DIRECTORS' REPORT

To The Members,

Your Directors have pleasure in presenting the Seventeenth Annual Report of your Company together with the Audited Statement of Accounts for the year ended March 31, 2008.

FINANCIAL RESULTS (Rupees)

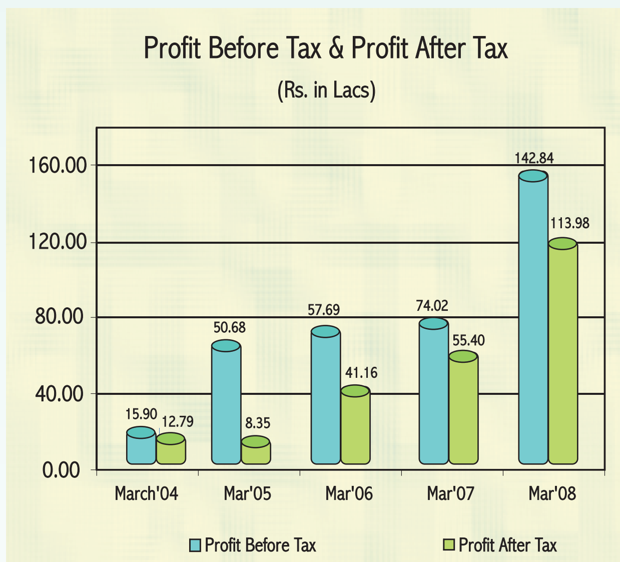
PARTICULARS	2007-2008	2006-2007
Profit Before Tax	**1, 42, 83, 970**	**74, 01, 706**
Provision for Taxation		
- Current Tax	32, 65, 160	16, 24, 141
- Deferred Tax	(4, 17, 440)	(2, 05, 518)
- Income Tax related to earlier years	(1, 57, 596)	2, 92, 715
- Fringe Benefit Tax	1, 95, 603	1, 49, 908
Profit After Tax	**1, 13, 98, 243**	**55, 40, 460**
Add: Profit carried from earlier years	2, 31, 56, 960	2, 05, 50, 181
Profit available for appropriations	**3, 45, 55, 203**	**2, 60, 90, 641**
Appropriations		
Transfer to Special Reserve u/s 36(1)(viii) of the Income Tax Act, 1961	59, 71, 897	29, 33, 681
Balance carried to Balance Sheet	**2, 85, 83, 306**	**2, 31, 56, 960**

PERFORMANCE

The World Economy during the year under review witnessed several upheavals, the ripples of which were felt in the Indian Economy too. During the latter part of the second half, the primary and secondary market witnessed volatility trend, which in turn affected the housing finance and real estate industry.

Inspite of the recession, rise in resource cost and intense competition, your Company during the year under review, registered growth in financial performance in both Profit & Loss Account and Balance Sheet parameters. The Income from Operations at Rs. 1160.27 lacs (Previous Year Rs.757.20 lacs), represents an increase of 53% compared to previous year. The Profit After Tax (PAT) improved to 113.98 lacs as compared to Rs. 55.40 lacs in the previous year representing an increase of 105.73%.

The Company not only continues to maintain but has also improved the momentum of growth, which is largely accredited to operational efficiency and increase in business volume.



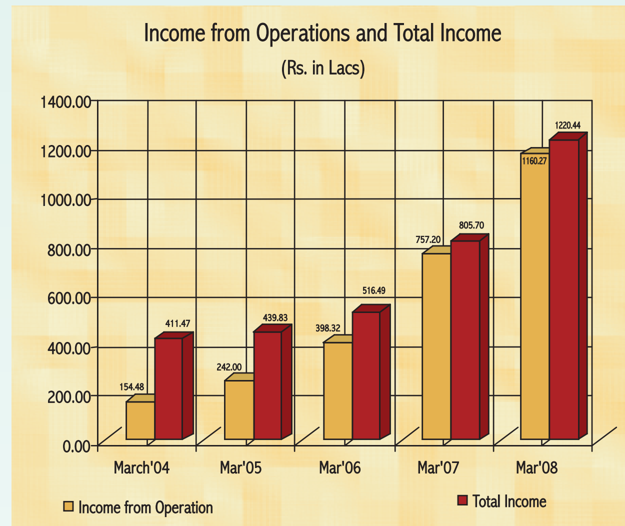
DIVIDEND

Your Directors felt it prudent to retain the entire profit for the year under review to be ploughed back in business, which shall result in further augmentation of the Company's growth and shareholders' wealth.

FUND RAISING

TERM LOANS

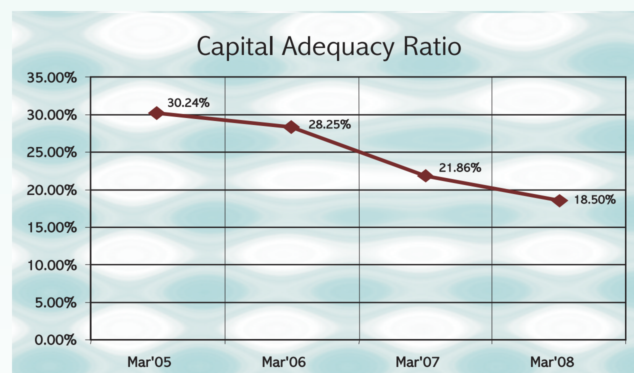
During the year under review, Term Loan aggregating to Rs. 25 Crore was availed from The Bank of Rajasthan Ltd. taking the total term loan outstanding as on March 31, 2008 to Rs. 36.62 Crores. The loan was drawn at a rate below the Benchmark Prime Lending Rate of the said Bank.



CAPITAL ADEQUACY RATIO (CAR)

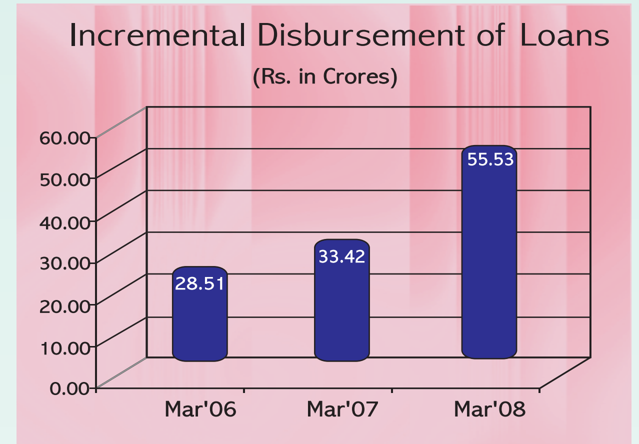
As per the Housing Finance Companies (NHB) Directions, 2001 dated December 27, 2002, every Housing Finance Company shall maintain a minimum Capital Adequacy Ratio (CAR) of 12%. The Capital Adequacy Ratio of SHCL as on March 31, 2008 was 18.50%.

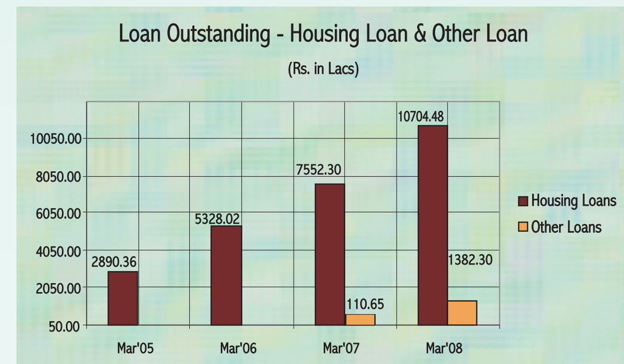
Particulars of the CAR (%) for last four years is given below:



BUSINESS RESULTS & BRANCH NETWORK

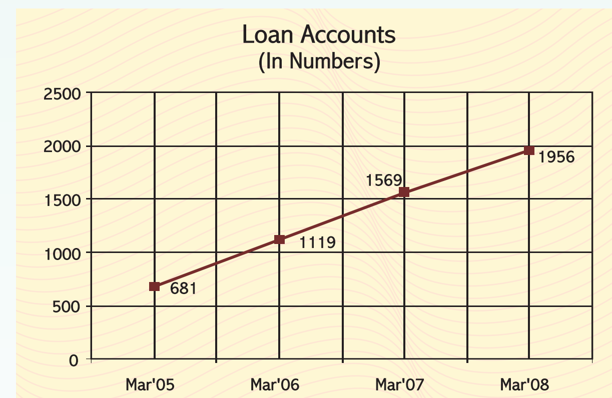
During the year under review, your Company disbursed incremental loans aggregating to Rs. 55.53 Crores (Previous Year Rs. 33.42 Crores). The outstanding loan portfolio as at March 31, 2008 stood at Rs. 120.87 Crores (Previous Year Rs.76.63 Crore).



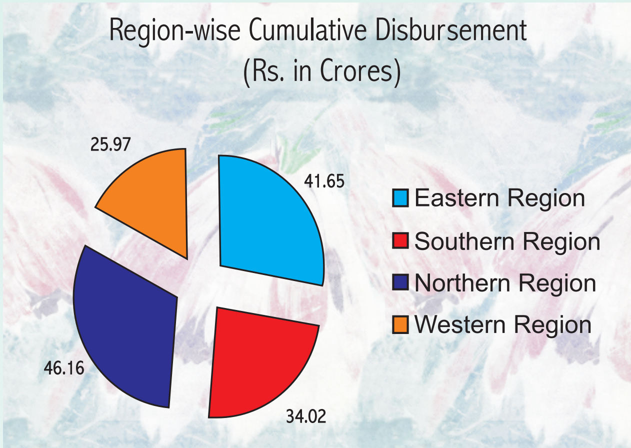


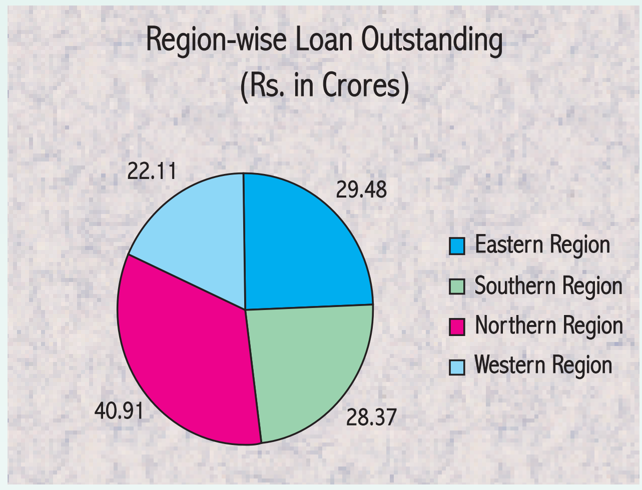
The cumulative Log-in, Sanction and Disbursement amount as on March 31, 2008 are as under:

Particulars	No. of Accounts	Amount
Cumulative Log-in	4001	Rs. 340.72 Cr
Cumulative Sanction	2161	Rs. 201.70 Cr
Cumulative Disbursement	1956	Rs. 147.80 Cr



The Company operates from four regions situated at Kolkata, Lucknow, Hyderabad and Mumbai and fourteen branches (Kolkata, Asansol, Siliguri, Ranchi, Durgapur, Lucknow, Gorakhpur, Kanpur, Mumbai, Pune, Thane, Hyderabad, Vijayawada and Vishakapatnam) and is serving the customers through its attractive and competitive loan schemes.

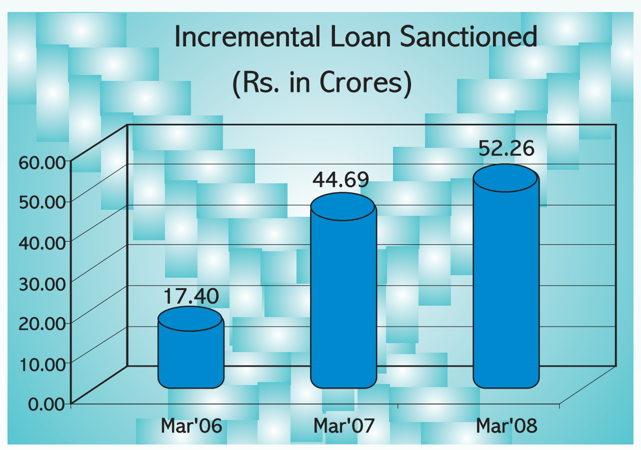




UNCLAIMED DEPOSITS

During the year under review, the Company had neither accepted nor renewed any deposits from the Public. However, as on March 31, 2008 deposits (including Recurring Deposits) amounting to Rs.1.54 lacs (Previous Year Rs. 1.54 lacs) was lying as unclaimed deposits. The total numbers of accounts involved are 36 (Previous Year 36).

The said amount is not due for transfer to the Investor Education & Protection Fund (IEPF) as at the Balance Sheet date.



APPOINTMENT / RE-APPOINTMENT OF DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Shri Om Prakash Srivastava and Shri Malka Komaraiah, Directors of the Company, retire by rotation at the ensuing Annual General Meeting of the Company and being eligible, offer themselves for reappointment.

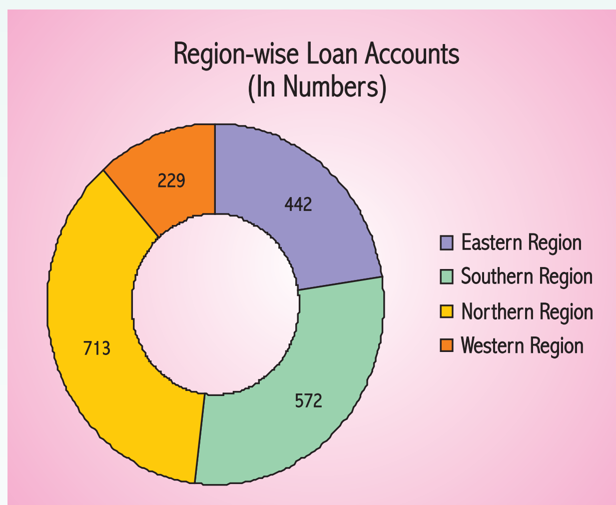
None of the aforesaid Directors of the Company are disqualified for being re-appointed as Directors pursuant to Section 274 (1) (g) of the Companies Act, 1956.

INTERNAL CONTROL

As per the NHB Directions, your Company has framed policies on 'Know Your Customer Guidelines', Anti-Money Laundering Standards', 'Fair Practice Code' etc. in order to upgrade the procedures of collecting the information from the prospective borrowers and to ensure fair practices in dealing with the borrowers.

NON-PERFORMING ASSETS AND PROVISIONS FOR CONTINGENCY

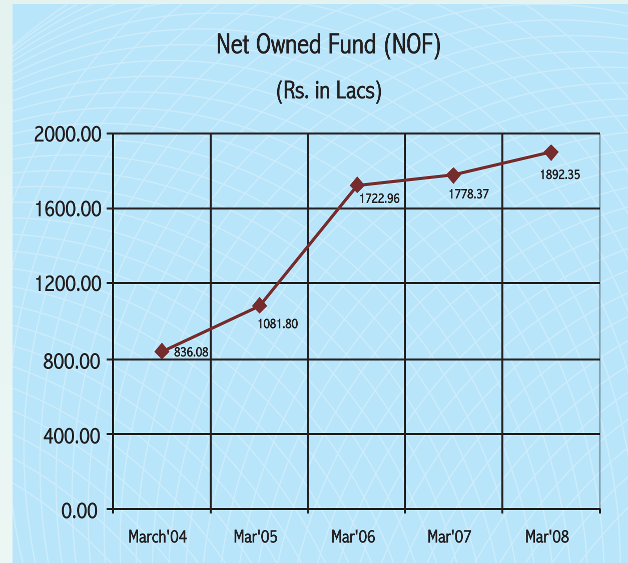
Your Company scrupulously adhered to the prudential guidelines for Non-Performing Assets (NPAs), issued by the National Housing Bank (NHB) under its Directions of 2001, as amended from time to time. Your Company has made adequate provision for the assets on which instalments are overdue for more than 90 days and on other assets, as required.



AUDITORS

Pursuant to the recommendations of the Audit Committee at its meeting held on July 31, 2008, the Board of Directors of the Company has approved, subject to the approval of the Members at the ensuing Annual General Meeting, the appointment of M/s Chaturvedi & Co., Chartered Accountants, Kolkata, as the Statutory Auditors, of the Company for the Financial Year 2008-09.

In terms of the provisions of Section 224 of the Companies Act, 1956 ("the said Act") M/s Chaturvedi & Co. retire at this Annual General Meeting and being eligible, offer themselves for re-appointment. In terms of the provisions of Section 224 (1B) of the said Act, M/s Chaturvedi & Co. has furnished a certificate that their appointment, if made will be within the limits prescribed under Section 224 (1B) of the said Act.



AUDITORS' REPORT

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

PARTICULARS OF EMPLOYEES

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

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION & FOREIGN EXCHANGE EARNINGS & OUTGO

Since the Company does not own any manufacturing facility, the other particulars relating to conservation of energy and technology absorption as per Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 are not applicable.

There has been no foreign exchange earning, however Rs. 1,98,960/- (GBP 2400 @ Rs.82.90p.) was spent on foreign travels during the year under review.

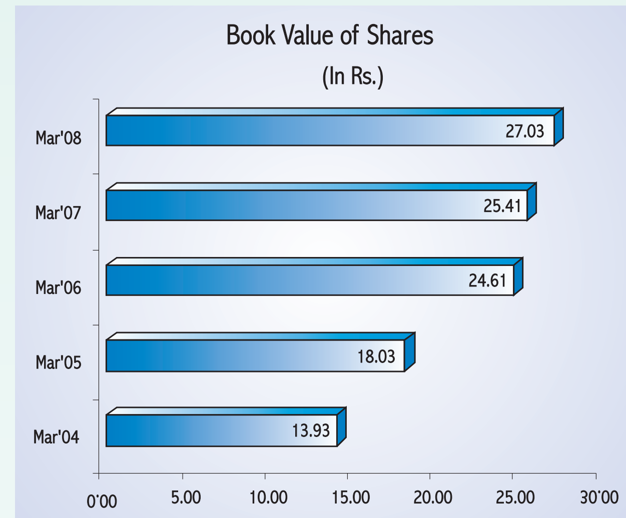
NHB GUIDELINES

Your Company has been rigorously following the various Guidelines issued by the National Housing Bank (NHB) from time to time. The circulars and the notifications issued by the Regulator are also placed before the Board at regular intervals along with compliance of the same.

Your Company has been complying with the guidelines in respect of Income Recognition, Provisioning for Non-Performing Assets, maintaining Capital Adequacy Ratio etc. issued by the NHB from time to time.

DEPOSITORY SYSTEM

Your Company has entered into an agreement with CDSL/NSDL for transaction of shares in dematerialized form.

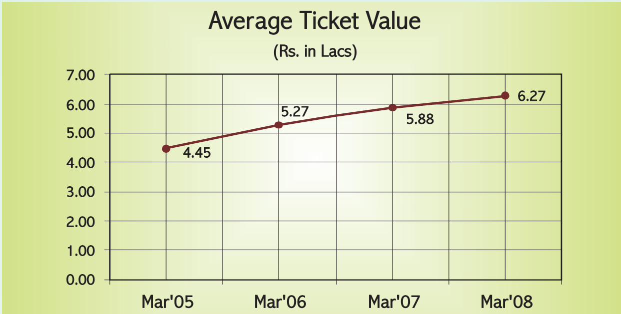


HUMAN RESOURCES AND TRAINING

The Company's employees represent a resource around which all plans and profitability estimates are based. Our strong talent pool has shaped our growth trajectory and spearheaded our move into new domains. Your Directors wish to acknowledge the support and valuable contribution by the employees at all levels.

With a view to enhancing the Company's competitive strengths, your Company continues its commitment to undertake several initiatives to further upgrade the knowledge and skills of its frontline staff, with the objective of enhancing value creation for its customers. The Company continued to offer in-house training programme to staff members in executive development, leadership and management skills. The Company also sponsored its employees at various levels to attend various seminars and programmes conducted by various organizations and institutions including Training programmes conducted by the National Housing Bank so as to update their knowledge and to keep them abreast of all the developments in their respective fields.

The total work force strength of the Company as on March 31, 2008 was 46.



DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217 (2AA) of the Companies Act, 1956 and based on the information provided by the management, the Directors of the company confirm that:

- in the preparation of the Annual Accounts, the applicable Accounting Standards have been followed and that there are no material departures.
- in the selection of the Accounting Policies, consultation with the Statutory Auditors have been made and have applied them consistently, made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the State of Affairs of the Company at the end of the Financial Year and of the Profit of the Company for that period.
- proper and sufficient care has been taken to the best of their knowledge and ability for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- the Annual Accounts have been prepared on a Going Concern Basis.

INSURANCE PROTECTION TO BORROWERS

The arrangement with National Insurance Company Limited for its comprehensive insurance cover product called "NATIONAL INSURANCE SAHARA HOME LOAN SURAKSHA BIMA" which covers the borrowers of the Company continues. Your Company had received its first claim under the said insurance cover during the year under review. The following risks / perils / natural calamities, are covered:

(a) PERSONAL ACCIDENT INSURANCE:

* Death due to accident;
* Accidental loss of two limbs, two eyes or one limb and one eye;
* Permanent total disablement from injuries other than named above.

(b) PROPERTY INSURANCE:

* Fire
* Storm
* Earthquake
* Riot, Strike and Malicious damage
* Lightning
* Explosion / Implosion
* Aircraft damage, Impact damage
* Subsidence and Landslide including Rock Slide
* Bursting or Overflowing of Water Tanks & Pipes, Missile testing operations
* Leakage from Automatic Sprinkler Installations, Bush Fire
* Other natural calamities

The other details regarding the product (e.g. Sum insured, premium payable etc.) are explained to the borrowers during personal discussion with them at the time of credit appraisal.

CORPORATE GOVERNANCE

The Corporate Governance Report is set out as an Annexure to this report.

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchange, Management Discussion and Analysis Report, Corporate Governance Report and Auditors' Certificate regarding compliance form part of this Annual Report.

STATUTORY DISCLOSURES

None of the Directors of the Company is disqualified to be appointed as Director under the provisions of Section 274(1)(g) of the Companies Act, 1956. The Directors have made necessary disclosures, as required under various provisions of the Act and Clause 49 of the Listing Agreement with the Stock Exchange.

RIGHTS ISSUE

The Company with the objective to enhance the capital base, to further strengthen the CAR, to meet the increasing demand for housing finance etc., had proposed to come up with a rights offer of equity shares.

The letter of offer has been finalised in consultation with the Merchant Banker, however the same shall be filed with the SEBI, as and when the capital market offers a favourable and conducive environment.

A NOTE OF APPRECIATION

Your Board of Directors would like to acknowledge the understanding, support and the services of the sincere workers, staff and executives of the Company, which have largely contributed to the efficient operations & management of the Company. The Board would also like to express its sincere appreciation to all the Company's valued Customers / Borrowers, Shareholders, Debenture holders, RTA, Banks, Financial Institutions, Service Providers and Counsellors, for their continued support and patronage. The Directors are grateful for the co-operation of regulatory authorities including the NHB, RBI, SEBI, Ministry of Corporate Affairs, the Registrar of Companies, the Stock Exchanges and the Depositories.

for and on behalf of the Board of Directors

	S P Ghosh	O P Srivastava
Place : Lucknow	Director	Director
Date : July 31, 2008		

Management Discussion & Analysis Report

MACROECONOMIC OVERVIEW

India's economy has been one of the stars of global economics in recent years, growing 9.2% in 2007 and 9.6% in 2006. Growth had been supported by markets reforms, huge inflows of FDI, rising foreign exchange reserves, both an IT and real estate boom, and a flourishing capital market.

RECENT GROWTH TRENDS IN INDIAN ECONOMY

India's Economy has grown by more than 9% for three years running, and has seen a decade of 7%+ growth. This has reduced poverty by 10%, but with 60% of India's 1.1 billion population living off agriculture and with droughts and floods increasing, poverty alleviation is still a major challenge.

The structural transformation that has been adopted by the national government in recent times has reduced growth constraints and contributed greatly to the overall growth and prosperity of the country. However there are still major issues around federal vs state bureaucracy, corruption and tariffs that require addressing.

During this period of stable growth, the performance of the Indian service sector has been particularly significant. The growth rate of the service sector was 11.18% in 2007 and now contributes 53% of GDP. The industrial sector grew 10.63% in the same period and is now 29% of GDP. Agriculture is 17% of the Indian economy.

Growth in the manufacturing sector has also complemented the country's excellent growth momentum. The growth rate of the manufacturing sector rose steadily from 8.98% in 2005, to 12% in 2006. The storage and communication sector also registered a significant growth rate of 16.64% in the same year.

Additional factors that have contributed to this robust environment are sustained in investment and high savings rates. As far as the percentage of gross capital formation in GDP is concerned, there has been a significant rise from 22.8% in the fiscal year 2001, to 35.9% in the fiscal year 2006. Further, the gross rate of savings as a proportion to GDP registered solid growth from 23.5% to 34.8% for the same period.

India has been one of the best performers in the world economy in recent years, but rapidly rising inflation and the complexities of running the world's biggest democracy are proving challenging. As part of the fight against inflation a tighter monetary policy is expected, but this will help slow the growth of the Indian economy still further, as domestic demand will be dampened. External demand is also slowing, further adding to the downside risks. The Indian stock market has fallen more than 40% in six months from its January 2008 high.

It is not all doom and gloom, however. A growing number of investors feel that the market may now be undervalued and are seeing this as a buying opportunity. If their optimism about the long term health of the Indian economy is correct, then this will be a needed correction rather than a downtrend.

The Indian government certainly hopes that is the case. It views investment in the creaking infrastructure of the country as being a key requirement, and has ear-marked 23.8 trillion rupees, for infrastructure upgrades during the 11th five year plan. It expects to fund 70% of project costs, with the other 30% being supplied by the private sector. Ports, Airports, Roads and Railways are all seen as vital for the Indian Economy and have been targeted for investment. [Source : www.economywatch.com]

INDIA AND THE SUB-PRIME CRISIS

Over the last few years, US banks and credit providers issued relatively high-cost loans to prospective home owners without making comprehensive checks into the ability and willingness of the loan takers to payback; they also did so against properties that were priced exorbitantly, convinced that these properties would appreciate in sync with the acceleration of the US economy.

But, when the US economy slowed and incomes were affected even as interest rates remained steady, the loan issuers faced increasing problems in recovery, leading to what is known as the sub-prime crisis. In the interests of transparency, the banks were required to make significant write-offs, drawing down their profits, investments and employment with global implications.

In a globalised world, it would be reasonable to assume that the ripples of this problem would extend far and wide. However, the possibility of such a crisis affecting the Indian economy is remote for various reasons.

First, the base of credit to India's real estate sector compared to the overall amount invested continues to be low. India's real estate sector accounted for just 2.5 percent of the total non-food credit from the banks. It would be interesting to state that credit extension to the sector contracted in 2007-08 on account of high interest rates and government intervention.

Second, in India we do not have anything called prime and sub-prime rates based on the quality of assets. In case of a loan perceived as more risky, it becomes the borrower's responsibility to provide a larger percentage of the value of the loan upfront. This ensures the buyer's continued interest in servicing the loan and a corresponding decline in the lender's risk.

Third, real estate prices in India are built on the credible edifice of economic reform, GDP growth, rising FDI inflow and stronger purchasing power. Over the last few years, the real estate industry has strengthened considerably, making it less vulnerable to cartelisation. Besides, the majority of residential loans provided in India represent genuine (as opposed to speculative) demand.

Fourth, the health of the leading financial institutions in India continues to be robust, minimising the possibility of an Indian equivalent of a sub-prime crisis.

HOUSING FINANCE INDUSTRY STRUCTURE AND DEVELOPMENT

Despite the global uncertainties stemming from the subprime meltdown and the potential slowdown in the United States, real estate demand in India across sectors remains strong, riding on the phenomenal economic performance. The office sector is driving the demand for retail, residential and hospitality segments, emerging as the most dynamic sectors of 2007, with increase in demand resulting in consistent rise in rental values.

Over the last couple of years, the rise in property prices has affected disbursements. Disbursements are estimated to grow by around 10 percent to reach Rs.1,119 billion in 2007-08 as compared with Rs.1,021 billion in 2006-07. This growth is mainly driven by the increase in value, that is, the average loan size at the higher loan slab has increased, while volumes have shown a drop due to the rise in property prices, affecting affordability.

At higher property prices, housing loans would witness a higher percentage increase in disbursements due to greater difference between the registered price and the market indicated price. The potential increase in disbursements is estimated to be around 49 percent at loan slabs of above 50 lakh, as compared with around 10 percent at lower loan slabs of 10-25 lakh.

In the current market, housing loans are disbursed at LTV levels of 65-70 percent, as financiers draw comfort from the collateral value differentiation between the registered and the market value. Another fallout is the deferment of purchases due to the rise in the cash component. The deferment of purchase ranges from a few months at lower loan slabs to 2.5 –3 years at loans slabs of above 25 lakh. This is due to the higher cash component needed for purchasing property of greater value in addition to the margin money, resulting in the deferment of purchases.

Thus the increase in the cash component, in addition to the rise in property prices, has reduced the affordability of salaried individuals, as they do not have large cash surpluses for the same. This is reflected in the significant slowdown in the housing finance market.

MARKET

The major players in the Indian housing market include HFCs, scheduled commercial banks and co-operative societies.

LOAN PRODUCTS

SHCL's major focus has been to provide home loans to individuals and families for purchase, construction, extension, repair and renovation of houses. The Company has also developed loan products for the families in the self-employed category where formal income proofs are not easily available and the repayment capacity of such families are appraised based on their cash flows.

A variety of loan products are available as mentioned below for the benefit of our valued customers.

INDIVIDUAL HOUSING LOANS (HL)

This is the primary home loan product available to all Indian nationals / NRIs (selectively), to acquire / construct a house any where in India within the jurisdiction of SHCL's Branches / satellite offices.

HOME IMPROVEMENT LOANS (HIL)

This loan is extended to help the borrower meet his requirement of improvement / renovation of the existing house.

HOME EXTENSION LOAN (HEL)

This loan is given to enable the individual to expand the home / construct additional space to meet the growing requirements of the family.

LAND LOANS (LL)

- Strictly for non-agriculture land situated within approved layouts of Municipal/Development Authority limits.
- In other words Land Loans can be sanctioned only in case of Plots allotted by Development Authorities and Housing Board specifically for the construction of houses/flats (residential purpose) within Municipal limits.

HOME LOAN PLUS (HLP)

- Existing Borrowers with good repayment track record are eligible to apply for this loan.
- Seasoning period of 6 months from the last/full disbursement of the existing loan.

MORTGAGE LOANS (ML)

This loan is extended to those who own residential property with fixed sources of income and are looking for finances to meet immediate requirements like children's education, marriage, medical treatment etc.

NON RESIDENTIAL PROPERTY LOANS (NRPL)

All professionals like practising Medicos, CA/ICWA/CS, Architect, Consulting Engineer, Solicitors may be considered for this loan for acquiring / constructing their Office premises, clinic etc.

HOME LOAN ENHANCEMENT (HLE)

In the case of existing good borrowers whose repayment track record is consistent and regular, can enhance existing loan for extension or renovation or repairs of the property.

LOAN TAKE OVER / BALANCE TRANSFER (BT)

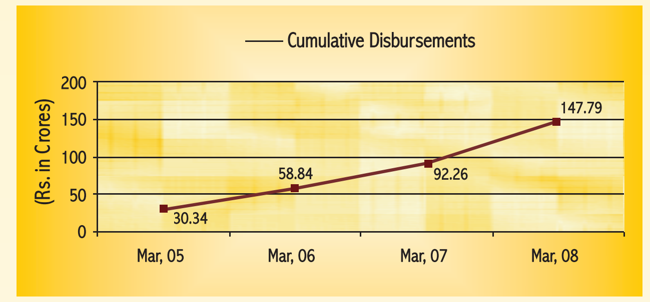
- Exiting home loan takeover from HFCs / Banks.
- Exiting mortgage loan takeover from HFCs / Banks.
- Exiting non residential premises loan takeover from HFCs / Banks.

MARKETING AND SELLING ARRANGEMENTS

SHCL has set-up 14 branches covering major cities and towns for soliciting business. It has got a strong marketing team, which has taken steps to serve the customers at their door step which includes appointing Home Loan Agents, Direct Selling Agents and Home Loan Counsellors. The Company also caters to walk-in customers among others. Besides this, the Company is active in advertising and marketing arrangements through property exhibitions and housing loan exhibitions organized from time to time.

DISBURSEMENTS

During the year under review, SHCL disbursed housing loans aggregating to Rs. 55.53 Cr. as against Rs. 33.42 Cr. last year, registering a growth of 66.15 %. Year- wise cumulative disbursements during the last four years ended March 31, 2008 is shown as below :



NEW SEGMENTS

The Company has been continuously analysing the housing needs and credit profile of under served market segments. Method of gaining a deeper understanding of these market segments are under review and would enable us to enlarge our customer base.

BUSINESS STRATEGY

To be a prominent Corporate Citizen in promoting housing activities through customer friendly finance schemes within a service oriented atmosphere. To consolidate and grow in a competitive environment reflecting the ethical standard of a good corporate citizen.

OUTLOOK

During the year under review, the Company took various initiatives to improve its operational and financial performance. Major initiatives taken by the Company include:

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

Following the government's policy to provide shelter to a large number of people, the government offers a number of incentives to boost housing and housing finance activities.

Some of these are listed below:

1. The Finance Act, 2008, continued with the tax concessions in respect of interest paid on loan raised for buying/ construction of house property.
2. Rebate for repayment of housing loan under Section 80C of the Income-Tax Act, 1961, of Rs.1,00,000/- is also continued for the year 2008-09.
3. Clearance under Section 230 (A) of the Income Tax Act, 1961, is no longer required.
4. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) was extended to select housing finance companies. Under this Act, the housing finance company is entitled to demand from the defaulter whose loan has been classified as NPA, to clear the entire dues within 60 days, failing which the Company is empowered to takeover the property and recover its dues by disposing of the property by adhering to the prescribed rules. This enables such companies to foreclose bad loans without the intervention of the court and thereby improve NPA position.
5. The NHB has prescribed the risk weightage of 75 percent of individual housing loans for the purpose of capital adequacy.

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

COMPETITION

The housing finance industry is one of the most keenly competitive segments of the economy, with the banking sector having a significant presence. Commercial Banks have entered the housing finance sector in a big way, attracted as they are backed by the mortgage-based security, and helped by their access to large funds at a relatively low-cost. Also housing finance is now classified as priority sector lending for banks and therefore more banks are entering this field. However, RBI through its credit policy announcements has amended its guidelines / norms making it mandatory for banks to increase their provisioning required from 0.4 % to 1.0 % on housing loans above Rs. 20 lakhs, real estate advances etc. This has resulted in banks going slow in housing finance lending.

The Company, through its competitive pricing, wide distribution network and good customer service, has not only been able to show a good growth in new business, but has shown improved retention rates, reflected in high growth of loan book.

STRENGTHS

- Mature business space with more than 350 participants.
- Priority sector for the Government, resulting in favourable policies driving the growth of the housing sector.
- Huge unsatiated housing demand in India, a ready market for industry participants.
- Increased organised sector presence, improving systems, processes and techniques to reach international benchmarks.

WEAKNESSES

- Highly regulated operations, limiting the scope of innovative growth.
- Increased competition reducing yields for financiers.
- Increase in incidence of delinquency.
- Increase in loan risk weightage from 100 per cent to 150 per cent, increasing the amount locked in maintaining capital adequacy.
- Dearth of credible documentation; inordinate delay in property valuation.
- Disparity and high rates of stamp duty across the country on registration leading to the suppression of property value / evasion of registration.
- Imposition of stamp duty on equitable mortgages (i.e. on property used as a collateral for taking a home loan), the rate of which across states acts as a deterrent in availing housing finance as the prime security for these loans is equitable mortgage of the property financed.
- The focus of housing finance companies was mostly limited to the middle-income and high income groups; rural India and the bottom of the social pyramid remained under-penetrated.
- Lack of foreclosure norms for housing finance companies prevents loan disbursal.

OPPORTUNITIES

The last census put India's households at 192 million in 2001, up 39 million from 1991 census and 69 million from 1981 census. This coupled with the drop in the average household size from 5.7 in 1971 to 5.5 in 1991 and 5.3 in 2001 indicates that apart from population growth, nuclear family structure is slowly finding ground in India. This has resulted in a housing stock shortfall of 24.71 million units, despite the strong inflow of supply over the past one decade. Supply needs to be accelerated at 3.4% to meet the shortage.

Aggregate housing shortage in the country increased by 134 percent during the last six years from 10.56 million units in 2001 to 24.71 million units in 2007. The number of urban households during this period has increased by 11.5 million, leading to a rise in slums. (Source: National Building Organisation).

As the retail industry is growing, demand for property can also rise. Since the competition in the market is intense, builders are going out of the way to be different. Specialized malls have become the order of the day.

The other strong growth drivers are easy availability of housing finance and likely stability in property prices. The investment in housing is prioritized in the national agenda as it contributes substantially to the country's GDP growth directly and indirectly. Most of the builders are trying to woo investors with interesting features, each more tempting than the other. Closed-circuit television and earthquake proofing are expected as standard features in most upmarket blocks. Some of the residential projects boast of air-conditioning, club house and recreational facilities, modular kitchens, etc.

Unlike other finances, the risk of non-repayments is minimal in housing finance due to emotional and social dimensions to house ownership, which induces the borrower to service the loan.

Tax incentives have increased and so have salaries. So for the first time, the salaried Indian has been able to leverage current earnings to buy a future asset. The average age of a new homeowner is now 32 years compared with 45 years a decade ago.

There is also an overall transparency in the sector which was hitherto missing as banks and financial institutions are lending aggressively both to investors and developers.

Relaxation of Foreign Direct Investment (FDI) ceiling has meant more foreign investment in the sector.

A large number of builders are lured by Special Economic Zones (SEZs) as these have become attractive due to 10-year tax holiday on their development.

In the IT and ITes centres, demand for housing will continue to be strong given the young age profile of employees and the nuclear family culture. A person who needs 100 square feet of office space to work will certainly require at least 500 square feet of residential space to live and thus housing will remain the prime driver for developers.

THREATS

However, there are a number of factors that can act as impediments. Land costs, which are a major constituent of housing costs in metros; have risen much faster than property prices. Developers are moving to smaller cities to offset this. This would affect some of the smaller players, and experts feel that in time there would be a shakeout with private equity deals and joint ventures.

High transaction costs namely stamp duty and registration fees will also have adverse effect on housing activities.

The risk weightage on mortgage loans has been increased to 125 percent in respect of loan to developers, which has additionally burdened the capital adequacy ratio of housing finance companies.

The prevailing tenancy laws in India are not in favour of owners of the land." The Urban Land Ceiling Act and Rent Control Act have distorted property markets in cities, leading to exceptionally high property prices.

High cost of borrowings of housing finance companies coupled with high stamp duty dampens growth. Housing finance companies are not given universal banking status for offering wholesale and retail finances under one roof.

The hardening of interest rates could have an adverse impact; although a marginal hike will not trigger any sensitivity, a sustained increase could dampen incremental offtake.

At present, real estate developers are required to obtain as many as 33 clearances before putting up a township. It is felt that a single window clearance system would mitigate this to great extent. Land is generally non-corporatised and typically held by individuals or families. This restricts organized dealing and hinders transfer of titles.

Stamp duties continue to be as high as 10-13 per cent in certain states. If the government puts into place land reforms and addresses the challenges facing the real estate and infrastructure, these sectors have potential to contribute immensely to the country's GDP.

SEGMENT WISE REPORTING

Accounting Standard 17 regarding Segment wise reporting does not apply to the Company since revenues are derived mainly from one segment i.e. housing finance activity. As a result, the Company's Profit & Loss Account reflects the working of the business.

HUMAN RESOURCES DEVELOPMENT

The total work force strength of the Company as on March 31, 2008 was 46. The manpower requirement of the offices of the Company is assessed and recruitment is conducted accordingly. Personal skills of employees are fine tuned and knowledge is enhanced by providing them internal and external training, keeping in view the market requirement from time to time. Outstanding performers are rewarded by elevation to the higher cadre.

Loan Assets per employee as at March 31, 2008 is Rs. 2.63 Cr.

Going ahead the Company intends to strengthen the quality of its manpower resources at the different regional offices by effectively recruiting qualified professionals whenever required.

RISK, CONCERNS AND THEIR MANAGEMENT

SHCL manages various risks associated with the mortgage business. These risks include credit risk, liquidity risk, and interest rate risk, operational risk market risk. SHCL manages credit risk through stringent credit norms. Liquidity risk and interest rate risk arising out of maturity mismatch of assets and liabilities are managed through regular monitoring of the maturity profiles, and yield management by way of risk, return, and portfolio management. The company proposes to manage the increased risk through available methods of portfolio churning by the RMBS route as well as rate SWAP arrangements with Banks/Institutions. For operational risk the Company has a comprehensive internal control and security system, which provides for appropriate checks and balances.

INTERNAL AUDIT AND CONTROL

The company has internal control system commensurate with the size of its operations. Adequate records and documents are maintained as required by law from time to time. Internal audits and checks are regularly conducted and internal auditor's recommendations are seriously considered for improving systems and procedures. The company's audit committee reviews the internal control system and looks into the observations of the statutory and internal auditors.

CRITICAL SUCCESS FACTORS

In view of the tough competition from banks and declining spread, the players in the Industry should have sustainable advantages to remain profitable in the long-term.

(i) Cost Of Funds

For Housing Finance Companies (HFCs) cost of funds is the most crucial determinant of profitability. After the entry of banks in the business, which have access to low cost deposits, the spread of the HFCs have come under pressure.

(ii) Cost Of Operation

Cost of Operation including distribution of credit and collections of receivables is also instrumental in determining the profitability of the Housing Finance Companies (HFCs). The average cost of operation of HFCs ranges from 0.7 per cent to 1 per cent of average total assets (one time cost).

(iii) Product Diversification

Housing Finance Industry is getting increasingly commoditized. Features like adjustable rate plans, lower processing fees, monthly rest, low EMI, lower margin money, no pre-payment penalty have become common across the Industry. As a result loan products can be differentiated by offering free add-ons.

To make the loan products more attractive, HFCs have begun to include the cost of registration, stamp duty and other associated costs while sanctioning loans. This has further lowered the threshold limit for purchasing a house.

DISCUSSION OF FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

This has been discussed in another section of the Annual Report.

CONCLUSION WITH CAUTION

Some of the statements included in the 'Management Discussion and Analysis Report' describing the company's objectives, estimations, projections, expectations may be "forward looking statements" based on the management's current expectations and beliefs concerning future developments and their potential effect upon the Company. Several factors could make significant difference to the company's operations. These include economic conditions affecting demand and supply, Government regulations and taxation, natural calamities, etc. over which the company does not have any direct control.

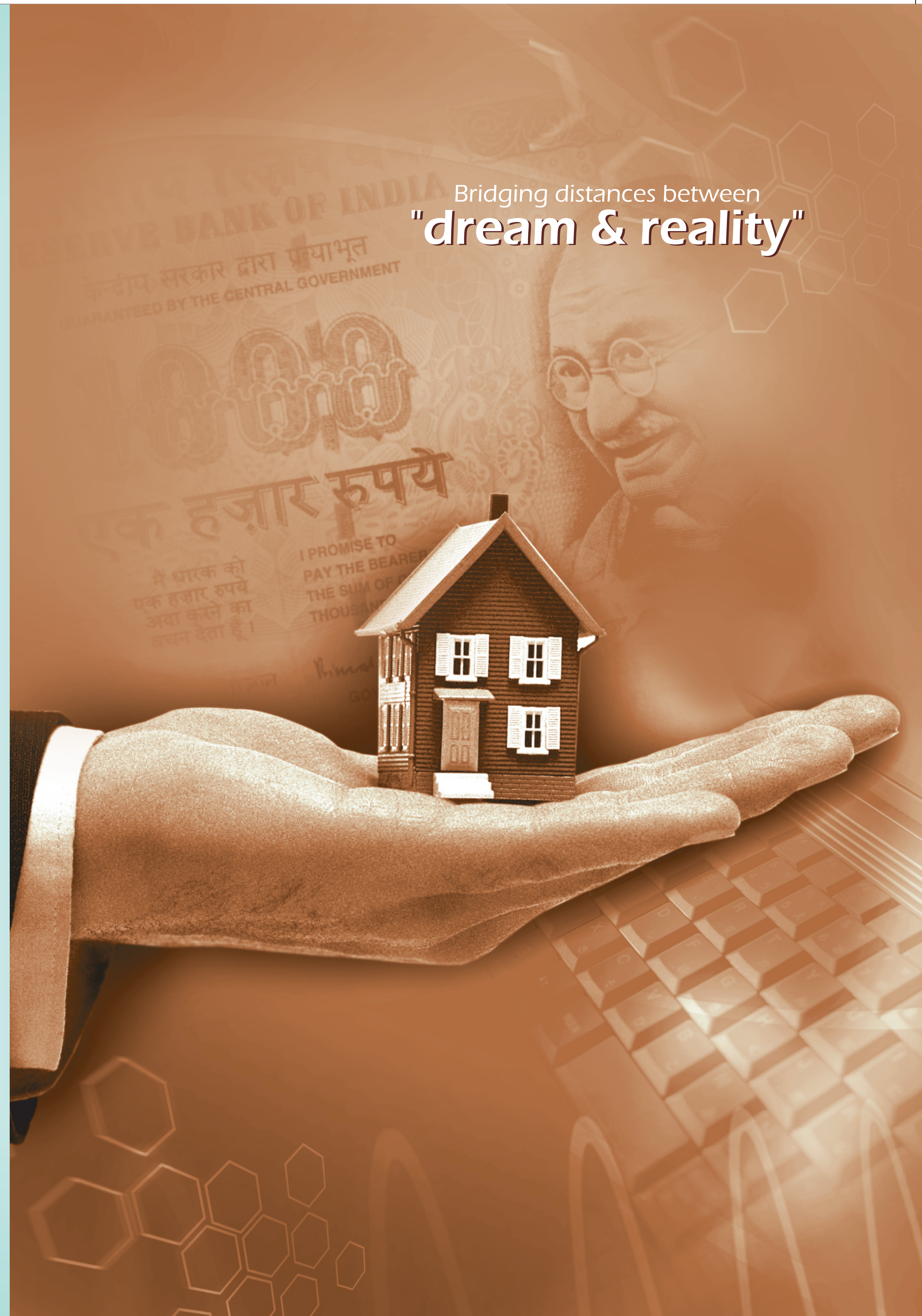
DECLARATION REGARDING COMPLIANCE BY BOARD MEMBERS AND SENIOR MANAGEMENT PERSONNEL WITH THE COMPANY'S CODE OF CONDUCT

This is to confirm that the Company has adopted a Code of Conduct for the Board of Directors and Senior Management of the Company.

As the Chief Executive Officer of Sahara Housingfina Corporation Limited and as required by Clause 49(1)(D)(ii) of the Listing Agreement of the Stock Exchanges in India , I hereby declare that all the Board members and senior management personnel of the Company have affirmed compliance with the Code of Conduct for the Financial Year 2007-08.

D. J. Bagchi
CEO & Company Secretary

Place : Lucknow
Date : July 31, 2008



HOSFINAS FINANCIALS

AUDITORS' REPORT

TO THE MEMBERS OF
SAHARA HOUSINGFINA CORPORATION LIMITED

1. We have audited the attached Balance Sheet of Sahara Housingfina Corporation Limited ("the company"), as at March 31, 2008, the Profit and Loss Account and also the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the 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 the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Further to our comments in the Annexure referred to above, we report that:

   a. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

   b. 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;

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

   d. In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;

   e. On the basis of written representations received from the directors, as on March 31,2008 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2008 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;

   f. In our opinion and to the best of our information and according to the explanations given to us, the said accounts 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 March 31, 2008;

      ii. in the case of the Profit and Loss Account, of the profit for the year ended on that date; and

      iii. in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For CHATURVEDI & CO.
Chartered Accountants

PANKAJ CHATURVEDI
Partner
Membership No. 91239

Place : Lucknow
Date : July 31, 2008

ANNEXURE REFERRED TO IN PARAGRAPH 3 OF OUR REPORT OF EVEN DATE

i. a. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.

b. Fixed assets have been physically verified by the management during the year pursuant to a programme for physical verification of fixed assets, which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. According to the information and explanations given to us, no material discrepancies were noticed on such verification.

c. There was no disposal of fixed assets during the year.

ii. The Company being a Housing Finance Company, the provisions related to inventories as mentioned in clause 4 (ii) of the Order is not applicable.

iii. a. According to the information and explanations given to us, the Company has not granted any loans, secured or unsecured to companies firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly, the provisions of clause 4 (iii) (a), (b), (c) and (d) of the Companies (Auditors' Report) Order, 2003 are not applicable to the Company.

b. The Company has taken unsecured loan from a company listed in the Register maintained under Section 301 of the Companies Act, 1956. The maximum amount involved during the year and year end balance is Rs. 593,105,797/-.

c. In our opinion, the rate of interest and other terms and conditions on which loan had been taken, are prima facie not prejudicial to the interest of the Company.

d. The Company is regular in repaying the principal amounts and the payment of interest wherever stipulated.

iv. In our opinion and according to the information and explanations given to us, there exists an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchases of fixed assets and with regard to the sale of services. The activities of the Company do not involve purchase of inventory and the sale of goods. During the course of our audit, we have neither observed nor have been informed of any continuing failure to correct major weaknesses in internal control system of the Company.

v. a. In our opinion and according to the information and explanations given to us, the particulars of all contracts or arrangements that needed to be entered into the register required to be maintained under Section 301 of the Companies Act, 1956 have been so entered.

b. According to the information and explanations given to us, there was no transaction with regard to sale, purchase, or supply of goods, materials or services exceeding the value of rupees five lacs in respect of any party, in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956.

vi. The Company has not accepted any deposits from the public in the current year within the meaning of Sections 58A and 58AA of the Companies Act, 1956, the rules framed there under and the Housing Finance Companies (NHB) Directions, 2001 with regard to the deposits accepted from the public. Therefore in our opinion clause (vi) of Para 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the Company for the current year. We are informed by the management that no order has been passed by the Company Law Board, or Reserve Bank of India or any Court or any other any Tribunal.

vii. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

viii. According to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Companies Act, 1956 for the products of the Company.

ix. a. According to the information and explanations given to us, the Company is generally regular in depositing with the appropriate authorities undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth tax, service tax, cess and any other statutory dues applicable to it. We were informed that the operations of the Company during the year did not give rise to any liability for sales tax, custom duty, excise duty and any other statutory dues. There are no undisputed amounts payable in respect of these dues which have remained outstanding as at March 31, 2008 for a period of more than six months from the date they became payable.

b. According to information and explanations given to us, there are no dues of income-tax, sales tax, wealth tax, service tax ,customs duty, excise duty or cess or any other statutory dues which have not been deposited on account of any dispute.

x. The Company does not have any accumulated losses at the end of the financial year. The Company has not incurred cash losses in the financial year covered by our audit and in the immediately preceding financial year.

xi. In our opinion and according to the information and explanations given to us, we are of the opinion that the Company has not defaulted in repayment of dues to a financial institutions, bank or debenture holders.

xii. In our opinion and according to the information and explanations given to us, the Company has maintained adequate records where the Company has granted loans and advances on the basis of security by way of pledge of residential houses and properties. The Company has not granted any loans and advances by way of pledge of shares, debentures and other securities.

xiii. In our opinion, the Company is not a chit fund or a nidhi /mutual benefit fund/ society. Therefore the provisions of clause 4 (xiii) of the Companies (Auditors' Report) Order, 2003 are not applicable to the Company.

xiv. According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4 (xiv) of the Companies (Auditors' Report) Order, 2003 are not applicable to the Company.

xv. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.

xvi. In our opinion, and according to the information and explanations given to us, term loans have been applied for the purposes for which they were raised.

xvii. The Company is engaged in the housing finance business and is governed by National Housing Bank [NHB] guidelines for raising deposits and deployment of its funds in its business and the company has followed the NHB guidelines for fund raising and its deployment and adhering to the Asset Liability Committee (ALCO) Management guidelines prescribed by NHB and accordingly based on those guidelines we confirm that the company has not used its short term funds in long term investments and vice versa.

xviii. The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Act. Accordingly, clause 4(xviii) of the order is not applicable.

xix. The Company has not issued any debentures during the year.

xx. The Company has not raised money through public issue of shares during the year. Accordingly, clause 4(xx) of the order is not applicable.

xxi. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For CHATURVEDI & CO.
Chartered Accountants

PANKAJ CHATURVEDI
Partner
Membership No. 91239

Place : Lucknow
Date : 31st July, 2008