

Report of the Directors on Corporate Governance

1. Company's philosophy on the Code of Governance

Magma pursues its long-term corporate goals on the bedrock of financial discipline, high ethical standards, transparency and trust. Enhancing shareholder value and protecting the interests of all stakeholders is a tradition at Magma. Every effort is made to follow best practices in all the functional areas and in discharging the Company's responsibilities towards all stakeholders and the community at large.

1. Board of Directors

2.1 Composition and size

The Board of Directors comprised of nine members at the end of the financial year, headed by an Executive Chairman. Of these, six were Non-Executive Directors. There were five Independent

Directors who accounted for over 55 percent of the Board's strength (as per the requirement of minimum 50 percent required under the Listing Agreement). The Non-Executive Directors are eminent professionals, with extensive experience in the business and industry.

2.2 Pecuniary or business transaction

There were no materially relevant pecuniary relationships or transactions of the Non-Executive Directors vis-à-vis the Company during the year.

The status of attendance of each Director at Board meetings and the last Annual General Meeting (AGM) held on 23 July 2008 and the number of companies and committees where each of them is a Director / Member as on 31 March 2009 is given below

Director	Promoter/ Executive/ Non-Executive/ Independent	materially significant, pecuniary or business relationship with the Company	Board meeting attended/ held	Attendance at the last AGM	Sitting fee paid	Directorship in other Companies incorporated in India(*)	Number of committees (other than Magma Fincorp Limited) in which Chairman/member(**)		No of shares held in the Company
							Chairman	Member	
Mayank Poddar	Promoter, Executive	Executive Chairman	5/5	Yes	No	Nil	Nil	Nil	3,00,000
Sanjay Chamria	Promoter, Executive	Vice Chairman and Managing Director	5/5	Yes	No	2	Nil	Nil	14,499
Shrawan Kumar Todi	Promoter- Non-executive	Vice Chairman	5/5	Yes	Yes	13	2	Nil	55,196
Ravi Todi	Promoter, Executive	Joint Managing Director	5/5	Yes	No	6	–	3	35,012
Ved Prakash Taneja	Independent, Non-Executive	–	5/5	Yes	Yes	Nil	Nil	Nil	Nil
Neil Greame Brown	Independent, Non-Executive	–	4/5	No	Yes	Nil	Nil	Nil	Nil
Narayan Seshadri	Independent, Non-Executive	–	3/5	No	Yes	4	1	2	Nil
Nabankur Gupta (appointed w.e.f 22/10/2008)	Independent, Non-Executive	–	1/1	NA	Yes	9	2	2	Nil

Director	Promoter/ Executive/ Non-Executive/ Independent	materially significant, pecuniary or business relationship with the Company	Board meeting attended/ held	Attendance at the last AGM	Sitting fee paid	Directorship in other Companies incorporated in India(*)	Number of committees (other than Magma Fincorp Limited) in which Chairman/member(**)		No of shares held in the Company
							Chairman	Member	
Kailash Nath Bhandari (appointed w.e.f 22/10/2008)	Independent, Non-Executive	–	1/1	NA	Yes	9	1	1	Nil
Bodhishwar Rai (ceased following demise on 16/10/2008)	Independent, Non-Executive	–	0/3	No	Yes				
Ashish Moti Chugan (Alternate Director to Mr. Neil Graeme Brown) (resigned w.e.f 22/10/2008)	Independent, Non-Executive	–	0/1	Yes	Yes				

(*) Excludes Directorships in Indian Private Limited Companies, Foreign Companies, Companies u/s 25 of the Companies Act, 1956

(**) Includes only Audit Committee and Shareholders'/Investors' Grievance Redressal Committee

2.3 Number of Board meetings

During the year 2008-09, Magma's Board met five times on 19 May 2008, 21 July 2008, 8 September 2008, 22 October 2008 and 31 January 2009.

2.4 Disclosure regarding appointment or reappointment of Directors

Brief resumes along with additional information required under Clause 49 of the Listing Agreement for the Directors seeking appointment / reappointment is as under

Name	Mr. Ved Prakash Taneja	Mr. Neil Graeme Brown	Mr. Nabankur Gupta	Mr. Kailash Nath Bhandari
Date of birth	02 September 1934	16 January 1959	15 October 1948	01 March 1942
Date of appointment	30 July 2002	04 August 2006	22 October 2008	22 October 2008

Report of the Directors on Corporate Governance

Name	Mr. Ved Prakash Taneja	Mr. Neil Graeme Brown	Mr. Nabankur Gupta	Mr. Kailash Nath Bhandari
Qualification	B.Com, BL, CAIIB	Chartered Accountant	B.Tech (IIT, Delhi) in Electronics and Electrical Engg. Advanced Management Programme in International Marketing in Europe	B.A, L.L.B
Expertise in specific functional area	He has wide experience in the banking and finance industry. He is the former Executive Director of Andhra Bank having more than 40 years of experience in the above mentioned field	An expert in the US and European M&A and international private equity markets with over 22 years experience. Currently, on the board of a number of overseas companies, he is also the co-founder of Subito Partners, a UK-based advisory and investment business firm specialising in value-added investment in the private equity markets.	He has a rich experience of over 35 years in the field of marketing and business development. He was associated with leading companies and held senior management positions. He is the founder of Nobby Brand Architects & Strategic Marketing Consultants and also the co-founder of Blue Ocean Capital & Advisory services. He was honoured with several national and international awards in the fields of marketing, advertising and branding.	He held the position of Chairman-cum-Managing Director of New India Assurance Company Limited, Mumbai and in United India Insurance Company Limited Chennai. He is on the Board of various reputed companies in India. He is also a Consultant with the World Bank. He was a former Secretary –General of General Insurance Council of India.
List of outside *Directorships held excluding Alternate Directorship.	None		<ol style="list-style-type: none"> 1. B. P. Ergo Limited 2. Colorplus Fashions Ltd 3. Cravatex Limited 4. e.Lexicon Public Relations & Corporate Consultants Limited 5. J K Helene Curtis Ltd 6. J K Investo Trade (India) Ltd 7. Prithvi Nandy Communications Ltd. 8. PNC Wellness Limited 9. Raymond Ltd 	<ol style="list-style-type: none"> 1. Andhra Cement Ltd 2. Agriculture Ins. Co. of India Ltd 3. Bank of Rajasthan Ltd 4. Credence Logistics Ltd 5. Hindalco Industries Ltd, Mumbai 6. Ispat Energy Ltd 7. Shristi Infrastructure Development Corporation Ltd. 8. Saurashtra Cement Ltd 9. Su-Raj Diamonds and Jewellery Ltd

Name	Mr. Ved Prakash Taneja	Mr. Neil Graeme Brown	Mr. Nabankur Gupta	Mr. Kailash Nath Bhandari
Membership / Chairmanship of ** Committees of the Board of Directors of the Company	Chairman 1. Audit Committee 2. Shareholders' / Investors Grievances Committee	Member Audit Committee	None	None
Chairman/Member of the **Committee of the Board of Directors of other companies in which he/she is a Director	None	None	Chairman of the Audit Committee of 1. Raymond Ltd 2. J K Investo Trade (India) Ltd Member of the Audit Committee of : Prithish Nandy Communications Ltd. Member of the Shareholders' / Investors Grievances Committee of: J K Investo Trade (India) Ltd	Chairman of the Audit Committee of Agriculture Ins. Co. of India Ltd Member of the Audit Committee of : Andhra Cement Ltd
Number of shares held in the Company	Nil	Nil	Nil	Nil

(*) Excludes Directorships in Indian private limited companies, foreign companies, companies u/s 25 of the Companies Act, 1956

(**) Includes only Audit Committee and Shareholders'/Investors' Grievance Redressal Committee

2.5 Remuneration of Directors

The Independent and Non-Executive Directors were paid sitting fees of Rs. 20,000 per meeting of the Board and Rs. 15,000 per

meeting of the Audit Committee and Rs. 1,000 per meeting of Shareholders/Investor Grievance Committee attended by them. The details of the remuneration paid to the Directors during the financial year ending 31 March 2009

Report of the Directors on Corporate Governance

Directors	Salary and allowances	Perquisites	Sitting fee	Total
Mr. Mayank Poddar	35,04,231	20,80,929	-	55,85,160
Mr. Sanjay Chamria	35,04,231	20,86,994	-	55,91,225
Mr. Ravi Todi	29,15,520	17,57,473	-	46,72,993
Mr. Shrawan Kumar Todi	-	-	1,00,000	1,00,000
Mr. Ved Prakash Taneja	-	-	1,70,000	1,70,000
Mr. Neil Graeme Brown	-	-	95,000	95,000
Mr. Narayan Seshadri	-	-	60,000	60,000
Mr. Nabankur Gupta	-	-	20,000	20,000
Mr. Kailash Nath Bhandari	-	-	20,000	20,000
Mr. Ashish Chugani	-	-	-	-
Mr. Bodhishwar Rai	-	-	-	-
Total	99,23,982	59,25,396	4,65,000	1,63,14,378

2.6 Information supplied to the Board

The following information is regularly placed before the Board

1. Annual operating plans and budgets and any updates thereof
2. Capital budgets and any updates
3. Quarterly results for the Company and its operating divisions or business segments
4. Minutes of meetings of Audit Committee and other Committees of the Board
5. The information on recruitment and remuneration of senior officers just below the Board level, including appointment or removal of Chief Financial Officer and the Company Secretary
6. Show cause, demand, prosecution notices and penalty notices which are materially important
7. Sale of material nature, of investments, subsidiaries, assets, which is not in normal course of business
8. Non-compliance of any regulatory, statutory or listing

requirements and shareholders service such as non-payment of dividend and delay in share transfer, among others.

9. Minutes and financial results of the subsidiary company M/s Magma ITL Finance Limited & M/s Magma Consumer Finance Private Limited.

3. Committees

Magma at present has five committees of the Board: - Audit Committee, Shareholders / Investors Grievance Committee, Nomination and Remuneration Committee, Management Committee, and Fair Practices Committee. The terms of reference of these Committees is decided by the Board. Signed minutes of the Committee meetings are placed before the Board. The role and composition including the number of meetings and related attendance are given below.

3.1 Audit Committee

3.1.1 Terms of reference

The terms of reference of the Audit Committee are wide enough to cover the matters specified under Clause 49 of the Listing Agreement, the Reserve Bank of India Guidelines, as well as Section

292A of the Companies Act 1956, which included the following

- To oversee Company's financial reporting process and the disclosure of its financial information to ensure that financial statement is correct, sufficient and credible
- To recommend the appointment and removal of external auditor, fixing of audit fees and also approval for payment for any other services
- To review with the management, the annual financial statements before submission to the Board focusing primarily on -
 - Any change in the accounting policies and practices
 - Major accounting entries based on exercise of judgment by the management
 - Qualifications in draft Audit Report
 - Significant adjustments arising out of audit
 - The going concern assumption
 - Compliance with accounting standards
 - Compliance with Stock Exchanges and legal requirements concerning financial statements
 - Any related party transactions i.e., transaction of the Company of material nature, with promoters or the management and their subsidiaries or relatives, among others, that may have potential conflicts with the interests of the Company at large
- To review with the management, external and internal auditors, the adequacy of internal control systems, which includes
 - Review the adequacy of internal audit function, including the structure of internal audit department, staffing and seniority of the official heading the

department, reporting structure coverage and frequency of internal audit

- To discuss with internal auditors any significant findings and follow up thereon
- To review the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or failure of internal control systems of a material nature and reporting the matter to the Board
- To discuss with external auditors, before the audit commences, nature and scope of audit as well as have post-audit discussion to ascertain any area of concern
- To review the Company's financial and risk management policies
- To look into the reasons for substantial default in the payments to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors

3.1.2 Composition

At present, three Directors of the Company are members of the Audit Committee, of which two are Independent Directors. Mr. Ved Prakash Taneja is the Chairman of the Committee while Mr. Neil Graeme Brown and Mr. Mayank Poddar are the other members of the Committee. Both Mr. Ved Prakash Taneja and Mr. Neil Graeme Brown are Independent Directors. Mr. Neil Graeme Brown was inducted as a member w.e.f 22 October 2008 in place of Mr. Bodhishwar Rai who ceased to be member of the Committee following his demise on 16 October 2008. Mr. Girish Bhatia, Company Secretary, is acting as the Secretary to the said Committee.

3.1.3 Meeting and the attendance during the year

The Audit Committee of Directors met four times during the year under review on 19 May 2008, 21 July 2008, 21 October

Report of the Directors on Corporate Governance

2008 and 30 January 2009

Name of the Directors	Number of meetings attended
Mr. Ved Prakash Taneja	4
Mr. Mayank Poddar	4
Mr. Bodhishwar Rai	Nil
Mr. Neil Graeme Brown	1

3.2 Management Committee

3.2.1 Terms of reference

The Management Committee reviews operations from time to time and also formulates and reviews corporate objectives and strategies including long range plans for expansion / diversification of the Company's activities within the Board's approved directions / framework.

3.2.2 Composition

- Mr. Mayank Poddar
- Mr. Sanjay Chamria
- Mr. Ved Prakash Taneja

3.2.3 Meeting and the attendance during the year

The Management Committee of Directors met 20 times during the year under review on 12 April 2008, 25 April 2008, 3 May 2008, 7 May 2008, 26 May 2008, 9 June 2008, 18 June 2008, 8 July 2008, 22 July 2008, 11 August 2008, 27 August 2008, 4 September 2008, 23 October 2008, 17 November 2008, 23 December 2008, 10 January 2009, 5 February 2009, 21 February 2009, 4 March 2009 and 19 March 2009.

Name of the Directors	Number of meetings attended
Mr. Mayank Poddar	19
Mr. Sanjay Chamria	19
Mr. Ved Prakash Taneja	2

3.3 Shareholders/Investors Grievance Committee

3.3.1 Terms of reference

- To deal with and decide all matters relating to the registration of transfer and transmission of shares and debentures, issue of duplicate share certificates or allotment letters and certificates for debentures in lieu of those lost/ misplaced
- To redress shareholders and investors complaints relating to transfer of shares, non-receipt of Balance Sheet and non-receipt of declared dividends, among others.
- To monitor the compliance of Code of prevention of insider trading framed by the Company.
- To effect dematerialisation and re-materialisation of shares of the Company

3.3.2 Composition

- Mr. Mayank Poddar
- Mr. Sanjay Chamria
- Mr. Ved Prakash Taneja

Mr. Ved Prakash Taneja, Independent Director, acts as the Chairman of the Shareholders/Investors Grievance Committee.

The Committee met 10 times during the financial year ended 31 March 2009 on 25th April 2008, 26 May 2008, 24 June 2008, 15 July 2008, 30 August 2008, 22 October, 2008, 3 December 2008, 16 January 2009, 26 February 2009 and 27 March 2009 to discharge its functions. The members attended the meetings as follows

Name of the Directors	Number of meetings attended
Mr. Mayank Poddar	9
Mr. Sanjay Chamria	8
Mr. Ved Prakash Taneja	10

The Company appointed M/s. Niche Technologies Private Limited, D-551, Bagree Market, 71, B. R. B. B. Road, Kolkata - 700 001, as the Registrar and Share Transfer Agent both for physical as well as electronic mode. Mr. Girish Bhatia, Company Secretary, acts as the Compliance Officer. The table below gives the number of complaints received, resolved and pending during the year 2008-09.

Received	Number of complaints	
	Resolved	Pending
13	13	Nil

3.4 Nomination and Remuneration Committee

Mr. Neil Graeme Brown, an Independent and Non-Executive Director, acts as the Chairman of the Committee. Mr. Ved Prakash Taneja (Independent and Non-Executive Director) and Mr. Shrawan Kumar Todi (Vice Chairman) are the other members. Mr. Neil Graeme Brown was inducted as a member w.e.f 22 October 2008 in place of Mr. Bodhishwar Rai who ceased to be member of the Committee following his demise on 16 October 2008. Mr. Sanjay Chamria ceased to be a member of the Committee w.e.f 31 January 2009. The existing Remuneration Committee was renamed as "Nomination and Remuneration Committee" w.e.f 22 October 2008.

The terms of reference of the Committee is to propose to the Board new appointments (both Executive and Non-Executive) and to determine and implement the Company's policy on remuneration package of the employees as well as Directors of the Company, including inter-alia ESOP Schemes, sitting fee and other expenses payable to the Directors of the Company, within the limits approved by the shareholders, wherever applicable, from time to time and the said Committee is further authorised to exercise such powers as may be delegated by the Board of Directors from time to time, subject to the provisions of the Memorandum and Articles of Association of the Company and the Companies Act, 1956. The Committee designed objective

methods to review/appraise employee performance on an annual basis in order to determine increase in emoluments based on such review. Mr. Girish Bhatia, Company Secretary, acts as the Secretary to the said Committee.

4. Disclosures

There was no material transaction with related parties. None of the transactions recorded were in conflict with the interests of the Company. The details of related party transactions are disclosed in Note No. 2 (xi), Schedule 16, Notes to Accounts of the Annual Report.

The Company received sufficient disclosures from promoters, Directors or the Management wherever applicable.

The Company complied with the statutory rules and regulations including those of the SEBI and the Stock Exchanges. There was no default on any related issue during last three years.

5. Means of communication with shareholders

The quarterly/half yearly/annual un-audited/audited financial results of the Company are sent to the stock exchanges immediately after they are approved by the Board of Directors. In addition, these results are simultaneously posted on the web address of the Company, at www.magma.co.in as well as on the www.sebiedifar.nic.in and on the official website of SEBI, as required by the Clause 51 of the Listing Agreement.

The results were published in the following local and national dailies

1. Aajkal (Vernacular language)
2. The Financial Express (English language)
3. Business Standard (English language)

The Company's new web address is www.magma.co.in. The website contains a complete overview of the Company. The Company's Annual Report, un-audited financial results, the distribution schedule, credit ratings and Code of Conduct are

Report of the Directors on Corporate Governance

uploaded on the website.

During the financial year 2008–2009, Analyst Conference Call was conducted by Mr. Sanjay Chamria (Vice Chairman Cum Managing Director) on 26 May 2008, 25 July 2008 and 11th February 2009.

Press reports are given on important occasions. They are also placed on the Company's website.

6. Management Discussion and Analysis (MDA)

The MDA section is carried in detail and attached herewith.

7. General Body meetings

Location and time of the last three Annual General Meetings

Year	Venue	Day and date	Time	Number of special resolutions
2005-06	"Somany Hall", Merchants Chamber of Commerce, 15 – B, Hemanta Basu Sarani, Kolkata – 700 001	Monday, 31.07.2006	11.00 am	7
2006-07	Kala Kunj, 48, Shakespeare Sarani, Kolkata-700 017	Tuesday, 4.09.2007	3:00 pm	–
2007-08	Kala Kunj, 48, Shakespeare Sarani, Kolkata-700 017	Wednesday, 23.07.2008	3.30 pm	1

Location and time of last three Extra Ordinary General meetings held (EGM)

Type	Venue	Day and date	Time	Number of special resolutions
EGM	"Somany Hall", Merchants Chamber of Commerce, 15 – B, Hemanta Basu Sarani, Kolkata – 700 001	Tuesday, 5.06.2007	3.00 pm	4
EGM (Postal Ballot)	Registered office, 24, Park Street, Kolkata – 700 016.	Friday, 3.08.2007	4:00 pm	1
EGM (Postal Ballot)	Registered office, 24, Park Street, Kolkata – 700 016.	Saturday, 15.03.2008	2:00 pm	–

8. Shareholders' information

The Shareholders are kept informed by way of mailing of Annual Reports, notices of Annual General Meetings and Extra Ordinary General Meetings and other Compliances under the Companies Act, 1956. The Company also regularly issues press releases and quarterly results.

a) Listing of shares

The equity shares of the Company are listed on

(1) The National Stock Exchange of India Limited, Mumbai

(2) The Bombay Stock Exchange Limited

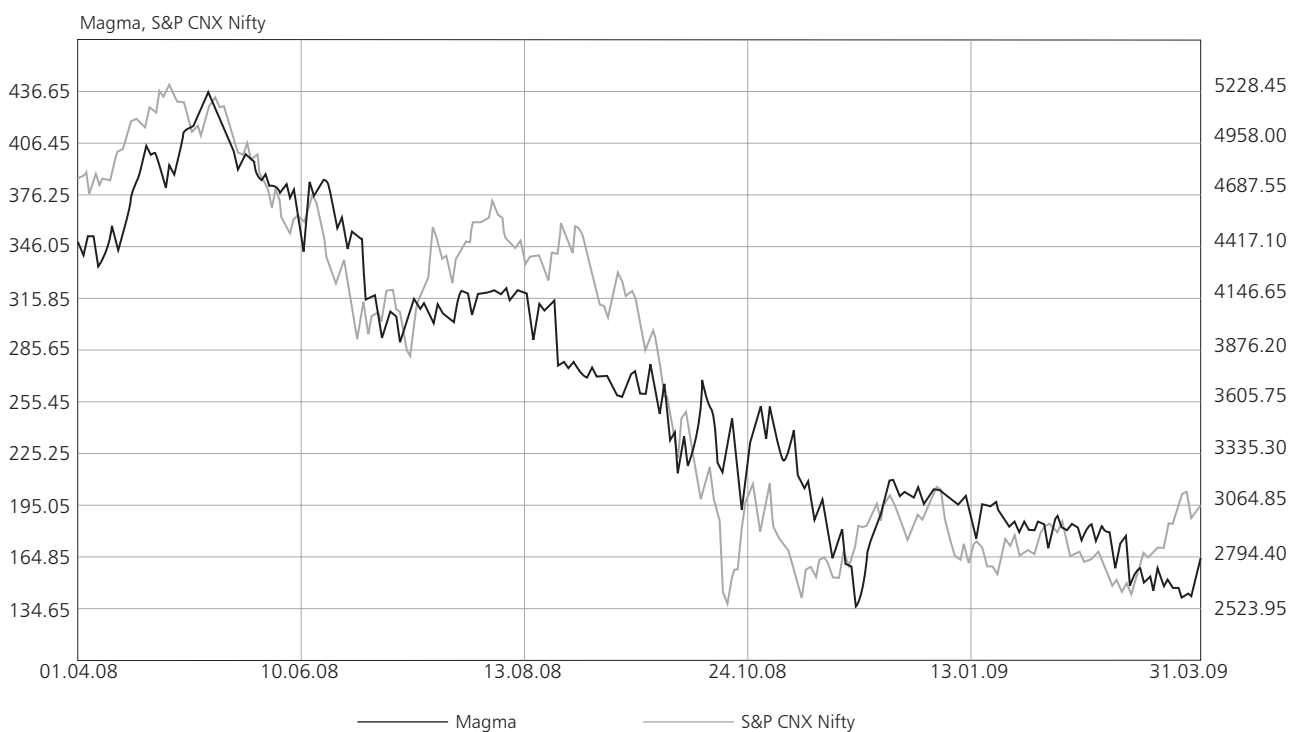
The Company has paid Annual Listing fee for the financial year 2009–10.

b) Market price data

Monthly high and low quotation during 1 April 2008 to 31 March 2009 is given in the table below

Month	Bombay Stock Exchange Limited		National Stock Exchange of India Limited	
	High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)
April, 2008	424.50	325.00	444.40	325.30
May, 2008	439.00	370.10	463.90	325.90
June, 2008	420.50	310.00	422.50	303.05
July, 2008	335.80	272.40	358.00	280.00
August, 2008	330.00	266.25	334.00	270.00
September, 2008	321.60	225.00	292.00	213.75
October, 2008	289.00	186.05	287.00	161.25
November, 2008	254.00	152.00	298.70	157.00
December, 2008	229.90	119.05	219.90	119.75
January, 2009	215.95	170.00	238.00	165.00
February, 2009	190.00	160.00	208.00	167.00
March, 2009	178.20	126.10	185.00	137.35

c) Magma Share Performance



Report of the Directors on Corporate Governance

d) Company's registered office

"Magma House", 24, Park Street, Kolkata – 700 016

e) Address for correspondence for Shares/ Debentures and related matters

Secretarial Department, 24, Park Street, 4th Floor, Park Centre Building, Kolkata - 700 016

f) Registrar and Share Transfer Agent

(Physical and demat mode)

Niche Technologies Private Limited

D-511, Bagree, 71, B.R.B.B. Road, Kolkata - 700 001

Tel No.033- 22357270 / 7271/ 3070

Fax No.033 - 22156823

Email Id : nichetechpl@nichetechpl.com

g) AGM details

Date	11th September, 2009
Venue	'Rotary Sadan', 94/2 Chowringhee Road, Kolkata 700020
Time	3.00 p.m.

h) Financial calendar (tentative)

Financial reporting for the quarter ending

1st quarter ending 30 June 2009	Last week of July, 2009
2nd quarter ending 30 Sept 2009	Last week of Oct, 2009
3rd quarter ending 31 Dec 2009	Last week of Jan, 2010
4th quarter ending 31 March 2010	Last week of April, 2010
Annual General Meeting for the year ending 31 March 2010	Last Week of Sepr 2010

i) Dividend payment date and rate

Within 30 days from the date of Annual General Meeting Re. 1 per share (10 percent) dividend on Equity Shares and at 9.70 percent cumulative on 2,109,199 Preference Shares of Rs. 100 each, at 0.5 percent per annum cumulative dividend on 2,109,199 Preference Shares of Rs. 100 each for the previous year ended 31.3.2008, at 5 percent 30,00,000 Preference Shares of Rs.100 each and at 5 percent on 6,500,999 Preference Shares of Rs. 100 each, will be paid, when approved. It will be paid on or after the AGM date.

j) Contact person for clarification on financial statements

For clarification on financial statements, one should contact Mr. Dharendra Kumar Hota, 24, Park Street, Kolkata - 700 016. Ph: 033 4401 7200/359 Email: dkhota@magma.co.in

k) Distribution of shareholding as on 31 March 2009

Particulars	Number of shareholders	Number of shares held	Percentage of shareholding
Upto 500	9598	3,50,708	1.6104
501 – 1,000	100	77,389	0.3554
1,001 – 5,000	97	2,20,949	1.0146
5,001 – 10,000	28	1,99,990	0.9183
10,001 – 50,000	41	9,67,101	4.4409
50,001 – 1,00,000	12	8,48,396	3.8958
1,00,001 and above	21	1,91,12,607	87.7645
Total	9,897	2,17,77,140	100.00

Pattern of shareholding as on 31 March 2009

Category	Number of shares	Percentage
Promoter and Promoter Group	1,06,77,822	49.032
Resident Individuals	12,67,678	5.821
Foreign Holdings	60,73,383	27.889
Public Financial Institutions and Banks	25,132	0.115
Other Companies / Mutual Funds	34,29,441	15.748
Trusts	3,03,684	1.395
Total	2,17,77,140	100.00

l) Demat facility

The Company's shares enjoy demat facility with NSDL and CDSL having ISIN Nos. INE511C01014 for Equity Shares, INE511C04018 for 9.70 percent 21,09,199 Preference Shares of Rs. 100 each and INE511C04026 for 3.25 percent LIBOR 6,500,999 Cumulative Non-Convertible Redeemable Preference Shares of Rs. 100 each. The demat facility is available since 16 January 2001 for Equity Shares and 10 March 2006 for Preference Shares. As on 31 March 2009 21,077,730 Equity Shares and 8,610,198 Preference Shares of the Company were held in demat mode.

m) Transfer of shares

During the period, transfer of 3,947 Equity Shares was recorded by the Company. All transfers were affected within 30 days of

receipt. Other than routine queries / requests, the Company did not receive any complaint during the period from the investors.

n) **Stock code (Equity Shares)** BSE : 524000
NSE : MAGMA

o) ISIN Number in NSDL and CDSL

ISIN Nos. INE511C01014 (Equity Shares), INE511C04018 (9.70 percent Preference shares) and INE511C04026 (3.25 percent LIBOR Cumulative Non-Convertible Redeemable Preference Shares.)

p) **E-mail ID of the grievance redressal division/compliance officer exclusively for the purpose of registering complaints by investors:** bhojak.r@magma.co.in

For and on behalf of the Board

Mayank Poddar
Chairman

Kolkata, 30 June 2009

Auditors' Certificate

Certificate of Compliance from Auditors as Stipulated under Clause 49 of the Listing Agreement of the Stock Exchanges in India

To the Members of Magma Fincorp Limited

We have examined the Compliances of conditions of Corporate Governance by Magma Fincorp Limited for the year ended 31st March, 2009, as stipulated in Clause 49 of the Listing Agreement with Stock Exchanges in India.

The Compliance of conditions of Corporate Governance is the responsibility of Company's Management. Our examination was limited to the procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of a 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 abovementioned Listing Agreements.

We state that in respect of investors grievances received during the year ended 31st March, 2009, no investor grievances are pending against the Company for a period exceeding one month as per the records maintained by the Company and presented to the Investors/Shareholders Grievance Committee.

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.

India Steamship House
21, Old Court House Street,
Kolkata – 700 001
30th June, 2009

For **S. S. Kothari & Co.**
Chartered Accountants

(R. N. Bardhan)
Partner
Membership No. 17270

Management discussion and analysis

Economic and industry overview

During 2008-09, the Indian economy suffered a massive slowdown on account of global financial crisis across various sectors in the second half of the year. Despite severe stress in the economy on account of credit and liquidity crisis during the period August 2008-December 2008, the economy continued to expand on the back of high domestic consumption, albeit sluggishly. As per the advance estimates as per CSO, the Indian economy expanded by 7.1 percent in 2008-09 as compared with 9.0 percent in 2007-08. The deceleration in growth is visible in two major sectors, viz., agriculture/ allied activities and industry. Services growth also recorded some moderation. From the perspective of the impact of global financial crisis on the real economies of the world, the growth outcome reflects the resilience of the Indian economy.

Real GDP originating in agriculture and allied activities is estimated to have risen by 2.6 percent in 2008-09, lower than 4.9 percent recorded in the previous year. Real GDP originating in industry rose by 4.2 percent in 2008-09 compared with 7.4 percent during the previous year. Real GDP originating in the services sector rose by 9.2 percent during 2008-09 as compared with 10.8 percent a year ago. Activity in construction and financing, insurance, real estate and business services sector expanded by 6.5 percent and 8.6 percent, respectively, as compared with 10.1 percent and 11.7 percent in 2007-08. These figures, however, hide the slowdown in growth experienced in different quarters of 2008-09; GDP growth in Q1, Q2 and Q3 were estimated at 7.9 percent, 7.6 percent and 5.3 percent, respectively.

During the financial year 2008-09 (up to February 2009), foreign investment of various components in India recorded a mixed trend. The inflows under gross foreign direct investment (FDI) exhibited an increase to US\$31.7 billion during 2008-09 (April-February) as against US\$27.6 billion during the corresponding period 2007-08. FDI was channeled mainly into manufacturing

industries (21.1 percent), followed by financial services (17.4 percent) and the construction sector (10.1 percent). However, net inflows from FIIs declined sharply from US\$25.0 billion in 2007-08 and turned into net outflows of US\$15.0 billion in 2008-09. Other avenue of capital inflows, ADRs/GDRs, also witnessed a trend of net outflows in 2008-09 versus net inflows in 2007-08. Reflecting the tight liquidity conditions in external markets and increased cost of funds, ECBs also moderated sharply in 2008-09 against 2007-08.

In the aftermath of global crisis, dollar-rupee exchange rates witnessed wild fluctuations during the last year. As on 31 March 2008, exchange rate was at Rs. 39.97, it firmed up to Rs. 46.94 as on 30 September 2008 and reached the peak of Rs. 52.06 on 5 March 2009 (a rupee depreciation of 30 percent). Rupee continues to trade weak in the exchange markets, with the US dollar closing at Rs. 50.95 as on 31 March 2009.

Headline inflation firmed up in all major economies of the world during the first half of 2008-09, reflecting a combined impact of higher food and fuel prices as well as strong demand conditions, especially in emerging markets. In India, inflation based on the wholesale price index (WPI) increased sharply from 7.7 percent at the end of March 2008 to an intra-year peak of 12.9 percent on 2 August 2008 on the basis of unprecedented highs in the international crude oil prices as well as sustained increase in important commodity prices such as metals, chemicals and machinery, among others. Subsequently, WPI inflation declined sharply to 0.26 percent as on 28 March 2009, mainly on account of decrease in prices of petroleum products, electricity, cotton (both raw and finished) and iron and steel, driven by the global and domestic recession and significant demand slowdown. On the other hand, high food prices kept consumer price inflation, as measured through various consumer price indices, at elevated levels of 9.6 percent-10.8 percent during January-February 2009 as compared with 7.3 percent-8.8 percent in June 2008 and 5.2 percent-6.4 percent in February 2008.

All India sales of new commercial vehicles registered a negative growth of 21.7 percent during 2008-09, while sales of new Cars recorded a flat growth rate of 0.1 percent during the same period. This represents a substantial slowdown compared to the previous year, where the corresponding growth rates recorded were 4.7 percent and 12.3 percent, respectively. The growth momentum of India was interrupted mostly on account of global financial crisis which was further accentuated by the cyclical slowdowns of certain industries. Similarly, as per industry estimates, sales of new construction equipment are believed to have recorded de-growth of 40 percent in 2008-09 as against a growth of 30 percent in 2007-08.

Monetary tightening measures used by the RBI to contain the higher inflation rates, during the early part of 2008, led to higher retail lending rates which had a dampening effect on sales of new vehicles. However, with conditions reversing dramatically in second half of 2008-09, the RBI slashed CRR/SLR on several occasions and also reduced key rates such as Repo/Reverse Repo and bank rates to ease the liquidity pressure in the economy. Even though interest rates were reduced in line with these measures, demand continued to be sluggish in second half of 2008-09 due to poor business and consumer confidence, with the result that overall growth in auto sector was negative.

Like other governments across the world combating the financial crisis, the Government of India and the RBI undertook a number of fiscal and monetary measures aimed towards boosting the economy back on the path of a high growth rate trajectory, by reducing taxes/duties, committing public spending especially in infrastructure and infusing liquidity in the economy. Special schemes were announced to enable stressed NBFCs to draw on lines of credit to ease their liquidity crunch.

As per various estimates, it is now expected that the retail sales of cars, commercial vehicles and construction equipments shall pick up towards the second half of 2009-10, fueled by a revival in the Indian economy, the Government of India measures on infrastructure development and lower interest rates.

In the wake of rising delinquency in the industry in consumer finance business, subsequent financial crunch due to global crisis and demand slowdown, the competitive scenario changed drastically, with a few major players in the retail finance industry altogether exiting the sector. At the same time, few PSU banks entered the segment in a major way, making their presence increasingly felt. Although competition remains muted for most part of second half of the year, it is expected that sector will continue to remain highly competitive, going forward. The management believes that a cautious approach is justified under current market conditions. At the same time, the retail finance segment offers tremendous opportunities in a scenario, where the Indian consumers and small entrepreneurs are relatively under-leveraged and sustained economic growth and favourable demographics are expected to drive demand in the years to come. Magma will continue to seek growth in its target market segments of semi-rural and rural India. It will utilise its proximity and knowledge of its customers to identify and meet customer needs and offer better service. It will leverage its customer relationships and long-standing consistent presence in the market and manufacturer/dealer relationships to capitalise on opportunities which will open up once the economy revives.

Reflecting the global developments over the last year and their impact on the Indian economy, the RBI's industrial outlook survey indicates less than optimistic sentiment on Indian economy in coming months. Growth is largely expected to be negative in the first half of 2009-10 with revival occurring towards second half of the financial year stimulated by the on-going positive measures announced by the Government of India / the RBI in respect of monetary measures and fiscal spending, especially in the areas of infrastructure development. The overall GDP growth rate in 2009-10 is expected to be in the range of 5.5 percent-6.0 percent.

Magma in 2008-09

In this financial year, Magma rationalised its branch network to

Management discussion and analysis

150 branches providing services to customers in 20 states and one union territory across India.

Magma also entered into agreements with major manufacturers of cars, commercial vehicles and construction equipments such as Maruti Suzuki India Limited, Hyundai, GM, Tata Motors, Telcon and JCB, among others, which provides Magma access to their respective dealer networks across India.

It was due to the above reasons that Magma reported growth in total disbursements by 2.2 percent during 2008-09 despite a significant economic slowdown and downturn in industries affecting our business. Magma also maintained its collection performance and improved its asset quality in the face of industry-wide liquidity crunch and higher delinquency.

Magma's total disbursements reached Rs. 3,590 cr during FY 2008-09, recording a 2.2 percent growth over Rs. 3,513 cr achieved during FY 2007-08. Assets under the management touched an impressive Rs. 8,694 cr as at end-March 2009, recording an increase of 17 percent. Magma's fund-based product portfolio includes commercial vehicle financing (both new and used), cars and multi-utility vehicle funding, financing of construction equipment and tractor financing. A significant proportion (approximately 70 percent) of Magma's loan disbursements qualify as priority sector lending under the RBI guidelines, underpinning the importance of NBFCs such as Magma in credit delivery to sectors and customers which are not served to the fullest extent by the conventional banking system.

During the year under review, Magma entered into tie ups with Eicher/TAFE for tractor financing across their India dealer network.

In this year, Magma also launched SME loans business extending unsecured loans to small and medium enterprises. The focus in SME loans is to service customer needs for working capital requirements, business expansion and business maintenance plans. Magma is among the top five players in the market who service SME unsecured loans.

This year Magma also invested Rs. 21.25 cr in five WTGs in Rajasthan. As of 31 March 2009, the total installed capacity was 20 numbers of wind turbine generators (WTGs) (with rated capacity of 17.5 MW) in the states of Maharashtra, Madhya Pradesh, Karnataka and Rajasthan.

In this year, the Company also raised an additional Rs. 95 cr during 2008-09 in the form of unsecured redeemable non-convertible subordinated debt in the nature of debentures qualifying as Tier-2 capital. Capital adequacy as on 31 March 2009 stood at a comfortable 17.30 percent, against the RBI prescribed norm of 10 percent for non-deposit taking asset financing companies such as Magma.

Financial performance

Income

Income from operations for fiscal 2009 increased by 30.23 percent as compared with fiscal 2008 mainly due to an increase in asset lending rates and partly due to increase in disbursements. The average lending rates increased from 14.00 percent in 2008 to 15.40 percent in 2009, driven by increase in rates across products and also increasing contribution from newly launched high yield products such as SME loans and tractors. The disbursements in fiscal 2009 grew by 2.20 percent as compared to 2008. The insurance business continued to perform well in line with the asset finance business and continuing cross-sell efficiency. Other income for the fiscal 2009 was 63.80 percent higher than fiscal 2008 mainly on account of increase in the interest income on the fixed deposits, loans and margins, among others, and increase in income from sale of power.

Expenses

Magma's employee cost during fiscal 2009 increased by 56.01 percent as compared with fiscal 2008 and it also increased to 15.98 percent of total income in fiscal 2009 as compared with 13.59 percent during fiscal 2008. This was mainly on account of increased expenses on account of planned management

structure and manpower in anticipation of higher business volume, which were affected by the economic slowdown due to the global crisis witnessed in fiscal 2009. The economic slowdown and market downturn in cars, CV and CE also had the effect on lowering of branch throughout and productivity.

The interest expenses of the Company increased from Rs. 170.77 cr in fiscal 2008 to Rs. 285.36 cr in fiscal 2009. The increase in the interest cost was on account of 30 percent increase in loan funds (excluding mezzanine capital) from Rs. 1,907.03 cr in fiscal 2008 to Rs. 2,471.39 cr in fiscal 2009 in line with an increase in on-book assets from Rs. 3,283.44 cr in fiscal 2008 to Rs. 3,727.75 cr in fiscal 2009 and also general hardening of interest rates consequent to the global financial crisis and liquidity crunch. The interest cost as a percentage of total income also increased from 36.22 percent in fiscal 2008 to 45.62 percent in fiscal 2009. In order to alleviate the impact of higher interest costs, Magma managed a diversified funding mix by way of partly substituting its higher cost working capital loans (viz, cash credit and demand loans, among others) with an optimum mix of lower cost debt fund such as short term loans / NCDs / commercial papers. Despite an adverse movement of interest rates during the fiscal 2009, Magma achieved a NIM of 3.6 percent.

Although Magma's operative and administrative expenses increased by 11.13 percent in fiscal 2009 as compared to fiscal 2008, as a percentage of total income it decreased from 27.84 percent in fiscal 2008 to 23.32 percent in fiscal 2009 due to cost rationalisation measures and tightened control exercised during the year. Better collection management led to bad debts written off increasing only 3 percent in fiscal 2009 as compared to 2008, whereas total loan assets increased by 14.70 percent.

Depreciation increased by 18.92 percent from Rs. 28.79 cr in fiscal 2008 to Rs. 34.24 cr in fiscal 2009 on account of net addition to the fixed assets to the tune of Rs. 46.91 cr which was mainly on account of additional investments made in wind mill assets and also in the branch renovation and IT investments made during the first half of fiscal 2009.

Non-performing assets

Magma showed zero NPAs on its books as on 31 March 2009 as a result of its prudent write-off policy combined with strong credit assessment processes and in-house collection infrastructure.

Several initiatives were undertaken during the year to further improve portfolio quality and contain delinquency within manageable limits: changes in mix of customer categories, appropriate changes in credit manuals and processes, dedicated field investigation team under credit department, strict compliance with credit processes, improvement in loan documentation through a separate operations team and verification of customers business and financial track record, among others, and improved monitoring and remedial system for early delinquency trends are all directed at minimising credit losses. Subsequently, during the collection process, the Company engages an experienced field force for bucket-wise handling of collections and during the year, it strengthened its zonal and national level leaders for rigorous and regular monitoring of collections on all India basis.

During the year 2008-09, Magma created a separate asset reconstruction division, with well-defined processes and structure to affect speedy recovery from chronic default cases, in coordination with the legal department. The legal department also strengthened further with well-defined processes, resources and legal skills to aid in overall collection performance.

Profitability

Profit before tax decreased by 21.50 percent from Rs. 76.59 cr in fiscal 2008 to Rs. 60.13 cr in fiscal 2009 and as a percentage of total income it dropped from 16.25 percent in fiscal 2008 to 9.61 percent in fiscal 2009 signifying an overall higher cost of operation in relation to business volume, in view of truncated financing opportunities, which were caused by the financial crisis and also due to a reduction in NIM from 3.8 percent in 2007-08 to 3.6 percent in 2008-09. Magma, having made these investments in

Management discussion and analysis

people and infrastructure, would be poised to capitalise immensely when the economy comes into recovery path.

Profit after tax (before deferred tax) decreased by 23.67 percent from Rs. 61.48 cr in fiscal 2008 to Rs. 46.93 cr in fiscal 2009 on account of the decrease in profit before tax and differing tax provisions. Profit after deferred tax declined by 23 percent from Rs. 50.5 cr in 2007-08 to Rs. 39.04 cr in 2008-09.

Initiatives

During the year 2008-09, Magma undertook a number of initiatives aimed at building a sustainable and stable financial corporation with strong focus on processes and systems in critical aspects of organisation like human resources, technology, customers, branding and internal control systems.

Employee ownership

Human resource is the key to the success of any financial services company. The Magma Employee Stock Options Scheme (ESOP) seeks to reward and retain leaders within the organisation as well as attract talent from a competitive marketplace. Magma formulated and implemented an ESOP scheme ('Magma Employees Stock Option Plan 2007') in accordance with the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999. Pursuant to the Plan, 3,50,800 stock options were granted to the eligible employees in October 2007.

Information technology

Information technology (IT) is the biggest enabler for retail financing across our vast distribution network and attained unprecedented importance in achieving business goals. Over the years, sustained investments were made in state-of-the-art technologies to introduce/develop new systems or enhance the existing ones and achieve seamless connectivity for data and voice across regions to facilitate online business, instant report access for faster decision-making and improved service levels. This IT infrastructure is continuously upgraded with the latest

innovations to synchronise with business goals and expansions. A disaster recovery system with adequate redundancy is already provided as a contingency measure.

Several new initiatives in IT were undertaken during the year relating to

- Upgradation of production system servers to cater to the existing and new business initiatives
- Extension of document management systems to cover more business units
- Enabling IT infrastructure and VPN connectivity for SME loan businesses
- VPN extension and bandwidth enhancement to improve operational efficiency
- Installation of Lotus Notes Mail and Messaging system
- Infrastructure of Disaster Recovery Site for business continuity was upgraded and security measures were enhanced keeping in tune with the future business growth requirement
- Addition and enhancement of business modules in the ERP system for new products/services
- SMS-based solutions for customers and field staff
- Business intelligence systems for deeper data analysis and informed decision-making

Going forward, further new initiatives identified for implementation were integrated with data / audio / video conferencing facilities, infrastructure for web-based solutions, Mail Archiving solution and BlackBerry Enterprise Server, among others.

Corporate image building

The year 2008-2009 heralded a new chapter in Magma's story; Magma unveiled a new brand identity and launched its new corporate logo with the baseline 'Investing in the smallest dream' indicating the Company's strategy to provide an equality of opportunity to the economically disenfranchised. The offices

were branded with new glow signage, posters and danglers. Apart from the town hall event for own employees, the new identity was launched to the external world through the press conference and sustained national PR campaign targeting media, investors and customers. The corporate website was also revamped to reflect the new vibrant image of the Company.

Magma explores branding and communications from a 360 degree perspective. The year-long programme includes initiatives aimed at external and internal communications. The Company enjoys high editorial visibility in the print and electronic media facilitated by the specialised PR campaign. The corporate advertising campaign and the regular dealer advertisements lend further visibility to the brand. The various consumer and trade shows and promotions that Magma participates in helps the Company to reach a large audience including prospective customer and trade. Participation and sponsorship of major corporate events, developing and maintaining strong relations with investors through a well-planned IR campaign, conference calls, investor meets, dealer and channel partner meets are some of the other activities that Magma invests in regularly. Corporate Social Responsibility has always featured prominently in Magma's list of activities and the Company organised a health camp and an eye check-up camp for truck drivers and helpers under the program 'Better Health with Magma'. The Company also regularly helps victims of natural calamity like flood and cyclone, among others. Magma also sponsors more than 10 schools in tribal areas aimed at eradicating illiteracy. The Company also publishes - "Magmaites" - the internal e-newsletter and "Graphitti" - the external newsletter, to help disseminate the news and views.

Customer relationship management

Magma believes in sustainable and consistent relationships with its customers, fulfilling their dreams and protecting their interest. Well-defined target customers resulted in clearer customer focus, standardised credit screens and processes and

documentation requirements. The Company undertook efforts and enabled its system to measure and improve the turnaround time to the prospective customers. For repeat customers, it has fast track processing mechanism, generating long-term customer loyalty in the process. Over the years, Magma invested in its large distribution network, prompt and efficient customer service and customer relationships across India, which continued to benefit in terms of business growth and sustainability.

Internal control systems

The Company has in place adequate internal control systems with well-defined processes and structure to prevent loss and/or misappropriation of funds and other assets of the Company and to ensure compliance of various organisational or functional units to comply with the laid down processes and systems.

The internal audit department is vested with the tasks and responsibility of ensuring that various departments and owners exhibit adequate process compliance discipline in their business decisions. The department conducts both on-site and off-site audit covering entire gamut of business activities / areas such as branch operations, fund management, documents management and credit approvals. The Audit Committee, headed by a Non-Executive Independent Director, periodically reviews the internal audit reports and management observations. Any significant process deviations are brought to the notice of the Board as and when required.

Opportunities

Cars, commercial vehicles and construction equipments suffered serious setbacks in sales growth during second half of last year, due to the global financial crisis and consequent impact of slowdown in India. As per various estimates, it is now expected that the retail sales of cars, commercial vehicles and construction equipments shall pick up towards the second half of 2009-10, fueled by the revival in Indian economy, the GOI took measures on infrastructure development and lower interest rates. The

Management discussion and analysis

long-term outlook for the vehicle financing industry remains bullish and as per the past business cycles seen, it is expected that commercial vehicle sales would bounce back with double digit growth rates in the fiscal year 2011. With the government undertaking measures to push the GDP growth level to 9 percent, increasing income levels in the hands of young consumers would lead to an expansion of entry-level passenger cars market. Infrastructure spending is a key thrust area for the government and the economy and has found a prominent place in the recent fiscal stimuli launched by the government. Related construction equipment industry will ride on a high infrastructure demand.

While monetary easing by the RBI is yet to take full impact, there is a downward bias to interest rate movements in the year 2009-10, due to low inflation and slowdown in demand. As per economists' estimates, economic growth in 2009-10 is likely to be in the range of 5 percent to 6 percent, backed by continuing fundamental strengths of the Indian economy, political stability and high domestic consumption. Magma invested in its infrastructure, people resources and new products, which will see it in a good position to capitalise on rising opportunities in the retail finance segment.

Challenges

Maintaining Magma's business volumes and market shares across all products and markets in the face of low to nominal growth in different product segments will be the key challenge. So would be maintaining competitive operational costs and net interest margins. The competitive scenario changed drastically, with entry of few large PSU banks in our product segments, especially in passenger cars, making their presence increasingly felt. It is expected that sector will continue to remain highly competitive going forward and maintaining Magma's competitive position will continue to be challenging.

Appropriate designing of credit screens, prudent underwriting, superior collections and efficient portfolio management are all

required to keep delinquency within acceptable levels in all conditions of economy and markets. Magma has a creditable track record in managing NPA levels and will aim to maintain and improve its record in this area.

Outlook

While the sales of new vehicles and construction equipments recorded a massive de-growth in 2008-09, the management remains optimistic about Magma's ability to continue to maintain its share in the current sluggish conditions and grow the same in future, when the retail financing market bounces back in the second half of 2009-10. Magma's growth will be principally driven by its deepening its branch network, increased branch throughput (especially in South and West), continuing manufacturer tie-ups, consistent presence in market and dealer relationships and new product launches.

Risk management

Risk management in Magma evolved out of benchmarking of the best competitive practices, our own risk appetite and portfolio performance and risk philosophy. However, this was put to test this year.

The slowdown in the economy, drop in primary sales of commercial vehicles and construction equipment, interest rate volatility and reduction in credit off-take resulted in an extremely challenging risk environment.

Past portfolio performance was no longer a benchmark or an indicator for the future performance and hence the underwriting rules had to be re-worked.

At the beginning of the year we had anticipated a slowdown (but not to the extent seen in the second and third quarter) and hence decided to re-look at our underwriting norm and credit processes.

It was our assessment that with the global economic slowdown and the subsequent meltdown witnessed, we should focus more on credit risk, i.e. the risk of the customer not paying than on

market risk. To this end, we undertook the following steps to address credit risk.

- Field investigation (FI) unit was made an independent unit reporting into the credit vertical. The FI unit visits the customers and establishes his/her credentials and profile
- Credit underwriting was focused towards establishing the customers experience and ability to deploy the asset profitably to repay our installments
- Selection criteria was strengthened to ensure that we funded better grades of customers
- Loan to values were adjusted to ensure adequate cash flow from the asset financed in line with the increase in interest rates and reduced freight rates

Market risk

The approach on mitigating market risk was done at two levels

- (1) Identification of lead indicators and
- (2) Establishing delinquency parameters at a portfolio level

Lead indicators

Given our focus on financing customers, who are servicing the basic needs of the country, we identified three lead indicators, these were

- (1) Coal production
- (2) Cement production and
- (3) Steel production

These three industries were tracked closely throughout the year and based on the production movement of these industries portfolio level-corrective steps were taken.

A regular portfolio review and market review process was also implemented through the Risk Management Committee (RMC). The RMC members comprise collections, sales, credit, operations, HR and audit heads, Joint Managing Director and

are chaired by the Managing Director.

The RMC meets at regular intervals and assesses market risks and portfolio performance and decides on corrective action required.

Operational risk management

Operation risk is defined as anything which is not credit or market risk. Hence, operation risk covers the entire gamut of the Company's activities. The Company implemented an operation risk plan whereby all functions have identified key risk, pertaining to their respective functions. Once a key risk is identified, each vertical does transaction testing to understand the compliance to lay down processes. Thus, the approach is bottoms up, thus ensuring acceptance of the findings and quicker implementation of corrective action plan.

The following were implemented to minimise operations risk

- All processes are standardised and documented
- Clearly defined delegation of authority matrix
- Segregation of credit and operations to ensure effective maker-checker function for all transactions at the initial stage
- Training calendar implemented for all functions
- The dissemination of various rules, regulations and operating guidelines through a web-based system, with easy access for all employees
- Instituted a robust internal audit process covering both on-site and off-site audit of branches and departments at regular intervals to ensure process compliance

Thus metrics is the key to the risk management process in Magma. The entire credit process is metrics-driven in order to achieve the goals set and ensure a healthy portfolio quality in the years to come.

Asset liability risk

A mismatch in the tenure of borrowed and disbursed funds

Management discussion and analysis

could result in a cash squeeze and impact the Company's ability to service loans and pay its operational costs.

The Company, through out the year, maintained an excellent asset liability maturity profile and in order to match its assets with its liabilities (in terms of size, tenure and rates); the Company ensured the following

- Tenure of the term loans was matched with the average tenure of the assets to ensure no mismatch in servicing of the loans
- Assets are securitised to off-load assets in a timely manner and with matching tenure
- Protection from adverse interest rate changes through back-to-back funding of the major part of its portfolio on a fixed rate basis
- Ability to manage its cost of funds through appropriate funding mix at market linked rates and ability to insulate from falling spreads by passing on interest hike to customers
- Raise short-term loans to fund any temporary mismatch

Foreign exchange risk

The Company's exposure to foreign exchange risk is limited, as its disbursements are in rupees while the bulk of its liabilities are also in the form of domestic rupee debt.

Where foreign exchange exposure exists, the Company enters into suitable currency hedge transactions to cover the risks.

Liquidity risk management

The Company could be affected adversely through its inability to mobilise adequate financial resources in a timely manner to meet its financial obligations. This scenario existed in the third quarter of the last financial year for most companies, as liquidity was scarce.

The Company manages this risk by diversifying its funding sources

and through its ability to augment liquidity through asset sales and securitisation. It has an established track record in accessing the securitisation market, which was further broadened during 2008-09 by securitising assets with around five new PSU banks. The Company also increased its working capital substantially during the year, which was utilised effectively for enabling the Company to hold the assets in its own books in times of crisis where the securitisation market dried up. It also maintains reasonable liquid assets and keeps access to unsecured funding as a hedge against unexpected requirements.

The Asset Liability Committee (ALCO) reviews asset liability position, cost of funds, sensitivity analysis of forecasted cash flow statements over short and long-term time horizons and recommends corrective measures, if any on a regular basis. This ensures proper planning for management of various risks viz. asset liability risk, foreign currency risk and liquidity risk.

Cautionary Statement

Statements in the Management discussion and analysis, describing the Company's objectives, outlook, opportunities and expectations may constitute "Forward Looking Statements" within the meaning of applicable laws and regulations. Actual Results may differ from those expressed or implied expectations and projections, among others. Several factors make a significant difference to the Company's operations including the government regulations, taxation, and economic scenario affecting demand and supply, natural calamity and other such factors over which the Company does not have any direct control.

For and on behalf of the Board

Sanjay Chamria

Kolkata, 30 June 2009 Vice Chairman and Managing Director