

Asit C. Mehta

INVESTMENT INTERMEDIATES LTD

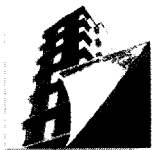
Annual Report 2005-2006



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Our Vision

Trusted financial intermediary

■ **Our vision of the Industry:**

Knowledge based market environment offering adequate choice to every Indian entity to mobilize and allocate financial resources efficiently

■ **Our Vision of our company :**

Trusted financial intermediary

■ **Our Corporate Purpose:**

To reach appropriate financial products, services and solutions to every Indian entity.

■ **Our Beliefs:**

We Believe

- That every household has a right to aspire and would need to plan its finances on an ongoing basis.
- That every household can, should, and will need to participate in the financial markets directly or indirectly to protect their financial interests
- That regulatory/legal compliance ensures economic sustainability.
That every stakeholder is a partner.
- That transparency and fairness are the cornerstones of all dealings.
- That knowledge rather than capital is the key driver of this business.
- That product, process, and technology led innovations are necessary preconditions for continuously adding value for all our constituents
- That given the environment every person will realise her/his potential.
- That people are driven by causes



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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		
		Standard Chartered Bank		
		State Bank of India		
		State Bank of Saurashtra		
		The Jammu & Kashmir Bank Limited		
		The Karnataka Bank Limited		
		The Karur Vyasa Bank Limited		
		UTI Bank Limited		
REGISTERED OFFICE	:	Nucleus House 5 th Floor, Opp. L&T Gate No. 7 Saki-Vihar Road, Andheri (E), Mumbai- 400 072		
AUDITORS	:	M/s Chandrakant & Sevantilal 4, Fairy Manor, 2 nd 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. MERCHANT BANKER (CATEGORY I)

Chairman's Statement

My Fellow Stakeholders,

The year 2005-06 has been a remarkable year in many ways. As you would notice from the financial statements, the company has done well both in terms of Gross Income and profits. The economy continued to grow at record rate while the stock markets saw unprecedented action. Any player in the financial market could not ask for more. Yet your company was of the view that this is time to ask for more from itself.



We felt that this was time for a rigorous corporate introspection. I wish to share with you the process and results of this deep introspection and reflection. The perspective and context of this introspection was very unique. The search of our purpose was in the background of our country's history, socio-political ideology, changing international equations, information age and cultures. It definitely was an introspection well grounded in the realities—apparent and not-so-apparent—of the financial markets. This process has also been influenced by our own history, value sets and expectations about structure of the market place itself. This broad framework guided our corporate introspection and reflection exercise.

This review was posited on the basic premise that financial markets allocate resources in an efficient manner and thereby can help the ordinary household protect its financial well being. However, this would happen only through deliberate and well-intentioned actions of organisations which enable access to the markets. Further, the sustainability of such participation is dependent on the continuous production and sustenance of trust in all exchange processes of the market.

Even as the euphoria in Indian society keeps reaching newer peaks, majority of the households with investable surpluses continue to simply deposit their savings with the banks. In most cases, this is more due to lack of trust in the stock markets as much as it is due to lack of accessibility. Inadequate real return from the interest and further declining rates expose such households to the risk of significant wealth depletion. This aspect of the households was at the core of our reflection process.

We believe that it is necessary to build the enterprise around a core value set and appropriate purpose of existence. While such a purpose may already be the underlying basis of all actions, it is functional to explicitly articulate the purpose in clear terms so that all the participating stakeholders are able to meaningfully engage with the organisation. This aspect helped us in identifying the core purpose of our company in the context of the financial markets, the households and our value sets.

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We believe that enterprises, with purposes rooted in appropriate value sets only can sustain and add value to all the stakeholders. Purposive organisations can be sources of inspiration for all the stakeholders and thereby ensure their continuing commitment. Only the purpose of the company would drive strategic actions while ensuring their institutional conformity.

Our corporate purpose, beliefs, and values have been presented in this report for your revisiting and reflection. The company has charted a strategic plan for itself, derived from the purpose, with a five year time horizon. The business aspects of the plan are discussed in the Directors' Report. The strategic plan also seeks to strengthen some of the practices of the company as also introduce appropriate newer practices wherever required.

The year 2005-06 has indeed been a remarkable year for the company and the financial markets. While business performance has been a cause for satisfaction, the exercise of corporate introspection and reflection has been awakening, striking and thought provoking. The process has helped in placing our future direction and pace in sharper focus. It also helped re-assess and validate the risk-return-value set paradigm in fresh dimensions and perspectives. It has in many ways reaffirmed our faith in our existing practices.

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. I am sure you would be on our side in this purpose-driven journey one but would definitely be more rewarding.

ASIT C. MEHTA
Chairman

Asit C. Mehta

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DIRECTORS' REPORT

Dear Fellow Shareholders,

We have pleasure in presenting the thirteenth annual report of the company along with the audited statements of accounts for the year ended March 31, 2006.

I. FINANCIAL RESULTS:

	Current year 2005 – 2006	Previous year 2004 – 2005
Gross Income	387,533,065	236,395,353
Profit Before Tax	66,215,238	24,955,291
Less: Prior Period Expenses	44,255	30,722
Add: Excess Provision for taxation of Earlier Year	310,589	205,645
Less: Provision for Taxation	22,000,000	6,500,000
Less: Provision for Deferred Tax	674,850	1,240,542
Less: Provision for Fringe Benefit Tax	600,000	Nil
Net Profit After Tax	43,206,722	17,389,672
Add: Balance Brought Forward From Previous Year	18,706,293	6,404,715
Less: Issue of Bonus Share	15,000,000	Nil
Profit Available for Appropriations	46,913,015	23,794,387
Less: Appropriations		
Transfer to General Reserve	4,320,672	Nil
Proposed Dividend	Nil	4,500,000
Interim Dividend Paid	22,500,000	Nil
Tax on Dividend	3,198,656	588,094
Balance carried to Balance Sheet	16,893,687	18,706,293

II. INDUSTRY OVERVIEW:

- The **Economic Survey 2005-2006** by Government of India highlights the following trends and concerns:
 - Indian economy continues to grow consistently at around 8 percent with an environment of confidence, positive business expectations, fiscal consolidation, progressive integration of financial markets and institutions with global markets.
 - Improvement in investment climate and investor confidence. Stock market index return of 36% for the year 2005.
 - Pick-up in industrial and service sector activity with growth in trade, hotels, transport and communication services
 - Modest consolidation in government finance and fiscal position
 - Monitoring and management of liquidity arising of capital inflows and increase in foreign exchange reserves
 - Increase of fuel prices and commodity prices world-wide
 - Inflationary impact on account of pass through of the rise in energy prices and increase in global interest rates

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The saving and investment pattern of the Indian economy indicates the following:

(% of GDP)

Savings rate 2004-2005			29.1%
Household savings		22.0%	
Financial Assets	10.3%		
Physical Assets	11.7%		
Corporate sector		4.8%	
Public sector		2.2%	

• The financial savings of the households is allocated among

o Bank deposits-	39%
o Small savings instrument of the Government of India	20%
o Insurance products	13%
o Savings in provident funds	12%
o Government securities	5%
o Currency	9%
o Shares and debentures	2%

2. In the Banking Industry : We believe that the Banking regulations and structure will have to undergo significant changes that may transform them into single largest segment that canalizes savings through capital markets. A significant amount of time deposits will move to capital markets in the days to come.

The Indian banking sector is widespread with 68,645 branches providing physical access for banking services to rural, semi-urban, urban and metropolitan population. The financial savings of the households are largely in the form of time deposits with the banks. Banks allocate the resources among different sectors as lending to agriculture, industry, commercial credit, institutional lending and retail lending. The total deposit with banks as on January 2006 is Rs.21.43 trillion and the total outstanding lending of the banks is Rs.15.52 trillion.

The household will be increasingly accessing capital markets for better investment opportunities.

3. Volumes traded during the year were as follows:

(Rs. in million)

	2005-2006	2004-2005
Finance raised by corporate sector (Rs.)	1,248,000	1,123,000
In form of Debt	78.13%	78.3%
In form of Equity	21.86%	21.7%
No of public issues	138 issues	60 issues
Funds raised in public issues (Rs.)	272,940	282,560
National Stock Exchange		
Turnover in Cash Segment (Rs.)	15,690,000	11,400,000
Daily average turnover in Cash Segment (Rs.)	62,530	44,710
Turnover in Futures & Option Segment (Rs.)	48,240,000	25,470,000
No. of contracts in Futures & Option Segment	156.3 million	77 million
Volume traded by top 100 members	68.45%	65.10%
Volume traded of top 100 securities	73.12%	84.30%

Bombay Stock Exchange		
Turnover in Cash Segment (Rs.)	8,160,000	5,187,000
Daily average turnover in Cash Segment (Rs.)	32,510	20,500
Volume traded by top 100 members	72.13%	72.14%
Volume traded of top 100 securities	57.71%	75.30%

4. Outlook Of Financial Markets:

The GDP growth of the economy and savings rate of the household is expected to increase in the coming years. The development of infrastructure may require large resources both from domestic and international investors. The retirement funds may be compelled to allocate funds into equity instruments on account of low interest rates and de-risking of financial intermediaries. Some of the significant features of these developments are:

- **Bunching up of Development efforts**

The GDP growth of the economy and savings rate of the household is expected to increase in the coming years. The policy framework is directed to create conducive climate by developing infrastructure in ports, road, airport and power. The investment of Rs.1.72 trillion in road, Rs.400 billion in airport and Rs.500 billion in ports expected to gainfully employ the young labor force to reap the demographic dividend. This may require FDI of over \$150 billion in the next five years.

- **Retirees to reallocate portfolios**

Falling interest rates globally and in India have made retirement difficult forcing persons to work longer number of years or settle for lower living standards. Managing this challenge of reallocating part of the portfolio from fixed- income-no-risk to variable income instruments opens up a significant opportunity for our company.

- **Young workforce catering to the world**

We are witnessing large number of jobs moving to India thanks to technology, dwindling workforces in developed nations and lower costs due to large pool of human resources. Most of these persons need advice in planning savings and investments for their life cycles. This again will open a huge opportunity for financial intermediaries.

- **Re-rating of financial sector by Households**

The household sector savings is expected to increase and a large portion of the household savings will be attracted to the capital markets. As a result of all these developments, the share of the financial savings and the allocation toward shares and debentures may increase from the current 1.86% to 10% over next decade or so. Household may access the market directly or through mutual funds. The number of mutual funds offering different schemes is expected to increase. In addition, the pension regulatory authority is expected to provide a suitable framework for directing the household savings to the financial market in an orderly manner.

- **Re-incarnation of Commodities Future Exchanges**

The Government is playing an active role in encouraging the transition from managed economy to free market economy both nationally and internationally. A large population is still employed in primary economic activities such as agriculture, mining etc. Internal consumptions and export markets combined are still spot markets and no futures markets are used to hedge the attendant risks by producers, processors, or consumers. This is changing rapidly and resorting to futures exchanges to manage risks is expected to become common place.

- **Take Markets to Issuers and Investors**

As a result of these developments, we believe that the ensuing opportunity is very large. Our Company needs

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to take strategic steps over next few by investing in distribution network, people, marketing, processes, technology and investor education.

III. BUSINESS OVERVIEW:

- **Strategic Planning:**

Our company embarked upon a major strategic planning exercise during the year. Every aspect of the company's working was revisited and considerable changes have been made in company's operations. We have embarked upon a plan for the year 2010. We hope to serve a million households in the next four years through various products. We have decided to make investor education a primary focus area and first point of contact with all our investors. We have therefore reworked our marketing communication, advertisements and entire approach to the customer. Every function is being dovetailed to this customer-centric direction. All the departments have been asked to identify areas, which require improvement in customer service. Several training programmes have been conducted and will continued to be conducted on improving the staff interactions with the investors. The vision and mission statements included on the cover of this report reflect our underlying thoughts, which guide us.

- **Equity Broking:**

We witnessed one of highest earnings in the history of the company. There was a growth of 60.27% in gross revenue and 148.76% growth in terms of profit after tax. The company has earned a gross receipt of Rs.378.9 million and net profit of Rs.43.21 million. Overall growth in index and almost doubling of the registered investor's base was the main reason for this growth. Registered investors grew from 37,000 to 61,762 during the current year.

During the year our company entered into strategic tie up for providing online trading services with three banks viz. Bank of India, Cosmos Bank and Indusind Bank. The company hopes to cater to a large number of bank depositors in next three years under this segment. These tie-ups are unique in the industry since it is complete straight through processing of customers' orders and resultant settlement in form of money and securities. Several more nationalized and private banks have shown interest in this product and discussions are at various stages for the tie-ups.

Our advisory on Mutual Fund investment and IPO was active during the year and despite systemic problems of IPO Mutual fund industry, our Income in the segment witnessed increase of 260%.

The company continued to expand in newer locations and our network stood at 250 locations as on 31st March, 2006. The company spread its presence into new states such as Kerala and Assam. Some more states in North East are likely to complete our all India state wise presence.

We have also started a new desk for servicing of FII and NRI customers. Visits were made to Singapore, UK and USA in order to study the product needs and aspiration of these customers and we hope to launch a product during the current year. We are also holding road shows for NRI customers of the bank(s) with whom we have strategic tie ups.

Quality of Banking services continued to be a major hurdle in smooth functioning of our operations. Despite introduction of RTGS in over 500 towns covering over 15,000 branches, the cost of moving funds through this mode is very expensive compared to the brokerage earned per transaction. We are awaiting operational roll out of National Electronic Fund Transfer (NEFT) system to pay and receive money from/to our investors in a more cost and time efficient manner. However the company continued its efforts to reach money faster to all the investors and seven new banks were added for direct money transfer to our clients' accounts.

- **Debt Broking Services:**

As reported last year, there was a further 50% fall in the income from debt market services. Due to the setting up of National Dealing System (NDS) by RBI, the average daily volume reduced from Rs. 30,387 million to

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Rs.17,547 million and the numbers of transactions in WDM also were less than half at 61,891 compared to 124,308 in the previous year 2004-2005. This segment got a further set back when the Government of Maharashtra budget removed the imposition of stamp duty on NDS trade since they were directly between Principals. Margins in this segment are wafer thin and any increase in transaction costs makes the entire transaction unsustainable.

We continued to maintain our presence in this market with a hope that the debt markets will revive in future. We also did an extensive survey on co-operative banks all over India and are trying to assess their needs and design products to suit them.

- **Service Standard ISO:**

Our ISO Certification was due for review on completion of three years in December 2005. During this review, we decided to document each and every process in greater details with a view to re-engineering them, if necessary. The effort was beyond the ISO standards and we also laid down service standard for all areas of our operation.

- **Technology:**

During the year we worked on preparing a plan for disaster backup and business continuity plans. Several interactions were held with our vendors of software, hardware and network equipment for the purpose of understanding the most efficient and reliable method for having a disaster back up site. We have decided to set up the site at Gurgaon using the HECL facilities. This location will also offer back up for our VSAT network since we use HECL services and their bandwidth for trading purpose.

A disaster site will necessitate modifications to our entire software and hardware architecture and also lead to doubling of our entire processing capacity. Additional efforts are underway to make our online services available in multiple languages. This project is expected to be completed and go online during the second half of ensuing year.

- **Human Resource and Training:**

During the year 41 training programs were conducted by internal and external faculty. Since we were undergoing major ISO manual revamp, several training programs were held in relation to process documentation. We also embarked on inter departmental training where by the staff members were made familiar with the working of other departments which were interlinked.

During the year we also introduced formal program for training of our business associates on various aspects of clients servicing as our associates. We also made it mandatory for all our business associates to attend the training program before commencement of business.

We conducted about 150 investors' education program for bank depositors and bank staff for the purpose of becoming familiar with investments in capital markets. Besides these programs, about 90 visits were conducted to offices of our business associates and training was imparted to investors in small groups regarding various investment products such as equity, mutual funds, commodities etc.

We also conducted 7 online discussions through a unique video broadcast on our network. Many experts from the capital markets participated in these. Now these have become a continuing investor education and empowerment programs.

- **Compliance:**

SEBI and stock exchanges continued to drag their feet on the issue of sub-broker registrations. This was a major problem in business expansion during the year. SEBI has now made PAN number mandatory for operating on the derivative segment as well as for opening Demat account. We are currently in the process of