

FINANCIAL TECHNOLOGIES

Letter From
Industry Experts
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Architects of
Modern Finance
Pg. 09-103

ANNUAL REPORT 2009 - 10

ENABLING FINANCIAL INCLUSION IN EMERGING ECONOMIES



FROM THE LEADERSHIP DESK

ENABLING FINANCIAL INCLUSION IN EMERGING ECONOMIES

They are on every Government's political agenda, in every visionary's speech, in every economist's outlook, in every common man's financial daily - The Emerging Economies, have assumed great and critical significance in the new world economic order. The developed markets took cognizance of the limited impact of the crisis on the Emerging Economies which have deservedly earned admiration for their resilience powered by robust financial markets, favorable demographics, and high rate of savings standing on the pillars of the vigil of the supervisors and regulators.

One cannot, however, be oblivious to the fact that most of the growth in these Emerging Economies has been driven by a very small part of its populace. It is important now; therefore, to look at ways and means of expanding financial coverage to a larger part of the population in the domestic geographies, as such expansion in coverage is vital in realizing the full potential in these regions.

"Enabling Financial Inclusion in Emerging Economies" is hence very topical and a natural choice to be the theme for our Annual Report 2009-10. The theme also follows the deliberations at our annual flagship event, the Future of Financial Markets (FOFM) Leadership Summit, held in Goa in January 2010.

The Summit, which saw participation from 200 thought leaders of the financial markets, including 65 eminent speakers from 10 countries, concluded that the Emerging Economies are crucial in shaping the future of global financial markets only when the financial sector reforms are directed at inclusive growth. In our continued endeavor to be a platform to voice industry opinion, we have invited contributions on the theme from thought leaders and have incorporated their perspectives in Section 2.

While we are passionately dedicating our efforts at shaping an optimistic future by constantly engaging with the industry, we are fully conscious of and inspired by the accomplishments of the "Architects of modern finance" who have keenly contributed to the markets of today, some of whom we have profiled in the following pages. The Future of Financial Markets undoubtedly lies in the Emerging Economies. To participate in shaping this future, visit www.fofm.in.

BOARD OF DIRECTORS

Jignesh Shah

Dewang Neralla

P. G. Kakodkar

Ravi K. Sheth

C. Subramaniam

Chandrakant Kamdar

Ramanathan Devarajan

P. R. Barpande*

**w.e.f. 11th August, 2010*


Jignesh Shah
Chairman & Group CEO

CORPORATE INFORMATION

COMPANY SECRETARY

- Mr. Naishadh P. Desai
Sr. Vice President - Legal & Company Secretary
- Mr. Hariraj Chouhan
Vice President & Company Secretary

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SHARE TRANSFER AGENTS

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BANKERS

- Union Bank of India
- Axis Bank Ltd.
- Deutsche Bank
- HDFC Bank Ltd.
- HSBC Ltd.

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FINANCIALS



JIGNESH SHAH
Chairman & Group CEO

ENABLING FINANCIAL INCLUSION IN EMERGING ECONOMIES

Dear Shareholders,

I am glad to report that your Company has done well during the fiscal 2010. In fiscal 2009, I shared with you that the vision of the Financial Technologies Group is to continue to build greenfield exchanges, facilitate trade in diverse asset classes and to expand its reach geographically to provide liquidity and risk management solutions to the emerging economies of the world.

Your unrelenting confidence in the Company has empowered us to realize our vision of creating and operating modern tech-centric financial exchanges, connecting the high-growth emerging economies of Asia, Africa and the Middle East. The Indian story continues as your Company retains its leadership position in providing technology solutions for financial markets, as well as in creating next-generation exchanges facilitating trading in commodity spot and futures, electricity and currency derivatives. The genesis of these achievements was marked by our flagship

While tech-centric exchanges facilitate seamless trade, the Exchange Ecosystems™ will bring the allied elements of the markets together, drive economies of scale and augment participation on these exchanges. Clearly, Exchange Ecosystems™ will be the enablers of financial inclusion and sustainable growth. The future of the emerging economies lies in creating robust Exchange Ecosystems™.



" I saw a chance in 1995 to start something from the grassroot level, a financial services company that would encompass commodities, equity, currencies and bonds.[#] Thanks to the support of the Government, regulators, investors, shareholders and employees, we have successfully created tech-centric next-generation financial markets in the emerging economies of Asia, Africa and the Middle East to enable financial inclusion and equitable growth."

[#]Jignesh Shah, from *Imagining India*, authored by Nandan Nilekani

product ODIN™ - the multi-exchange trading technology and risk management system, which has been well-tested and accepted for over a decade in the global financial markets space. It continues to be the leading end-to-end technology solutions provider in the Indian financial markets with over 80% market share. (as per Frost & Sullivan report on "Electronic Trading Solutions in India").

The journey into the new millennium saw your Company go on to create a globally renowned leading exchange for trading in commodity futures in India. The fiscal 2011 will see your Company going global with three exchange ventures namely Singapore Mercantile Exchange (SMX) in Singapore, Bahrain Financial Exchange (BFX) in Bahrain, and Global Board of Trade (GBOT) in Mauritius all set to commence operations soon.

While your Company has been creating such exchange platforms catering to other asset classes in India, it constantly pursues opportunities to enhance its existing product portfolio to be able to deliver value-added solutions in line with the dynamic financial market environment. With tech-centric exchanges at the hub, it is ensuring the creation of **Exchange Ecosystems™** of the future which will address upstream and downstream opportunities around the exchanges and augment participation on them. Your Company is as excited about the journey ahead as it is about the challenges and opportunities. As I report our achievements and aspirations, I acknowledge the whole-hearted support and trust of our valued shareholders and employees.

Your Company has been among the few listed companies to maintain its track record of rewarding its shareholders by paying out a dividend of Rs. 8 per share on face value of Rs. 2 per share (400% with final dividend of Rs. 2 per share, subject to approval of shareholders at the Annual General Meeting) for the year under review. Your Company's standalone financials* for the year ended 31st March, 2010 are as follows:

- **OPERATING REVENUE**

Rs. 3,070 million

- **TOTAL INCOME**

Rs. 4,114 million

- **EBITDA**

Rs. 2,163 million

- **PBT**

Rs. 2,103 million

- **PAT**

Rs. 1,880 million

**excluding profit on sale of shares*

Your Company has been registering consistent profit growth. CAGR across key financial metrics* for fiscal 2005 - 2010, is as listed below:

- **TOTAL INCOME** 65% (from Rs. 335 million to Rs. 4,114 million)

- **EBITDA** 72% (from Rs. 144 million to Rs. 2,163 million)

- **NET PROFIT** 80% (from Rs. 99 million to Rs. 1,880 million)

- **EPS** 78% (from Rs. 2.26 to Rs. 40.93)

**excluding profit on sale of shares*

The globally competitive management team of the Group constantly engages

itself in the efforts to ensure compliance of international standards, to assemble efficient clearing members, and to put together robust systems and processes in each of your Company's exchange ventures. In fact, the senior management team of your Company is among the best in the financial markets space. Further, the young, energetic human capital with immaculate execution capabilities have ensured that your Company is set to tap the immense growth potential of emerging economies from Africa, Asia and the Middle East and replicate success stories like Multi Commodity Exchange (MCX) at a global level by facilitating mass participation in financial markets.

BUSINESS HIGHLIGHTS

As your Company takes positive strides towards fiscal 2011, I would like to share with you the key business highlights for fiscal 2010 as listed below:

- Your Company was ranked No. 1 in terms of 10-year profit growth by Business Today's ranking of India's 500 Most Valuable Companies in 2009
- **Financial Technologies'** flagship product suite ODIN™ has been well-tested and accepted for over a decade as the most reliable and leading multi-exchange trading technology and risk management solution. National Multi-Commodity Exchange (NMCE) signed up ODIN™ for its front-end trading technology.
- The ODIN™ product suite continues to feature among the leading trading technology solutions powering over 10 exchanges (Indian and International) with more than 530,000 licenses

- **Financial Technologies'** flagship exchange product suite DOME was implemented at the SMX, GBOT and BFX
- **MCX** was ranked the 6th largest commodity futures exchange* globally in terms of number of contracts traded on the exchange for calendar year 2009
 - 1st in silver*
 - 2nd in gold, copper & natural gas*
 - 3rd in crude oil*

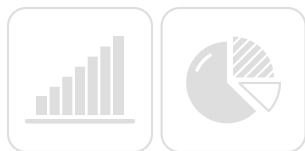
**Data Source: Based on trading volumes derived on the basis of the unaudited data provided in the Futures Industry Association (FIA), March 2010 publication, based on the data provided by 70 individual futures and options exchanges*

- **MCX** maintained its leadership position in the Indian commodity markets space with a market share of 82% in fiscal 2010. It had an average daily turnover of Rs. 209.62 billion for fiscal 2010 (~40% up Y-o-Y basis.)
- **MCX** launched the Exchange of Futures for Physicals ("EFP") facility for the first time in India
- **MCX-SX** commenced currency futures trading in three new currency pairs EURO/INR, GBP/INR and JPY/INR, on 1st February, 2010. The exchange attained a market share of 55% for Q4 fiscal 2010 and an average daily turnover of Rs. 165.82 billion for Q4 fiscal 2010.
- **MCX-SX** became an affiliate member of the International Organization of Securities Commissions (IOSCO)
- **Indian Energy Exchange (IEX)** continues to be India's No. 1 power exchange in the day ahead markets

with 87% market share, 78 members, and 178 clients. It had an average daily volume of 16,916 MWh for fiscal 2010.

- **National Spot Exchange Ltd. (NSEL)** is India's No.1 spot exchange with an average daily volume of over Rs. 118 million and a market share of over 91% compared to other Spot exchanges based on the fiscal 2010 volumes. NSEL launched a unique investment product in the form of Demat gold on its trading platform in March 2010.
- **National Bulk Handling Corporation (NBHC)** facilitated the highest ever Warehousing Receipt Financing of over Rs. 54 billion in fiscal 2010. During the year, NBHC crossed the Rs. 150 billion mark in cumulative value of storage receipts issued under Collateral Management arrangements. It also initiated container fumigation services for export-bound destinations such as Australia and was appointed the nation-wide Commodity Care and Pest Management (CCPM) provider to large retail-houses.
- **atom Technologies** has created multiple products and services for mobile payment, mobile banking, Interactive Voice Response (IVR) based payments and mobile based service distribution network. It has entered into tie-ups with 120+ merchants, 10+ banks and 3 telecom companies in India. It has completed successful transactions worth Rs. 607 crore for fiscal 2010.

The transition to yet another successful year was marked by the recent global developments which affirmed your

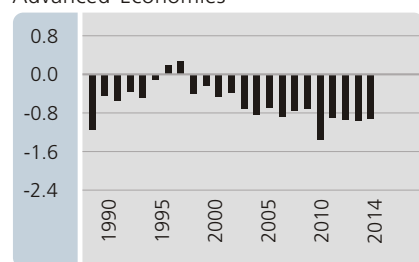


Company's belief of the aforementioned emerging economies being the future of financial markets. The global financial planet witnessed strategic monetary policies and stimulus packages being introduced in major economies which resulted in their resurgence. What stood out rather notably in the scenario was the resilience of the emerging economies owing to their well-regulated financial markets, high savings rates and favorable demographics. The global economy now seems to be on two different growth trajectories - with the emerging economies swiftly outpacing their advanced counterparts.

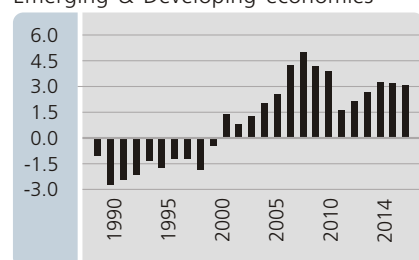
CHART 1: CURRENT ACCOUNTS

(Percent of GDP)

Advanced Economies



Emerging & Developing economies



Source: WEO database projections by IMF

RISING WITH THE 'EMERGING ECONOMIES'

Despite currency devaluations, sovereign defaults, runaway inflation and various other economic hindrances that plagued the emerging economies in the 1990s, they have successfully revived resulting in surpluses rather than deficits (Chart 1), significant forex reserves and effective central bank policies.

Since the past decade, emerging economies have been consistently outperforming the developed world by a margin of 4%-5% in terms of GDP growth. According to the latest IMF estimates, during calendar years 2010-2015, the emerging economies are expected to grow at an average of 6.6% against an average growth of 2.4% for the advanced economies. The estimates for India stand at 9.2% which bears testimony to the growth prospects of your Company which is a market leader in trading technology and creating and operating tech-centric financial exchanges in India.

Though these economies are registering unparalleled growth, democratization of growth and sustainability remain largely unaddressed. This necessitates financial and social inclusion of the entire populace. The new age emerging economies ought to become self-sufficient by creating avenues for bringing the financially excluded households into the formal financial system and channeling their collective savings into productive investments for the economy.

The management of your Company had envisaged the immense potential of the emerging economies very early. It has been creating exchange platforms and powering them with indigenous technology solutions for over a decade now as evidenced by the international exchange ventures created by it in the Middle East, Asia and Africa.

FINANCIAL INCLUSION: A RECIPE FOR GROWTH

The last decade has seen economies such as China and India grow at a rate of about 6%-12% annually. However, the low Financial Infrastructure Index (FI Index) (Chart 2) confirms the need for the emerging economies such as India to put in place appropriate measures for their financial inclusion initiatives to be effective and to deliver the desired results.

These economies have now realized the importance and necessity of bringing their large populace into a formal financial system, which can provide a transparent and authentic mechanism for transferring resources from surplus to the deficit units. For instance, in India, various initiatives such as the introduction of 'no-frills' account,

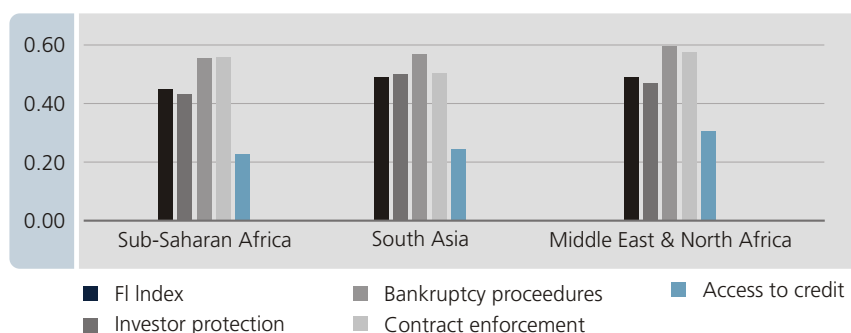
simplification of know your customer (KYC) norms, use of Business Correspondent (BC) model and the growing role of NGOs/SHGs as well as micro-finance institutions and cost effective Information and Communication Technology (ICT) solutions have been undertaken. Projects such as Unique Identification Project of India (UIDAI), initiated by the Government of India under the Chairmanship of one of the best minds in the Indian Technology space, Mr. Nandan Nilekani, will be a great boon in providing access to basic financial services and will go a long way in enabling financial inclusion.

Your Company believes that well-developed financial markets will play a key role in enabling financial inclusion. While tech-centric exchanges facilitate seamless trade, the **Exchange Ecosystems™** will bring the allied elements of the market together, drive economies of scale and augment participation on these exchanges. Clearly, **Exchange Ecosystems™** will be the enablers of financial inclusion and sustainable growth. The future of the emerging economies lies in creating robust **Exchange Ecosystems™**.

EXCHANGE ECOSYSTEMS™ AS ENABLERS OF FINANCIAL INCLUSION

Broad and deep financial markets are a necessity for a well-spread and healthy economic growth and democratization of opportunities, especially at the middle and bottom of the socio-economic pyramid. Sophisticated trading products spread across a network of exchanges and available to all sections of the populace will not only result in better risk diversification and improve the capacity of shock absorption, but also meet the demand for investments and

CHART 2: FI INDEX COMPONENTS BY REGION



Source: World Bank Report on Financial Infrastructure

ease constraints on external financing. Robust financial markets are indispensable in ensuring financial inclusion within the financial ecosystem.

In India, a meager 1.5%-2% of the total population is participating in exchange markets vis-à-vis 30%-40% in developed countries. Further, more than half of the Indian household savings are routed to bank deposits highlighting the scope for widening the investment avenues. Clearly, there is enough room for multiple exchanges which would be required to achieve a market penetration of 100 million investors compared to the level of around 15 million at present. Moreover, Indian capital markets are witnessing liquidity concentration in just the top 100 scrips, and 80% of the volumes comes from the top 10 metros. These figures reiterate the need to create the next-generation **Exchange Ecosystems™** which will not only have robust financial exchanges but a surrounding ecosystem facilitating central counterparty clearing, risk management, warehousing, collateral management, financial information

services, and financial literacy drives among others. Your Company has created this model in India and is poised to cater to the demand for such **Exchange Ecosystems™** globally.

In emerging economies such as India, Small and Medium Enterprises (SMEs) are among the fastest growing segments and have the potential to be the large corporations of tomorrow. What hinders them from scaling up is lack of means to raise funds and inability to attract Venture Capitalists (VC) and Private Equity (PE). The equity markets have been averse to funding smaller and early stage businesses. An exclusive financial exchange for SMEs will enable easy access to capital, raising equity at lower cost in a balanced environment with measures to protect investor interest. In the interest of sustaining long-term growth, it is important to encourage such sectors to grow by facilitating access to non-debt financing through appropriate exchanges.

The governments in the emerging economies have been proactively