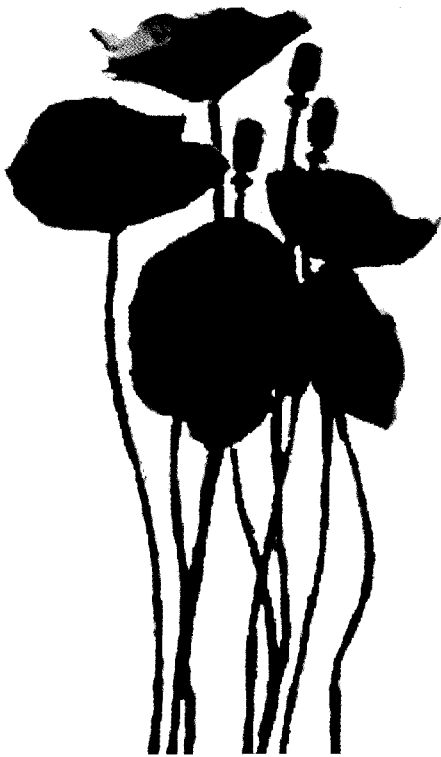


ANNUAL REPORT 2006 - 2007

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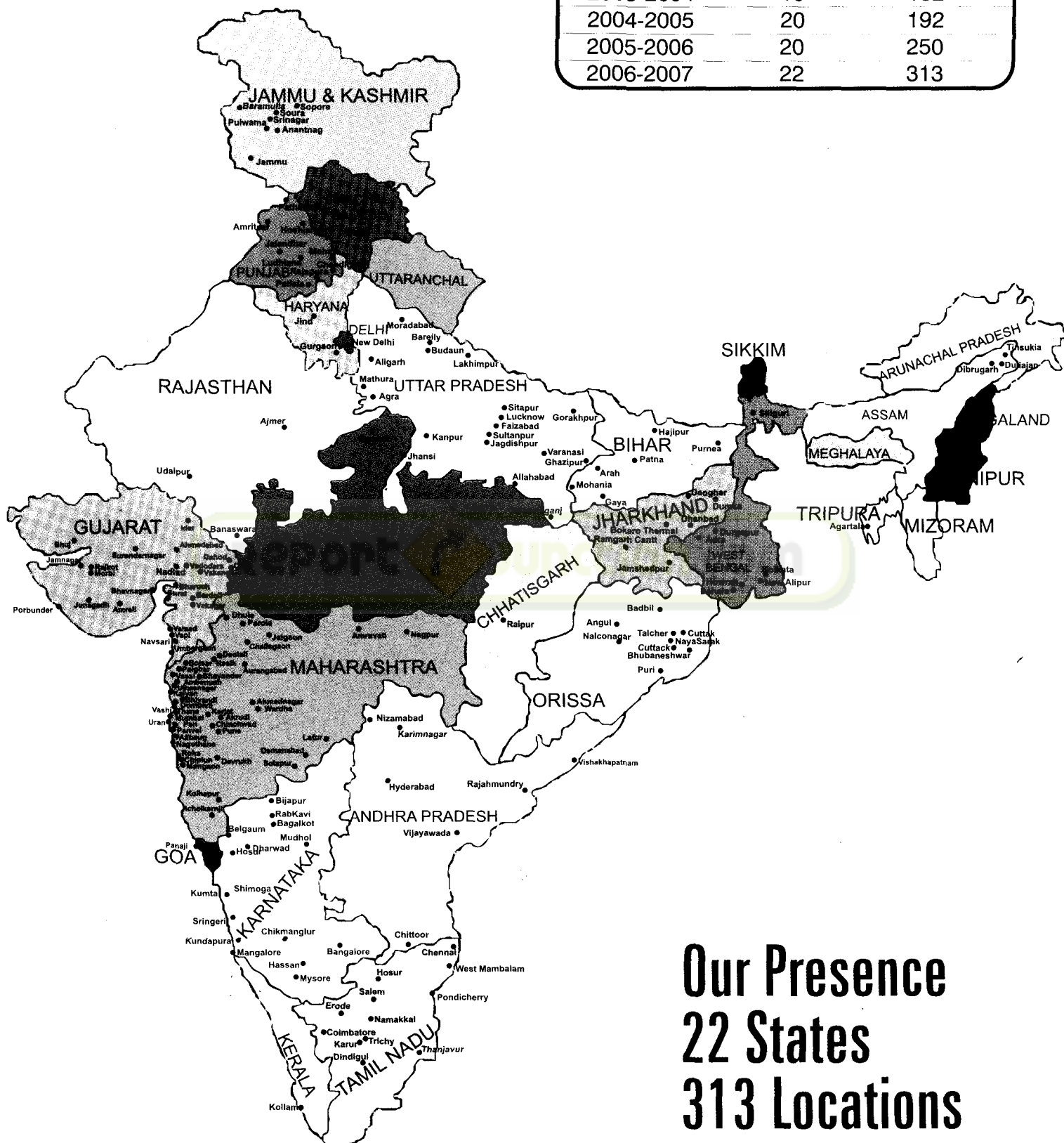
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Year by year . . .

Years	States	Locations
2003-2004	19	182
2004-2005	20	192
2005-2006	20	250
2006-2007	22	313



Our Presence
22 States
313 Locations
(As on 31st March, 2007)

BOARD OF DIRECTORS:

Mr. Asit C. Mehta	:	Chairman
Mrs. Deena A. Mehta	:	Managing Director
Mr. Kirit H. Vora	:	Whole-time Director
Mr. Shirish H. Shah		
Mr. Chhagan Lal Jain		
Prof. N. Venkiteswaran		
Mr. Shashidhar U. Ullal		

COMPANY SECRETARY: Ms. Dhanashri A. Mohe

PRINCIPAL BANKERS: Bank of India

OTHER BANKERS:

- Bank of Baroda
- BNP Paribas
- Citi Bank
- HDFC Bank Limited
- ICICI Bank Limited
- IDBI
- Oriental Bank of Commerce
- Punjab National Bank
- State Bank of India
- State Bank of Saurashtra
- The Jammu & Kashmir Bank Limited
- The Karnataka Bank Limited
- The Karur Vyasa Bank Limited
- Axis Bank

REGISTERED OFFICE: Nucleus House, 5th Floor, Saki-Vihar Road, Andheri (E), Mumbai- 400 072

AUDITORS: Chandrakant & Sevantilal
4, Fairy Manor, 2nd Floor, 13, Gunbow Street, Fort, Mumbai- 400 001

MEMBERSHIP & LICENCES

1. BOMBAY STOCK EXCHANGE LIMITED (CASH & DERIVATIVES SEGMENTS)
2. THE NATIONAL STOCK EXCHANGE OF INDIA LTD.
(CAPITAL, WHOLESALE DEBT & FUTURES & OPTIONS SEGMENTS)
3. OTC EXCHANGE OF INDIA (DEALER)
4. CENTRAL DEPOSITORY SERVICES (INDIA) LTD.
(DEPOSITORY PARTICIPANT)
5. SECURITIES & EXCHANGE BOARD OF INDIA
 - MERCHANT BANKER (CATEGORY I)
 - PORTFOLIO MANAGER

CHAIRMAN'S SPEECH**My Fellow Stakeholders,**

The Financial Year 2006-07 has witnessed some tumultuous changes in the Financial Services industry. A significant number of International players have been seeking to establish or have already started their practices in India. A very significant number of Indian Financial Services Companies have also raised large financial resources. Most of them have expanded aggressively. Organisations owned by a variety of entities and sizes have started participating in this industry. All this will certainly make the markets more competitive, professional as well as bigger. Consolidation efforts have also started in the industry but we believe that industry is still very much in the growth stage.

The interest rates spiked during the year in sympathy with inflation but are returning back to their previous benign levels. The stock indices gyrated violently. Some very large public issues mobilized funds and we expect that current



**We have embarked on the expedition
to become a trusted financial
intermediary and a great company.**

**The path is guaranteed to be
treacherous, elusive and difficult but
mission is not impossible.**



year will establish newer records. The Investment Banking witnessed domestic and cross-border transactions of truly International sizes. The assets under management of Mutual Fund industry went up along with the market capitalization of issued securities. The debt market continues to remain more or less closed to non-banking investors. Alternative instruments and alternative investment markets have started emerging. In short, the Indian investor is having more and more choices in variable returns rather than fixed interest securities. This makes the investor's life more complicated, may be risky too!

In terms of revenue, we grew by about 9% on the top line. But we laid a solid foundation for our growth in our chosen areas in conformity with our value sets, beliefs, vision and mission. In my last year's communication, I had shared with you the details of this exercise that we embarked upon.

Quoting from the same, I share "We have embarked on the expedition to become a trusted financial intermediary and a great company. The path is guaranteed to be treacherous, elusive and difficult but mission is not impossible".

We have reoriented our operations in conformity with our strategic objective of reaching households appropriate financial services, products and solutions. We obtained grading from Crisil to enable our customers to take an informed decision about our services and risks they face while they deal with us. We are also the first brokerage company to be certified by Crisil in the history of the Country. The assigning of Grade -II to our company, Grade I being highest and Grade V being lowest, signifies our very good risk practices and safety for our clients.

Our current year's financial performance is enclosed and profit before tax has been slightly lower than the previous year. I believe that this is more of a dip before the leap rather than long-term erosion of profitability.

Our purpose driven journey continues and we are sure to have your continued support. .

ASIT C. MEHTA
CHAIRMAN

DIRECTORS' REPORT



Dear Fellow Shareholders,

We take pleasure in presenting the Fourteenth Annual Report of the Company along with the Audited Statements of Accounts for the year ended March 31, 2007.

I. FINANCIAL RESULTS:

	Current year 2006 – 2007	Previous year 2005 – 2006
Gross Income	423,376,681	387,533,065
Profit Before Tax	50,393,076	66,215,238
Less: Prior Period Expenses	-	44,255
Add: Excess Provision for taxation of Earlier Year	-	310,589
Less: Provision for Taxation	15,004,000	22,000,000
Less: Provision for Deferred Tax		674,850
Add: Provision for Deferred Tax	201,448	
Less: Provision for Fringe Benefit Tax	600,000	600,000
Net Profit After Tax	34,990,524	43,206,722
Add: Balance Brought Forward From Previous Year	16,893,687	18,706,293
Less: Utilised for Issue of Bonus Shares	-	15,000,000
Profit Available for Appropriations	51,884,211	46,913,015
Less: Appropriations		
Transfer to General Reserve	3,499,052	4,320,672
Proposed Dividend	Nil	Nil
Interim Dividend Paid	8,004,110	22,500,000
Tax on Dividend	1,122,576	3,198,656
Balance carried to Balance Sheet	39,258,473	16,893,687

**Our role in the market will
continue to go through
newer evolutions.**

BUSINESS OVERLOOK

Equity Broking

1. **Financial Performance:** We had a modest growth of 9.25% in gross revenue during the year. The company has earned a gross income of Rs.423.38 mn as compared to Rs.387.53 mn last year. However, the net profit after tax has fallen 19% from Rs.43.21 mn to Rs.34.99 mn. This fall is essentially due to the increase in personnel cost, being a prime resource of the industry. We have also embarked on a brand-building programme during the year and substantial cost has been incurred on advertising in the print as well as electronic media.
2. **Retail Expansion:** The retail expansion continued and there was an increase of about 35000 customers during the year thus resulting in approximately 100000 clients for the various services provided. We also added over 100 business associates and have now enhanced our presence in Southern states of Andhra Pradesh and Kerala.
3. **New Products and Services:** As reported last year, our company has entered into a tie-up with Bank of India to provide online trading services. Additional products were launched during the year such as Leveraged buying and NRI services etc. We hope to substantially increase this business during the current year. The mutual fund investment distribution was considerably strengthened by adding large number of skilled staff. We have also started providing services to Independent Financial Advisors as an aggregator for mutual fund collections. The income, though modest, has increased by 115% during the year.



• Seminar on Commodities market

Debt Broking Services

The volumes continued to be poor or modest in debt market segment during the year. The WDM segment witnessed contraction during the year with the volumes shrinking by 49% as compared to the previous year. The volumes in the market place in general also have failed to see significant increase and are nowhere near the international comparative ratios. The compartmentalisation in the market structure is continuing to do more harm than good. The fragmented market place, non-alignment of interest rates, lack of convenience and skill sets and other similar aspects continue to keep this market illiquid, small and costly for all participants.

We have continued with our desk in this segment. We believe that the market place will always exist irrespective of efforts one-way or other. Our role in the market will continue to go through newer evolutions. We have now started a division to source short-term money for corporates through instruments such as Debentures, Commercial paper and floating rate instruments.

Adding New Verticals to Service Portfolio

1. Investment Banking

The company is in the process of creating a team of skilled professionals to provide Investment-Banking services essentially to small and medium sized enterprises. We expect to become a significant participant in this segment in the near future.

2. Portfolio Management Services (PMS)

The registration for providing PMS services will be activated during the financial year 2007-2008.

II. INDUSTRY REVIEW

1. CAPITAL MARKETS

The booming economy with a GDP growth rate of over 9% has led to significant surplus incomes in the hands of working population. Unfortunately, this money has not come directly into the capital markets. Bank deposits continue to be a major favourite with retail investors. Mutual fund industry has made some inroads into channelizing this money in the capital markets. However, lack of infrastructure in terms of online banking in remote areas, absence of MICR cheques and fewer collection centers have hampered the growth of mutual funds mobilization in TIER III or IV cities. There is no concentrated effort on part of either the regulators or the brokers

to bring in uninitiated investors into the market. Investor empowerment and education is restricted to holding investor awareness programs in 5-star hotels or elite conventions. The active investor population participating in the secondary market has in fact shrunk over the last few years.

Key Developments during FY06-07

- **Transformation in the Broking Industry**

The broking industry has transformed over the last 3 years. Many leading brokers have attracted private equity funds into their companies. Some companies are also planning to go public in the near future. The funds are being raised essentially for branch expansion and providing money for margin trading.

- **Spurt in the Derivatives volumes**

There has been a huge increase in the derivatives volume also. The average daily turnover has moved from Rs. 192201 mn in FY06 to Rs. 295433 mn in FY07. However the business concentration remains relatively poor with minimal retail participation in the derivatives market. The investor continues to indulge in day trading largely funded by the brokers. The size of the derivative contract remains very high. The prescribed minimum contract size is around Rs. 200000. However, most contracts are in the range of Rs. 600000. This high limit coupled with broker funding has led to preference for day trading by investors.

- **Initial Public Offerings by real estate companies**

Another important development in the market is the equity issues by real estate companies. The prominence of these companies into the index has made the market cap largely real estate centric. The real estate market continues to be plagued by absence of reforms in this sector. This has led to issues relating to ownership and regulatory interferences in relation to development rules such as Special Economic Zone and slum rehabilitation. The markets today run a big risk of asset deflation since the public issues of real estate companies have been at challenging valuations.

- **Permanent Account Number mandatory for market participants**

SEBI has made PAN as the sole identification number for all participants in the securities market irrespective of the amount of transactions. This has led to suspension of several investors' accounts in depository as well as trading establishments. We believe that the introduction of a unique number would be very useful in identifying the clients across various segments. However issues related to opening client accounts in a broking company versus a bank still remain heavily against broking companies. An investor finds it much easier to start a relationship with a bank or a mutual fund than a broking company due to these rules.

- **SEBI guidelines for Qualified Institutions Placements (QIP)**

During the year SEBI introduced guidelines for Qualified Institutions Placements (QIP). These guidelines permitted companies having equity shares listed on stock exchanges having nationwide trading terminals to issue shares directly to QIP. This affects the company's ability to earn IPO commissions if they are placed directly by Merchant Bankers with such QIP. Conversely your company's Investment Banking division is likely to benefit.

- **Tightening of Margining system**

The margining system was tightened for cash market. In the cash market VaR margin rate was calculated at the end of the trading day and applied to the open positions of the subsequent trading day. However in the derivatives market, the risk parameters files for computation of margins are updated intra-day. In order to align the risk management framework across cash and derivative markets the risk parameters files are updated intra-day in cash market also. This will have an impact on working capital requirements of the company.

- **SEBI Registration Fees**

The SEBI registration fees which were payable for block of 5 years based on turnover and subsequently a flat rate was applicable for next block of 5 years. SEBI has now decided to make this fee a permanent levy. Our company, which has paid for two blocks of 5 years, will also have to pay a registration fee forever despite the earlier rules to the contrary and inordinately large registration fees paid earlier. This has an impact on the profitability and future competition issues from the company's point of view.

2. BANKING

In the mid-term review of the annual policy FY06-07, Reserve Bank of India had permitted scheduled commercial banks and primary dealer to cover their short positions in central government securities within extended period of 5 trading days. Resident individuals are now permitted to remit US \$ 50,000 per financial year as against the earlier limit of US \$ 25000 per year. The FII limit for investment by FII in government securities was enhanced from US \$ 2 bn to US \$ 3.2 bn. The limits for overseas investment by mutual fund registered with SEBI were increased from US \$ 2 bn to US \$ 3 bn.

The RBI also reduced the Banks exposure to capital markets by altering the limits for lending. Earlier the limits were based on the incremental Bank deposits. The limit was 5%. As per the new exposure norms Banks can fund capital markets only to the extent of 40% on their Networth of the previous year. This would lead to shrinking of limits available to brokers since the revisions would be made only once a year. IPO financing was also limited to Rs.1 mn only per individual. Both these measures are ostensibly to control liquidity in an overheated market. In effect these types of measures only throttle the market intermediaries without having much impact on the ultimate investors who may be flush with liquidity.

3. VOLUMES TRADED DURING THE YEAR ARE AS FOLLOWS

(Rs. in mn)

	2006-2007	2005-2006
Finance raised by corporate sector (Rs.)	1,525,000	1,248,000
In form of Debt	68.14%	78.13%
In form of Equity	31.86%	21.86%
No of public issues	119 issues	138 issues
Funds raised in public issues (Rs.)	323,820	272,940
National Stock Exchange		
Turnover in Cash Segment (Rs.)	19,450,000	15,690,000
Daily average turnover in Cash Segment (Rs.)	78,120	62,530
Turnover in Futures & Option Segment (Rs.)	73,562,000	48,240,000
No. Of contracts in Futures & Option Segment	261.8 million	156.3 million
Volume traded by top 100 members	71%	68.45%
Volume traded by top 100 securities	77%	73.12%
Bombay Stock Exchange		
Turnover in Cash Segment (Rs.)	9,658,300	8,160,000
Daily average turnover in Cash Segment (Rs.)	38,780	32,510
Volume traded by top 100 members	73.57%	72.13%
Volume traded by top 100 securities	70.05%	57.71%

(Source: Sebi Bulletin)

4. OUTLOOK OF FINANCIAL MARKETS:

We expect the financial markets to further integrate with rest of the world due to liberalisation of capital inflows and outflows. We expect the volatility to increase with the accelerated speed of change itself. This higher volatility with increased speed opens up newer frontiers of challenges for all participants alike.

The challenges facing the issuers and investors both are set to become more complex. Competition is expected to intensify in the Investment Banking and Asset Management Services. All market based activities now need unprecedented amount of skills sets in terms of disciplines of knowledge needed to succeed.

We also expect all markets-equities, debt and money, commodities, foreign exchange and derivatives- to offer higher liquidity, lower transaction costs, higher information content but higher risk as compared to recent past.

We expect competition to intensify with some deep pocket players further resorting to price wars, technology led invasions and even regulatory shortcuts being chosen tools. The field may become little more unequal for medium and small Indian players in general, in the days to come.

Equity Markets

We are optimistic that the current Bull Run should remain for short to medium term. The prosperity in the Indian corporate sector and growth due to improvement in several sectors of the economy has fuelled this Bull Run. The households are having surplus funds to be invested and there is a shortage of professionals providing good investment advice. Our focus is on bringing new investors in the market place and educating them about various investment options and risk and returns associated with them. This is a long-term strategy, which we believe will yield results in a competitive market.



• Seniors in discussion

We have adopted a two-pronged approach for the geographical coverage of investors. We are appointing business associates in towns having population below 5 lacs. Also, we have started opening branches in cities and districts where we do not have presence at all. We hope to add about 100 branches during next one year. We are targeting the states of Gujarat, Kerala, Tamil Nadu and Haryana during the next one-year. We will also open branches in New Delhi and Mumbai suburbs to cater to residents of large housing societies.

We also endeavor to make available products such as Mutual Funds through our own branch network. We have not been successful in motivating our business associates to provide a larger basket of financial products.

Debt Markets

The market capitalization of debt securities is in excess of Rs. 18 trillion and the daily trade through the exchanges is expected to be around Rs. 9 billion. The trades executed through the Negotiated Dealing System are around 90% of the total trades in Government securities. The interest rate movement has been within a narrow band and the yield spreads between one and ten years ranged between 70-80bps and ten and thirty years the interest spread has been around 40 bps resulting in a flat yield curve. We do not expect any significant change in the trading or yield pattern in the next year.

The inter-bank markets have segment for liquid and illiquid securities and we expect a large number of trades of illiquid securities to be traded through brokers. The trades in short term instruments like treasury bills, certificate of deposits and commercial papers are expected to increase and we are focusing by creating issuers services unit to bring corporate into the market and execute secondary market trades on such instruments.

A separate investor services unit will focus on provident funds and insurance companies for placement of primary issues of short-term instruments and bonds of financial institutions in addition to execution of secondary market trades. Some of the large corporates are in the process of establishing separate treasury to invest and trade in debt securities and we will be actively involved in setting up the treasury management unit with appropriate risk management processes.

A dedicated interest rate research unit will be providing information, updates and analysis on interest rate markets to enable investor trade in an informed manner. The regulatory initiatives in setting up a separate platform to trade in corporate bonds and interest rate derivatives may result in widening and deepening the markets in the coming year.

III. Awards/Standards

Our company was the first broking company in India to get itself graded by CRISIL. The company has got a B2 grading on a scale of B1 to B5, B1 being the best. The risk management practices followed by our company were ranked best in the broking industry. However narrow capital base led to the grading being at number B2.