

Accounting Policies & Notes on Accounts



Schedule 16: Notes on Accounts

A. Significant Accounting Policies

1. Accounting Convention:

The financial statements have been prepared under the historical cost convention and on the accrual basis of accounting in accordance with the generally accepted accounting principles and conform to the statutory requirements prescribed under the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002, the Insurance Act, 1938, the Companies Act, 1956 and the applicable Accounting Standards issued by the Institute of Chartered Accountants of India except otherwise stated.

2. Use of Estimates

The presentation of the financial statements in conformity with the generally accepted accounting principles requires the management to make estimates and assumptions that affect the reported amount of assets and liabilities, revenues and expenses and disclosure of contingent assets & liabilities. Such estimates and assumptions are based on the management's evaluation of the relevant facts and circumstances as on

the date of financial statements. Any revision to the accounting estimates is recognized in the period in which the results are known/materialized.

3. Revenue Recognition

- 3.1 Premium and cession thereof are recognized over the contract period or the period of the risk in respective revenue account following 1/365 method except in marine cargo business where premium is recognized after 60 days from the date of inception of the risk. Reserve for unexpired risk representing premium attributable to the succeeding accounting period is maintained subject to minimum amount of reserve as required under section 64V (1) (ii) (b) of the Insurance Act, 1938 except for reinsurance premium acceptances in respect of Terrorism Pool for Fire and Engineering classes where the Reserve for Unexpired Risk is maintained at hundred percent of the net premium.
- 3.2 Any subsequent revision to the premium under the policies is accounted for in the year in which they arise.

- 3.3 Premium deficiency is recognized whenever expected claim costs, related expenses and maintenance costs exceeds related reserve for unexpired risks for each major class of business viz. Fire, Marine & Miscellaneous.
- 3.4 Reinsurance Inward acceptances are accounted for on the basis of returns, to the extent received, from the insurers.
- 3.5 Commission on reinsurance cessions are recognized as income in the year in which the premium is ceded. Profit commission under reinsurance treaties, wherever applicable, is recognized on the determination of profit for the year.
- 3.6 Interest Income is recognized on accrual basis.
- 3.7 Dividend income is recognized when the right to receive dividend is established.
- 3.8 Profit or Loss on sale / redemption of investments which is the difference between consideration and carrying value is recognized on trade date and includes effects of accumulated fair value changes, previously recognized, for specific investments sold / redeemed during the year.

4. Allocation of Investment Income between Revenue Accounts and Profit and Loss Account:

Investment income is apportioned to Profit and Loss Account and Revenue Accounts in the ratio of average of Shareholders Funds and Policyholders Funds standing in each class of business at the end of each month.

5. Claims Incurred:

- 5.1 Liability in respect of claims is provided for the intimations received up to the year-end based on the surveyor's assessment, information provided by the insured, judgment based on past experience and other applicable laws and practices. However, in respect of claims under re-insurance acceptances, the claim liability is provided based on the returns / advices, to the extent received, from the re-insurers.
- 5.2 Liability in respect of claims incurred but not reported (IBNR) and inadequate reserves (IBNER) is provided for on actuarial basis as certified by the "Appointed Actuary".
- 5.3 Salvage/Recoveries under claims are netted against "Claims Incurred" and are accounted for on realization.

6. Allocation of Operating Expenses

Operating expenses other than policy stamps are apportioned to respective revenue accounts on the basis of direct written premium in each class of business at the end of financial year. Expenses relating to policy stamps are directly taken to the respective revenue accounts. Expenses incurred and/or allocable exclusively for earning investment income are charged to Profit and Loss account.

7. Acquisition Cost of insurance contracts

Cost relating to acquisition of new/renewal of insurance contracts are charged in the year in which they are incurred.

8. Investments

- 8.1 Debt securities including Government securities are considered as held to maturity and are valued at cost subject to amortization by charging off/crediting investment income with the difference of acquisition cost and maturity value over the unexpired period of maturity on straight line method.
- 8.2 Investments in units of mutual funds are valued at Net Asset Value (NAV) and the unrealized gains / losses are accounted in the 'Fair Value Change Account'.
- 8.3 Investment in subsidiary company is

valued at cost less permanent diminution.

- 8.4 Investment maturing within twelve months from the Balance sheet date and investments made with specific intention to dispose off within twelve months are classified as Short term Investments. Other investments are classified as Long term Investments.

9. Fixed Assets:

Fixed Assets are stated at their cost of acquisition less accumulated depreciation.

10. Depreciation

- 10.1 Depreciation on Fixed Assets is provided on straight line method at the rates and in the manner specified in Schedule XIV to the Companies Act, 1956 except

- i) Fixtures in rented premises are depreciated proportionately over the residual lease period.
- ii) Information Technology Equipments are depreciated over their useful life of three years on straight line method.

- 10.2 Software is amortized over its useful life of three years on straight line method.

11. Pre-Paid Expenses

Expenditure upto Rs. 25,000 in each case is accounted for in the year in which the same is incurred.

12. Foreign Currency Transactions

Transactions in foreign currency are accounted at the exchange rate prevailing on the date of the transaction.

The value of assets and liabilities expressed in foreign currency are translated at the exchange rate prevailing at the end of the year.

Exchange Gain/Loss on conversion of foreign currency transactions is recognized as income/expense.

13. Taxation

Income Tax expense comprises of Current Tax, Fringe Benefit Tax and Deferred Tax charge or credit. Deferred tax, resulting from 'timing differences' between book and taxable profits, is accounted for using the tax rates and laws that have been enacted or substantively enacted. The deferred tax asset is recognized and carried only to the extent that there is a reasonable certainty that the asset will be realized in future.

14. Retirement Benefits to Employees

14.1 The liability for gratuity is covered by the Group Gratuity Cash Accumulation Scheme of Life Insurance Corporation of India. The contribution is provided/paid as determined by Life Insurance

Corporation of India under the said scheme.

14.2 Liability for Leave Encashment is provided for on the basis of actuarial valuation.

15. Impairment of Assets

The carrying amount of assets are reviewed at each balance sheet date for indications of any impairment based on internal / external factors. An impairment loss is recognized wherever the carrying amount of the asset exceeds its recoverable amount. Any such impairment loss is recognized by charging it to the profit and loss account. A previously recognized impairment loss is reversed where it no longer exists and the asset is restated to that effect.

16. Provisions

A provision, other than those relating to contract with policy holders, arising out of a present obligation is recognized when it is probable that an outflow of resources will be required to settle the obligation and the amount can be reasonably estimated. Wherever there is a possible obligation that may, but probably will not require an outflow of resources, the same is disclosed by way of contingent liability.

B. Notes forming part of accounts

1. The company has all the assets within India. The assets of the company are free from all encumbrances.
2. a) Commitments made and outstanding for loans and investments are Nil (Previous Year- Nil)
 b) The company has committed Rs. 5,812 Thousand (Previous Year Rs. 3,185 Thousand) for the purchase of fixed assets.
3. Claims, less reinsurance, paid to claimants in/outside India during the year under various class of business are as under:

(Amount in Rs.'000)

Class of Business	In India		Outside India	
	Year ended 31.3.2007	Year ended 31.3.2006	Year ended 31.3.2007	Year ended 31.3.2006
Fire	201,028	143,465	Nil	Nil
Marine	324,834	206,780	Nil	Nil
Miscellaneous	2,616,491	1,616,527	Nil	Nil

4. Age-wise breakup of claims outstanding on Gross basis under various class of business at 31st March, 2007 is as under:

(Amount in Rs.'000)

Class of Business	Outstanding for more than 6 months		Other Claims	
	As at 31.3.2007	As at 31.3.2006	As at 31.3.2007	AS at 31.3.2006
Fire	378,121	754,774	447,826	341,312
Marine	137,098	66,626	468,250	91,940
Miscellaneous	817,546	343,045	873,616	663,773

5. Claims settled and remaining unpaid for a period of more than six months as at 31st March, 2007 is NIL (Previous Year Nil).

6. (a) Premium less reinsurances written during the year under various classes of business is as under:

(Amount in Rs. '000)

Class of Business	In India		Outside India	
	Year ended 31.3.2007	Year ended 31.3.2006	Year ended 31.3.2007	Year ended 31.3.2006
Fire	566,516	524,044	Nil	Nil
Marine	384,910	264,536	Nil	Nil
Miscellaneous	4,854,274	3,994,505	Nil	Nil

(b) No premium income is recognized on "varying risk pattern" basis.

(c) Extent of risk retained and reinsured is as under:

Class of Business	Risk Retained		Risk Reinsured	
	Year ended 31.3.2007	Year ended 31.3.2006	Year ended 31.3.2007	Year ended 31.3.2006
Fire	19.11%	19.68%	80.89%	80.32%
Marine	29.62%	57.24%	70.38%	42.76%
Miscellaneous	66.88%	68.46%	33.12%	31.54%

7. All the investments held by the company as at 31st March' 2007 and 31st March' 2006 are performing investments.

8. Value of Contracts in relation to Investments for:

(Amount in Rs. '000)

	As at 31.3.2007	As at 31.3.2006
Purchases where deliveries are pending	Nil	Nil
Sales where payments are overdue	Nil	Nil

9. Details of investments made as per statutory requirements under Section 7 of Insurance Act, 1938 is as follows:

(Amount in Rs. '000)

Nature of Investment	As at 31.3.2007	As at 31.3.2006
Book Value	110,052	1,10,609
Market Value as on date of deposit of security	109,341	1,19,316

10. Sectorwise business executed by the company is as follows:

	Year ended 31.3.2007	Year ended 31.3.2006
Urban areas	90.95%	91.25%
Rural areas	9.01%	8.70%
Social sector	0.04%	0.05%
Gross Premium	Rs. 4068 thousand	Rs. 4452 Thousand
Number of lives covered (Estimated)	813 thousand	890 Thousand

11. Managerial remuneration paid during the year is as under:

(Amount in Rs.'000)

	Year ended 31.3.2007		Year ended 31.3.2006	
	Managing Director	Whole-time Director	Managing Director	Whole-time Director
Salaries and Allowances	7,069	3,904	6,015	2,988
Perquisites			-	-
Contribution for Provident Fund	324		288	-
Contribution for Gratuity	133		116	-
Total	7,526	3,904	6,419	2,988

The remuneration paid to Managing director has been approved by IRDA.

12. The transactions between the company and its related parties during the year as envisaged under Accounting Standard (AS-18) are as under:

(Amount in Rs. '000)

Name of the Related Parties	Indian Farmers Fertilisers Coop. Ltd		Tokio Marine Asia Pte Ltd. (formerly (Millea Asia Pte Ltd)		Tokio Marine & Fire Insurance Co Ltd		Tokio Marine Global Re Ltd.		IFFCO-TOKIO Insurance Services Ltd.	
Nature of Related party relationship	Promoters with more than 20% rights		Promoters with more than 20% Voting rights		Associate of Promoter with more than 20% Voting rights		Associate of Promoter with more than 20% Voting rights		Subsidiary of the Company with 100% Voting rights	
	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06
Description of nature of transactions										
Premium collected from direct business	476688	371831	—	—	—	—	—	—	395	278
Claims paid on direct basis	173500	131172	—	—	—	—	—	—	364	219
Premium on cessions to re-insurers	—	—	—	—	36437	31872	171728	138545	—	—
Commission earned on premium cessions	—	—	—	—	8056	8440	58939	52079	—	—
Losses recovered from Reinsures	—	—	—	—	16861	1493	67769	94834	—	—
Payment of Rent and other expenses	19296	22889	—	—	—	—	—	—	—	—
Recovery of Expenses	—	—	—	—	—	—	—	—	15213	13516
Payment of Commission & Charges	—	—	—	—	—	—	—	—	169484	129366
Investment in Equity	—	—	—	—	—	—	—	—	5000	5000
Payment of Dividend	63923	—	22880	—	—	—	—	—	—	—
Deposits for insurance Premium	2500	2500	—	—	—	—	—	—	—	—
Amounts payable / (receivable)										
at the Balance Sheet date	(1965)	(110)	—	—	6152	10301	(13201)	(20061)	(8479)	1735

Note: Remuneration to Key Management Personnel viz. Mr. Ajit Narain, Managing Director, and Mr. Masahiro Ogawa Director Operation is given in Note No 11.

13. Segments of the company in accordance with the Accounting Standard (AS-17) are as follows.

a) Business Segments

(Amount in Rs. '000)

	Year ended 31 st March, 2007	Year ended 31 st March, 2006
SEGMENT REVENUE:		
Fire Insurance	3,003,650	2,706,255
Marine Insurance	1,334,105	481,756
Motor Insurance	4,697,859	3,897,184
Engineering Insurance	927,049	668,859
Workmen Compensation Insurance	89,935	64,529
Personal Accident Insurance	180,959	172,112
Product Liability Insurance	37,899	33,002
Health Insurance	746,979	535,664
Other Insurance	857,123	624,739
Investments	218,013	134,888
Total	12,093,571	9,318,988
SEGMENT RESULT: Profit/(Loss)		
Fire Insurance	369,702	459,991
Marine Insurance	(317,530)	(127,798)
Motor Insurance	402,552	(54,488)
Engineering Insurance	156,235	122,247
Workmen Compensation Insurance	36,494	14,380
Personal Accident Insurance	(18,687)	(18,876)
Product Liability Insurance	6,765	10,387
Health Insurance	(387,328)	(193,249)
Other Insurance	(36,720)	(102,597)
Investments	213,621	131,717
Unallocable	(529)	(716)
Total	424,575	240,998
Less Provision for Taxation	153,254	94,800
Profit After Tax	271,321	146,198
SEGMENT ASSETS:		
Fire Insurance	-	-
Marine Insurance	-	-
Motor Insurance	-	-
Engineering Insurance	-	-
Workmen Compensation Insurance	-	-
Personal Accident Insurance	-	-
Product Liability Insurance	-	-
Health Insurance	-	-
Other Insurance	-	-
Investments	7,329,696	6,072,672
Total:	7,329,696	6,072,672
Add: Unallocable Assets	1,630,890	1,545,367
Total	8,960,586	7,618,039

SEGMENT LIABILITIES:

Fire Insurance	831,138	770,487
Marine Insurance	489,187	310,358
Motor Insurance	2,854,707	2,219,131
Engineering Insurance	219,575	170,410
Workmen Compensation Insurance	30,752	29,679
Personal Accident Insurance	102,731	102,077
Product Liability Insurance	73,392	21,606
Health Insurance	484,522	272,303
Other Insurance	201,476	221,690
Investments	-	-
Total:	5,287,480	4,117,741
Add: Unallocable Liabilities	705,694	7,01,251
Total	5,993,174	4,818,992
Cost incurred to acquire segment assets (Fixed Assets):		
Fire Insurance	-	-
Marine Insurance	-	-
Motor Insurance	-	-
Engineering Insurance	-	-
Workmen Compensation Insurance	-	-
Personal Accident Insurance	-	-
Product Liability Insurance	-	-
Health Insurance	-	-
Other Insurance	-	-
Investments	-	-
Total:	-	-
Add: Unallocable Fixed assets	90,194	82,929
Total	90,194	82,929
Amount of expenses included in segment result for depreciation and amortization in respect of assets:		
Fire Insurance	17,873	14,429
Marine Insurance	7,878	2,528
Motor Insurance	27,570	20,720
Engineering Insurance	5,579	3,603
Workmen Compensation Insurance	529	342
Personal Accident Insurance	1,071	912
Product Liability Insurance	226	175
Health Insurance	4,415	2,841
Other Insurance	5,149	3,373
Investments	-	-
Total:	70,290	48,923
Add: Unallocable Expenses		-
Total	70,290	48,923

Assets and Liabilities of the company, which are not identifiable with any of the segments, have been classified as unallocable.

b) Geographical Segment

Since the Company's entire business is conducted within India, there is no reportable Geographical Segmentation for the year.

14. The break up of deferred tax assets and liabilities into major components at the year end is as below:

(Amount in Rs. '000)

Particulars	As at 31.3.2007		As at 31.3.2006	
	Liabilities	Assets	Liabilities	Assets
Depreciation	-	1,659	3,527	
Expenditure accrued but not deductible for tax purposes, allowable on actual payment	-	14,341	-	9,815
Unexpired Risk reserve provided in excess of limit specified in Income Tax Act.	-	-	-	67,457
Total	-	16,000	3,527	77,272
Net Deferred tax asset		16,000		73,745

15. The investments as at the year end have not been allocated into Policy Holders and Shareholders as the same are not specifically earmarked separately.
16. No depreciation is allocable to the Profit and Loss Account based on the 'use' of the asset
17. Earnings per Share:-

	2006-07	2005-06
a) Net Profit available for Equity Shareholders (Amount in Rs. '000)	Rs. 271,321	Rs. 146,198
b) Weighted average number of Equity Shares outstanding during the year (No. of Units in Thousand)	220,000	159,836
c) Basic and Diluted Earning per Share (Equity Share of Face Value of Rs. 10/- each) (Amount in Rs.)	Rs. 1.23	Rs. 0.92

18. Summary of Financial Statements

(Rs. in lacs)

Particulars	2006-07	2005-06	2004-05	2003-04	2002-03
OPERATING RESULTS					
Gross Premium written	1,15,220.68	89,604.19	50,128.12	32,600.32	21,658.98
Net Earned Premium Income	54,759.94	34,598.46	17,536.61	10,112.88	3,949.32
Premium Deficiency	-	(50.00)	40.00	(90.00)	
Income from Investments	3,528.20	2,234.12	1,024.83	624.76	297.40
Other Income	6.70	2.69	6.21	16.12	0.14
Total Income	58,294.84	36,785.27	18,607.65	10,663.76	4,246.86
Commission	(4,152.43)	(4,010.68)	(4,535.11)	(3,610.21)	(3,448.69)
Operating expenses	20,473.07	15,260.18	9,704.81	6,420.18	4,868.08
Claims Increase in unexpired risk reserve and other outgoes	39,859.37	24,435.80	11,922.82	7,285.30	2,850.73
	56,180.01	35,685.30	17,092.52	10,095.27	4,270.11
Operating Profit/Loss	2,114.83	1,099.97	1,515.13	568.49	(23.25)
NON OPERATING RESULT					
Total Income under shareholders account	2,130.92	1,310.01	848.83	852.18	960.24
Profit / Loss before tax	4,245.75	2,409.98	2363.96	1,420.67	936.99
Provision for tax	1,532.54	948.00	892.00	462.34	300.69
Profit / Loss after tax	2,713.21	1,461.98	1,471.96	958.33	636.30
MISCELLANEOUS					
Paid up equity Capital	22,000.00	22,000.00	10,000.00	10,000.00	10,000.00
Net Worth	29,674.12	27,990.47	12,531.91	11,059.95	10,701.05
Total assets	89,605.86	76,180.39	39,602.27	27,314.53	21,509.72
Yield on total investments	7.93%	7.36%	7.09%	7.75%	8.74%
Earnings per share	1.23	0.92	1.47	0.96	0.64
Book value per share	13.49	12.72	12.53	11.06	10.70
Total dividend	880.00	880.00		500.00	200.00
Dividend per share	0.40	0.40		0.50	0.20

19. Performance Ratios:-

Classwise Ratios

Segmentwise Ratios	Fire		Marine		Miscellaneous	
	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06
Gross Premium growth rate	1.11	1.51	2.81	1.49	1.24	1.99
Net Retention Ratio	0.19	0.20	0.30	0.57	0.67	0.68
Net Commission Ratio	(0.99)	(1.05)	0.01	0.04	0.03	0.03
Underwriting balance ratio	0.65	0.87	(0.82)	(0.49)	0.03	(0.06)
Other Ratios for the Company			2006-07	2005-06		
Combined ratio			0.45	0.39		
Expenses of Management to Gross Direct premium ratio			0.18	0.17		
Technical reserves to net premium ratio			0.83	0.76		
Gross Premium to Shareholder funds ratio			3.89	3.20		
Growth rate of shareholder funds			1.06	2.23		
Operating Profit ratio			0.04	0.02		
Liquid assets to liabilities ratio			0.62	0.64		
Net Earnings ratio			0.05	0.03		
Return on net worth			0.09	0.07		
Reinsurance ratio			0.50	0.47		

20. Previous Year figures have been regrouped and rearranged, wherever necessary.

As per our Report of even date attached.

S.P. Chopra & Co.
Chartered Accountants
Per

Sanjiv Gupta
Partner
M No. 83364

New Delhi
Dated : 25th April, 2007

Raghu Nath Rai & Co.
Chartered Accountants
Per

Sharat Prakash
Partner
M No. 96267

For and on behalf of Board of Directors

K. Srinivasa Gowda
Chairman

Rakesh Kapur
Director

Ajit Narain
Managing Director

Masahiro Ogawa
Director (Operations)

M.K. Tandon
Financial Advisor

V.S. Rao
Company Secretary

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

(INFORMATION PURSUANT TO PART IV OF SCHEDULE VI TO THE COMPANIES ACT, 1956)

I. REGISTRATION DETAILS

Registration No.

5 5 - 1 0 7 6 2 1

State Code 5 5

Balance Sheet Date

3 1

0 3

2 0 0 7

Date

Month

Year

II. CAPITAL RAISED DURING THE YEAR (Amount in Rs. Lakh)

Public Issue

N I L

Rights Issue

N I L

Bonus Issue

N I L

Private Placement/others

N I L

III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (Amount in Rs. Lakh)

Total Liabilities

2 9 6 7 4

Total Assets

2 9 6 7 4

SOURCES OF FUNDS

Paid-up Capital

2 2 0 0 0

Reserves & Surplus

7 6 7 4

Secured Loans

N I L

Unsecured Loans

N I L

Deferred Tax Liability

N I L

APPLICATION OF FUNDS

Net Fixed Assets

1 6 4 3

Investments

4 7 3 8 1

Net Current Assets

(1 9 5 1 0)

Miscellaneous Expenditure

N I L

Accumulated Losses

N I L

Deferred Tax Assets

1 6 0

IV. PERFORMANCE OF COMPANY (Amount in Rs. Lakh)

Turnover

1 1 5 2 2 1

Total Expenditure

2 0 4 8 4

Profit/(Loss) Before Tax

4 2 4 6

Profit/(Loss) After Tax

2 7 1 3

Earnings per Share (in Rs.)

1 . 2 3

V. GENERIC NAMES OF TWO PRINCIPAL PRODUCTS OF COMPANY: (As per Monetary Terms)

N A