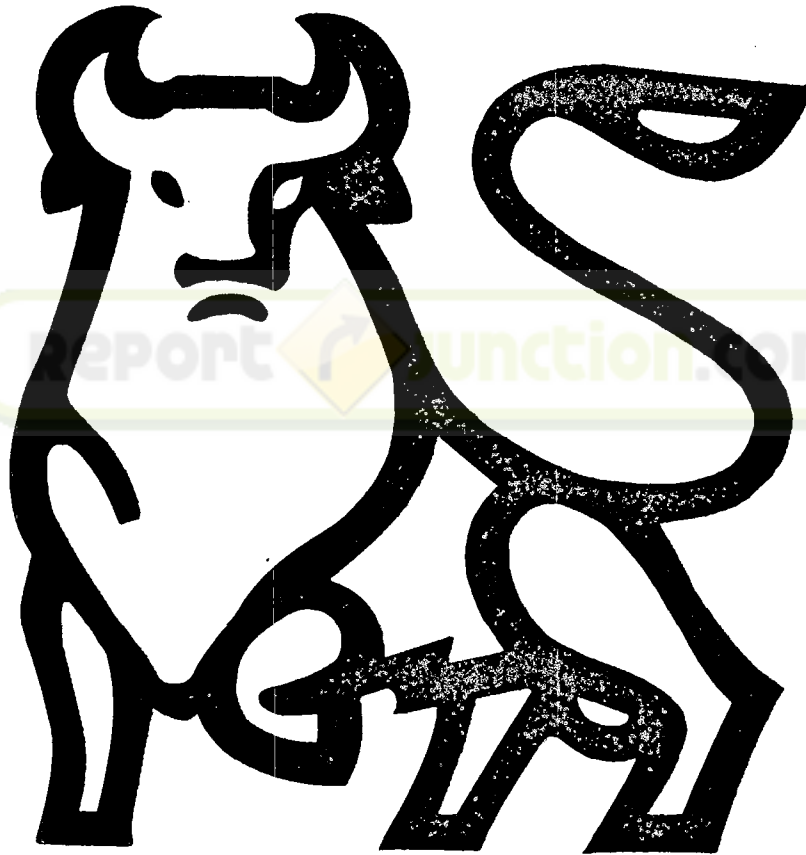




MD	✓		BKC	NA
CS	✓		DPY	NA
RO	✓		DIV	✓
TRA	NA		AC	✓
AGM	NA	-	SHI	✓
YE	✓	-		



DSP Merrill Lynch Limited

22ND ANNUAL REPORT 1996 - 97



Board of Directors

Mr. Hemendra M. Kothari	—	<i>Chairman</i>
Mr. Winthrop H. Smith Jr.	—	<i>Deputy Chairman</i>
Mr. Shitin D. Desai	—	<i>Vice Chairman & Managing Director</i>
Mr. Stephen Van C. Wilberding	—	<i>Managing Director & Chief Operating Officer</i>
Mr. Christopher Reeves		
Mr. Peter Clarke		
Mr. Prem Saigal		
Mr. Yogesh M. Kothari		
Mr. Ausaf Abbas	—	<i>Alternate to Mr. Winthrop H. Smith Jr.</i>
Mr. Thomas Seaman	—	<i>Alternate to Mr. Christopher Reeves</i>
Mr. Daniel Cochran	—	<i>Alternate to Mr. Peter Clarke</i>

Company Secretary

Mr. Raj K. Kataria

Auditors

C. C. Chokshi & Co., Mumbai

Bankers

Bank of America
 Bank of Baroda
 Bank of India
 Canara Bank
 Citibank N.A.
 Dresdner Bank A.G.
 HDFC Bank Ltd.
 Standard Chartered Bank
 State Bank of India

Registered Office

Tulsiani Chambers,
 West Wing, 11th, Floor,
 212, Backbay Reclamation,
 Mumbai 400 021.

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Directors' Report To The Shareholders

Your directors have pleasure in presenting the Twenty Second Annual Report of the Company, the Audited Statement of Accounts and the Auditors' Report for the financial year ended March 31, 1997.

The financial results after providing for all the expenses for the year are :

	1996-97 Rupees	1995-96 Rupees
Gross Income	714,702,851	337,091,769
Profit before depreciation and tax	179,492,448	60,213,987
Depreciation	(27,080,858)	(16,519,655)
Provision for tax	(61,285,000)	(19,837,000)
Balance	91,126,590	23,857,332
Add/(Less): Profit/(Loss) on sale of assets (Net)	(579,666)	(307,938)
Net Profit for the year	90,546,924	23,549,394
Less: Prior year's adjustment :		
Taxation	(1,598,781)	(2,569)
Balance brought forward from the previous year	47,388	10,000,563
	88,995,531	33,547,388

Dividends

Your directors recommend the payment of a pro-rata dividend of Re. 1/- per equity share. The equity dividend, if approved, would absorb Rs. 9,276,712/- and will be paid to those members whose names appear on the Register of Members as on August 14, 1997.

Transfer of Reserves

Your directors recommend transfer of Rs. 60,900,000/- to the General Reserve.

Market Overview

The capital markets, both primary and secondary, remained depressed for most of the year, with confidence of investors in equity at abysmally low levels. This resulted in a significant fall in new equity issuance and the index touching substantially lower levels. The year began with political uncertainty on account of elections which affected the sentiments of both domestic and international investors. After a subdued trend, the market revived in the aftermath of the path-breaking budget announced by the Finance Minister Mr. P. Chidambaram.

Though the year had witnessed some turmoil on the political front, reforms in capital markets continued to be announced throughout the year. SEBI laid down tougher norms such as track record of dividend payment or institutional appraisal of the projects alongwith participation as eligibility criteria for companies making the first offer to the public of equity. A new and improved Take-over code was introduced during the year under review. A beginning was also made in scripless trading through the National Securities Depository Ltd. (NSDL).

Simultaneously, major reforms were initiated in the debt capital markets. The primary dealer network became active in government securities. In-principle selection of satellite dealers was also announced. The norms for External Commercial Borrowings (ECBs) were relaxed considerably. The RBI played an important role by continuously increasing the money supply with the banking sector which resulted in substantial reduction in interest rates and a greater role of commercial banks in the capital market.

The secondary equity market remained depressed during most of the year but improved in the last quarter despite lower earnings growth because of positive foreign inflows on the expectation of continuity of the economic reforms. The valuations in the Indian markets have changed significantly from their lofty highs of 1994.

The primary market for equity remained subdued during most of the year under review as investor sentiment towards equity markets continued to be extremely poor. The number of new issues during the year came down drastically. The investor's confidence has been shaken by poor quality of issues which entered the market during last two years. Your Company remained prudent and selective in the equity markets and successfully completed all equity offerings lead managed during last fiscal year also.

Operations

Domestic

Though the equity markets were subdued, the activity in the debt market increased significantly and your Company was able to maintain its leadership in debt markets. Your Company was able to execute significant debt and equity transactions for a wide range of issuers aggregating to over Rs.163 billion, an all time high for the Company. Your Company was also able to increase the revenue from domestic capital markets by 70% over last year despite the extremely difficult market environment.

Some of the significant transactions executed by your Company during the year were bond issues of IDBI, ICICI, MKVDC, IFCI, GE Capital, MTNL, L&T, Coal India, HUDCO, SBM, BPCL, KBJNL and IRFC and equity offerings of Bank of India, BASF, GSFC and Apcotex Lattices.

Your company continued to bring innovative deals to the market such as:

Bharat Petroleum Corporation Ltd.: the first PSU private placement of debt which used book building.

Apcotex Lattices Ltd.: the first Public Issue where an attempt was made to solve the problem of odd lots for existing investors by reservation in a public offer.

GE Capital Services India: where a wide investor base has now been created through structured debt offerings-first through guarantee and later through comfort of the US parent company.

We are pleased to inform you that your Company was ranked the No. 1 Lead Manager/Arranger in India by amount raised in all types of issues and instruments for the year 1996-97 by Prime Database. Your Company mobilised funds aggregating over Rs.163 billion during the year as Lead Manager/Arranger for 43 issues and accounted for 53.8% of the total funds mobilised during the year. Your Company was the sole Lead Manager/Arranger for 11 issues aggregating over Rs.10 billion.

International

The first half of the year under review was fairly active in issuance of GDR issues by Indian Companies while the second half of the year witnessed very little issuance. Your Company along with Merrill Lynch was involved in the successful completion of several GDR issues. Merrill Lynch was the Joint Book Runner and Joint Lead Manager for State Bank of India's US \$ 370 mm GDR issue. This was the largest GDR issue from India till the time of the offering and was one of the largest bank GDR offerings ever from non-Japan Asia. SBI's GDR issue was awarded "Asian Deal of the Year" for 1996 by World Equity. Merrill Lynch was also the Joint Lead Manager for the US \$ 200 mm GDR issue of TELCO. Merrill Lynch was also the Co-Lead Manager for US \$ 527 mm GDR issue of VSNL, US \$ 230 mm GDR issue of ICICI and US \$ 47 mm GDR issue of Crompton Greaves.

The year under review witnessed significant activity in the debt markets. Merrill Lynch Lead managed the land mark Yankee bond issues of Reliance Industries Ltd. Merrill Lynch Lead managed US \$ 100 mm/20 year and US \$ 100 mm/30 year Yankee bond issues of Reliance in June, 1996 and US \$ 100 mm/50 year Yankee bond issue in August, 1996. These offerings were awarded the "Best Overall Debt Deal" in 1996 by Finance Asia. Merrill Lynch again Lead managed US \$ 214 mm/30 year and US \$ 100 mm/100 year Yankee bond issues in January, 1997. Reliance became the first private sector Asian corporate to issue a 100 year bond. The 100 year bond issue was the longest maturity bond by any split rated (Baa3/BB+) issuer world-wide.

We were pleased to achieve another landmark during the year as your Company along with Merrill Lynch raised over US\$ 1 billion in the capacity of a Lead/Joint Lead Manager. Merrill Lynch was awarded the "India Finance House" in 1996 by

International Financing Review (IFR). Your Company has also been recently awarded the "Best Domestic Securities House" by Finance Asia, one of the most respected financial publications in Asia.

Your Company expects limited private sector equity issuance in the coming year. However, significant equity issues are expected from public sector companies on account of disinvestment by the government and possibly from the banking sector. Your Company expects substantial debt issuance in the coming year from the public as well as the private sectors. The US debt markets have been very enthusiastic to Asian credits and this is expected to encourage many leading Indian corporate houses to access the international debt markets. Your Company in association with Merrill Lynch is strongly positioned for securing the mandate for managing some of these issues.

Research

Your Company's research division has now been successfully integrated with research and securities operations of Merrill Lynch. Your Company's research product is now appearing as a product of Merrill Lynch, in affiliation with your company, and has received increased acceptance and recognition from fund Managers and others. The coverage of companies has increased significantly during the year under review and the research team has now been strengthened further by hiring of Mr. Andrew Holland, who has joined as head of research at Mumbai. Mr. Holland has significant experience of research in emerging markets and his presence here will help in further developing the research quality and integration with global research operations of Merrill Lynch.

Distribution

As you are aware, the Indian Capital Market is increasingly becoming institutionalised and several new segments of institutional investors are emerging in the capital market. Your Company has been developing a separate focused team to develop relationships with new investors like Foreign Institutional Investors, Private & Public Sector Mutual Funds, banks and regional rural banks, provident and gratuity funds, insurance companies, overseas corporate bodies, NRI's etc. Thus, while maintaining the retail reach through sub-brokers, the direct relationships have been created to provide personalised services to these wholesale and semi-wholesale investors. As your Company is now active in several products in capital market-equity, debt and mutual funds, a team is being developed for directly reaching the high networth investors also. Your Company has strengthened the marketing team at branches to further increase the reach and improve the logistics of marketing/distribution of various capital market products.

Staff Training & Orientation

Your Company is committed to the development of Human Resources. As a part of its ongoing and forward looking

HR policies, the Company trained its key employees through in-house and external training programs in areas like investment management, effective communications skill, computer skills, etc. Your Company recognises the critical role played by training in competing successfully in rapidly globalising workplace. In order to offer international exposure to key executives, your Company seconded some of its key employees to Merrill Lynch offices in Hong Kong, Singapore and London. These secondments have been mutually beneficial and have resulted in professional value addition for its employees. Your Company will continue to offer the international learning experience to its key employees.

Your Company has recruited a number of professionals to strengthen its key business and support functions. Your Company believes in attracting and retaining the best professionals in the market. Your Company will continue to review and upgrade its human resources policies to attract and retain the best talent. Your Company is committed to implement progressive human resources and training policies which will help it retain its competitive edge.

Technology Upgradation

Technology is becoming an integral part of any business today, especially a service oriented Company like yours. Your Company has upgraded Technology infrastructure in all the offices across the country in the year under review. A new PABX has been installed in the Corporate Office to help in better call management and Customer interaction. Your Company has invested significant amounts in upgradation of computer facilities to keep pace with the state of the art technology.

Your Company plans to implement new Systems for Trading and backoffice activities in the near future which will help in managing the new business initiatives of the Company.

Change of Name

Consequent to Merrill Lynch's exercising of warrants to increase its holding in your Company from 29.41% to 40%, your Company's name has been changed to DSP Merrill Lynch Limited with effect from December 18, 1996.

Subsidiaries

Your Company during the year under review has set up an Asset Management Company in the name of DSP Merrill Lynch Asset Management (India) Ltd. (DSPMLAM) in association with Merrill Lynch Asset Management of USA. DSPMLAM is 60% owned subsidiary of your Company and the audited statement of accounts there of for the year ended March 31, 1997 together with the report of the Directors and the Auditors, as required under Section 212 of the Companies Act, 1956 are attached.

Directors

Mr. Winthrop H. Smith Jr. and Mr. Christopher Reeves retire by rotation and, being eligible, offer themselves for re-appointment.

Auditors

C.C. Chokshi & Co. Chartered Accountants, retire at the ensuing Annual General Meeting and are eligible for re-appointment. The Company has received a letter from them stating that the re-appointment, if made, will be in conformity with the provisions of section 224 (1-B) of the Companies Act, 1956.

Particulars of Employees

Information as per Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended forms part of this Report. However, as per the provisions of Section 219(1)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to all shareholders of the Company excluding the statement of particulars of employees under Section 217 (2A) of the Companies Act, 1956. Any shareholder interested in obtaining a copy of the said statement may write to the Company.

Information in accordance with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988.

The Company has had no activities relating to manufacture. Hence, there is no report pertaining to the conservation of energy or technology absorption. The details of earnings and expenditure in foreign currency are given at Note No. 10(a) and 10(b) respectively of Schedule 14 to Profit & Loss Account and Balance Sheet.

Thanks

Your Directors wish to place on record their deep appreciation of the contribution made by the employees, without whose support the Company could not have achieved the results it has.

For and on behalf of the Board

H. M. Kothari
Chairman

Mumbai
Date : 23rd June, 1997

Auditors' Report to the Shareholders

Annexure to Auditors' Report

We have audited the attached Balance Sheet of DSP Merrill Lynch Limited as at 31st March, 1997 and the Profit and Loss Account of the Company for the year ended on that date annexed thereto and report that :

1. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988, issued by the Central Government in terms of Section 227 (4A) of the Companies Act, 1956, we give in the Annexure a statement on the matters specified in the said order.
2. Further to our comments in the Annexure referred to in Paragraph 1 above we report that
 - (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (b) In our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of such books;
 - (c) The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account.

In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with notes thereon give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view :-

- (i) in case of the Balance Sheet, of the State of affairs of the Company as at 31st March, 1997; and
- (ii) in case of the Profit and Loss Account of the Profit for the year ended on that date.

For **C. C. CHOKSHI & CO.,**
Chartered Accountants

R. SALIVATI
Partner

Mumbai
Dated : 23rd June, 1997.

Referred to in Paragraph 1 of our report of even date on the accounts of DSP Merrill Lynch Limited for the year ended 31st March, 1997.

1. The Company has maintained proper records showing full particulars including quantitative details and location of the fixed assets. We have been informed that these assets have been physically verified by the management during the year, except for leased assets, for which certificates have been obtained from the lessee by the Company. No material discrepancies have been noticed during such verification.
2. None of the fixed assets have been revalued during the year.
3. The nature of Company's activities is such that requirements of items (iii), (iv), (v), (vi), (xii), (xiv) and (xvi) of Clause A and item (ii) of Clause C of Paragraph 4 of the Order are not applicable to the Company.
4. The Company has not taken any loans from companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956. We are informed that there are no companies under the same management within the meaning of Section 370 (1B) of the Companies Act, 1956.
5. The Company has not granted any loans to companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956. We are informed that there are no companies under the same management within the meaning of Section 370 (1B) of the Companies Act, 1956.
6. In respect of loans, or advances in the nature of loans given by the Company, parties have repaid the principal amounts as stipulated and have also been regular in the payment of interest.
7. In our opinion, Internal Control procedures of the Company relating to purchase of Capital Assets are adequate and commensurate with the size and nature of business of the Company.
8. In our opinion and according to the explanations given to us, the transactions of purchase of shares and sale of shares and services, made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and aggregating during the year to Rs. 50,000/- (Rupees Fifty Thousand) or more in respect of each party, have been made at prices which are reasonable having regard to prevailing market

- prices for such shares or services or the prices at which transactions for similar shares or services have been made with other parties.
9. The Company has not accepted any deposits from the public.
 10. The Company has an internal audit system. The Company has taken steps to strengthen the same to be commensurate with the size of the Company and the nature of its business.
 11. According to records of the Company, Provident Fund and Employees' State Insurance dues have been regularly deposited during the year with the appropriate authorities.
 12. According to the information and explanations given to us, no undisputed amounts payable in respect of Income Tax, Wealth Tax, Sales Tax, Customs Duty and Excise Duty were outstanding as at 31st March, 1997 for a period of more than six months from the date they became payable.
 13. According to the information and explanations given to us, no personal expenses of directors/employees have been charged to revenue accounts, other than those payable under contractual obligations or in accordance with the generally accepted business practices.
 14. The Company is not a sick industrial company within the meaning of clause (o) of sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.
 15. The nature of the service activities carried on by the Company does not require a system of recording receipts, issues and consumption of materials and allocation thereof and labour to jobs. Further, the question of having a system of authorisation and internal control on issue of stores and allocation of stores and labour does not arise.
 16. The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and any other similar securities. Hence, the question of maintaining documents and records for the same does not arise.
 17. The provisions of any special statute applicable to Chit-Funds, Nidhi or Mutual Benefit Society do not apply to the Company.
 18. In our opinion and according to the information and explanations given to us, the Company has maintained proper records of transactions and contracts as to dealings in shares, securities, debentures and other investments and all such investments have been held by the Company in its own name, except to the extent of the exemption, if any, granted under Section 49 of the Companies Act, 1956.

For **C. C. CHOKSHI & CO.,**
Chartered Accountants

R. SALIVATI
Partner

Mumbai
Dated : 23rd June, 1997.

Balance Sheet as at 31st March, 1997

	Schedule No.	As at 31.03.1997 Rupees	As at 31.03.1996 Rupees
I. SOURCES OF FUNDS			
1. Shareholders' Funds			
(a) Capital	1	100,000,000	85,000,000
(b) Upfront Payment Towards Equity Warrants		—	37,200,000
(c) Reserves & Surplus	2	1,217,476,614	781,732,855
		1,317,476,614	903,932,855
2. Loan Funds			
Secured Loans	3	56,956,332	—
		1,374,432,946	903,932,855
II. APPLICATION OF FUNDS			
1. Fixed Assets			
Gross Block	4	239,000,909	184,744,460
Less : Depreciation		85,567,049	64,471,858
Net Block		153,433,860	120,272,602
2. Investments	5	691,245,283	492,249,601
3. Current Assets, Loans & Advances			
(a) Interest Accrued on Investments		7,310,585	12,034,741
(b) Sundry Debtors	6	364,775,765	67,636,558
(c) Cash & Bank Balances	7	125,922,003	13,034,479
(d) Loans & Advances	8	451,182,026	382,815,181
	(A)	949,190,379	475,520,959
Less : Current Liabilities & Provisions			
(a) Current Liabilities		203,265,192	46,928,307
(b) Provisions	9	264,171,384	201,182,000
	(B)	467,436,576	248,110,307
Net Current Assets	(A - B)	481,753,803	227,410,652
4. Miscellaneous Expenditure (to the extent not adjusted) Deferred Revenue Expenditure — Non-competition Fees		48,000,000	64,000,000
		1,374,432,946	903,932,855

Significant Accounting Policies & Notes On Accounts

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Schedules 1 to 14 annexed hereto form part of these accounts

As per our attached report of even date

For C. C. Chokshi & Company
 Chartered Accountants

R. Salivati
 Partner

Mumbai : 23rd June, 1997

H. M. Kothari
 Chairman

S. D. Desai
 Vice Chairman &
 Managing Director

S. V. C. Wilberding
 Managing Director &
 Chief Operating Officer

R. K. Kataria
 Company Secretary

Mumbai : 23rd June, 1997