

ANNUAL REPORT
2010 - 2011



LETTER FROM MANAGING DIRECTOR



Dear Shareholders

The Financial year 2010-11 was a year of high volatility. The strong growth momentum in the first half was followed by a subdued second half. Growing interest costs, rising crude prices and turbulent political environment led to uncertainty in the Indian economy's growth momentum.

The NIFTY 50 Index saw a volatility of 18% in the second half of the year further aggravating the fall in retail participation. Overall, the average daily market volume grew 40% YOY, but these were primarily driven by the growth in low yield F&O trades. In the cash equity segment we saw a market volume decline of 17% in the financial year. The Retail participation in the markets fell consistently during the year from over 58% to 52%. However, the commodity market volumes saw a significant growth of 56% in the year on the back of increased commodity prices and rising participation in this category.

In this backdrop of falling volumes, yields and equity markets, ABML's consolidated Income from Operations grew moderately at Rs.11,272.14 Lakhs, compared to Rs.11,127.02 Lakhs in the previous year. We closed the year with 1% of the Retail market share in equity and 0.27% in commodity registering 185% growth in the commodity market volumes. Our strategy of diversifying across business segments helped us. We continue to invest in building a strong franchisee base, adding 200 new franchisee alliances this year to over 700 franchisee partners already working with us.

We continue to expand our client base and provide one stop financial advisory solutions. During the last year, we invested substantially in superior IT backend and frontend systems, setting up strong Research teams for both equities & commodities and getting a robust Risk management framework and infrastructure in place. We focused on cost optimization and increasing activation rates to counter pressures from deteriorating market conditions. During the year, CRISIL Limited re-affirmed P1+ rating for the short term debt programme. We continue to leverage on the synergies provided by the ABG Group ecosystem and our financial services lineage and have seen growing traction in revenues.

With only 1.5% of India's population having Demat accounts and equities forming less than 10% of financial savings wallet, the potential for growth has always been high. With the continued growth in discretionary income and savings, rising awareness on markets and innovation in technology that helps us reach these financial services product to the masses, we believe India's long term growth story remains intact.

We remain committed to establish a leadership position in the long term in the retail financial services space. We are confident that our service orientation, values, our expanded footprint and focus on non-broking avenues will see us through these turbulent times in the short run and emerge as a strong market leader when the environment improves.

Yours Sincerely,

A handwritten signature in dark ink, appearing to read 'Sudhakar' followed by a stylized flourish.

Sudhakar Ramasubramanian

ADITYA BIRLA MONEY LIMITED

BOARD OF DIRECTORS

Mr. Pankaj Razdan

Mr. P. Sudhir Rao

Mr. G. Vijayaraghavan

Mr. Manoj Kedia

Mr. Sudhakar Ramasubramanian - Managing Director (w.e.f. February 1, 2011)

Mr. Kanwar Vivek (resigned w.e.f. October 15, 2010)

KEY EXECUTIVES

Mr. Ravishankar Gopalan – Chief Operating Officer

Mr. Saurabh Shukla – Chief Sales Officer

COMPANY SECRETARY

Mr. S. Balaji

AUDITORS

M/s S. R. Batliboi & Associates

Chartered Accountants, Mumbai

BANKERS

HDFC Bank Limited – Anna Salai Branch

Bank of India – Anna Nagar Branch

State Bank of India – Thousand Lights Branch

Axis Bank Limited – Mylapore Branch

ICICI Bank Limited – Nugambakkam Branch

Standard Chartered Bank - Rajaji Salai Branch

REGISTERED OFFICE

Indian Rayon Compound

Veraval - 362 266, Gujarat

CORPORATE OFFICE

Ali Towers

No. 55, Grems Road

Chennai - 600 006.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

MACRO ECONOMIC SCENARIO

THE INDIAN ECONOMY & MARKETS

The year 2010-11 started off well with the markets testing the previous highs. During the first half of the year, the markets saw FII inflows and increase in volume. Inflation though was a concern but not out of control, crude oil prices were moderate. Corporate India was upbeat and analysts were upgrading their targets. However, in the second half, the markets witnessed dip in volumes and there were major concerns on account of Inflation. The Central Bank intervened periodically raising the repo rate to control inflation. Hence, the market sentiment did not see any major buoyancy. Even globally, unexpected developments in the MENA region saw crude oil prices rising to a 30 month high, threatening to derail the fragile global recovery. FIIs turned net sellers erasing most of the gains made in the first half. The year, however, ended with a modest gain of 11.1% over the previous year.

For the economy as a whole, FY10-11 ended with low IIP numbers and high inflation. IMF has already warned India on signs of overheating and has scaled down India's economic growth projection to 8.2%. The impact of higher inflation on corporate profitability is likely to play out in the current year. Corporate profitability was not impacted in the year gone by owing to high capacity utilization, giving Indian corporates the room to pass on the rise in costs to the consumers. Any further rise in prices is likely to have a dampening effect on the demand environment, thereby impacting corporate profitability.

GLOBAL SCENARIO

USA was proactive in announcing QEII which to a great extent helped in its recovery. While part of Europe saw recovery, part of the Continent was plagued by sovereign debt issues. Greece, Ireland and Portugal saw rating downgrade and bailouts.

The year also saw a sharp surge in commodity prices. Unexpected build up of tensions in the MENA region saw crude prices inching to a 30 month high thereby threatening the global economic recovery. ECB has already started raising interest rates – a move bound to hit the PIIGS nations hard which are still struggling to come out of the high fiscal deficit mess. Economies from China to India having failed to check inflation, in spite of proactive monetary tightening, are likely to continue with their monetary tightening as the economy moves into FY11-12.

Overall basis, US data shows promise but it needs to sustain the post QE exit environment in another quarter or so. Therefore, the macro environment is extremely challenging bringing volatility across asset classes, especially equities.

INDUSTRY STRUCTURE AND DEVELOPMENTS

The broking industry has seen micro challenges of its own, let alone the macro concerns that exist at large. On one hand, competition has intensified, and on the other, the market product mix has undergone structural changes. There has been consistent slide in the cash market share, which is more indicative of the investment interest in the market. Further, the year saw preference for low yielding Index options which has seen its share in the overall volume on NSE increase from 55% in Q4 FY10 to 73% in Q4 FY11 putting significant pressure on brokerage yields. The competition is likely to lead to consolidation in the sector.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The market comparison data in tabular format is as under

Year	BSE Sensex	S&P CNX Nifty	Market Capitalization (Rs. in Crores)	
	Base: 1978-79 = 100	Base: 1983-84 = 100	BSE	NSE
1	2	3	4	5
2009-10	17,527.77	5,249.10	64,584,612	740,514,252
2010-11	19,445.22	5,833.75	80,491,048	1,086,133,712

Period: FY 2010-11	Average Daily Turnover in Rs. Crores (NSE Cash)	Average Daily Turnover in Rs. Crores (NSE Derivatives)	Average Daily Turnover in Rs. Crores (NSE)
Apr'10-Jun'10	13,257	92,425	105,682
Jul'10-Sep'10	14,184	102,278	116,462
Oct'10-Dec'10	15,979	127,624	143,603
Jan'11-Mar'11	12,772	139,790	152,562

Source www.nseindia.com

The Commodities market too witnessed an overall increase in volumes. The combined commodities volumes recorded in both MCX and NCDEX increased by Rs. 3,941,196 crores up from Rs. 7,310,887 Crores in 2009-10 to Rs.11,252,083 Crores in the current FY 2010-11.

There has been an increase in the number of demat accounts opened in the market during the FY 2010-11 and as on March 31, 2011, the number of demat accounts stood at 1.89 Crores, an increase of 14% over the last year. The increase in Demat accounts has been in line with the growth seen in the previous years, however, the absolute numbers have not gone up significantly. Demat accounts still account for less than 2% of the country's population, as compared to the UK, which has 16% of its population having the same.

FINANCIAL PERFORMANCE AND REVIEW OF OPERATIONS

Your Company recorded an Income from Operations of Rs.1,1272.14 Lakhs for the year under review, on a consolidated basis. This was marginally higher than the previous year. The total consolidated income for the year under review stood at Rs.12,402.25 Lakhs, up by Rs. 685 Lakhs as compared to the previous year of Rs.11,717.25 Lakhs.

The Consolidated Net Loss for the year stood at Rs.843.75 Lakhs as compared to a Net Profit of Rs.1,268.33 Lakhs in the previous year. This decline in profits was primarily due to one time exceptional loss of Rs. 815.48 Lakhs.

Revenues from equity broking during the year fell by 6.32% to Rs.7,216.33 Lakhs due to discontinuation of certain products and also due to lower trading volumes during the second half of the year.

However, Commodities business recorded good growth for the year under review with revenues coming at Rs.1,302.83 lakhs, which is higher than the previous year's revenues of Rs.1,259.29 Lakhs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OUTLOOK

After seeing a sharp global recovery over last 2 years, which has seen good corporate earnings and strong GDP growth, the markets are likely to move into 2011-12 with some strong headwinds.

Central Banks the world over (especially in high growth countries like China & India) are focussed on checking the rising inflationary tendencies. Increase in crude prices is most likely to create an impediment for global growth. High crude prices with a depreciating domestic currency would make things more difficult for some of the emerging market economies. This would affect the potential for economic growth as Central Banks follow anti-inflationary policies which may not be growth promoting. IMF has already reduced the growth target for both the developed and developing world for the financial year.

Rising income levels and sustained level of incomes and savings will continue to provide growth to the Indian economy. However, immediate future and short term scenario would see reduction in the individual participation and corporate performance is also expected to be down, due to high inflationary pressure and increase in interest rate coupled with volatility in the market. Thus, the market may remain weak in the short term and investors are likely to stay away from the market until conditions improve.

The confluence of commodity, wage and price inflation is likely to moderate the domestic earnings growth for corporates, and therefore, the policy initiatives from the government, to facilitate capex and infrastructure in particular, holds the key for lower inflation. Despite all this, it is believed that the long-term India growth story is intact. Investors, both domestic and foreign, are looking for opportunities to invest at the right time. Outlook for the long term is positive, but the challenges for short term are quite visible. Globally, we are not out of the woods as yet. The conditions have, in fact deteriorated, with the rating downgrade of the USA and Japan. The conditions in Europe are equally bad and the pressures on economy and financial markets arising from the sovereign debt issues may be more prolonged than generally expected. This has brought in significant amount of volatility also with it. In the near future, all eyes will continue to be focused on developments in the MENA region which is critical from the crude price point of view. Despite all of the challenges, 2011-12 still promises to be an interesting year. Valuations at current levels are reasonable and as we go into the year, looking at FY12-13 valuations, interest should once again start emerging.

The broking industry is already seeing early signs of consolidation. External developments like change in technology and change in the external environment and also cost pressures on the operations front would further accelerate consolidation.

We continue to remain a focused player in the capital market business. We believe that we would be able to benefit and grow from the emerging opportunities in the financial services space. The Company has focused on the 6 pillars of our business - *Brand, Product, Distribution, Operations, Service and People* – in a focused and sustained manner. The Company augmented its research and product offerings to match the best in the industry. The initiative has helped the Company to move from being an 'execution only' to a 'value added' player in the market place.

The benefit of these initiatives are already visible and the Company would be in a position to build on the strong foundations. Further, the Company's emphasis on expanding its business through a cost-effective business partner-based model would help.

OPPORTUNITIES AND THREAT

In the last two decades, India's growth rate has been second only to China's among major economies; it has become a key actor on the global economic scene, notably as a strong force in the G20. A number of its firms have gone global in a big way, acquiring companies the world over, and foreign firms, especially in IT, have made significant investments in India. Creation of wealth is happening rapidly especially in 2nd tier cities. Moreover, Indians save in excess of \$ 350 bn annually. Yet the amount allocated to the capital market is a miniscule portion. Thus, the space has a lot of potential to grow.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FY10-11 was mainly a FII led rally with the retail investors, unfortunately, missing the major part of the rally. Markets have corrected by 10% from the November peak. With some stocks in mid-cap space having corrected by upto 50%, the market is once again giving opportunity to the retail investors to participate.

NSE also launched MFSS on November 30, 2009 enabling buying and selling of Mutual Funds through the exchange trading platform. In addition, exchange traded funds (ETFs) have started to pick up, especially in relation to accessing gold, as well as the offshore markets through indices, opening up new lines of brokerage.

The proportion of volume being catered to by the online system is increasing. Mobile trading is being allowed. Thus, the way the business is done is evolving and could see a remarkable shift. Your Company continues to assess technology and other ancillary requirements on a regular basis and take investment decisions at the appropriate times. Investor participation in options trading, currency derivatives and commodities also provide growth opportunities.

However, broking yields would remain under pressure as the segment is highly fragmented. There has been a shift in volumes towards options where flat brokerage is charged, thereby putting further pressure on margins. This, combined with the rising infrastructure cost and changes in industry structure and environment, is likely to continue to put pressure on brokerages. Your Company is conscious of the same and it is focusing on increasing its overall market share in the options segment through various strategies. It is also focusing on raising the overall yield by focusing on increasing the delivery volume. It is also focusing on the franchisee model to increase its volume and at the same time keep the infrastructure costs in check. So the broad strategy is to create product and service differentiators and take multiple product offerings across multiple channels.

RISK AND CONCERNS

The Company's nature of business is susceptible to various kinds of risks. The Company encounters market risk, credit risk and operational risks in its daily business operations. The Company has framed a comprehensive risk management manual which inter-alia lays down detailed process and policies in the various facets of risk management function. The Company also had Risk Governance Committee which has an oversight on the risk management framework and periodically reviews the risk management practices.

INTERNAL CONTROL AND ADEQUACY

The Company has adequate internal control systems appropriate for the business process having regard to efficiency of operations - both systems, finance and for compliance with applicable laws. The controls are reviewed periodically from time to time and strengthened in view of changed processes, systems and regulations.

In addition, the Company goes through periodic internal audits both through it's internal team and external auditors, which includes branch and franchisee audits and the audit reports tabled in the Audit Committee meetings of the Board and acted upon. Key issues are specifically brought to the attention of the Audit Committee. A time frame for resolution of all issues is drawn up and monitored for implementation and closure. The Company also follows a quarterly internal control self assessment certification process for it's branches.

MANAGEMENT'S DISCUSSION AND ANALYSIS

HUMAN RESOURCES

One of the key pillars of the Company's business is *people*. The Company's HR policies and practices are built on Aditya Birla Group (ABG) core values of *Integrity, Passion, Speed, Commitment and Seamlessness*. The Company's focus is on recruitment of good talent, and retention is posing both a challenge and an opportunity for HR. The Company is hopeful and confident of achieving the same to be able to deliver results and value for our shareholders. As on March 31, 2011, the total employees on the Company's rolls stood at 1203.

CAUTIONARY NOTE

Statements in this Report, describing the Company's objectives, projections, estimates and expectations may constitute 'forward looking statements' within the meaning of applicable laws and regulations. Forward looking statements are based on certain assumptions and expectations of future events. These statements are subject to certain risks and uncertainties. The Company cannot guarantee that these assumptions and expectations are accurate or will be realized. The actual results may be different from those expressed or implied since the Company's operations are affected by many external and internal factors, which are beyond the control of the management. Hence the Company assumes no responsibility in respect of forward-looking statements that may be amended or modified in future on the basis of subsequent developments, information or events.

CORPORATE GOVERNANCE REPORT

1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

Your Company is fully committed to the adoption of best governance practices and its adherence. Your Company aligns itself with Aditya Birla Group values and governance norms and strive for excellence through adoption of good Corporate and disclosure practices. The Company's philosophy on Corporate Governance is to practice transparency, accountability and maintain professional approach in dealing with all its stakeholders. Your Company believes in fair dealing, strengthening the disclosure practices, timely and appropriate compliance of the applicable regulations, strategic guidance and monitoring by the Board.

2. BOARD OF DIRECTORS

Composition, Category, Size of the Board

The Board of Directors of the Company is a balanced Board, comprising of a Managing Director and Non-Executive Directors which includes independent professionals. The Company has five Directors on the Board, out of which two are Independent, two are Non-Executive and one is a Managing Director. The Company do not have an appointed Chairman and the same is appointed for each Board Meetings.

None of the Directors of the Board is a member of more than 10 Committees or a Chairman of more than 5 Committees (as specified under Clause 49) across all Companies in which he is a Director. All Directors have made necessary disclosures regarding their Directorship and Committee positions occupied by them in other Companies.

The details of other Directorships, positions held either in Committees of Board of Directors as well as attendance at Board Meetings/Annual General Meeting are as follows:

Name of the Director	Category	No. of Board Meetings		No. of Directorships held in other Companies#	No. of Committee Membership held in other Companies^	Last AGM Attendance (Yes/No)
		Held	Attended			
Mr. Pankaj Razdan	Non-Executive Director	4	3	4	1	Yes
Mr. Manoj Kedia	Non-Executive Director	4	4	3	1	No
* Mr. Kanwar Vivek	Managing Director	4	2	-	-	Yes
**Mr. Sudhakar Ramasubramanian	Managing Director	4	4	1	-	Yes
Mr. P. Sudhir Rao	Independent Director	4	3	4	2	Yes
Mr. G. Vijayaraghavan	Independent Director	4	4	-	-	Yes

^ includes Membership of Audit Committees and Investor Grievance Committee as per clause 49 of the Listing Agreement (as on March 31, 2011).

does not include Private and Foreign Companies and Section 25 Companies.

* resigned as Managing Director of the Company w.e.f. October 15, 2010.

** Appointed as Managing Director w.e.f. February 1, 2011.

Number of Board Meetings

The Board of Directors met four times during the year ended March 31, 2011 i.e. on April 23, 2010, July 21, 2010, October 25, 2010 and January 19, 2011. The maximum gap between the two Board Meetings was not more than four months.

CORPORATE GOVERNANCE REPORT

Selection of Agenda Items and Information supplied to the Board

Detailed agenda notes are sent to each Director well in advance before the Board and Committee meetings. The dates of the Board meetings and Committee meetings are decided in advance as part of the annual calendar meeting exercise. The Company Secretary co-ordinates with the all departments concerned well in advance, particularly matters requiring discussion/approval/decision in the Board / Committee meetings. The agenda items *inter-alia* include approval of minutes of the previous Board & Committee meetings, review of compliance reports / compliance certificate and other Secretarial & Legal Compliance matters, business matters and financial reporting. A business review presentation is made at each Board Meeting to apprise the Directors and the Senior Management team about the performance of the Company. The Board provides strategic direction and strategy in improving the performance of the Company. Business plans, annual operating and capital expenditure budgets, are also placed and reviewed by the Board along with the senior management team of the Company. Independent Directors are briefed about the important agenda items and complete explanations and information are provided to them well in advance to ensure effective and informative participation and decision making process. The quarterly, half yearly and annual financial results are first placed before the Audit Committee for their review and thereafter the same are placed before the Board of Directors for their approval. At each Board Meeting, apart from financial results, the Board reviews shareholding pattern, reports submitted to stock exchanges under Clause 49 of the listing agreement, compliance submissions / status report as a stock broker and the financial results of the subsidiary company. A structured process has been put in place for post meeting follow up, review and reporting for action item / decisions taken at the Board / Committee meetings. The Company Secretary liaison with the respective department / functions, Internal audit team and status update report on the follow up action items are presented at each Board / Committee meeting.

Code of Conduct

The Board of Directors of the Company has laid Code of Conduct for the Directors and Senior Management Personnel of the Company. The Code has been posted on the Company's website www.adityabirlamoney.com. All the Directors and Senior Management Personnel have affirmed compliance with the Code of Conduct as on March 31, 2011. A declaration to this effect signed by the Managing Director forms part of this report.

Compliance Structure

The Board also periodically reviews status of compliance of all laws applicable to the Company and also the initiatives taken to improve the standards of compliance adherence. A Compliance Certificate / Status Report is collected from each of the department concerned like HR, Legal & Compliance, Back office, Registration, Finance & Accounts, Administration duly certified by the respective functional head and based on the compliance status report from departments a consolidated compliance certificate / report duly signed by the Chief Operating Officer is placed before the Board for its review and perusal.

3. BOARD COMMITTEES

A. AUDIT COMMITTEE

In Compliance of the provisions of Section 292A of the Companies Act, 1956 and in accordance with the provisions of Clause 49 of the Listing Agreement, the Company has a qualified and independent Audit Committee at the Board level. The Audit Committee performs the functions and role in accordance with Clause 49 of the Listing Agreement. The Committee acts as a link between the management, the statutory and internal auditors and the Board of Directors and oversees the financial reporting process.