of financing the vehicles at an inflated price and pass on the discount to the acquirer as a kickback.

Mr. Ravi Todi, *Managing Director*

Shrachi and how we converted footfalls into business

At Shrachi, we recognise that it is never the cold financial proposition that transforms an enquiry into a transaction; it is the warmth of the executive, the office and the company as a whole that encourages a customer to consider entering into a long-relationship.

Over the years, the company's warmth has manifested in Shrachi acting as a friend, philosopher and guide for thousands of first-time entrepreneurs. This focus on the intangible continued to work in the company's favour in 2005-06: Shrachi added 21093 customers in 2005-06, which was 15.03 per cent higher than in the previous year.

Advisor

- Shrachi's is a guiding presence: it hand holds prospective customers on which vehicle to acquire based on the budget and deployment intention.
- By the virtue of its location, the company empowers thousands of youth in semi-urban and rural India to assume control of their destinies and get into business.

Financer

- Shrachi moves with speed: customer applications for loans elicit a response on the day of submission.
- The company's executives facilitate a smooth handover of vehicles to customers.
- The company assists customers in filing claims with insurance agencies in the event of an accident.
- The company minimises customer inconvenience by factoring the cost of insurance into installments.

Friend

- Shrachi adjusts: when certain credible but cash-crunched customers are unable meet their installment obligations, the company makes adjustments to facilitate repayments.
- The company provides customers the option to select their funding plan (directly through Shrachi or indirectly through Citicorp and HDFC Bank).

Over the years, the company's warmth has manifested in Shrachi acting as a friend, philosopher and guide for thousands of first-time entrepreneurs.

Customisation

Ratio: 13 per cent increase in average disbursements per case financed, 2005-06

Q&A session

In an industry, which is mainly driven by interest rates, what role does customer service play?

It would be simplistic to believe that an interest rate is the sole driver of our business. On the contrary, Shrachi has succeeded simply because it has consistently proved that the 'softer' side of the business can be as potent a driver as the 'harder' side. Over the years, we have helped a number of our customers – unable to read or write – muster the confidence to get into business, we have helped them comprehensively with their speedy documentation, we have worked closely with manufacturers to get them a vehicle quicker, we have advised them on profitable routes they can ply on and we have kept them informed of the new emerging industry opportunities. The result is that Shrachi has acquired the reputation of being a trucker's friend, something which has helped a satisfied customer get his friend and acquaintance needing financing to us as the company of first reference.

What makes Shrachi special in the area of service?

Eventually all service narrows down to just one word – customisation. Can we look at an individual's case and treat it the way it needs to be treated as opposed to applying sample solution to all cases that come to us?

Over the years, these are the factors that have made us special in our business:

- Ability to provide customised solutions to first-time users and small fleet owners, a community that is generally off the radar of large banks and financial institutions.
- Ability to personalise our lending plans to suit the lender's income pattern and repayability without comprising the quality of the loan.
- Ability to provide a superior price-value to the customer.

Mr. Sanjeev Agarwal, *Director - Operations*

Shrachi and how we structured a credible balance sheet

At Shrachi, we recognise that strength in the consumer financing business lies less in the lines printed in the balance sheet than in what analysts can read between them.

In view of this, the company has invested its financial reporting with a conservatism that insists that every number must be believable and that cash on the books must correspond to cash in the kitty.

Over the years, the company protected the credibility of its financial reporting through the following initiatives:

- Complete compliance with RBI norms
- Financing strong assets
- Minimising NPAs

Complete compliance with RBI norms

Shrachi, in the capacity of being an NBFC set up under Companies Act, 1956, is required to comply with the stringent norms and regulations stipulated by the Reserve Bank of India.

Fixed deposits

Even as NBFCs are permitted to mobilise public deposits (more expensive than other forms of debt) to the extent of four times of their net-owned funds, Shrachi's exposure was 0.46 times in 2005-06, indicating prudence.

Fixed deposits declined 9 per cent from Rs. 16.06 cr. in 2004-05 to Rs. 14.61 cr. in 2005-06, signalling the company's lower reliance on public fund sources, ensuring secure growth.

Capital adequacy ratio

Capital adequacy ratio measures a bank's capital as a percentage of its risk weighted credit exposure, an index of its stability. This capital is defined in two ways:

- Tier one capital (ordinary share capital) which can absorb losses without a bank being required to cease trading.
- Tier two capital (subordinated debt) which can absorb losses in the event of a winding-up and so provides a lower degree of protection to depositors.

As per RBI requirements, every NBFC is required to maintain a capital adequacy ratio of 12 per cent; as a matter of prudence, Shrachi maintains a level of 15.11 per cent. The company's capital adequacy indicates the buffer that the company has within its system to survive downturns and capitalise on industry upsides; it indicates a prudent balance between stretching the balance sheet on the one hand and playing it complete safe on the other.

Debt-equity ratio

Even as RBI guidelines have capped the debt-equity ratio for NBFCs at 5.0, Shrachi reported a debt-equity ratio of 4.62 in 2005-06, indicating adequate room for an increase should circumstances warrant.

Non-performing assets

RBI guidelines require non-performing assets to be recognised as soon as the default exceeds 12 months. The company complied with this requirement.

Reliable

Ratio: 15.11 per cent capital adequacy ratio, 2005-06 (RBI requirement a minimum 12 per cent)

Q&A session

How important is a credible balance sheet to the company's business?

In fact, it would be fair to say that we are less in the business of financing and more in the business of enhancing a sense of trust. As a result, it is not only important to be credible, it is equally important to be visibly so. This must reflect in the conservatism of our balance sheet and our complete compliance with the ongoing requirements of the RBI.

In turn, this helps existing and prospective lenders provide with an adequate quantity of loans at a relatively lower cost, driving our business forward. As a result, credibility in our financial structure and reporting is not only the right thing to do, but business-enhancing as well.

You mention conservatism in the same breath as growth. Can they be reconciled?

Absolutely. Before the last year began, we had targeted total disbursements of Rs. 1000 cr, but took a conscious call midway that we would not be able to achieve this without compromising the quality of our balance sheet. So we consciously slowed the pace of the business and reported disbursements of Rs. 702.25 cr., which in our minds was a fair trade-off between speed and safety.

Mr. Sanjay Kr. Mundra, *Finance Controller Cum Company Secretary*

Shrachi and how we disburse safe loans

Maintaining strong asset quality

At Shrachi, we are continuously tempted to make bigger but weaker loans that may enhance our revenue in the short term but could subsequently translate into non performing assets. As an organisation, we are proud to state that we have consistently resisted this temptation.

At the company, we have secured the quality of our portfolio through the following priorities:

- Financing first-time users and small fleet owners; since their very livelihood depends on the financed asset, there is a greater commitment to pay on time.
- Significant presence in India's rural and semi-urban areas, where the need to protect one's peer and societal reputation through timely repayment is paramount. Besides, the company has chosen to operate in a segment, which is a low priority sector for banks and large finance companies.
- Part-financing the asset by the customer, ensuring that the borrower also suffers in the event of repossession.
- Presence across the product value chain ensures that the company not only finances new vehicles but can also finance used and repossessed vehicles when required; this helps turn even a default into an income opportunity.
- An institutionalised process of customer creditworthiness that comprises a blend of formal processes, native intelligence and technology; an IT-driven pre-fixed and screen-based credit appraisal system with defined deviation, collection and recovery procedures with identified tolerance levels customised for each product.
- An interconnection via ERP, ensuring a wider information sharing on defaulting customers to prevent fresh loans from being disbursed to them.
- Partnerships with local companies, enabling the company to acquire local knowledge on the reputation and liquidity of prospective customers.

As a result of the robust credit appraisal systems and processes, the company's standard assets increased from Rs.128.85 cr. in 2004-05 to Rs. 187.13 cr. in 2005-06. The proportion of substandard assets classified during the year declined from 0.44 per cent in 2004-05 to 0.13 per cent of the total loan assets in 2005-06 even as total loan assets increased 45.08 per cent from Rs. 130.86 cr. in 2004-05 to Rs. 189.86 cr. in 2005-06.

Particular	2002-03	2003-04	2004-05	2005-06
Number of Non Performing cases	127	175	197	341
Gross Principal Outstanding of Non performing loans (Rs.cr.)	3.00	3.16	2.00	2.75
Provisions	1.57	1.64	0.84	0.90
Net principal outstanding of Non performing loans (Rs. cr.)	1.43	1.52	1.16	1.85
Total Loan Assets (Rs. cr.)	83.32	113.32	130.86	189.86
Percentage of net non-performing loans to total loan assets (%)	3.60	2.79	1.53	1.45

Classification of Gross NPA by segment

(Rs. cr.)

	2002-03		2003-04		2004-05		2005-06	
Particular	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Trucks	0.72	45.86	0.68	41.46	0.15	17.86	0.23	25.56
Bus	0.20	12.74	0.11	6.71	0.02	2.38	0.03	3.33
Jeeps	0.15	9.55	0.26	15.85	0.12	14.29	0.04	4.44
Cars	0.11	7.01	0.15	9.15	0.03	3.57	0.03	3.33
Three Wheeler	0.01	0.64	0.00	0.00	0.02	2.38	0.03	3.33
Two Wheeler	0.01	0.64	0.05	3.05	0.04	4.76	0.08	8.89
Others	0.37	23.57	0.39	23.78	0.46	54.76	0.46	51.11
Total	1.57	100.00	1.64	100.00	0.84	100.00	0.90	100.00

Ageing analysis of NPAs

(Rs. cr.)

	2002-03		2003-04		2004-05		2005-06	
Particular	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Up to 1 year	0.00	0.00	0.12	3.80	0.16	8.00	0.00	0.00
1 Year to 2 year	1.44	48.00	0.92	29.11	0.91	45.50	2.14	77.82
2 Year to 3 year	0.45	15.00	1.08	34.18	0.54	27.00	0.03	1.09
Above 3 year	1.11	37.00	1.04	32.91	0.39	19.50	0.58	21.09
Total Gross Loans	3.00	100.00	3.16	100.00	2.00	100.00	2.75	100.00

The table shows that most of the company's NPAs transpired within the first three years, an industry trend.

Classification of assets

(Rs. cr.)

	2002-03		2003-04		2004-05		2005-06	
Particular	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Loss	1.00	1.20	0.57	0.50	0.38	0.29	0.36	0.19
Doubtful	0.55	0.66	1.54	1.36	0.58	0.44	0.25	0.13
Sub Standard	1.45	1.74	1.05	0.93	1.04	0.79	2.13	1.12
Standard	80.32	96.40	110.16	97.21	128.86	98.47	187.12	98.56
Total Loan Assets	83.32	100.00	113.32	100.00	130.86	100.00	189.86	100.00

Safe

Ratio: 1.44 per cent non performing assets, 2005-06 (previous year 1.5 per cent)

Q&A session

Isn't the company's rapid expansion exposing it to a greater liquidity risk?

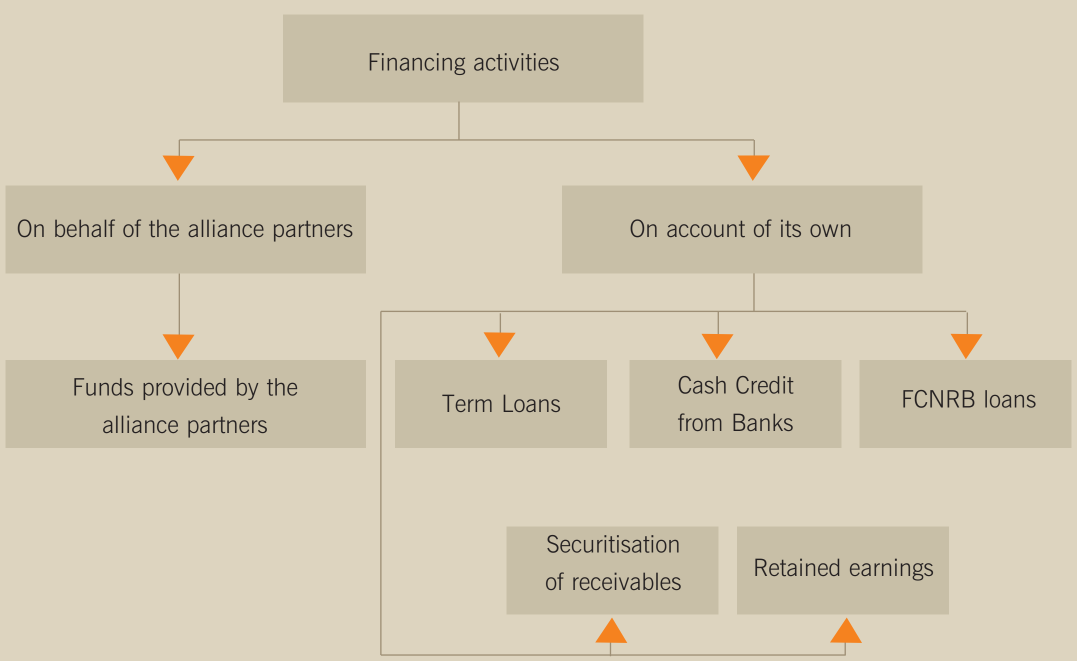
All expansions at the company have been undertaken only after due consideration with regard to future implications. For instance, new branches are commissioned only after a studious analysis of existing contracts from the region, potential to generate incremental business and safety of disbursed funds. Each office is minimalist in decor. All branch expansions are funded out of their own earnings. And this entire structure is supported by strong credit appraisal, exhaustive tracking of receivables and non performing assets. The result is we have one of the lowest NPAs in states like Bihar and Orissa, which are considered risky within the industry.

A competent asset-liability management is critical to anytime liquidity. How does the company manage it?

About 60 per cent of the company's external funding is derived from term loans stretching for a period of more than three years, an adequate hedge against probable mismatches. Besides, the company mobilises a prudent mix of short-term and long-term loans to counter against possible instances of a liquidity crunch. Besides, the company's funding and deployment patterns are monitored well in advance to prevent any probable mismatches.

Mr. Dilip K. Mulchandani, *Risk Head*

Shrachi and the ability to mobilise cheaper funds



At Shrachi, we recognise that our competitive edge is derived from an ability to raise cheap funds, preferably lower than our competitors.

This factor became even more critical to our – and industry's – success in 2005-06, when interest rates (PLR) rebounded after four years of a successive decline from a peak of 13 per cent to as low as 8.5 per cent.

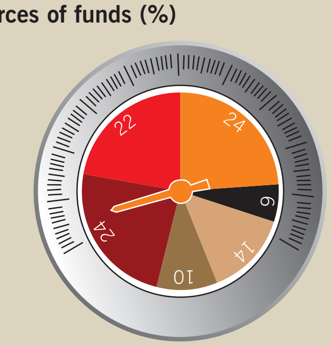
This rebounded transpired as a result of an increase in the US Fed rates during the year under review, which affected the flow of FII funds into India. Besides, interest rates strengthened on account of a growing liquidity crunch due to higher institutional borrowings and NBFCs being barred from mobilising low cost external commercial borrowings.

Analysts indicate that a rebound in interest rates has medium-term implications, raising the sceptre of higher costs not just in India but across the world. While customer acquisition was relatively easy as long as interest rates declined and the cost of vehicle acquisition became progressively cheaper, a revival now raises two concerns: the cost of transaction from the customer's perspective and the ability of the company to identify lower cost pools of capital.

The company mobilised funds through various resource combinations:

- Term loans from consortium banks and FIs (SIDBI and ING Vysya), bank borrowings and receivables securitisation. The company preferred term loans and cash credits from banks on account of lower costs and longer tenures. Term loans accounted for 83 per cent of the total mobilisation, highlighting an increasing preference for this funds source.

Sources of funds (%)



The company embarked on the following initiatives to rationalise the cost of mobilised funds:

- Active negotiation with consortium banks rationalised funds cost from an average 11.09 per cent in 2004-05 to 9.06 per cent in 2005-06.
- Rs. 24.70 cr. of high cost long-term debt was swapped with low cost short-term alternatives.
- The company mobilised Rs. 9.72 cr. through the securitisation of receivables in 2005-06.

Liquidity

Ratio: 43 bps decline in average cost of funds mobilised during 2005-06 to 9.07 per cent

Q&A session

With interest rates rising, will the company remain profitable?

This is where our skill will come more visibly into play. For instance:

- We will be required to mobilise funds skillfully from diversified sources and employ them across different segments. On the one hand, while this will prevent us from being over-reliant on a particular source of funds, on the other it will de-risk us from the adverse performance of a particular industry segment.
- We will move from short to long-term loans in response to the changes in the interest rate environment. In 2005-06, term loans increased from 47.6 per cent of our external funds portfolio to 60 per cent during the last two years, indicating our flexibility.
- We mobilised around Rs. 15 cr. from our consortium bankers during the year under review; we reinforced this with quicker collection, therefore allowing us to use funds faster; we enhanced accruals by 50 per cent.

Mr. Gautam Tiwari, *Head-Treasury*

Shrachi and the ability to manage overheads

||| Shrachi invested extensive systemic security features to prevent unauthorised persons from accessing privileged information and end-users from modifying data |||

At Shrachi, we believe that if we are to effectively compete with larger banks and financial institutions that enjoy a lower cost of funds, we must possess lower overheads.

Over the years, the company transformed its culture of austerity into a competitive edge through the following initiatives:

- Treatment of each branch as a profit centre with corresponding income and cost responsibilities; an ongoing audit of branch viability; a willingness to close down sub-optimal branches and rationalise manpower in the event of sustained non-viability.
- Modest investment in branch interiors in line with the customer profile.
- An ongoing IT connection in real time between the branches and the head office, minimising the use of telephones and other expenses (discussed in detail below).

The company took the following initiatives during the year under review:

- Implemented ERP solution across all major locations.
- Invested extensive systemic security features to prevent unauthorised persons from accessing privileged information and end-users from modifying data.
- Maintained a mailing system on a robust server designed for 24x7 reliability.
- Continuous upgradation of IT infrastructure with latest innovation in line with business growth.

Economical

Overheads as a percentage to total disbursement was 1.6 per cent in 2005-06, against an industry average of two per cent.

Q&A session

Why is it so imperative to maintain costs in this business?

Cost control is key in the business because passing on cost increases - interest on borrowings, employee costs and overheads – is difficult. Since the company is not a bank enjoying the benefit of low cost savings deposits, it must reduce its operational costs below that of its competitors to remain liquid and solvent. Any cost reduction with respect to employees would be counter-productive. So the only controllable expenditure for a company like ours is overheads (travelling expenses, branch-related expenses and other administrative charges).

Why are these overheads critical to control?

These overheads are important to control because:

- Any wasteful expenditure in terms of office lavishness could not only put simple-minded customers off but also enhance the cost structure.
- A company with lower overheads inevitably prevails through all industry cycles and competition.
- A cost-efficient player will enable the company to emerge as a better franchisee with a higher proportion of fee income.

As a result, overheads management is not only advisable but absolutely necessary for survival.

How has the company curtailed its overheads?

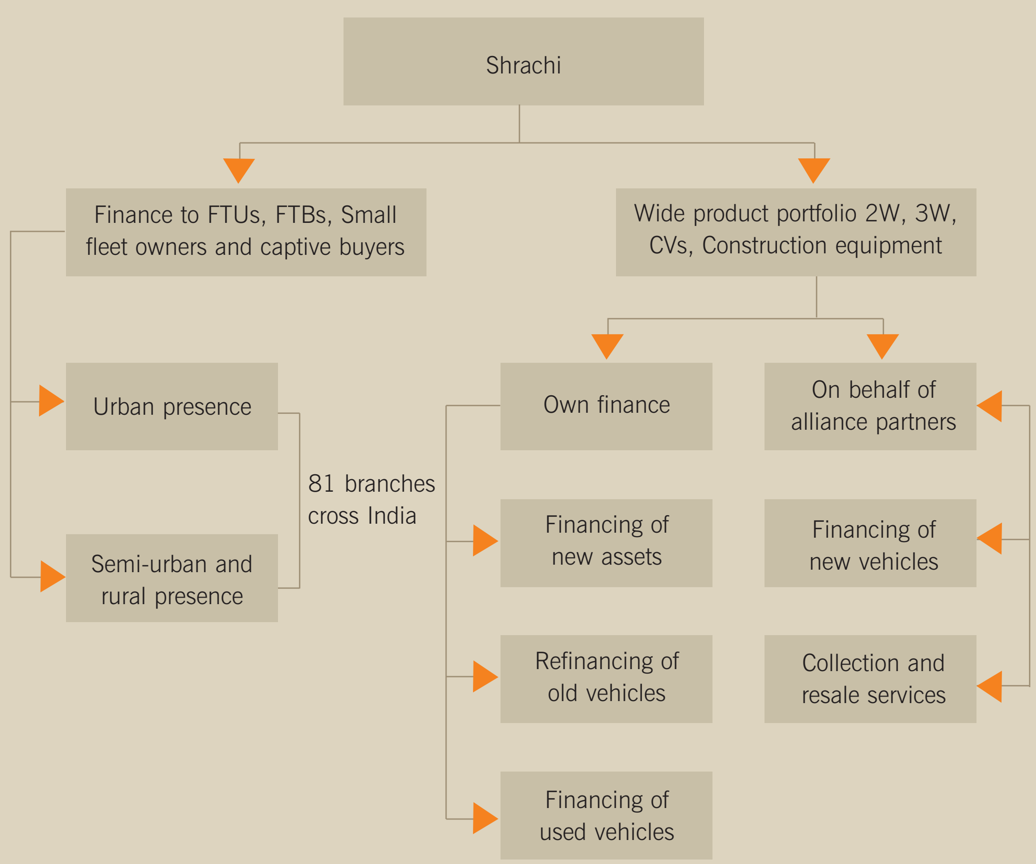
At Shrachi, overheads control is more of a culture than a necessity. Every expense is budgeted as far as possible and expended only after due consideration. The company's advantage of being a low cost player stems from its ability to commission branches (in the form of resident representatives) at a minimal cost and in quicker time. These resident representatives evolve into service centres and then to branches, with a commensurate increase in their own profits as opposed to using the resources generated from other branches. As a result, the company's branches have been created on a robust foundation of individual profit centres, ensuring that cost management is built into the system from within and not enforced from the outside. The company also employs local residents for the manning of its branches, leading to a low employee cost and enhanced local familiarity. Moreover, the company has initiated strong internal controls in form of internal audits, quarterly reviews of the allocated budgets and ERP systems.

At Shrachi, this culture of low overheads is just not limited to the branches, but also is evident in the regional and head office of the company. While minimalistic décor of the company's offices, including the head office, has kept administrative overheads in check, it has helped enhance footfalls as well. As a result, the company has emerged as one of the most cost-efficient players in its industry today.

Mr. C R Rao, *DGM South - Operations*

Shrachi and the initiative to discover new segments and markets

At Shrachi, we recognised that we would need to strengthen our focus in core areas of presence as well as diversify to de-risk from a probable slowdown in select industry segments.



The company is optimistic about the areas of its presence for a number of reasons:

Heavy and medium commercial vehicles: The Supreme Court ruling against vehicle overloading, large replacement market, higher crop output, industrial sector growth and favourable interest rate environment, higher government spending on airport and infrastructure etc.

Passenger cars: Higher disposable income, growing urbanisation, lifestyle revolution in the mid-income segment, low car prices, easy availability of finance, etc.

Construction equipment: Large thrust on infrastructure, roads and airports, etc.

Over the years, the company evolved from being a finance company into a solution provider in the commercial vehicle and construction equipment segments. So on the one hand, it financed two-wheelers, three-wheelers, passenger cars, LCVs, HCVs and construction equipment; on the other it offered all financial options across hire purchase, lease on behalf of partners, old and new vehicle financing as well as collection services.

Wide product offering (Rs. lacs)

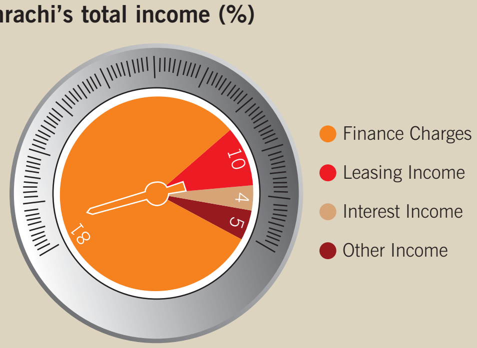
Category	Disbursements
Commercial vehicles	28923.21
Light commercial vehicles	17176.34
Multi utility vehicles	2375.48
Auto loans	5734.29
Refinance vehicles	5567.40
Construction equipment	4328.22
Three-wheelers	4857.27
Two-wheelers	1263.04
Total	70225.25

With this comes a responsibility that enables the company to reduce its exposure in high risk products and segments. For instance, when the company perceived a risk in the three-wheeler segment, it correspondingly reduced the loan-to-value contribution through higher down payments by buyers. The company also raised its exposure in the finance of used vehicles, a segment with attractive promise.

The company also widened its business opportunity through branch extension – 57 in 2004-05 to 81 in 2005-06 – across urban, semi-urban and rural Indian locations in 14 states.

It strengthened its focus on north and central India, with the objective of emerging as a pan-Indian retail financial institution.

Shrachi's total income (%)



At Shrachi, there is a limit to the amount of funded business that can be undertaken by the company at any time due to internal and regulatory guidelines. However, there is no limit to the quantum of non-funded (fee) business that can be undertaken. In view of this, the company increased the fee proportion of its income through various initiatives.

- It increased the proportion of disbursed loans on behalf of Citicorp and HDFC Bank (described in the section on alliance partners)

- It monetised its ability to make timely and adequate collections. It was enlisted by Tata Motors to make collections on its behalf in Eastern India;

As a result, income from alliance partners increased from 46.51 per cent of revenues in 2004-05 to 47.20 per cent in 2005-06, even as the company's overall revenues across the two years increased 63.06 per cent.

Going ahead, the company appointed KPMG to chart out a strategic and profitable blueprint to emerge as an integrated retail financial services company.

||| Shrachi's income from alliance partners increased from 46.51 per cent of revenues in 2004-05 to 47.20 per cent in 2005-06, even as the company's overall revenues across the two years increased 63.06 per cent. |||

Foresight

Ratio: 77 per cent increase in own disbursements to Rs. 87.22 cr., 2005-06

Q&A session

Where does the company go from here?

We are convinced that there remains attractive potential in the commercial vehicle financing business for the following reasons:

- The robust growth of the Indian infrastructure sector.
- The recent Supreme Court judgment banning truck overloading and insisting on a quicker replacement of obsolete vehicles.

However, it is at a time like this when we need to take a call on whether we should continue to focus exclusively on new commercial vehicles – our core business – or prospect other products within our existing and emerging domains.

As a first step, we embarked extended to the refinancing of old vehicles and the financing of used commercial vehicles. The company also entered into the resale/ finance of repossessed vehicles, financed either directly or by our partners. Besides, the company also added construction equipment to its portfolio in view of the ongoing infrastructure boom in India.

How does the company expect to increase margins in an increasingly competitive segment, given the fact that interest rates may rise northwards during the coming year?

As compared to banks, the company doesn't have access to low cost funds. Therefore, the only way to increase margins for the company is to increase its disbursements while decreasing losses. The company's strategy for increasing its margins has been:

Customer mix: About 70 per cent of the company's clientele consists of retail customers, enabling the company to derive higher margins compared to the funding of corporate clients.

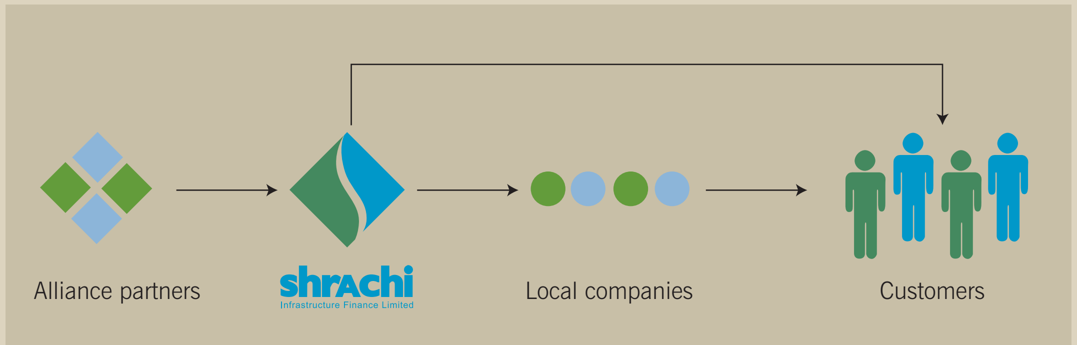
Portfolio mix: While the company employs its own funds to generate interest income, it uses the same infrastructure for its alliance partners, resulting in an attractive fee income. Therefore, the company's margins are not dependant on a single source of income; besides, increasing incomes will be generated using the same infrastructure and employee base of the company.

Product mix: While the company continues to ensure larger revenues from the in financing of new commercial vehicles, it has also diversified into higher margin segments like two-wheelers and used vehicles, where the competition is lower.

Low-overheads: The company has been one of the most cost-efficient players in the industry. Its strict internal controls, coupled with its need-based expansion strategy, have enabled it to maintain overheads at lower levels and thereby increase margins even while growing its business.

Mr. S K Todi, *Chairman*

Shrachi and the ability to enter into win-win partnerships



At Shrachi, we believe that the quickest strategy to enhance shareholder value is through a mutually beneficial alliance with banks and financial institutions, wherein the combination of our resident strengths with theirs translates into a compelling market-beating proposition.

Over the years, Shrachi entered into such alliances with HDFC Bank and Citicorp.

From Shrachi's perspective, the partnership was well chosen for the following reasons:

- Shrachi needed to expand its customer base without stretching its balance sheet; its alliance partners needed to increase disbursements without incurring people and infrastructure overheads.
- Shrachi enjoyed the benefit of a lucrative fee-based income; its alliance partners leveraged Shrachi's strong pan-Indian presence, collection, repossession and resale strengths for a one-stop solution.
- Shrachi was present extensively across rural and semi-urban India; its alliance partners were not.
- Shrachi generally financed first-time users and small fleet owners; this was an unexplored area for its alliance partners.

- Shrachi required a large pipeline of low cost funds; its partners needed a business partner who would possess the insight to make safe loans
- Shrachi needed the convenience of a steady pipeline of funds at a pre-determined cost; its partners needed the convenience of not needing to co-ordinate with multiple DSAs.

The alliance worked well: disbursements on behalf of alliance partners increased by 25.24 per cent from Rs. 491.07 cr. in 2004-05 to Rs. 615.02 cr. in 2005-06; correspondingly, income from alliance partners increased 28.10 per cent. (Table below)

Citicorp

- The company's alliance with Citicorp was initiated in 1998-99.
- Shrachi finances commercial vehicles on behalf of Citicorp in 11 states and a union territory.
- For the last seven years, Shrachi has been one of the highest contributors to the Citigroup's commercial vehicle finance business in India.

HDFC Bank

- The company's partnership with HDFC Bank was initiated in 2003.
- Shrachi's alliance with HDFC Bank is spread across 14 states.
- Within two years, Shrachi emerged as the largest disburser of commercial vehicle loans for HDFC Bank in India.

Win-win proposition

Shrachi	Alliance partners
Fee based income	Higher rural disbursements
Customer goodwill	Ready infrastructure
Brand support	Relationship support
Better process accustomisation	Superior local knowledge
Lower cost of funds	Stronger collection support
Modest loss sharing	Increased assurance of quality and service

Local companies

Over the years, Shrachi complemented its national alliance strategy with a local partnership approach. This backward integration served as a reversal of its alliance partnership with national level players. In this role, Shrachi financed the unorganised local financiers who possessed an excellent understanding of grassroots demand and emerging opportunities.

This relationship with the unorganised financiers translated into the following advantages:

- Negligible set-up and infrastructure cost in new locations
- Immediate access to a customer community
- Access to a financiers' network with a superior understanding of select semi-urban and rural pockets
- Better collection skills customised to the local terrain
- Safety of lending based on the established reputation of the local financier

Shrachi added value to its local partners through the visibility of its brand name, comprehensive product knowledge, systems and processes, a large pipeline of funds, trained employees and a stable source of fee income.

Disbursements on behalf of alliance partners increased by 25.24 per cent from Rs. 491.07 cr. in 2004-05 to Rs. 615.02 cr. in 2005-06

Networking

Ratio: 28.10 per cent increase in income from alliance partners, 2005-06

What is the basis of your optimism?

The health of our relationship with alliances partners gives me this optimism. At Shrachi, we are convinced that either we possess our captive resources to fund customers or we enter into synergic relationships with other institutions, who possess the funds to disburse but would rather do so through Shrachi's infrastructure.

Why is this business suddenly more relevant than ever before?

At Shrachi, we are convinced that this business holds out important strategic relevance now than ever before. There is a big boom transpiring in India today, opening up remarkable opportunities for financing. However, the scope of the opportunity is disproportionately larger than what our balance sheets can support. Rather than lose this opportunity, we have done the most prudent thing in the circumstances: entered into win-win partnerships with large banks and institutions. While they possess the funds, we possess the insight of which customer to finance; while they possess the brand, we possess a presence in the deepest pockets. While they provide the funds in exchange for interest income, we facilitate that disbursement in exchange for an attractive fee income.

Q&A session

Why would HDFC Bank and Citicorp be keen on partnering with Shrachi in commercial vehicle financing?

- Shrachi possesses a network of 81 branches, which is being expanded to 100 by June 2006.
- The company possesses a database of 100,000 customers out of which 60,000 are still associated with us.
- We possess demonstrated collection strengths across difficult terrains, industries and customers
- We possess a rich insight into how India's rural and semi-urban areas work.

How is the company positioned to take this segment of the business ahead?

After 17 years of having grown this business segment, we now find ourselves at an attractive point: we are the largest alliance partner for HDFC Bank and the second largest for Citicorp in India today. The company is attractively positioned to capitalise on any increase in the allocations made by these banks towards the commercial financing sector.

Our strength is reflected in the number of cases that we concluded increased from 18337 in 2004-05 to 21093 in 2005-06. Going ahead, we expect both these banks to cumulatively raise their allocation to the commercial vehicle financing.

There is one other point here. At Shrachi, we are confident that the success of these relationships will not only encourage these banks to provide a larger corpus for onward financing through Shrachi but also encourage other banks and institutions to collaborate with us in financing a range of products across India. Relevantly, the company tied up with ICICI Bank to market their SME loans and products, strengthening our attractive fee income.

The company currently follows a non-fund based partnership model, wherein it is only entitled to generate business on behalf of its partners for a fixed income. What is the company's strategy for fund-based partnerships?

Fund-based partnerships are being increasingly viewed as win-win, wherein the incoming company acquires the equity of the partner company, providing it with ample funds in exchange with which to grow the business. Shrachi has been approached in this regard by several banks and financial institutions and presently, we are keeping all our options open with the objective to capitalise on terms most favourable to the company's long-term interest.

Mr. R Sanjeev Rao, *DGM A.P. - Operations*

Shrachi and the ability to recruit the right people

At Shrachi, we enrich our intellectual capital with the objective to institutionalise our skill in understanding markets better, appraising risks judiciously and strengthening customer service.

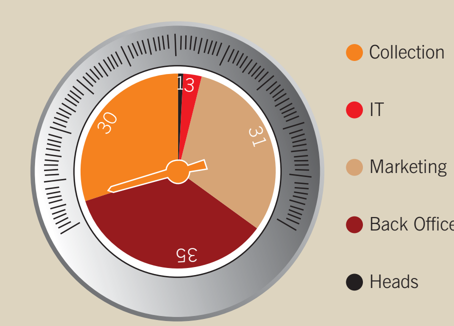
The company possesses the following advantages:

- A young, growing, no-frills and hands-on workplace in a fast moving industry; the average age of the company was 33 towards the close of 2005-06.
- A recruitment policy customised to the grassroots nature of the geographies of its presence; it accommodated diverse skills and emerged as a preferred employer in rural and semi-urban India.
- A meritocracy marked by a modest salary structure coupled with a performance-linked, no-caps incentive opportunity.

At the heart of the company's people management was a human resource management policy that comprised the following guidelines:

- Directed at the overall development - intellectual and aspirational - of employees.
- Need-based recruitment with the objective to plug functional gaps and lower overheads.
- Transparent organisational structure, accountability and open door policy.
- Performance-based reward system.
- Alignment of organisational goals with individual aspirations.
- An internal communication system empowering employees to make informed decisions.
- Delegation of decision-making to various organisational layers leading to enhanced ownership of responsibilities.
- Participative decision-making encouraging the expression of divergent views and resolution of dissenting issues through mutual trust, respect and understanding.
- Ongoing training covering every aspect of the business leading to enhanced flexibility.

People allocation (by competence) (%)



||| At Shrachi, ongoing training covering every aspect of the business led to enhanced flexibility. |||

Viability

Ratio: 300 bps increase in people cost as a proportion of revenues to 15.61 per cent, 2005-06

Q&A session

With increased attrition in a hot job market, how does Shrachi retain employees?

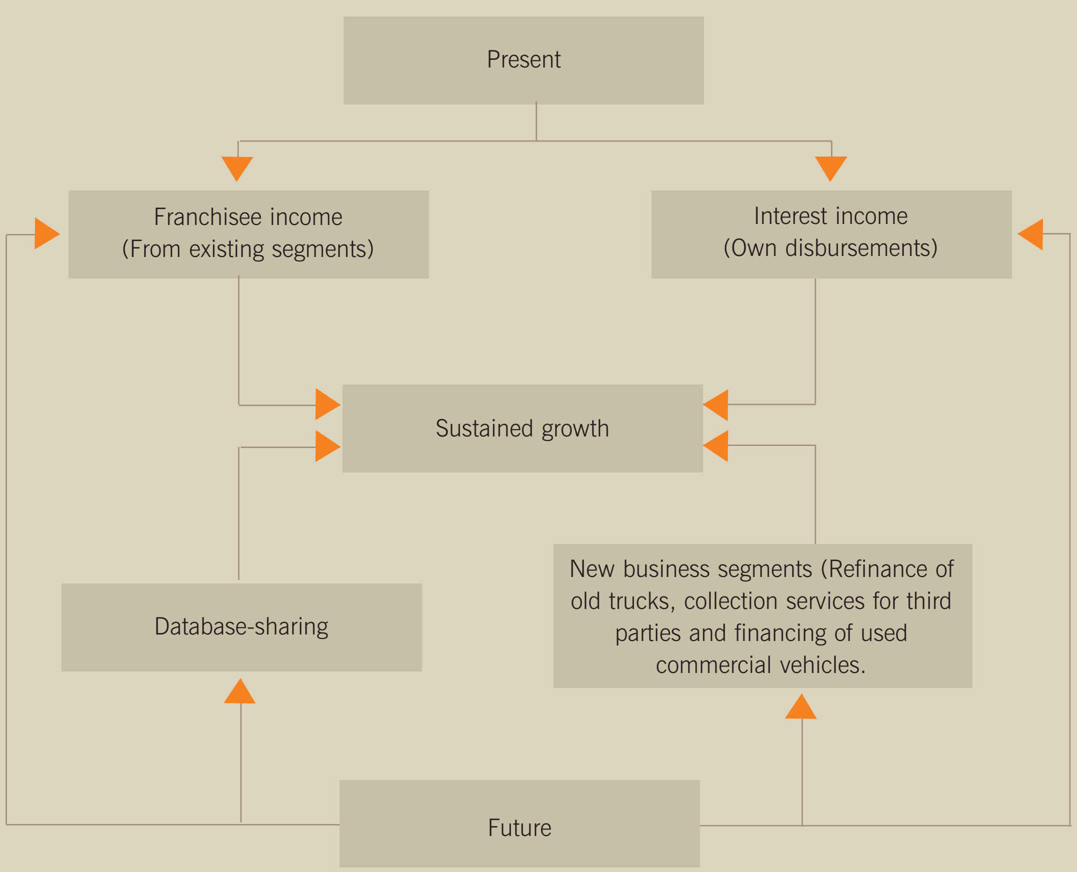
The company recognises that its people represent its intellectual capital. In view of this, the company has always believed in partnering with employees resulting in mutual benefit. The company recruits local people in its branches, has introduced performance-linked incentives across the organisation, practices a policy of internal promotion, trains aggressively and assigns higher responsibility, resulting in career, intellectual and financial growth.

The company's transparent management practices and open-door policy ensures that each employee's performance is appraised on the basis of his/her performance only. As a result, attrition at the senior and middle-management levels has indeed been negligible at the company over the last few years.

Mr. Sanjeev Agarwal, *Director - Operations*

Shrachi and enhancing value for shareowners

The company's growth model



At Shrachi, the effective report card of our performance is the extent by which we enhance value in the hands of our shareowners.

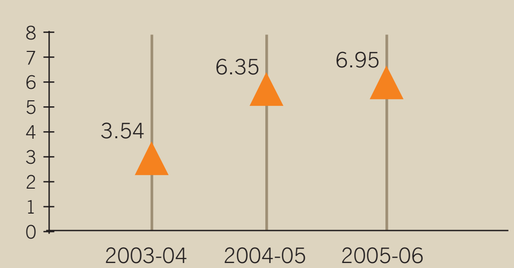
Over the years, the company has reported an attractive increment in shareholder value through a superior business strategy covering the following priorities:

- A prudent blend of fee-based and funded income.
- Aggressive increase in its own disbursements from Rs. 49.27 cr. in 2004-05 to Rs. 87.22 cr. in 2005-06, strengthening interest income.
- The lucrative re-financing of old vehicles and financing used vehicles, an extension of the company's value chain.
- Franchisee role for companies intending to market financial products in the rural and semi-urban areas.

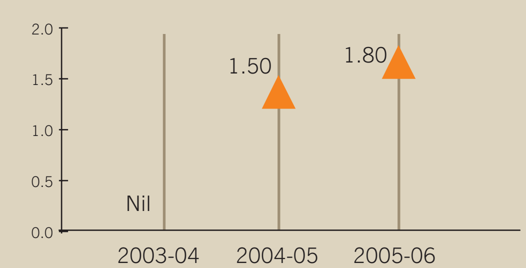
Return on capital employed (ROCE)

The return on capital employed measure measures the efficiency of capital used by the business. The company's return on employed capital declined from 13.75 per cent in 2004-05 to 11.62 per cent even as the average capital employed increased 37.37 per cent from Rs. 123.46 cr. in 2004-05 to Rs. 191.06 cr. in 2005-06. The decrease must be seen in the light of the new branches opened by the company, which even though were invested in during the year, would generate profits only after a complete year in operations.

Earnings per share (Rs.)



Dividend per share (Rs.)



Market capitalisation

The company's shares were listed on the Bombay Stock Exchange (BSE) and Calcutta Stock Exchange (CSE) during 2005-06 and were delisted from the Jaipur Stock Exchange.

The market capitalisation of the company increased by 134 per cent from Rs. 16 cr. as on 31 March 2005 to Rs. 37.49 cr. as on 31 March 2006 in line with the increasing profits.

Comparison between the performance of BSE and Shrachi share.

	Shrachi		BSE Sensex	
Date	Open (Rs.)	Close (Rs.)	Open	Close
April 2005	19.00	23.20	6,506.60	6,154.44
May 2005	22.00	32.00	6,183.07	6,715.11
June 2005	35.00	31.05	6,729.39	7,193.85
July 2005	30.15	44.20	7,165.45	7,635.42
August 2005	44.00	50.95	7,632.01	7,805.43
September 2005	51.85	45.10	7,818.90	8,634.48
October 2005	45.05	36.70	8,662.99	7,892.32
November 2005	37.00	37.55	7,989.86	8,788.81
December 2005	40.00	46.50	8,813.82	9,397.93
January 2006	48.80	47.30	9,422.49	9,919.89
February 2006	48.65	43.35	9,959.24	10,370.24
March 2006	44.40	44.10	10,368.75	11,279.96

During the year, BSE Sensex increased by 73 per cent, from 6506.60 as on 1.04.05 to 11279.96 as on 31.03.06; while the company's share price increased by 132 per cent, from Rs. 19 as on 1.04.05 to Rs. 44.10 as on 31.03.06. The performance of the company's share outperformed not only the BSE Sensex but also the BSE BANKEX, which rose by 36 per cent during the year under review, to close at 5265.24.

Highest and lowest share prices

Year	High	Low	Year-end price
2003-04	5.50	1.65	2.62
2004-05	24.45	2.41	18.75
2005-06	64.40	18.85	44.10

Number of shares traded at BSE

April 2005	437092
May 2005	840964
June 2005	801197
July 2005	1316493
August 2005	2284595
September 2005	3126360
October 2005	576712
November 2005	248344
December 2005	1972588
January 2006	1567742
February 2006	781133
March 2006	355205

Image-enhancing investors

During the course of 2005-06, two major mutual funds promoted by HSBC and Sundaram Finance invested in the company through the market route, based on the company's credible balance sheet and steady growth.

Payout

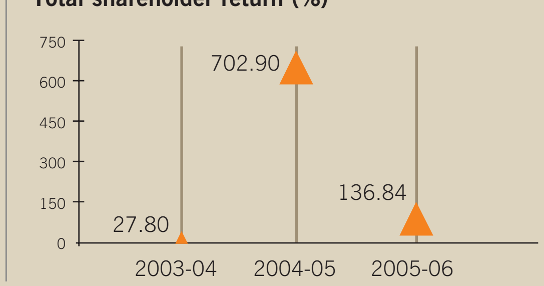
The company's dividend policy reconciled the need for investors to be rewarded and for maximised cash ploughback. In 2005-06, the company declared an 18 per cent divided as against 15 per cent declared for 2004-05. The dividend payout ratio also increased from 23.62 per cent in 2004-05 to 25.88 per cent in 2005-06, reflecting a stronger outlook.

Total shareholder return (TSR)

Total shareholder return quantified the gains derived by the shareholders during the year under review, calculated by deducting the opening capital value from the sum of the closing capital value plus the dividend received by shareholders during the year. The Company recorded a TSR of 136.84 per cent in 2005-06, indicating that it had enhanced value in the hands of its owners.

Parameter	2003-04	2004-05	2005-06
Closing capital value	2.62	18.75	44.1
Less: Beginning capital value	2.05	2.41	19
Add: Dividend paid during the year	0	0.6	0.9
Gain	0.57	16.94	26
TSR (%)	27.80	702.90	136.84

Total shareholder return (%)



Prosperity

Ratio: 134 per cent increase in market capitalisation to Rs. 37.49 cr. in 2005-06

Q&A session

The company's low market capitalisation prevents the company from leveraging the equity route for aggressive resource mobilisation.

EPS increased from Rs. 3.54 in 2003-04 to Rs. 6.95 in 2005-06, but the discounting continues be around 6, which is lower than industry peers. We expect this to correct over the coming months for the following reasons:

- An extension in the company's focus from commercial vehicles to construction equipment (reflected in the change of our name to Shrachi Infrastructure Finance).
- Interaction with research analysts and fund managers to present our company's strengths in a transparent manner.
- An aggressive increase in disbursements to Rs. 1000 cr. in 2006-07.

At the company we are optimistic that our discounting should begin to strengthen when the results of the first two quarters of 2006-07 indicate that we are well on our way to achieving this target. Besides, the performance of the broad industry should strengthen not just our discounting but the perception of the sector as a whole, resulting in an enhanced value for those who hold shares in our company.

Mr. R Kriparam, *DGM - Accounts & Systems*

Vision

One-stop shop for all the financial needs

Q&A session

Shrachi and the way ahead

What is the way ahead?

Shrachi prides itself on its wide and deep branch network, its customer base and its ability to build long-lasting relations with customers and alliance partners. While our core strength and knowledge of commercial vehicles financing would lead our future growth as well; we would also extend our focus to the distribution of related financial products such as insurance, personal loans, etc., where our financial expertise and relationship building approach forms the prerequisite.

In 2005-06, the company chalked out the way ahead, by entering into alliances with companies like Bajaj Alliance and ICICI Lombard (for insurance), ICICI Bank (for SME loans and vehicle financing) and Tata Motors (for vehicle financing). At the same time, the company is also looking for proper tie-ups for marketing of personal loans on behalf of large banks.

We aim to evolve into a one-stop shop for all the financial needs of our customers, by leveraging our strengths, without diluting our focus on our core business of financing commercial vehicles and construction equipment.

Mr. Ravi Todi, *Managing Director*

Shrachi and how we mitigate risks in a complex business

Environment Analysis: Porter's Model

Threat of substititutes-Medium to high: As a financial intermediary, NBFs face composition from scheduled commercial banks (SCBs) and capital markets. Non-Banking Financial Companies (NBFCs) offer a wide variety of financial services and play an important role in providing credit. As compared with many SCBs, they have an ability to take quicker decisions, but face the disadvantage of higher cost of funds.

Bargaining power of suppliers-Medium: Reduced dependence on deposits and increased borrowings from banks financial institutions. Better rated NBFCs face little constraint in borrowings.

Inter-firm rivalry-Medium: Although the number of players is high, firms have different clientele based on their borrowings costs and size of business.

Bargaining power of buyers-Medium: The major portion of the assets of NBFCs continue to be in Hire Purchase, Equipment Leasing. Asset quality deteriorated in the late 1990s, before recovering in recent years.

Barriers to entry-Medium: Certificate of registration (CoR) from RBI necessary. Minimum net owned funds (NOF) for registration Rs. 20 million for new NBFCs seeking grant of CoR on or after April 21, 1999. Stringent regulatory supervision by the RBI.

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5.217 5.365 8.562 7.256 2.356 4.235 6.548 8.256 9.456 7.256

1 Credit risk

The company may lend to suspect customers leading to non-performing assets.

Risk mitigation

The company's credit appraisal process has been strengthened to eliminate maximum possibilities of losses at the appraisal stage itself, by formation of a centralised credit appraisal team. Besides, the company finances mostly first-time users and small fleet owners, where the use of the asset to generate income is verifiable to a large extent. The customer also part finances the vehicle and therefore the repayment of the financed amount to the company is in his vested interest. All the disbursements are made following confirmation of the local guarantors. Besides, the company actively tracks receivables on a monthly basis – to ensure early action against default.

2 Asset-liability mismatch

A mismatch between the tenure of loans mobilised by and the loans extended by the company could result in a cash squeeze at some juncture, resulting in an ability to service loans and fund overheads.

Risk mitigation

- Option to mobilise long-term and short-term loans at low interest rates, depending on the situation.
- All loans mobilised in a manner to adequately cover the average three-year tenure of loans extended by the company.
- No fresh exposure to short-term fixed deposits.

3 Valuation risk

The company repossesses vehicles following installment defaults by customers. In a market, where finance is available easily, the company will suffer adversely in the event of better valuations of the repossessed vehicles.

Risk mitigation

- The company's wider and deeper reach enable it to deploy its repossessed vehicles for a better value.
- The company has initiated the refurbishment of repossessed vehicles to derive a better resale value.
- Shrachi plans to initiate the 'assignment' clause, wherein an assigner would be nominated by the company who would given the possession of the vehicle in the event of a default by the owner of the vehicle financed by the company.

4 Regulatory risk

Any non-compliance of norms may lead to strict action by RBI.

Risk mitigation

The company always had a track record of being an ideal norm-compliant company.

5 Cost risk

A rise in the cost of debt or overhead costs without a corresponding rise in the lending rate could squeeze margins.

Risk mitigation

- Low debt-ratio and high capital adequacy ratio leveraged to achieve a declining debt cost.
- Tremendous support of the bankers, enabling it to raise Rs. 111.88 cr. loans in 2005-06
- Securitisation achieved at a rate lower than the bank lending rate.
- Low exposure to the fresh mobilisation of high cost fixed deposits
- Encouragement to existing FD holders to roll their deposits over, minimising the company's market cost.
- Preference for cash credit working capital over term loans resulting in a flexible repayment capability.
- Ability to pass on cost increases on account of superior and personalised service.
- Branches commissioned only when local business exceeds a certain level, resulting in low overheads.
- Working with a cluster of alliance partners, resulting in low cost growth.
- All branches interconnected with the head office through ERP packages, enabling proper checks on their expenditure.

6 Customer attrition risk

The company could lose customers on account of poor rate, reach and service. Also, any loss in the event of a large concentration of customers could result in a bigger loss. Low cost banks and financial institutions can undercut NBFCs and are growing their industry exposure.

Risk mitigation

- The company focuses on first-time users and small fleet owners, where relationship and excellent services are more important. Therefore, the banks usually do not entertain the segment too much, as they usually prefer bulk business.
- In the same way, the company has a large consumer base in the semi urban and rural areas, which are out of the reach of banks.
- A widening product presence – from commercial to passenger cars, from tippers to construction vehicles, from personal loans to insurance – will enable the company to enhance cross-sell different products to different customers.
- NBFCs reach deep into regions generally beyond the normal reach of most banks and FIs
- The low cost, high returns and strong organisation systems have emerged a successful NBFC model.

Assurance

Interest cover in 2005-06 was the highest in last four years

Q&A session

How has de-risking evolved as a culture throughout Shrachi and not only used as a reactive measure?

Even as industry players were busy in identifying possible risks, Shrachi strengthened its processes and systems.

- The company's accurate credit appraisal backed by stringent processes and systems enable loans to be disbursed to genuine customers.
- The company doesn't finance the entire amount to the customer, but ensures that the customer's financial contribution is also brought in upfront.
- The various tracking systems help analyse branchwise outstandings and defaults, leading to an adequate control of receivables.
- The company ensures a proper communication with customers to keep a check on defaults and NPAs.
- In an event of continuous default, the company repossesses the vehicle to minimise additional loss.
- The company initiates legal proceedings against defaulters to create a deterrent precedent for potential defaulters.
- The company enjoys a strong local knowledge, enabling it to deploy the repossessed vehicles at a profit.

Mr. S K Todi, *Chairman*

Ratios analyses

Profitability Ratios (%)	2003	2004	2005	2006
PBIDT / total income	74.81	61.85	64.8	58.84
PBDT / total income	44.49	26.67	31.2	29.44
PAT / total income	10.21	15.33	21.27	18.45
Cash profit / total income	13.78	24.71	25.68	25.36
RONW	9.54	12.95	20.2	19.2

The company's PBIDT margins declined marginally as direct costs increased by 47.59 per cent, while total income increased by only 26.23 per cent. The company's income from leasing operations declined by 25 per cent, while the remaining sources of income increased during the year.

The company's PBDT margin has stayed around the 30 per cent mark over the past four years. A high PBDT margin indicated the efficient operations of the company. In 2005-06, however, the PBDT margins of the company declined marginally during the year on account of a higher cost coupled with a lower increase in income. The difference in the percentages between PAT/ total income and cash profit /total income is indicative of a lower depreciation provision during the year under review against the previous year (2004-05).

The company's RONW however declined marginally since the company's net profits declined on account of the provision for deferred taxes.

Balance Sheet Ratios	2003	2004	2005	2006
Gross block / net worth	2.58	2.2	1.78	1.89
Gross block / capital employed	0.8	0.52	0.41	0.33
PBIDT / gross block	0.26	0.22	0.32	0.3
PBDT / gross block	0.15	0.1	0.15	0.15

Shrachi is not a manufacturing company, which explains its low gross block. The company's gross block consists mainly of leased assets and real estate bought for development covering 1.89 times its net worth. Out of the company's total assets, leased assets consisted of 74 per cent. The company's high PBIDT margin was sufficient for generating 30 per cent of the gross block. This is not reflective and should be read with PDBT figures; the PBDT was comfortable at 0.15 times the gross block.

Liquidity Ratios	2003	2004	2005	2006
Total debt / net worth	2.21	2.9	3.02	4.62
Interest cover	1.28	1.52	1.85	1.94
PBIDT / total debt	0.3	0.17	0.19	0.12
Current ratio	2.86	3.42	3.76	3.17
Cash / total assets	0.04	0.03	0.04	0.07

The total debt to net worth ratio stood at 4.62 on account of the company's borrowing strategy. The interest cover consistently increased in the last three years to 1.94 in 2005-06. This seems high since the company's stock-on-hire-purchase is accounted for in current assets.

The interest coverage ratio depicts the company's interest paying capabilities and whether the company is in a position to pay the interest on its loans after providing for all expenses but before interest, depreciation and tax provisions. This ratio gains significance for a finance company as interest is the major expense outgo. For Shrachi, this ratio stands at 1.94, implying that the company is in a comfortable position to service debt.

Since the company deals in money, it works against its interests to nurse a high cash and bank balance that could result in the idling of financial assets.

Shrachi's SWOT analysis

Growth Ratios (%)	2003	2004	2005	2006
Growth in total income	-6.38	1.29	29.18	26.23
Growth in PBIDT	-13.2	-16.3	35.32	14.62
Growth in PBDT	-24.8	-39.3	51.1	19.11
Growth in PAT	3.15	52.12	79.24	9.49
Growth in cash profit	-18.2	-48.5	32.1	24.64

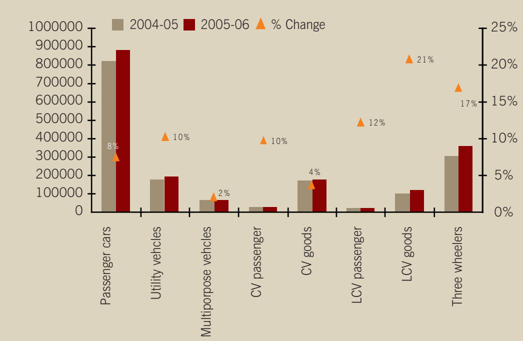
On account of a declining liquidity due to increased corporate lending, there was a slowdown in the mobilisation of low cost funds. New and large players with deep access to low cost funds were better placed. This resulted in a fall in lending rates that was not matched by a fall in borrowing rates, squeezing margins. This incidence was contained at Shrachi because the company did not borrow at a high cost to fund its growth and preferred accruals and low cost sources instead. The company's PAT growth continued to be above the industry average.

Per share ratios	2003	2004	2005	2006
Earnings per share	2.33	3.54	6.35	6.95
Cash earnings per share	10.55	5.44	7.18	9.56
Dividend per share	-	-	1.5	1.8
Book-value per share	25.58	29.13	33.77	38.68

The company's EPS increased by 9.4 per cent, from Rs. 6.35 in 2004-05 to Rs. 6.95 in 2005-06. The cash EPS improved from Rs. 7.18 in 2004-05 to Rs. 9.56, indicating better cash profits per share due to increased leasing. The company declared a dividend of Rs. 1.8 per share in 2005-06. The book value per share continued to grow and stood at Rs. 38.68, reflecting strength. The company's share price increased by 134 per cent against a 15 per cent increase in book value per share, indicating growing investor confidence.

Industry trends

Sales during March 2006 vis-à-vis March 2005



Shrachi's Growth drivers

Expansion in northern and western India - the network of activity centres. A small market share in these areas will ensure a vast room in which to enhance the growth momentum manifold. Gujarat and Maharashtra including Vidharba region are major markets for commercial vehicles.

Shrachi's SWOT analysis

Strengths

- Strong, stable and experienced management.
- Profitable company since inception.
- Pan-Indian presence
- Strong semi-urban and rural presence and customer base.
- Rising trend in disbursement even in times of industry downturn- recorded mammoth growth of 711 per cent in the last five years.
- Unique alliances with Citicorp and HDFC, involving low investments with high returns

Weakness

- Poor dividend history. As per advice of ICRA, Shrachi consolidated its balance sheet position, and only now started rewarding its shareowners by paying a handsome dividend.
- Major branch concentration in east and south India. However the company is expanding its branch network in northern and western India and has already opened up 15 new branches.
- Absence of market share in A class cities. The company is concentrating in the fast developing B & C class cities and satellite towns, where banks do not have major branch network.

Opportunities

- Unlock the potential in second-hand vehicle financing, replacement financing and re-financing areas.
- Since India's vast rural and semi-urban markets are still under penetrated, companies like Shrachi, with a large distribution network and capability to deliver credit and value-added services, will drive retail finance growth.
- With the growth of infrastructure in India and huge demand of infrastructure aids, Shrachi expects to enhance its funding in the construction equipment from the present 6 per cent to 10 per cent by the 2007.

• Growth in the Indian retail credit sector is being driven by fundamental demographic and economic factors such as the upward migration in income levels, increasing credit availability and affordability as well as the increased acceptance of credit.

• Tie-ups with Tata Motors, ICICI Bank and UTI Bank (under negotiation) has opened up revenue sources under fee-based activities. Insurance companies and mutual fund houses have also approached Shrachi to leverage its customer base.

• Shrachi can leverage its group synergy; in addition to infrastructure project financing, mortgage loans etc. will be added to the portfolio.

Threats

• Intense competition on the asset side from other NBFCs and banks can lead to a pressure on profitability. The company operates in semi urban and rural area where competition is less and yield is high.

• Its foray into other lines like consumer financing. can result in sticky assets due to lack of experience. The company has a limited exposure in consumer financing as about 80 per cent of its income is contributed by CV segment.

Financial review

Interest income

During the course of its business, the company invested in bonds and debt instruments to fulfill its statutory requirements (statutory liquidity ratio). The company invested in these instruments to ensure an attractive return coupled with principal safety. So investments were made in high interest bearing securities - PICUP, PSEB, RSEB, MSRD, HPSFCL and SSNNL bonds - for the short and long-term. These enjoyed interest and principal repayment guarantees from the respective state governments. The company did not make fresh investments in these instruments in 2005-06.

Particulars (Rs. cr) 2003-04

	Average Balance	Interest	Average Rate %
Assets			
Bonds	1.87	0.2	10.7
Liabilities			
Total loans	79.26	8.53	10.8

Particulars (Rs. cr) 2004-05

	Average Balance	Interest	Average Rate %
Assets			
Bonds	1.82	0.19	10.44
Liabilities			
Total loans	118.79	9.42	7.93

Gross and net block

The gross block of the company was Rs. 62.17 cr. as on 31st March 2006, comprising Rs. 45.96 cr. – 74 per cent – of loaned assets.

The company's gross block comprised building, office infrastructure, furniture, vehicles and computers.

Depreciation and amortisation policy

The company financed the acquisition of assets under hire-purchase and loan financing arrangements. Under hire-purchase, the company did not own the asset while in the latter option, it did. The total depreciation as per the books of accounts was Rs. 28.10 cr. in 2005-06 as the company could claim depreciation only under income tax laws and not in the books of accounts due to the introduction of Accounting Standard 19.

Corporate tax

The company's total tax liability for the year under review increased by 62.65 per cent from Rs. 1.81 cr. in 2004-05 to Rs. 2.94 cr. in 2005-06.While the income tax for the current year decreased from Rs. 1.4 cr. in 2004-05 to Rs. 1.1 cr. in 2005-06, the total tax of the company was largely on account of recently introduced fringe benefit taxation (FBT) and deferred tax. However, deferred tax, even though it led to decreased profits, didn't involve any cash outflow, therefore resulted in unaffected cash profits for the company. As a result, while the company's net profits increased by a marginal 9.49 per cent in the year under review to Rs. 5.91 cr., its cash profits increased by 24.64 per cent to Rs. 8.12 cr. during the year under review.

||| Growth in the Indian retail credit sector is being driven by fundamental demographic and economic factors such as the upward migration in income levels, increasing credit availability and affordability |||

Directors' Report

Dear shareholders

Your Directors have pleasure in presenting the seventeenth Annual Report along with the audited accounts of the Company for the year ended 31st March , 2006.

Financial Results

(Rs./Lacs)

	2005-2006	2004-2005
Profit before tax	885.76	721.07
Less : Provision for taxation and deferred tax	294.56	181.11
Profit after tax	591.19	539.96
Add : Balance in profit and loss account brought from previous year	257.63	370.59
Profit available for appropriations	848.83	910.55
Transfer to statutory reserve	132.00	108.00
Transfer to general reserve	450.00	400.00
Interim dividend	–	51.00
Tax on Interim dividend	–	6.67
Proposed Final Dividend	153.02	76.51
Taxes on final Dividend	21.46	10.73
Carried forward to profit and loss account	92.35	257.63

Your Directors transferred Rs. 132 lacs to the Statutory Reserve as required under the RBI Act and Rs.450 lacs to the General Reserve.

Overview

The financial year 2005-06 reflected slower growth for the Indian commercial vehicles industry. After growing by 36.4 per cent and 22.4 per cent in the previous two years, the national offtake of commercial vehicles slowed down to 10 per cent in 2005-06. While the heavy commercial vehicle and medium commercial vehicle segments recorded a growth of around 4.5 per cent, the light commercial vehicle segment grew at around 19.4 per cent.

The principal drivers of this uptrend comprised an upbeat infrastructure sector, industrial growth,

improving road conditions and stricter environmental norms catalysing vehicle replacement. The country's construction equipment segment also reported an attractive growth arising from increased investments in India's infrastructure sector.

Performance

In 2005-06, Shrachi reported an improved performance reflected in the following achievements:

- A 10 per cent increase in its net profit from Rs. 5.40 cr. in 2004-05 to Rs.5.91 cr. in 2005-06
- A 30 per cent growth in disbursements from Rs. 540.35 cr. in 2004-05 to Rs.702.25 cr. in 2005-06
- A 54.75 per cent growth in total assets from Rs. 123.46 cr. in 2004-05 to Rs. 191.06 cr. in 2005-06.
- A 26.19 per cent growth in total income from Rs. 25.39 cr. in 2004-05 to Rs. 32.04 cr. in 2005-06.

As a result, the company retained its position as one of the ten leading vehicle-financing companies in India during the year under review.

Outlook

The business of financing commercial vehicles and infrastructure equipment appears promising on account of sustainable opportunities in India's industry and agriculture sectors.

For instance, the market for commercial vehicle is likely to sustain due to the following factors:

- Sustainable Indian GDP growth in excess of 8 per cent over the coming years
- 36 per cent CV industry (medium and heavy) growth in 2002-05 is faster than 27 per cent (1994-97), indicating an accelerating industry momentum over a competing mode like the railways.
- CV segment accounting for more than 60 per cent of the total freight in India; this Rs. 240 bn market is driven by a financial proportion of 80 per cent.
- An active replacement market of more than one mn CVs older than 10 years.
- Positive outlook for India's infrastructure and automobile industries based on an infrastructure thrust by the government in the Union Budget

2005-06 and capacity expansions by all major auto companies.

- Construction of the S-E-W-N corridor and commissioning of the Golden Quadrilateral to strengthen the country's road network, shrink vehicle turnaround and provide a rationale for the increased offtake of commercial vehicles.

Despite increasing competition from the larger commercial banks and financial institutions, the Company grew its position on account of the following reasons:

- Established brand name in India's rural and semi-urban markets.

- Alliance with leading commercial vehicles finance company's/ banks, enabling it to evolve from a regional finance company into a national player

- Widened product portfolio by financing old/new construction equipment.

The company will continue its partnership strategy with lenders, customers, investors and employees to make its growth sustainable.

Dividend

The Company recommended a dividend of Rs. 1.80 per equity share for the financial year ended 2005-06 in its Board Meeting held on 14 June 2006. The total cash outflow, if approved by shareholders, will be Rs.174,48,155 including the corporate dividend tax.

Directors

Shri N.K. Sengupta and Shri Atmaram Jatia retire by rotation in the forthcoming Annual General Meeting and being eligible offer themselves for re-appointment.

At the Board Meeting held on 14th June, 2006, your Board revised the remuneration payable to Shri Ravi Todi, Managing Director, for the remaining tenure with effect from 01.04. 2006 to 31.03.2007, subject to the approval of the members at the ensuing Annual General Meeting of the Company.

At the meeting held on 14th June, 2006, your Board reappointed Shri Sanjeev Agarwal as Wholetime Director/Executive Director-Operations for a further three years commencing from 1.08.2006 upon the terms and conditions as to the remuneration and otherwise as contained in draft agreement approved at the said Meeting. The above reappointment of Shri Sanjeev Agarwal and payment of remuneration to him is subject to the approval of members at the ensuing Annual General Meeting of the Company.

The details of Directors seeking appointment/ re-appointment have been annexed as a part of this Annual Report.

Non-Banking Financial Companies (NBFCs) Regulations

The Company continued to comply with the prudential norms for NBFCs prescribed by the Reserve Bank of India in the following ways:

- Its capital-to-risk assets ratio (CRAR) was at 15.11 per cent as at 31.3.2006, well above the prescribed minimum rate of 12 per cent.

- Its standard assets constituted 98.56 per cent of the total exposure, gross NPA stood at 1.44 per cent while net performing assets (NPA) stood at 0.64 per cent.

- The Company constituted an Asset-Liability Committee in compliance with the RBI Guidelines for Asset-Liability Management (ALM) system for NBFCs.

Deposits

In spite of a weak preference for public deposits with NBFCs, your Company derived a robust support from depositors due to its financial strength, improved credit rating, prompt investor services and personalised approach. Your Directors express their gratitude to the depositors for this support.

The Company's fixed deposits declined from Rs. 1606.30 lacs at the close of 2004-05 to Rs.1461.75 lacs at the close of 2005-06. As per RBI regulations, the Company can raise the deposits up to four times its net-owned funds of Rs.12612 lacs. Your Company reduced the interest rate across all its fixed deposit schemes by 0.5 per cent with effective from 1.5.2005.

At the close of the financial year under review, there were deposits aggregating to Rs.29.61 lacs (previous year Rs. 12.54 lacs) due for repayment but unclaimed; the total number of matured and unclaimed fixed deposit holders was 152(90 in the previous year). Necessary steps were taken to obtain depositors' instructions to ensure their renewal/repayment.

ICRA upgraded the rating of the Company's fixed deposit programme from MA- to MA, indicating an adequate credit quality. The rated deposits programme was subject to average credit risk.

Bank / Institutional Finance

The Board would like to thank its bankers and financial institutions for their continued support. During the year, the Company enjoyed a working capital facility from different banks under a consortium agreement:

- Your Company got an enhancement of Rs.1500 lacs in its working capital facility from different banks under the consortium arrangement. Your Company enjoys a total of Rs. 4500 lacs from its consortium bankers and has applied to enhance this working capital facility by Rs. 3000 lacs from consortium members.

- Your Company has been able to revise term loans from various bankers and financial institutions during the year to the extent of Rs.7188 lacs compared to Rs. 7145 lacs in the previous year. Your Company was able to raise term loans at competitive rates.

- Existing bankers demonstrated their confidence in the company, thereby reducing the current interest rates on the existing loans and the disbursement of additional short term loans at lower interest rates.

- Bank of Baroda, UTI Bank Ltd., UCO Bank and Union Bank of India converted their Working Capital Demand Loan into a lower cost FCNRB loan.

Corporate Governance

The company believes that corporate governance is more a way of business life than a statutory compulsion. The company stands for the application of best management practices, unfailing legal compliance, adherence to ethical standards and discharge of social responsibilities. The section of Corporate Governance and Management Discussion and Analysis together with the auditor's corporate governance compliance certificate forms a part of this Annual Report.

Dematerialisation Of Shares

The shares of the Company were compulsorily mandated in a dematerialised mode from 29th January 2001 onwards. The ISIN number allotted to the Company was INE 510C01016. The members were requested to avail of the dematerialised and nomination facility.

Subsidiary Company

The Company's subsidiary Shrachi Auto Private Limited, which enjoyed a dealership of Valvoline Lubricants and Bajaj Tempo, strengthened its distribution in Jharkhand. The Board of Directors reviewed the working of Shrachi Auto Pvt. Ltd. during the year.

Change In The Name Of The Company

The name of the Company 'Shrachi Securities Limited' did not faithfully indicate the Company's principal business of financing commercial vehicles and construction equipment. So in the interests of the Company and stakeholders, your Board of Directors changed the name of the Company from Shrachi Securities Limited to Shrachi Infrastructure Finance Limited. The words 'Infrastructure Finance' in the name enhanced the company's visibility and indicated dynamism. Subsequently the name of the company was changed to Shrachi Infrastructure Finance Limited with effect from 2nd November 2005 following an approval from the members in the sixteenth annual general meeting.

Change In The Object Clause Of The Company

Your Company always considers the proposal for diversification in to the areas, which would be profitable as part of the diversification plan. The Company decided to take up the new activity of Power Generation and other related activities and accordingly the Object Clause of the Memorandum of Association of the Company was amended so as to include the said activities, after it got the approval of members who passed the resolution of alteration of Object Clause through postal ballot mode.

Increase In The Authorised Share Capital Of The Company

The Company's authorized share capital increased from 10, 00,00,000 (Rs. ten crore) divided into 10000000 (one Crore) equity shares of Rs.10 (Rupees ten) each to Rs. 20,00,00,000 (Rs. twenty crore) divided into 20000000 (two crore) equity shares of Rs.10 (Rupees ten) each ranking pari passu with the existing equity shares of the Company.

Investor Services

During the year under review, your Company transferred a sum of Rs.1,21,310 towards the Central Government's 'Investor Education and Protection Fund', relating to the amount lying as unclaimed dividend for seven years or more from the date they became due.

Consolidated Financial Statements

As stipulated by clause 32 of the Listing Agreement, Consolidated Financial Statements were prepared by the Company in accordance with the requirements of Accounting Standard 21 'Consolidated Financial Statements' issued by The Institute of Chartered Accountants of India. The audited Consolidated Financial Statements form a part of the Annual Report.

Auditors

M/s R. K. Sureka & Co., Chartered Accountants, retire at the ensuing Annual General Meeting and are eligible for reappointment and M/s. B. Srinivasan & Co., Chartered accountants be and are hereby appointed as the Branch Auditors of the Company and the certificates of their eligibility under Section 224(1B) of the Companies Act, 1956 have been received from them.

Auditors' Report

The Auditors' Report is self-explanatory and does not require any specific explanation.

Human Resources

The Company would like to thank its employees for their overwhelming support in driving corporate growth. The Company invested adequately in their continuous training, made an arrangement with LIC for a Group Gratuity Scheme and insured them against a health risk.

Particulars of Employees

The particulars of employees as required u/s 217 (2A) of the Companies Act,1956, are given in a separate statement attached to this report and forms part of it.

Conservation Of Energy, Technical Absorption And Foreign Exchange Earnings/Outgo

In terms of Section 217(1)(e) of the Companies Act, 1956 the Company has no activity relating to Conservation of Energy or Technology absorption. The Company had an outgo of foreign exchange amounting to Rs. 20,89,261.

Directors' Responsibility Statement

As required under Section 217(2AA) of the Companies Act, 1956, your Directors state:

(i) that in the preparation of the accounts for the financial year ended 31st March, 2006 the applicable accounting standards have been followed and there are no material departures;

(ii) that the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profits of the Company for that period;

(iii) that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

(iv) that the annual accounts for the financial year ended 31st March, 2006 have been prepared on a going concern basis.

Acknowledgement

The Directors place on record their sincere appreciation for the cooperation and support received from automobile manufacturers, dealers, depositors, bankers, hirers and lessees for their valuable contribution to the Company's success. The Directors also graciously acknowledge the dedication and commitment of your Company's employees for their significant contribution in driving growth during the year under review.

For and on behalf of the Board

Shrawan Todi

Kolkata
14th June 2006

S. K. Todi
Chairman

Annexure To Director's Report

INFORMATION AS PER SECTION 217(2A) READ WITH COMPANIES (PARTICULARS OF EMPLOYEES) RULES 1975 AS AMENDED AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31.03.2006

Employed through out the financial year under review and were in receipt of remuneration aggregating not less than Rs. 24,00,000

Name	Age	Designation/ Nature of Duties	Remuneration Rs.	Qualification	Experience No. of yrs. Including previous employment	Date of Joining/Resignation Shrachi Infrastructure Finance Ltd.	Last employment
Ravi Todi	37	Managing Director	24,24,866	B.Com	17	06.09.1989	–

Notes:

1) Remuneration as shown above includes, salaries, allowances, company's contribution to provident fund, commission, Life Insurance Premium.

For and on behalf of the Board

Kolkata
14th June 2006

S. K. Todi
Chairman

Particulars of Directors seeking appointment/re-appointment at this Annual General Meeting pursuant to clause 49 of the Listing Agreement

ITEMS 3,4 &8

Name of Director	Atmaram Jatia	Dr. Nitish Kumar Sengupta	Sanjeev Agarwal
Date of Birth	27.02.1942	23.09.1934	23.04.1967
Date of Appointment /Re-appointment	21.04.1994	21.04.1994	01.08.2003
Expertise in specific Functional areas	Industrialist having rich business experience	IAS (Retd.) having rich administrative experience	Wide experience in financing commercial vehicles
Qualification	Chemical Engineer	I.A.S	B.Com
List of Companies/ firms/associations in Which outside Directorship held	– East West Corporation (Osaka), Japan – Wedgewood Holdings Limited, Mauritius – Asia Fab Limited – Aegis Plus Ltd., Hong Kong	– Nagarjuna Agri Chemicals Ltd – BNK Capital Markets Ltd – Inovoa Infrastructure Finance Ltd – GTFS Multiservices Ltd – Organon (India) Ltd.	– CLT Punched Tape Pvt Ltd – SBR Credit Pvt Ltd – Shrachi Auto Pvt Ltd – Shrachi Fiscal Services Ltd – Sunflower Engg Ind Pvt Ltd – KEF Holding Ltd. – Kanaiya Engineering Ltd
Chairman/Member of the Committees across public Company in which he is Director	NIL	NIL	Member of Asset Liability Committee of Shrachi Infrastructure Finance Ltd.

Corporate Governance Report

(As required under Clause 49 of the Listing Agreement)

Company's Philosophy on Corporate Governance

The maximization of shareholder value is the objective of our business and a sound governance process its effective enabler.

In view of this, your Company defined a Code of Corporate Governance as required by its listing agreement with the stock exchanges. Its compliance with this code is ensured by the following values:

1. Trusteeship – not ownership - by the management of shareholder capital
2. Transparency in reporting and records
3. Individual accountability
4. Corporate sustainable responsibility
5. Ethical code of conduct
6. Quality of services
7. Unfailing regulatory compliance

1) Board Of Directors:

A) Composition of the Board

The Company has a broad-based Board that meets the 'composition' criteria. As on 31st March , 2006 the Company had nine Directors. The Chairman of the Board was non-executive in nature and more than one third of the Board's total strength comprised independent Directors. Shri Ravi Todi managed the Company's day-to-day operations in the capacity of Managing Director. The Directors were specialists in their respective fields and possessed the required technical and leadership skills.

During the year, the Board met seven times on 29.04.2005,16.06.2005, 29.07.2005, 08.09.2005, 28.10.2005, 24.01.2006 and 31.01.2006

None of the Directors on the Board were members in more than ten committees and did not act as Chairman of more than five committees across all companies in which they were Directors.

The Composition of the Board, the attendance at the Board Meeting during the year and at the last Annual General Meeting as well as the number of other Directorships(excluding private limited companies and companies under section 25 of the Companies Act,1956) and committee memberships/ Chairman of the committee during the year ended 31st March , 2006 is as under:

Name	Category	BM attendance	Last AGM	Directorship	Committee membership	Chairman of the Committee	Shares held by non-Executive Director
S. K. Todi	Non executive Chairman-Promoter	7	P	13	2	3	88925
N.C. Chaudhari	Non executive Independent	7	P	1	–	–	–
Dr Nitesh Kumar Sen Gupta	Non executive Independent	5	–	6	–	–	–
S. K. Khaitan	Non executive Independent	4	–	6	3	2	–
Atmaram Jatia	Non executive Independent	1	–	4	–	–	–
Rahul Todi	Non executive Promoter	6	P	2	–	–	208000
Ravi Todi	MD - Promoter	7	P	4	–	–	Executive
Sanjeev Agarwal	Executive Director	7	P	3	1	–	Executive
G. C. Das	Non executive Independent	5	P	7	–	–	12800

B) Board's Process

The Company's Directors are informed of every major decision by the management of the Company apart from what is statutorily required. At least one meeting is held every quarter and presentations to the Board cover proposal in the areas of finance, sales, marketing, investment, diversification and changes in statutes.

C) Code of Conduct

i) The Board has prepared a code of conduct for all its Board members and senior management executives.

ii) The code of conduct was posted on the website of the Company.

iii) All Board members and senior management personnel affirmed their compliance with the code.

2) Audit Committee

A) Composition

The Audit Committee comprised three Directors (Shri N.C. Chaudhuri - Chairman, Shri Rahul Todi and Shri G. C. Das) of whom all were non-executive and two were independent Directors. Shri N. C. Chaudhuri, Chartered Accountant, non-Executive Independent Director, possessed the necessary financial background and was an expert in financial and internal control areas. Mr. Sanjay K. Mundra, Finance Controller cum Company Secretary, acted as the Secretary to the Committee.

The Audit Committee of the Company mets before the finalisation of accounts in each year and also mets in each quarter before the results of that quarter were published in the newspapers and informed to the stock exchanges as required under clause 41 of the Listing Agreement.

B) Meeting Of The Audit Committee

During the year under review, four meetings were held on 16.06.2005, 29.07.2005, 28.10.2005 and 31.01.2006. All the members were present at all the meetings.

C) Powers Of Audit Committee

The Audit Committee possessed the following powers:

- To investigate any activity within its terms of reference.
- To seek information from any employee
- To obtain external legal or other professional advice
- To secure the attendance of outsiders with relevant expertise if it considered this necessary.

D) Role Of Audit Committee

The role of the Audit Committee comprised the following:

1. Overview of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statements were correct, sufficient and credible.

2. Management discussion and analysis of financial condition and results of operations;

3. Recommending to the Board, the appointment, re-appointment and, if required, the, replacement or removal of the Statutory Auditors and the fixation of audit fees.

4. Approval of payment to statutory auditors for any other services rendered by them.

5. Review with the management the annual financial statements before submission to the Board for approval, with a particular reference to:

(a) Matters required to be included in the Directors' Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956.

(b) Changes, if any, in accounting policies and practices and reasons for the same.

(c) Major accounting entries involving estimates based on the exercise of judgment by management.

(d) Significant adjustments made in the financial statements arising out of audit findings.

(e) Compliance with listing and other legal requirements relating to financial statements.

(f) Disclosure of any related party transactions.

(g) Qualifications in the draft audit report.

6. Reviewing with the management the quarterly financial statements before submission to the Board for approval.

7. Reviewing with the management the performance of the statutory and internal auditors as well as the adequacy of the internal control systems.

8. Reviewing the adequacy of the internal audit function.

9. Discussion with the internal auditors any significant findings and follow-up thereon.

10. Reviewing the findings of any internal investigations by the internal auditors into matters where there was suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.

11. Discussion with the statutory auditors before the audit commences about the nature and scope of the audit as well as the post-audit discussion to ascertain any area of concern.

12. To look into the reasons for substantial defaults in the payment to erstwhile debenture holders, shareholders (in case of non-payment of declared dividends) and creditors, if any.

E) Review Of Information By Audit Committee

The Audit Committee regularly reviewed the following information:

1. Management letters/ letters of internal control weaknesses, if any, issued by the statutory auditors;

2. Internal audit reports relating to internal control weaknesses

3. The appointment, removal and terms of remuneration of the internal auditor

3) Remuneration Committee

The remuneration of employees largely consisted of a fixed component, variable component and performance incentives. The component of the total remuneration varied for different grades and was influenced by the industry pattern, employee qualifications and experience, responsibilities handled and individual performance. The remuneration policy was structured to motivate superior performance, recognize contributions and retain talent.

The Company's Remuneration Committee comprised Shri S. K. Khaitan - Chairman, Shri S. K. Todi and Shri G.C. Das. A meeting was held on 28.10.2005, all members were present and they discussed the remuneration package of senior employees, reviewed employee performance and determined emoluments based on such review.

The non-Executive Directors were entitled to sitting fees only; the sitting fees paid for attending the Board meeting was Rs. 3000 and Rs. 1000 for attending the Audit Committee meeting.

The remuneration package of the Directors was as follows:

Remuneration package

Name	Salary	Allowance	Commission	Sitting fees	Total
Shri S. K. Todi	–	–	–	21000	21000
Shri N. C. Chaudhuri	–	–	–	25000	25000
Shri Dr. Nitesh Sen Gupta	–	–	–	15000	15000
Shri S. K. Khaitan	–	–	–	12000	12000
Shri Atmaram Jatia	–	–	–	3000	3000
Shri Rahul Todi	–	–	–	21000	21000
Shri Ravi Todi	806400	682030	936436	–	2424866
Shri Sanjeev Agarwal	300000	–	–	–	300000
Shri G. C. Das	–	–	–	19000	19000

4) Shareholders'/Investors Grievance Committee

The Shareholders'/Investor Grievances Committee comprised Shri Ravi Todi (Managing Director), Shri N. C. Chaudhuri and Shri Rahul Todi. Under the chairmanship of Shri Rahul Todi, non-Executive Director, the committee looked into the redressal of shareholders and investor complaints like the transfer of shares, non-receipt of the Balance Sheet and non-receipt of declared dividends etc.

All investor complaints, which couldn't be settled at the level of Mr. Sanjay K. Mundra, Finance Controller cum Company Secretary, were forwarded to the Shareholders'/Investor Grievance Committee for final settlement.

The Company received 87 complaints during the year, which were disposed of within stipulated time. No complaints were pending as on 31st March 2006. The Committee met every quarter in 2005-06 and reviewed the performance of the registrar and share transfer agents, taking measures for an overall improvement in providing a better investor service.

5) The Asset-Liability Committee (Alco)

All the NBFCs, whether accepting public deposits or not, meeting the Rs. 100 cr. asset base criteria or holding public deposits of Rs. 20 crores or more as per the audited balance sheet, is required to comply with the guidelines for Asset-Liability Management System as laid down by the Reserve Bank of India. The Company constituted an Asset-Liability Committee (ALCO), which comprised Shri Ravi Todi (Managing Director), Shri Sanjeev Agarwal (Director Operations) and Shri Sanjay K. Mundra, Finance Controller cum Company Secretary. Shri Rajeev Manpuria, President Finance, resigned with effect from 19.11.2005.

6) Management Discussion & Analysis

The Management Discussion and Analysis forms a part of the Annual Report.

7) Details of Directors seeking re-appointment at this Annual General Meeting

Shri Atmaram Jatia and Shri N.K. Sengupta retire by rotation in the ensuing Annual General Meeting and being eligible offer themselves for re-appointment. Shri Sanjeev Agarwal, Executive Director, was reappointed for three years commencing from 1st August 2006.

8) Share Transfers

In accordance with Clause 49 para VI (D) of the listing agreement of the stock exchanges, the Board unanimously delegated the power of share transfer to Shri Ravi Todi (Managing Director) to expedite the process. All share-related matters were resolved within 30 days of receipt and the transfer of shares was approved at least once a fortnight.

9) Share Transfer Agent

The Company engaged the services of AMI Computers (I) Ltd., 60 A & B, Chowringhee Road, Kolkata-700020, a SEBI-registered registrar for processing the transfers, sub-division, consolidation, splitting of securities etc. Since trades in the Company's shares can now be done only in a dematerialised form, the request for demat and remat should be sent directly to:
M/s. AMI Computers (I) Ltd., 60A & B, Chowringhee Road, Kolkata- 700 020.
Phones: 033- 22800900 and 033-55501576.
Shareholders may open their accounts with either the NSDL or CDSL as the Company has entered into agreements with both.

10) Dematerialisation of Shares

The Company's shares enjoyed a demat facility with NSDL and CDSL, with an ISIN number :INE510C01016. The demat facility was available since 29th January 2001.

No. of shares held in a demat form and their percentage	6278012	73.85
No. of shares held physically and their percentage	2223123	26.15
Total	8501135	100.00

11) General Body Meetings

Location and time, Annual General Meetings were held during the last three years:

Year	AGM/ EGM	Location	Date	Time	No. of special resolutions passed
2002-03	AGM	15-B, Hemanta Basu Sarani, Kolkata-700001	22.09.2003	11.00A.M	One
2003-04	AGM	15-B, Hemanta Basu Sarani, Kolkata-700001	23.09.2004	11.00A.M	One
2004-05	AGM	Gyan Manch, 11 Pretoria Street, Kolkata-700071	26.08.2005	11.00A.M	One

13) Postal Ballot

During the year under review, the company obtained the approval of its members through a postal ballot for the alteration of the objects clause of the Memorandum of Association. The Company appointed Mr. S.K.Khemka, practicing Company Secretary, as the scrutinizer for conducting fair and transparent postal ballot voting. The results of the postal ballot were as follows:

Particulars	No. of shares	Percentage (%)
Total number of votes cast	31,57,962	100.00
Votes cast in favour of the Resolution	31,47,041	99.65
Votes cast against the Resolution	318	0.01
Votes which expressed no opinion and cancelled	10,603	0.34

14) Disclosures

1. There were no materially significant transactions with related parties i.e. subsidiaries, promoters, directors or the management and their relatives conflicting with the Company's interest.

2. The Company complied with various rules and regulations prescribed by the stock exchanges, Securities and Exchange Board of India and any other statutory authorities relating to the capital markets during the last three years.

3. The Company affirms that it did not deny any personnel access to the audit committee (in respect of matters involving alleged misconduct) and that it provided protection to whistleblowers from unfair termination and other unfair or prejudicial employment practices.

15) Shareholder's Information Policy

1. The quarterly unaudited results and annual audited results are published in Financial Express, Times of India, Economic Times, Pratidin and Dainik Lipi. The results were also posted on the SEBI website.

2. The company also displayed official news releases and presentations made to institutional investors/ analysts on request from them.

3. Management's Discussions & Analysis forms a part of this Annual Report, which is being posted to all the shareholders of the Company.

4. Official news releases were given directly to the stock exchanges.

16) Nature Of Complaints / Shareholder Complaints Received During 2005-06

Sl. No.	Subject of complaints	Total complaints received	Total complaints redressed	Complaints redressal pending
1	SEBI/Stock exchange	02	02	Nil
2	Change of address	15	15	Nil
3	Non-receipt of dividend	18	18	Nil
4	Non-receipt of transfer share certificate	17	17	Nil
5	Stop transfer and issue of duplicate shares	18	18	Nil
6	General complaint	17	17	Nil

17) Shareholders' Information

A. Annual general meeting

Date: 25th August, 2006, Time: 11.00 AM.
Venue: Gyan Manch, 11, Pretoria Street, Kolkata 700 071

B. Registered office address

Todi Mansion, P-15, India Exchange Place Extension, Kolkata- 700 073. Phones: 033-22375415,033- 22375415/6369/033-22362878

C. Registrar and share transfer agent

M/s. AMI Computers (I) Ltd., 60A & B, Chowringhee Road, Kolkata- 700 020. Phones: 033- 22800900/ 033-55501576

D. Website

The URL of the Company is www.shrachi.com

E. Financial calendar

Financial year	April- March
First quarter result	End of July
Half yearly result	End of October
Third quarter result	End of January
Result for the year ending	End of June

F. Listing of equity shares on the stock exchanges

The Company's shares are listed on:

- The Stock Exchange, Mumbai
- The Calcutta Stock Exchange Association Ltd.

The listing fees for the year 2005-2006 were paid to the stock exchanges. The stock code of the Company on BSE is 511591.

G. Market price data:

Month	The Calcutta Stock Exchange Share Price		The Stock Exchange Mumbai Share Price		Sensex (BSE)	
	High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)
April 2005	–	–	27.05	18.55	6606.41	6134.86
May 2005	–	–	32.50	22.00	6715.11	6195.15
June 2005	–	–	37.10	28.25	7193.85	6655.56
July 2005	–	–	53.00	29.00	7635.42	7145.13
August 2005	–	–	57.95	40.00	7859.53	7595.57
September 2005	–	–	64.40	43.00	8650.17	7876.15
October 2005	–	–	51.00	33.25	8068.95	7685.64
November 2005	–	–	40.75	35.95	8994.94	7944.10
December 2005	–	–	51.10	36.25	9397.93	8815.53
January 2006	–	–	57.95	45.05	9919.89	9237.53
February 2006	–	–	51.00	41.00	10370.24	9742.58
March 2006	–	–	47.25	42.00	11356.95	10344.26

H. Contact person for enquiries/ assistance/ clarification/ compliance officer:

Mr. Sanjay K. Mundra
Shrachi Infrastructure Finance Ltd.
Finance Controller cum Company Secretary
P-15, India Exchange Place Extension,
Kolkata 700 073
Phones: 033- 22375415,033- 22375415/ 6369/033- 22362878.

I. Date of book closure:

The register of the members and share transfer books of the Company will remain closed from 17th day of August 2005 to the 25th day of August, 2005 (both days inclusive).

j. Dividend Payment:

The Board of Directors of the Company proposed a dividend at the rate of Rs. 1.80 per equity share for 2005-06.

k. Number of shareholders:

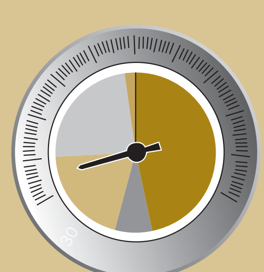
Year ended	No. of shareholders
31st March 2004	6930
31st March 2005	6194
31st March 2006	6018

15. Distribution and Pattern of Shareholding as on 31st March 2006

Range In no. of shares	Range In value of shares	No. of shareholders	% of Total holders	No. of shares	% of total holding
1 to 500	10 to 5,000	5267	87.52	780012	9.17
501 to 1,000	5,010 to 10,000	369	6.13	322354	3.79
1,001 to 2,000	10,010 to 20,000	167	2.77	271710	3.19
2,001 to 3,000	20,010 to 30,000	69	1.14	181465	2.13
3,001 to 4,000	30,010 to 40,000	25	.41	90383	1.06
4,001 to 5,000	40,010 to 50,000	27	.44	128420	1.51

Range In no. of shares	Range In value of shares	No. of shareholders	% of Total holders	No. of shares	% of total holding
5,001 to 10,000	50,010 to 1,00,000	30	.49	230652	2.71
10,001 to 50,000	1,00,010 to 5,00,000	35	.58	868053	10.21
50,001 to 1,00,000	5,00,010 to 10,00,000	11	.18	920878	10.83
1,00,001 & above	10,00,010 & above	18	.29	4707208	55.37
Total		6018	100.00	8501135	100.00
Resident Indians		5737	95.33	2716268	31.95
Domestic companies		239	3.97	3687104	43.37
Non resident Indians		22	.36	58958	.69
Foreign companies		1	.01	100	.00
Mutual funds		2	.03	175500	2.06
Banks		1	.01	200	.00
Directors/relatives		15	.24	1269063	14.92
FIIs		1	.01	593942	6.98
Total		6018	100.00	8501135	100.00

Shareholding Pattern As On 31.03.2006



16) Adoption of Non-Mandatory Requirements of Clause 49

- Maintenance of a non-Executive Chairman's office.
- Formation of a Remuneration Committee

17. Report On Corporate Governance

The Company complied with the provisions of Clause 49 of the Listing Agreement. A certificate from the Auditor is attached to the Directors' Report.

18. Ceo Certification

Mr. Ravi Todi, Managing Director of the Company, certifies that to the best of his knowledge and belief:

a) The Company has reviewed the Balance Sheet and Profit and Loss account and all its schedules and notes on accounts, as well as the cash flow statement and the Directors' Report;

b) These statements do not contain any materially untrue statement or omit any material fact nor do they contain statements that might be misleading;

c) These statements together present a true and fair view of the Company, and are in compliance with the existing accounting standards and / or applicable laws/ regulations;

d) The effectiveness of the internal control system has been evaluated and the same has been indicated to the auditors and the Audit Committee.

Auditor's Certificate on Corporate Governance

To The Members Of Shrachi Infrastructure Finance Ltd

We have examined the compliance of conditions of corporate governance procedures implemented by SHRACHI INFRASTRUCTURE FINANCE LTD., Kolkata for the year ended 31st March 2006 as stipulated in clause 49 of the Listing Agreement of the said Company with the Stock Exchanges of India.

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to procedures and implementation, thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreement.

The Registrar and Share Transfer Agents of the Company have certified that there were no investor grievances pending as on 31st March, 2006.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **R. K. SUREKA & CO.**
Chartered Accountants

Naresh Kumar Ganeriwal
Partner
(Membership No.055430)

Kolkata, 14th June, 2006

Financial section

Auditors Report

To
The Members of
SHRACHI INFRASTRUCTURE FINANCE LIMITED

We have audited the attached Balance Sheet of SHRACHI INFRASTRUCTURE FINANCE LIMITED as at 31st March, 2006 and also the Profit & Loss Account and Cash Flow Statement of the company for the year ended on that date, annexed thereto (in which are incorporated the accounts of the Chennai branch of the company for the year ended 31st. March, 2006 which has been audited by the Branch Auditor and whose report has been considered by us). These financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion and we report that:

(1) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with notes thereon as mentioned in Schedule-V, give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(i) In the case of the Balance Sheet, of the State of Affairs of the Company as at 31st March, 2006 and

(ii) In the case of the Profit & Loss Account of the profit for the year ended on that date.

(iii) In the case of the Cash Flow Statement of the cash flow for the year ended on that date.

(2) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.

(3) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books.

(4) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account.

(5) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement are in compliance with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956, to the extent applicable.

(6) On the basis of information and explanations given to us, and representations obtained by the Company, there are no Directors of the

Company who are disqualified under Section 274(1)(g) of the Companies Act, 1956, from being appointed as Directors.

As required by the Companies (Auditor's Report)/ Ammendment Order, 2004 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, on the matters specified in paragraphs 4 and 5 of the said Order, we further report that:

1. (a) The Company has maintained proper record showing full particulars, including quantitative details and situation of fixed assets.

   (b) All the Fixed Assets have been physically verified by the management during the year but there is no material discrepancies were noticed on such verification.

   (c) During the year Company has not disposed off substantial part of its fixed assets.

2. Since the company had certain stock of shares only in hand at the year-end, clause 4 (ii) (a) (b) (c) are not applicable.

3. In respect of loans, secured or unsecured, granted by the company to companies covered in the Register maintained under Section 301 of the Companies Act, 1956-

   (a) The Company has granted loans to four parties aggregating to Rs.5,08,30,408/- during the year.

   (b) In our opinion and according to the explanations given to us, the rate of interest, wherever applicable and other terms and conditions are not prima facie prejudicial to the interest of the Company.

   (c) In respect of loans granted by the Company to a wholly owned subsidiary of the Company, the loan is interest free and is repayable on demand.

4. In respect of loans, secured or unsecured, taken by the company from companies covered in the Register maintained under Section 301 of the Companies Act, 1956-

   (a) The Company has taken loans from one party amounts to Rs.20,74,743/- during the year.

   (b) In our opinion and according to the explanations given to us, the rate of interest, wherever applicable and other terms and conditions are not prima facie prejudicial to the interest of the Company.

   (c) In respect of loans taken by the Company, the interest payments are regular and the principal amount is repayable on demand.

   (d) There is no overdue amount in respect of loans taken by the Company.

5. There is an adequate internal control procedure commensurate with the size of the Company and the nature of its business for the purchase of plant & machinery, equipment & other assets.

6. (i) Based on the Audit procedure applied by us and according to the Information and Explanation provided by the management we are of the opinion that the transaction that need to be entered into the Register mentioned under Section 301 have been so entered.

   (ii) Each of these transactions, in Clause 5(I) above have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.

7. The Company has accepted fixed deposits from the public and has complied with the directives issued by the Re¬serve Bank of India and the provisions of Section 58A & 58AA of the Companies Act, 1956 and the Rules framed hereunder, wherever applicable.

8. The Company has an internal audit system commensurate with the size and nature of its business.

9. Clause 4(viii) is not applicable since the Central Government has not prescribed for such records.

10. (i) According to the books & records as produced and examined by us the company is regular depositing with appropriate authorities undisputed statutory dues including provident fund, employees state insurance fund, education protection fund and income tax, sales tax, wealth tax, custom duty, excise duty and other statutory dues with the appropriate authorities during the year as applicable to it.

   (ii) According to the records of the company and the information and explanations given to us, there are no undisputed amount payable in respect of Provident Fund, Investor education and protection fund, employees' State Insurance, Sales Tax, Wealth Tax, Excise Duty, Customs Duty which were outstanding as at the last day of the Financial Year and the forum where the details regarding amount involved disputes are pending - as given under note 10 of Schedule V to the Notes on Accounts.

11. The Company has no accumulated losses at the end of the financial year. It has not incurred any cash losses in the current or in the immediately preceding financial year.

12. According to the information and explanation given to us, the company has not defaulted in repayment of dues to the financial institution & banks.

13. According to the information and explanation given to us, the Company has not granted any loans and advances on the basis of security by pledge of shares, debenture, and other securities.

14. The Company is not chit fund or Nidhi Mutual Benefit Fund/Society therefore, the provision of Clause 4 (xiii) of the Companies (Auditor's Report)/Amendment order 2004 are not applicable to the Company.

15. According to the information & explanation given to us the Company has dealt & treated in securities during the year. In our opinion and according to the information and explanation given to us, proper records have been maintained of the transaction and contracts relating to dealing/trading in shares and other investment and timely entries have been made therein. The shares and other investments have been held by the Company in its own name.

16. According to the information & explanation given to us the Company has not given any guarantee for loan taken by others from bank or financial institutions.

17. According to information & explanation given to us, the terms loans have been applied for the purpose for which they were raised.

18. According to the information & explanation given to us and on an overall examination of the Balance Sheet of the Company we report that no fund raised on short-term basis have been used for long term. No long-term funds have been used to finance short-term assets.

19. The Company has not made preferential allotment of shares to parties & companies covered in the register maintained under Section 301 of the Companies Act, 1956.

20. The clause 4(xix) is not applicable to the Company.

21. The Company has not raised any money through a public issue(s) during the year.

22. Based upon the Audit procedure performed & information & explanations given to us, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For **R. K. Sureka & Co**
Chartered Accountants

Naresh Kumar Ganeriwal
Place: Kolkata *Partner*
Date: 14th June, 2006 Membership No.055430

shrachi
Infrastructure Finance Limited

Balance Sheet

(Amount in Rupees)

	Schedule	As at 31.03.2006	As at 31.03.2005
SOURCES OF FUNDS			
Shareholders' Funds			
(a) Share capital	A	8,50,11,350	8,50,11,350
(b) Reserves and surplus	B	24,37,81,038	20,21,09,392
Loan Funds			
(a) Secured loans	C	133,09,44,436	61,75,69,204
(b) Unsecured loans	D	18,80,01,325	28,33,97,731
Deferred Tax Liability (Net)		6,29,02,148	4,65,18,335
Total		**191,06,40,297**	**123,46,06,012**
APPLICATION OF FUNDS			
Fixed Assets			
(a) Gross block	E	62,17,16,583	51,20,85,455
(b) Less: Depreciation		28,10,05,233	29,59,63,419
		34,07,11,350	21,61,22,036
(c) Less:Lease adjustment account		3,88,18,153	3,83,65,337
Net Block		30,18,93,197	17,77,56,699
Investments	F	7,20,14,238	3,71,82,681
Current Assets, Loans and Advances			
(a) Current Investments	G	7,63,719	15,27,101
(b) Stock on hire/ loan	H	117,50,47,936	70,77,00,940
(c) Stock on account of associate business (Net)	I	24,99,32,690	29,02,87,204
(d) Receivables for assets on lease	J	10,91,86,875	8,58,24,683
(e) Office complex for development		5,01,26,819	3,10,44,897
(f) Cash & bank balances	K	13,24,60,015	4,43,64,511
(g) Other current assets	L	15,08,04,228	5,74,39,160
(h) Loans and advances	M	23,58,05,962	17,14,10,657
		210,41,28,244	138,95,99,153
Less: Current Liabilities & Provisions			
(a) Current liabilities	N	54,06,73,755	35,23,26,637
(b) Provisions	O	2,67,21,627	1,76,05,884
		56,73,95,382	36,99,32,521
Net Current Assets		153,67,32,862	101,96,66,632
Total		**191,06,40,297**	**123,46,06,012**
Notes on Accounts	V		

As per our report of even date

For **R. K. SUREKA & CO.**
Chartered Accountants

Naresh Kumar Ganeriwal
Partner

Sanjay K. Mundra
Finance Controller cum Company Secretary

Ravi Todi
Managing Director

N. C. Chaudhuri
Director

Place: Kolkata
Date: 14th June, 2006

Profit and Loss Account

(Amount in Rupees)

	Schedule	2005-2006	2004-2005
INCOME			
Income from financing operations	P	30,77,28,612	24,06,19,164
Other income	Q	1,27,25,115	1,32,51,213
		32,04,53,727	**25,38,70,377**
EXPENDITURE			
Establishment charges	R	5,00,25,716	3,20,03,733
Other expenses	S	6,76,37,650	4,82,09,677
Financial expenses	T	9,42,18,033	8,53,02,712
Provisions & write off	U	1,42,41,932	91,59,517
		22,61,23,331	**17,46,75,639**
Profit before depreciation and tax		9,43,30,396	7,91,94,738
Less : Depreciation		57,54,338	70,88,176
Profit before tax		8,85,76,058	7,21,06,562
Less : Provision for taxation			
(1) Current tax		1,10,00,000	1,40,00,000
(2) Fringe benefit tax		20,72,444	–
(3) Deferred tax		1,63,83,813	41,10,518
Profit after tax		5,91,19,801	5,39,96,044
Add : Balance brought forward		2,57,63,405	3,70,58,716
Profit available for appropriation		8,48,83,206	9,10,54,760
Interim Dividend @ 6%		–	51,00,681
Tax on Interim Dividend		–	6,66,596
Proposed Dividend @ 18%		1,53,02,043	76,51,022
Tax on Proposed Dividend		21,46,112	10,73,056
Transfer to statutory reserve		1,32,00,000	1,08,00,000
Transfer to general reserve		4,50,00,000	4,00,00,000
Surplus -balance carried to balance sheet		92,35,025	2,57,63,405
Total		**8,48,83,206**	**9,10,54,760**
Earning per share(Basic/Dilute)		6.95	6.35
Notes on Accounts	V		

As per our report of even date

For **R. K. SUREKA & CO.**
Chartered Accountants

Naresh Kumar Ganeriwal
Partner

Sanjay K. Mundra
Finance Controller cum Company Secretary

Ravi Todi
Managing Director

N. C. Chaudhuri
Director

Place: Kolkata
Date: 14th June, 2006

Cash Flow Statement

(Amount in Rupees)

	2005-2006	2004-2005
A. CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	8,85,76,058	7,21,06,562
Add back:		
(a) Depreciation and lease adjustment account	(1,45,05,370)	(2,15,13,919)
(b) Financial expenses	9,42,18,033	8,53,02,712
(c) Provision against non-performing assets	5,79,394	(79,93,504)
(d) Share investments written off	1,13,194	–
(e) Provision for diminution in value of shares	(1,87,728)	(49,17,739)
	16,87,93,581	12,29,84,112
Deduct:		
Income from investments	97,40,872	64,43,875
Operating profit before working capital charges	15,90,52,709	11,65,40,237
Deduct:		
(a) Increase stock on hire/loan	42,69,92,482	16,61,02,245
(b) Increase in receivables for assets on lease	2,33,62,192	–
(c) Increase in trade and other receivables	15,82,50,702	8,28,72,731
	60,86,05,376	24,89,74,976
Add:		
(a) Decrease in inventories	7,63,382	4,24,86,573
(b) Decrease in receivables for assets on lease	–	3,33,96,445
(c) Increase in trade payable	18,81,07,468	2,85,09,069
	18,88,70,850	10,43,92,087
Cash flow from operations	(26,06,81,817)	(2,80,42,652)
Deduct:		
(a) Financial expenses	9,39,78,383	8,62,24,713
(b) Direct taxes	1,24,69,838	1,55,42,643
	10,64,48,221	10,17,67,356
Net cash from operating activities	**(36,71,30,038)**	**(12,98,10,008)**
B. CASH FLOW FROM INVESTING ACTIVITIES		
Outflow :		
(a) Purchase of investments (Net)	3,49,44,751	90,34,341
(b) Office Complex for development	1,90,81,922	2,01,75,191
(c) Purchase of fixed assets	13,57,17,638	61,48,000
	18,97,44,311	3,53,57,532
Inflow :		
(a) Income from investments	96,28,595	63,67,678
(b) Sale of fixed assets*	2,60,86,510	3,79,40,341
	3,57,15,105	4,43,08,019
Net cash used in investing activities	**(15,40,29,206)**	**89,50,487**

* includes regrouping of land into the qualifying

Cash Flow Statement *(Contd.)*

(Amount in Rupees)

	2005-2006	2004-2005
C. CASH FLOW FROM FINANCING ACTIVITIES		
Inflow :		
Increase in long term borrowings	64,36,34,710	14,70,60,864
Increase in short term advances	(2,56,55,884)	(1,10,78,804)
	61,79,78,826	**13,59,82,060**
Less:		
Outflow :		
Dividend paid(including Dividend tax)	87,24,078	57,67,277
Net cash from financing activities	**60,92,54,748**	**13,02,14,783**
D. NET CASH INFLOW/(OUTFLOW) (A+B+C)	**8,80,95,504**	**93,55,262**
Cash & Cash equivalents:		
Opening balance	4,43,64,511	3,50,09,249
Closing balance	13,24,60,015	4,43,64,511
E. NET INCREASE IN CASH AND CASH EQUIVALENTS	**8,80,95,504**	**93,55,262**

For **R. K. SUREKA & CO.**
Chartered Accountants

Naresh Kumar Ganeriwal
Partner

Sanjay K. Mundra
Finance Controller cum Company Secretary

Ravi Todi
Managing Director

N. C. Chaudhuri
Director

Place: Kolkata
Date: 14th June, 2006

Schedules annexed to and forming part of the accounts

(Amount in Rupees)

		As at 31.03.2006		As at 31.03.2005
A SHARE CAPITAL				
Authorised				
2,00,00,000 Equity Shares of Rs.10/- each (Previous year 1,00,00,000 Equity Shares)		20,00,00,000		10,00,00,000
Issued, Subscribed and Paid-Up				
85,01,135 Equity Shares of Rs. 10/- each fully paid up				
Out of above 7,50,750 shares allotted as fully paid up by way of bonus shares by capitalisation of general reserve and accumulated profit		8,50,11,350		8,50,11,350
		8,50,11,350		8,50,11,350
B RESERVES AND SURPLUS				
(a) General reserve				
As per last account	9,88,92,762		5,88,92,762	
Add: Transfer from profit and loss account	4,50,00,000	14,38,92,762	4,00,00,000	9,88,92,762
(b) Securities premium account		3,15,03,225		3,15,03,225
(c) Statutory reserve				
As per last account	4,59,50,000		3,51,50,000	
Add: Transfer from profit and loss account	1,32,00,000	5,91,50,000	1,08,00,000	4,59,50,000
(d) Profit and loss account		92,35,051		2,57,63,405
		24,37,81,038		20,21,09,392
C SECURED LOANS				
From Scheduled banks				
Cash credit accounts & Working capital demand loans		41,13,24,383		26,32,44,690
Term loans				
Domestic financial institutions/banks		86,50,69,138		28,59,51,180
Foreign financial institution		5,45,50,915		6,83,73,334
		1,33,09,44,436		61,75,69,204
D UNSECURED LOANS				
Fixed deposits		14,61,75,500		16,06,30,500
Intercorporate deposits		3,26,58,971		8,79,44,493
Term advances		91,66,854		3,48,22,738
		18,80,01,325		28,33,97,731

Schedules annexed to and forming part of the accounts

E FIXED ASSETS

FIXED ASSETS	GROSS BLOCK (AT COST)				DEPRICIATION				BALANCE IN LEASE ADJUST-MENT A/C	NET BLOCK	
DESCRIPTION	As at 1st April, 2005	Additions	Deletions/ Adjustments	As at 31st March, 2006	As at 1st April, 2005	For the period	Deletions/ Adjustments	As at 31st March, 2006		As at 31st March, 2006	As at 31st March, 2005
Owned Assets											
Land & Building	14,03,589	30,00,000		44,03,589						44,03,589	14,03,589
Office Premises	97,07,646		3,47,403	93,60,243	9,89,551	1,69,718	187,753	9,71,516		83,88,727	87,18,094
Furniture & Fittings	66,44,979	13,17,010		79,61,989	39,46,055	6,78,995		46,25,050		33,36,939	27,16,914
Vehicles	1,01,48,575	22,47,860	13,68,615	1,10,27,820	52,83,639	14,57,414	8,62,454	58,78,599		51,49,221	48,64,936
Office equipment	1,27,08,357	27,76,017		1,54,84,374	81,92,649	18,98,896		1,00,91,545		53,92,829	44,97,720
Plant & Machinery	-	11,37,73,332		11,37,73,332		32,916		32,916		11,37,40,416	-
Holiday Time share	31,500			31,500						31,500	31,500
	4,06,44,646	12,31,14,219	17,16,018	16,20,42,847	1,84,11,894	42,37,939	10,50,207	2,15,99,626		140,443,221	2,22,32,753
LEASED ASSETS											
Vehicles	46,06,34,408	1,26,03,420	2,43,70,492	44,88,67,336	27,25,88,568	15,16,399	1,96,62,316	25,44,42,651	3,89,27,597	155,497,088	14,95,71,059
Plant & Machinery	98,28,520			98,28,520	40,43,554			40,43,554	1,66,140	5,618,826	56,18,826
Other equipment	9,77,880			9,77,880	9,19,402			9,19,402	(2,75,584)	334,062	3,34,061
	47,14,40,808	1,26,03,420	2,43,70,492	45,96,73,736	27,75,51,524	15,16,399	1,96,62,316	25,94,05,607	3,88,18,153	161,449,976	15,55,23,946
Total	512,085,454	13,57,17,639	2,60,86,510	62,17,16,583	29,59,63,418	57,54,338	2,07,12,523	28,10,05,233	3,88,18,153	30,18,93,197	17,77,56,699
Previous year	54,38,77,796	61,48,000	3,79,40,341	51,20,85,455	32,31,09,387	70,88,176	3,42,34,144	29,59,63,419	3,83,65,337	17,77,56,699	

Schedules annexed to and forming part of the accounts

(Amount in Rupees)

F INVESTMENTS

	Face Value	Nos.	As at 31.03.2006 Amount	Nos.	As at 31.03.2005 Amount
A. PSU BONDS (Government Guaranteed): Quoted					
13% Maharashtra Krishna Valley Development Corpn. Ltd.	100000	15	14,25,000	15	14,25,000
11% Maharashtra Krishna Valley Development Corpn. Ltd.	100000	64	66,02,550	34	34,93,050
11.5% Maharastra State Financial Corporation*	100000	5	5,80,000	–	–
14.50%Maharashtra Jeevan Pratikaran**	100000		–	25	26,01,250
15.50%Punjab State Electricity Board**	400000		–	8	35,56,000
9.5% Sardar Sarovar Nigam Ltd. (taxfree)	10000	200	2033000	200	20,33,000
9.5% Sardar Sarovar Nigam Ltd. (taxfree)	100000	32	3428800	32	34,28,800
0% Sarder Sarovar Nigam Ltd. DDB*	111000	50	2525000	–	–
13.65%Kerala Financial Corporation*	100	30000	3180000	–	–
			1,97,74,350		1,65,37,100
B) In Shares: Quoted (Fully Paid-up Shares)					
Electrosteel Castings Ltd.	10	–	–	1000	4,09,345
Emami Ltd.	2	51888	66,08,399	46397	35,65,379
Emami Paper Mills Ltd.	2	12000	90,000	2400	90,000
Hindalco Ltd. (partly paid : rights issue)	2.5	286	6,864	–	–
Indian Petrochemicals Corporations Ltd.	10	–	–	2000	4,17,300
JP Hydro Power Ltd.	10	160254	50,83,570	–	–
LIC Housing Finance Ltd.	10	1000	2,51,088	–	–
Tata Teleservices Ltd.	10	20000	5,86,682	5000	1,51,263
Andhra Cements Ltd.	10	54658	21,67,911	–	–
Assam Company Ltd.	1	50000	14,47,291	–	–
Bank of Rajasthan	10	90000	53,66,705	–	–
Geodisic Information Ltd.	2	5000	13,71,302	–	–
Himachal Futuristic Communications Ltd.	10	20000	4,90,238	–	–
Mount Everest Mineral Ltd.	10	10000	6,76,240	–	–
Srirampurai Balaji Steels Ltd.	10	74657	17,74,029	–	–
SREI Infrastructure Finance Ltd.	10	10000	7,18,287	–	–
Sasken Communications Ltd.	10	11187	67,79,016	–	–
ICICI Bank Ltd.	10	2000	12,41,875	–	–
IG Petrochemicals Ltd.	10	2500	48,003	–	–
Inox Leisure Ltd.	10	3000	5,96,714	–	–
Magma Leasing Ltd.	10	5000	6,83,429	–	–
Surya rosni Ltd.	10	2500	1,85,479	2500	94374
Gitanjali Gems Ltd.	10	2000	3,30,001	–	–
Reliance Capital ventures Ltd.	10	1000	11,523	–	–
Reliance Communication Ventures Ltd.	10	3000	9,04,140	–	–
Strides Arcolab Ltd.	10	2000	699,206	–	–
Berger Paints Ltd.	10	–	–	20000	867676
Ciba Specialities Ltd.	10	–	–	5000	1717833
Nuclues Software Ltd.	10	–	–	1000	159720
National Thermal Power Corporation Ltd.	10	–	–	72178	5635269
Punjab Tractor Ltd.	10	–	–	1000	196598
Venky's India Ltd.	10	–	–	2000	178954
HGI Industries Ltd.	10	800	25,393	–	–
Jet Airways Ltd.	10	1000	9,54,703	–	–
Bank of Baroda	10	3915	9,00,450	–	–
			3,99,98,538		1,34,83,711

Schedules annexed to and forming part of the accounts

(Amount in Rupees)

F INVESTMENTS *(Contd.)*

	Face Value	Nos	As at 31.03.2006 Amount	Nos	As at 31.03.2005 Amount
Unquoted (Fully Paid-up Shares)					
Bengal Shrachi Housing Development Ltd.	10	15000	1,50,000	15000	1,50,000
Shrachi Monofilament & Fabrics P. Ltd.	10	100000	10,00,000	100000	10,00,000
Chitra Estates & Credit Pvt. Ltd.	10	16000	1,60,000	16000	1,60,000
Convergence Contacts P. Ltd.	10	50000	5,00,000	50000	5,00,000
South City Projects (Kolkata) Ltd.	10	34000	8,50,000	34000	8,50,000
Zinnia Mercants Pvt. Ltd.	10	3490	34,900	–	–
Bengal Lamps Ltd.	10	3246	32,460	–	–
Belrex India Pvt. Ltd.	10	1699	16,990	–	–
			27,44,350		26,60,000
C) Investment in Subsidiary Company Unquoted (Fully Paid-up Shares)					
Shrachi Auto (P) Ltd.	10	449700	44,97,000	449700	44,97,000
			44,97,000		44,97,000
In Mutual Funds : Quoted (Fully Paid-up Units)					
UTI Master Gain 1992#	10	–	–	500	4,870
Reliance Equity Fund		500000	50,00,000	–	–
			50,00,000		4,870
Total			7,20,14,238		37,18,268

	Book value		Market value	
	31st March 2006	31st March 2005	31st March 2006	31st March 2005
Aggregated of Quoted Investments				
PSU Bonds (Govt. guranted)	1,97,74,350	1,65,37,100	2,06,31,593	1,71,40,631
Shares /Units	4,49,98,538	1,34,88,581	4,11,61,190	1,37,46,114
Aggregated of unquoted Investments	72,41,350	71,57,000	–	–
	7,20,14,238	3,71,82,681	6,17,92,783	3,08,86,745

* Purchased during the year

** Fully redeemed during the year

Schedules annexed to and forming part of the accounts

(Amount in Rupees)

G CURRENT INVESTMENTS

	Face Value	Nos	As at 31.03.2006 Amount	Nos	As at 31.03.2005 Amount
BCL Financial Services Ltd.	10	600	4,800	600	4,800
The Bombay Burmah Trading Ltd.	10	–	–	975	78,000
CRB Corporation Ltd. #	10	–	–	500	6,625
Elgi equipment Ltd.	1	–	–	2000	1,28,521
Essar Shipping Ltd.	10	–	–	5000	1,41,250
Essar Steel Ltd. (Pref.Shares)	10	80	1,300	200	3,250
Himachal Futuristic Communications Ltd.	10	12000	3,84,740	12000	3,84,740
Indo Rama Synthetics Ltd.	10	700	60,056	1700	1,45,850
Integrated Thermoplastic Ltd.	10	5000	15,000	5000	15,000
Indian Petrochemicals Corporations Ltd. #	10	–	–	800	1,80,209
ITC Ltd.	1	100	1,11,692	100	1,11,692
Kanoria Plaschem Ltd.	10	13400	36,850	13400	36,850
Lynx India Ltd.#	10	–	–	1000	8,000
Nicco Uco Alliance Credit Ltd.	10	6000	1,10,000	6000	1,10,000
Prudential Mouli Sugars Ltd.	10	1000	20,900	1000	20,900
Radico Khaitan Finance Ltd.	10	200	1,240	200	1,240
Reliance Industries Ltd. #	10	–	–	50	10,380
Richimen Silk Ltd.#	10	–	–	2000	2,600
Supreme Petro Chemicals Ltd. #	10	–	–	1900	16,150
Tata Iron & Steel Company Ltd. #	10	–	–	20	3,360
TVS Motors Ltd.	1	–	–	994	1,16,184
HGI Industries Ltd.	10	300	17,141	–	–
S M Energy Teknik & Electronics Ltd.	10	–	–	1000	1,500
Total			**7,63,719**		**15,27,101**
Market Value			**5,54,018**		**12,68,550**

Investments W/Off (Refer Notes on Accounts)

H STOCK ON HIRE / LOAN

	As at 31.03.2006	As at 31.03.2005
Stock-on-hire under hire/loan agreements (At agreement values less amount received)	115,46,42,965	68,64,16,800
Repossed assets	2,04,04,971	2,12,84,140
	117,50,47,936	**70,77,00,940**

I STOCK ON ACCOUNT OF ASSOCIATE BUSINESS (NET)

	As at 31.03.2006	As at 31.03.2005
Citicorp Finance India Ltd. (Principal outstanding Rs.23347 lac previous year Rs.29611 lac)	14,51,50,738	19,05,05,252
HDFC Bank Ltd. (Principal outstanding Rs.51716 lac previous year Rs.26588 lac)	10,47,81,952	9,97,81,952
	24,99,32,690	**29,02,87,204**

J RECEIVABLES FOR ASSETS ON LEASE

	As at 31.03.2006	As at 31.03.2005
Lease receivables	10,91,86,875	8,58,24,683
	10,91,86,875	**8,58,24,683**

Schedules annexed to and forming part of the accounts

(Amount in Rupees)

K CASH AND BANK BALANCES

	As at 31.03.2006	As at 31.03.2005
Cash in hand	1,70,06,720	1,17,77,267
Bank balances with scheduled banks in:		
Current accounts	10,23,45,133	2,10,39,163
Deposit accounts	1,20,67,462	1,05,73,531
Unpaid/Unclaimed dividend account	10,40,700	9,74,550
	13,24,60,015	**4,43,64,511**

L OTHER CURRENT ASSETS

	As at 31.03.2006	As at 31.03.2005
Bills receivable	41,95,856	43,78,133
Stock (Real estates)	2,74,250	2,74,250
Income receivable	1,43,31,208	1,36,68,745
Sundry debtors		
Debts outstanding for more than six months	1,80,313	3,43,565
Other debts	13,18,22,601	3,87,74,467
	15,08,04,228	**5,74,39,160**

M LOANS AND ADVANCES

	As at 31.03.2006	As at 31.03.2005
(Unsecured -unless otherwise stated considered good)		
Loans	9,40,64,364	6,65,99,035
Advance for purchase of hire purchase assets	6,50,12,665	3,85,02,286
Advance for Others	87,35,096	64,97,498
Advances recoverable in cash or in kind	5,09,33,328	2,73,82,761
Security deposits	28,31,586	1,77,09,825
Interest accrued on investments	8,65,990	7,53,713
Advance payment of taxes and tax deducted at source (net of provision)	1,33,62,933	1,39,65,539
	23,58,05,962	**17,14,10,657**

N CURRENT LIABILITIES

	As at 31.03.2006	As at 31.03.2005
Sundry Creditors		
H.P. & lease assets	61,02,490	26,88,133
Others	3,52,17,920	2,47,17,831
Unmatured finance charges	15,72,56,298	10,75,34,802
Advance insurance premium	3,57,66,773	3,70,80,923
Advance initial hire	5,38,92,649	2,93,39,494
Liabilities for expenses	28,71,269	32,09,545
Liabilities for Capital expenses (Wind Mill)	7,92,47,992	–
Lease rent received in advance	6,60,939	9,17,798
Tax deducted at sources	10,86,727	12,28,507
Interest accrued but not due	84,27,877	81,88,227
Security deposits	12,54,52,068	13,06,83,189
Cheques overdrawn(due to reconciliation)	3,36,50,053	57,63,638
Unpaid/Unclaimed dividend account	10,40,700	9,74,550
	54,06,73,755	**35,23,26,637**

There is no amount due and outstanding as at Balance Sheet to be credited to Investor Education & Protection Fund

O PROVISIONS

	As at 31.03.2006	As at 31.03.2005
For Non-performing assets	89,80,314	84,00,920
For Proposed Dividend	1,74,48,155	87,24,078
For diminution in value of shares	2,93,158	4,80,886
	2,67,21,627	**1,76,05,884**

shrachi Infrastructure Finance Limited

Schedules annexed to and forming part of the accounts

(Amount in Rupees)

	2005-2006	2004-2005
P INCOME FROM FINANCING OPERATIONS		
Finance charges earned etc.	27,72,25,123	20,63,73,894
Leasing income	1,80,35,339	2,43,65,817
Interest Income	1,24,68,150	98,79,453
	30,77,28,612	24,06,19,164

	2005-2006	2004-2005
Q OTHER INCOME		
Interest on fixed deposits	29,203	11,11,534
Income from bill discounting	7,23,158	7,23,159
Income from investments & Govt. Securities	97,40,872	64,43,875
Dividend	4,82,796	1,71,436
Rent	2,07,567	4,10,520
Income from sale of power	393	–
Miscellaneous income	22,230	82,635
Income from Securuty business	5,41,485	37,33,188
Citi Financial Income Maruti & Wheeler	39,756	1,41,197
Bad Debts recovered	9,37,655	4,33,669
	1,27,25,115	1,32,51,213

	2005-2006	2004-2005
R ESTABLISHEMENT CHARGES		
Salaries, allowances, commission and bonus	4,53,40,798	2,88,18,477
Contribution to provident and other funds	21,06,649	14,99,924
Staff welfare expenses	25,78,269	16,85,332
	5,00,25,716	3,20,03,733

	2005-2006	2004-2005
S OTHER EXPENSES		
Rates and taxes	26,12,465	13,78,832
Rent	39,14,397	19,75,595
Printing and stationary	45,15,759	36,61,826
Advertisements	10,81,604	23,76,772
Insurance	2,86,828	94,376
Directors' sitting fees	1,17,000	61,000
Repairs and maintenance	45,97,920	29,43,338
Legal expenses	14,08,913	15,42,106
Conveyance and travelling	2,09,19,028	1,24,55,880
Auditors' Remuneration :		
Audit fees	91,293	65,000
Tax audit	24,244	20,000
Others	14,500	14,250
Miscellaneous expenses	2,80,53,699	2,16,20,702
	6,76,37,650	4,82,09,677

	2005-2006	2004-2005
T FINANCIAL EXPENSES		
Interest on loans	2,60,00,544	3,95,06,872
Bank interest	6,29,45,859	4,03,60,635
Brokerage on fixed deposits	18,96,404	23,60,947
Other financial expenses	33,75,226	30,74,258
	9,42,18,033	8,53,02,712

Schedules annexed to and forming part of the accounts

(Amount in Rupees)

	2005-2006	2004-2005
U PROVISIONS & WRITE OFF		
Provisions for Non-Performing Assets	5,79,394	(79,93,504)
Provisions for diminution in value of shares	(2,21,528)	(3,93,095)
Bad debts	97,13,653	1,27,89,172
Loss on Assets Sold (Net)	40,57,219	47,06,944
Share Investments written off	1,13,194	–
Goodwill written off	–	50,000
	1,42,41,932	9,159,517

V NOTES ON ACCOUNTS

1. **Statement on Significant Accounting Policies**

I. **Fixed Assets**

Fixed Assets are stated at cost less depreciation. Assets on lease are further stated at net of balance in lease adjustment account other than assets acquired on operating lease during the year.

II. **Depreciation**

(a) Depreciation has been provided on straight-line basis at the rates prescribed in Schedule XIV to the Companies Act, 1956 on all leased assets acquired till 31st March, 2001.

(b) On assets acquired for own use, the depreciation has been provided on written down value method in accordance with the provision of Schedule XIV of the Companies Act, 1956. In case of Plant & Machinery has been calculated on Straight-line method.

(c) Leased assets acquired after 1.4.2001 has been recognized as operating lease and depreciation on such assets has been provided at the rates prescribed under Schedule XIV of the Companies Act, 1956.

III. **Income Recognition**

(a) Lease income is accounted for as per terms of lease agreement entered into upto 31st March, 2001. Income from leases entered on or after 1st April, 2001 is accounted as per Accounting Standard - AS19 - 'Leases' issued by ICAI.

(b) All other incomes have been accounted for on accrual basis.

(c) Income in respect of Hire Purchase transactions undertaken on or after 1st April, 2001are accounted on the basis of Internal Rate of Return method against the Even Spread method followed in respect of Hire Purchase transactions entered into upto 31st March, 2001.

IV. Interest, Brokerage and other financial expenses except processing charges incurred by the Company in connection with the borrowing of funds are recognized as an expense in the period in which they are incurred.

V. Long-term investments are carried at cost.

VI. In terms of prudential norms as prescribed by Reserve Bank of India for non-banking financial companies, the current investments are valued at lower of cost and market price/net realisable value of each shares individually and diminution in value is made.

VII. The company has followed the directions prescribed by Reserve Bank of India for non-banking financial companies.

VIII. The company's liability towards gratuity to employees is covered by group policy with Life Insurance Corporation of India.

2. (a) Cash credit and working capital demand loan facilities from banks are secured by hypothecation of respective hire purchase and lease agreements as well as by way of equitable mortgage of company's premises at Chennai and Bangalore as collateral Security with personal guarantee by two directors and a third party. Corporate guarantee by a body corporate as collateral security is also given to bankers.

Schedules annexed to and forming part of the accounts

V NOTES ON ACCOUNTS *(Contd.)*

(b) Term loans from domestic financial institutions/Banks are secured by Hypothecation of specific assets and counter guarantee by one Director and in one case by assignment of future receivables arising from specific hire purchase assets and lease assets along with the cash collateral in the form of Fixed Deposits.

(c) Rupee Term Loan from a Foreign Financial Institution is secured by Hypothecation of specific assets acquired or to be acquired and personal guarantee of two Directors.

3. (a) The company has entered into an agreement with Citicorp Finance (India) Limited to undertake hire purchase business on the basis of disbursement ratio of each individual hire purchase agreement as per terms and conditions mentioned in the Agreement and in the subsequent exchange of letters forming part of the Agreement.

(b) The company has entered into an agreement with HDFC Bank Limited to undertake hire purchase business on the basis of disbursement ratio of each individual hire purchase agreement as per terms and conditions mentioned in the Agreement and in the subsequent exchange of letters forming part of the Agreement.

4. (a) Current Investments

	2005 - 2006		2004 - 2005	
	Qty	Value (Rs.)	Qty	Value (Rs.)
A. Opening				
Quoted equity shares	56,439	1,52,701	1,53,020	1,14,67,985
Mutual funds			14,61,902	3,25,45,689
B. Purchases				
Quoted equity shares	66,070	1,11,70,863	2,69,125	1,30,80,743
Mutual funds				
Govt. Securities				
C. Sales *				
Quoted equity shares	83,129	1,23,66,612	3,65,706	2,54,59,129
Mutual funds			14,61,902	2,92,92,173
Govt. Securities				
D. Closing				
Quoted equity shares	39,380	7,63,719	56,439	15,27,101
Mutual funds				

* Includes shares written off 5570 nos valued at Rs.1, 08,325/-

(b) Derivative Transactions:
The company has made profit of Rs.1, 48,028/- from the F&O transactions.

(c) 1. Income from shares & securities includes loss Rs. 8,734/- wrongly booked last year on 1100 shares of HGI Industries Ltd.

2. Income from shares & securities includes investments in shares written off to the extent of Rs. 1,13,194/- (previous year nil), which are bad delivered/not traceable.

3. Investments in 160254 shares of JP Hydro Power Ltd. and 90000 shares Bank of Rajasthan Ltd. shown under Schedule G includes 20000 shares of JP Hydro Power Ltd. and 20000 shares of Bank of Rajasthan Ltd. kept as margin for Future & Options Trading with MLB Securities Ltd.

5. Repossess assets shown under schedule 'H' have been valued at cost or market value whichever is less.

6. In compliance with the Accounting Standard (AS 19) on Leases, all the assets given on lease on or after 1st April, 2001 are shown as receivables at an amount equal to the net investment in the leases. Consequently, additions to Leased Assets for Rs.1268.21 lacs. during the year (previous year Rs.768.28 lacs) have not been considered in the gross block of Lease Assets under Fixed Assets schedule. The reconciliation between the lease receivables and the present value of net investment in the lease contracts & Maturity pattern of Gross Investment in Lease and Net Investment in Lease as on 31st March, 2006 is as under:

(Amount in Rupees)

Description	Gross Investment	Net Investment
Less than 1 year	7,00,32,727	5,89,70,492
Later than 1 year and not later than 5 years	6,09,37,833	5,02,16,383
Later than 5 years	–	–
Total	**13,09,70,560**	**10,91,86,875**

Unearned Finance Income:Rs.2,17,83,685/-

7. (a) Loans under Schedule 'M' include interest free loan of Rs.44, 76,413/-(previous year Rs.27,89,923/-) to the subsidiary.

(b) Loans under Schedule 'M' include loan of Rs.5,08,30,408/- (previous year Rs.87,92,176/-) made to companies where one of the directors is interested.

8. Liabilities for expenses include Rs.9,36,436/- (previous year Rs. 7,09,368/-) due to the Managing Director.

9. There is no amount payable to any Small Scale Industrial Undertaking.

10. There is unclaimed matured deposit of Rs, 29,61,500/- in fixed deposit and for which management has taken reasonable steps.

11. Information (required in terms of paragraph 4 (ix) (b) of the Companies (Auditors' Report) Order 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of The Companies Act, 1956, of India) in respect of disputed Income Tax not deposited as on 31st March 2005 are as follows:

Types of Dispute	Disputed Amount Rs. lac	Forum where pending
Income Tax (from A.Y.1995-96 to A.Y 2001-2002)	11.62	H'onble High Court, Kolkata

12. Earnings Per Share

			31.03.2006	31.03.2005
Profit after taxation as per Profit and Loss Account	(A)	Rs.	5,91,19,801	5,39,96,044
Number of equity shares outstanding	(B)	Nos	85,01,135	85,01,135
Earnings per share (Face Value Rs.10/-per share)	(A/B)	Rs.	6.95	6.35

13. Expenditure in foreign currency (Amount in Rupees)

Traveling Expenses	9,62,947	894898
Interest	75,20,651	4585220
Others	39,56,331	736143

14. Remuneration to Managing Director and Directors

Salary and commission	23,38,466	21,23,528
Company's contribution to provident fund	86,400	86,400
	24,24,866	**22,09,928**

15. The name of the company was changed from Shrachi Securities Limited to Shrachi Infrastructure Finance Limited with effect from 2nd November 2005. The principal business of the company was to finance commercial vehicle, construction equipment etc, which does not resembles with its earlier name and hence the name was changed to Shrachi Infrastructure Finance Limited. All operational income of the company are relating to the financing of commercial vehicles, construction equipment etc.

Schedules annexed to and forming part of the accounts

V NOTES ON ACCOUNTS *(Contd.)*

16. Computation of net profit in accordance with Section 309(5) of the Companies Act, 1956 and calculation of commission to Managing Director:

(Amount in Rupees)

	2005-2006	2004-2005
Net Profit (after tax) as per Profit & Loss Account	7,55,03,614	5,81,06,562
Add: Managing Director's remuneration & commission	24,24,866	22,09,928
Whole Time Director's remuneration	3,00,000	3,00,000
Provision for non performing assets	5,79,394	(79,93,504)
Provision for diminution in value of shares	(2,21,528)	(3,93,095)
Loss on sale of fixed assets	40,57,219	47,06,944
Provision for income tax	1,10,00,000	1,40,00,000
	9,36,43,565	**7,09,36,835**
Commission paid to Managing Director	9,36,436	7,09,368

17. Contingent Liabilities:

Guarantee given to the bank for guarantee given by them on behalf of the company Rs. 4,67,462/- (previous year Rs. 4,67,462/-)

18. Segment Reporting

(Amount in Lacs)

	Financial Operations	Power Generation	Toral
Revenue			
Operational Income	3077.28	0	3077.28
Other Income *			
Includes Rs.393/- towards power generation	127.25	0	127.25
Total Revenue	**3204.53**	**0**	**3204.53**
Result			
Segment result	648.74	0	648.74
Operating Profit			**648.74**
Interest expenses			889.46
Interest/Dividend Income			5.12
Income Taxes (including FBT & Deferred Tax)			294.56
Net Profit			**591.20**
Other Information			
Segment assets	23642.62	1137.73	24780.35
Unallocated assets	0	0	0
Total assets			**24780.35**
Segment Liabilities	20699.94	792.48	21492.42
Unallocated liabilities	0	0	0
Total Liabilities			**21492.42**
Capital expenditure	189.45	1167.73	
Depreciation	57.21	0.33	

Notes:

The Company's operations have been categorised into two major business segments in accordance with the Accounting Standard (AS 17) "Segment Reporting". These segments are briefly described hereunder:

(a) NBFC: The Company is engaged in the business of financing.

(b) Power Generation: The new Wind Mill power generation project in Maharastra commenced operations in March 2006.

Schedules annexed to and forming part of the accounts

V NOTES ON ACCOUNTS *(Contd.)*

19. Related Party Disclosures:

(a) Subsidiary:
Shrachi Auto Private Limited.

(b) Key Management Personnel:
Shri Ravi Todi, Managing Director
Shri Sanjeev Agarwal, Director Operation

(c) Associates
Advanced Medicare & Research Institute Ltd
Bengal Shrachi Housing Development Ltd.
Bhaskar Shrachi Alloys Limited
Shrachi Engineering & Industries Limited
Sunflower Engineering & Industries Pvt. Ltd.

The disclosure of related party transactions during the year and balances as on 31st March 2006:

(Amount in Lacs)

Nature of Transactions	Company's in which Director is interested	Subsidiaries	Key Management Personnel	Relatives of Key Management Personnel	Total
Remuneration	–	–	24.25	–	24.25
Directors Fees	–	–	–	0.37	0.37
Interest paid on deposits	–	–	–	0.15	0.15
Deposits – Balance at the end of the year	–	–	–		
				1.75	1.75
Interest received on loans	48.13	–	–	–	48.13
Interest paid on loans	17.43	–	–	–	17.43
Balance at the end of the year-Loan given	508.3	44.76	–	–	553.06
Balance at the end of the year-Loan taken	20.75	–	–	–	20.75

20. The levy of service-tax on hire purchase and leasing transactions introduced with effect from 16.07.2001 has been challenged by a Trade Association, of which the company is a member,

before the Madras High Court and a stay has been obtained. Pending disposal of the writ petitions, the company is not remitting service-tax on the aforesaid transactions.

21. In the opinion of the management there is no impairment of assets as per AS-28 Impairment of Assets issued by ICAI.

22. Previous year's figures have been regrouped and rearranged, wherever necessary

Signatures to Schedules 'A' to 'U' forming part of the Balance Sheet and Profit & Loss Account.

For **R. K. SUREKA & CO.**
Chartered Accountants

Naresh Kumar Ganeriwal	**Sanjay K. Mundra**	**Ravi Todi**	**N. C. Chaudhuri**
Partner	*Finance Controller cum Company Secretary*	*Managing Director*	*Director*

Place: Kolkata
Date: 14th June, 2006

Balance Sheet Abstract and Company's General Business Profile

Information as required under part IV of Schedule VI of the Companies Act, 1956

I. Registration Details

Registration No.	0 4 6 3 4 7	State Code	2 1
Balance Sheet Date	3 1 0 3 2 0 0 6		

II. Capital Raised during the year *(Amount in Rs. Thousands)*

Pubsic Issue	N I L	Right Issue	N I L
Bonus Issue	N I L	Private Placement	N I L

III. Position of Mobilisation and Development of Funds *(Amount in Rs. Thousands)*

Total Liabilities	1 9 1 0 6 4 0	Total Assets	1 9 1 0 6 4 0

Sources of Funds

Paid-up-Capital	8 5 0 1 1	Reserve & Surplus	2 4 3 7 8 1
Secured Loans	1 3 3 0 9 4 4	Unsecured Loans	1 8 8 0 0 1
Deferred Tax Liability	6 2 9 0 2		

Application of Funds

Net Fixed Assets	3 0 1 8 9 3	Investments	7 2 0 1 4
Net Current Assets	1 5 3 6 7 3 3	Miscellaneous Expenditure	N I L
Accumulated Losses	N I L		

IV. Performance of Company *(Amount in Rs. Thousands)*

Turnover (Total Income)	3 2 0 4 5 4	Profit/(Loss) after Tax	5 9 1 2 0
Total Expenditure	2 3 1 8 7 8	Earning per Share in Rs.	6 . 9 5
Profit/(Loss) before Tax	8 8 5 7 6	Dividend Rate (%)	1 8

V. Generic names of three Principal Products/Services of Company *(As per monetary terms)*

Item Code No. (ITC Code) N A

Product Description H I R E P U R C H A S E & L E A S I N G

For **R. K. SUREKA & CO.**
Chartered Accountants

Naresh Kumar Ganeriwal	Sanjay K. Mundra	Ravi Todi	N. C. Chaudhuri
Partner	*Finance Controller cum Company Secretary*	*Managing Director*	*Director*

Place: Kolkata
Date: 14th June, 2006

Corporate Information

Board of Directors	S.K. Todi N C Chaudhuri Dr. Nitish Sengupta S K Khaitan Atmaram Jatiya G. C. Das Rahul Todi Ravi Todi - *Managing Director* Sanjeev Agarwal – *Director-Operations*
Finance Controller cum Company Secretary	Sanjay K. Mundra
Auditors	R.K. Sureka & Co. *Chartered Accountants*
Branch Auditors	M/s B. Srinivasan & Co. *Chartered Accountants*
Solicitors and Advocate	S.P. Das & Co. Sinha & Co.
Registrar and Transfer Agents	AMI Computers (I) Ltd. 60 A & B, Chowringhee Road, Kolkata- 700 020
Registered office	Shrachi Towers, 686, Anandapur, E.M. Byepass, R.B. Connector Junction, Kolkata- 700 107 Phone: +91-33-3984 3984 Fax: +91-33-3984 4211 Email: ssl@shrachi.com
Regional office	Creative Enclave, II Floor, 98/99, Luz Church (Oliver) Road, (Opp. Land Development Bank – Anjaneya Temple), Chennai- 600 004 Phone: 044- 2499 6665, 2498 3203 Fax: +91-44-2498 7488 • Email: ssl@shrachi.com
Bankers	• Allahabad Bank • Bank of Baroda • Centurion Bank • Canara Bank • Indian Bank • Bank of Rajasthan Ltd. • ICICI Bank Ltd. • Union Bank of India • Citi Bank N.A. • UCO Bank • UTI Bank Ltd. • Development Credit Bank • ING Vysya Bank • State Bank of Bikaner and Jaipur • Syndicate Bank

Let your performance
do the thinking.

– H, Jackson Brown, Jr.