



DSP Merrill Lynch Limited
24th Annual Report 1998 - 1999

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CONTENTS

Directors' report to the Shareholders	4-7
Report of the Auditors' to the Members	8-9
Balance Sheet	10
Profit & Loss Account	11
Schedules	12-16
Significant Accounting Policies and Notes on Accounts	17-21
Auditors' Certificate to the Cash Flow Statement	22
Cash Flow Statement	23
Annexures to the Schedules	24-34
Statement pursuant to Section 212	35
Subsidiary Company's Report and Accounts	36-52

Board of Directors

Mr. Hemendra M. Kothari	-- Chairman
Mr. Winthrop H. Smith Jr.	-- Deputy Chairman
Mr. Shitin D. Desai	-- Vice Chairman & Managing Director
Mr. Christopher Reeves	
Mr. Kevan Watts	
Mr. Paul Roy (w.e.f. 8th July, 1999)	
Mr. Prem Saigal	
Mr. Yogesh M. Kothari	
Mr. Ausaf Abbas	Alternate to Mr. Winthrop H. Smith Jr.

Company Secretary

Mr. Raj K. Kataria

Auditors

C. C. Chokshi & Co., Mumbai

Bankers

Bank of America

Bank of Baroda

Bank of India

Citibank N. A.

Dresdner Bank A. G.

Deutsche Bank

HDFC Bank Ltd.

Standard Chartered Bank

State Bank of India

The Hongkong and Shanghai Banking Corporation Ltd.

Registered Office

Tulsiani Chambers,

West Wing, 11th Floor,

212, Backbay Reclamation,

Mumbai 400 021.

Directors' Report to the Shareholders

Your directors have pleasure in presenting the Twenty Fourth Annual Report of the Company; the Audited Statement of Accounts and the Auditors' Report for the financial year ended 31st March, 1999.

The financial results for the year are summarised below :

	1998-99* Rs.'000	1997-98 Rs.'000
Gross income	929,944	668,209
Profit before depreciation and tax	375,896	209,453
Depreciation	(34,490)	(32,282)
Provision for tax	(122,442)	(68,255)
Operating profit after tax	218,964	108,916
Add/(less): profit/(loss) on sale of assets (Net)	(3,053)	(39)
Net profit for the year	215,911	108,877
Less: prior year's adjustment		
Taxation	(628)	(526)
Balance brought forward from the previous year	477	91
	215,760	108,442

*1998-99 financial results pertain to merged operations of DSP Merrill Lynch Ltd. and DSP Merrill Lynch Securities Ltd., while 1997-98 operations pertain to the operations of DSP Merrill Lynch Ltd. only. The details of the merger are available elsewhere in this report.

Dividend

Your directors recommend payment of dividend at the rate of Rs. 4 per equity share on enhanced equity capital of 11,250,000 equity shares (inclusive of 1,250,000 equity shares allotted to shareholders of the erstwhile DSP Merrill Lynch Securities Limited on its merger with your Company) aggregating Rs. 45 million. If approved, the dividend shall be paid to members whose names appear in the Register of Members as on 31st August 1999.

A dividend of Rs. 2,187,500 for the period 1st April, 1998 to 31st May, 1999 has also been paid on the preference shares allotted by your Company to the preference shareholders of the erstwhile DSP Merrill Lynch Securities Limited on its merger with your Company, in accordance with the scheme of Amalgamation sanctioned by the Honourable High Court, Mumbai.

Transfer to Reserves

Your directors recommend transfer of Rs. 66,000,000 to the General Reserve. Additionally Rs. 43,100,000 has been transferred to a reserve fund created in accordance with the requirement of section 45-IC of the Reserve Bank of India Act, 1934.

Market Overview

During the year, capital market activities remained subdued owing to continued sluggish industrial growth and political

uncertainties. However, significant activity took place in Mergers and Acquisitions, which your Company gained from.

The early months of FY99 witnessed net Foreign Institutional Investor (FII) outflows influenced by the Pokhran explosions, but sentiment improved towards the year-end. FII investment on 31st March, 1999 stood at US\$ 8.6bn, showing a decrease of US\$ 0.2bn during the year. The indices of the two leading stock exchanges i.e. The Stock Exchange, Mumbai (BSE) and the National Stock Exchange of India (NSE) lost around 4 % during the year. BSE market capitalisation stood at US\$ 129bn as on March 1999 compared with US\$ 142bn a year ago.

There was very little international issuance of debt or equity during the year owing to the imposition of sanctions following Pokhran tests and Moody's downgrade of India by two notches to sub-investment grade.

Despite the adverse environment, your Company maintained its leadership position in the Indian investment banking sector. This is borne by the fact that your Company was ranked the largest mobiliser of funds in the domestic markets in 1998-99 covering all types of issues and instruments (source: Prime Database). You will also be pleased to note that for the third year consecutively, *Euromoney* magazine voted your Company the 'Best Securities House in India' for 1998-1999, which is a fitting tribute to your Company's leadership efforts.

Operations

The Indian financial system is continuously evolving and new challenges are emerging as markets are being further deregulated. Your Company is working towards meeting these new challenges and opportunities by concentrating on performance, configuring business plans with long-term strategies and assuring the best possible expertise for clients.

Mergers and Acquisitions (M & A)

Your Company established a leadership position in M & A and advised on most of the notable deals transacted during the year. Some of the significant M & A transactions executed by your Company included :

GRASIM INDUSTRIES LTD. - INDIAN RAYON LTD.	:	The demerger of Indian Rayon's cement division into Grasim Industries Ltd., resulting in the formation of one of the largest cement companies in India.
LARSEN & TOUBRO LTD.	:	Rs. 2.9bn acquisition of Narmada Cement Company Ltd. by Larsen & Toubro Ltd.
INDIA CEMENTS LTD.	:	Rs. 4.45bn acquisition of Raasi Cements Ltd. by India Cements Ltd.

ORISSA POWER GENERATION COMPANY (OPGC) : US\$ 144mn OPGC privatization deal which was the largest M & A transaction in India until recently

AIR PRODUCTS LTD. : Rs. 4bn acquisition in Industrial Oxygen Ltd. by Air Products Ltd., the largest transaction in this sector.

Equity Capital Markets

Despite severely depressed conditions in the primary equity markets in FY99, your Company successfully transacted and completed several equity offerings for valued clients. Your Company has preserved its ranking among the top equity mobilisers in the country. Some of the notable deals completed by your Company this year were :

SONATA SOFTWARE LTD. : Rs. 227mn software IPO, which was oversubscribed by more than four times.

AIR FREIGHT LTD. (AFL) : Rs. 220mn was the first private equity investment in the country by Bankers Trust, USA.

SOFTWARE SOLUTIONS INTEGRATED LTD. : Rs. 560mn equity issue, which was also the first issue through book building by a private sector company.

The last fiscal quarter began to witness renewed interest by Foreign Institutional Investors, largely on account of new software issues in the information technology sector, which performed well in the secondary markets. International equity issuance was confined to only one issue viz. divestment of the Government's share in Videsh Sanchar Nigam Ltd.

Debt Capital Markets

Debt capital markets maintained a steady growth with interest rates showing a declining trend owing to low credit growth, while private placement of debt remained the favourite mode of raising capital. Indeed, besides financial institutions, several public sector undertakings, private sector corporates, banks and state governments accessed the capital markets for raising debt.

International debt issuance from India was virtually closed due to higher spreads for emerging markets and expectation of a weakening rupee.

Your Company was able to execute significant debt transactions for a wide range of issuers. Your Company is ranked amongst the leading arrangers of domestic debt issues and is unmatched in its reputation for innovation in deal structuring and execution. A few noteworthy deals executed by your Company during the year include :

INDIAN INFRASTRUCTURE DEVELOPERS LTD. (IIDL) : Rs. 4.09bn securitization for IIDL (a subsidiary of Larsen & Toubro Ltd.) which is, until now, the largest securitization transaction in the Indian capital market.

WHIRLPOOL OF INDIA LTD. : Rs. 500mn, debt offering by Whirlpool was the industry's first, that was credit enhanced by an offshore international bank. This was also the first issue to be structured and approved under the new guidelines for External Commercial Borrowings.

BANK OF BARODA : Rs. 6bn Bank of Baroda issue of fixed and floating rate subordinated bonds is the longest-maturity bank subordinated debt as well as the year's largest subordinated debt raising.

GE CAPITAL SERVICES LTD. : Rs. 750mn bond offering was the first floating rate issue in India linked to overnight call rates.

HDFC LTD. : Rs. 1.96bn bond offering was the first private sector issue where provident funds, superannuation funds and gratuity funds could invest.

Some of the other debt market transactions for which your Company acted as Lead Manager during the year were, issues for - Grasim Industries Ltd., Industrial Credit and Investment Corporation of India Ltd. (ICICI), Steel Authority of India Ltd. (SAIL), Reliance Industries Ltd., Birla Global Finance Ltd., Industrial Development Bank of India (IDBI), Infrastructure Leasing and Financial Services Ltd. (IL&FS), Andhra Pradesh State Electricity Board (APSEB), Konkan Irrigation Development Corporation, National Fertilizers Ltd., Nuclear Power Corporation of India Ltd., EXIM Bank, Vijaya Bank and Bank of India.

Broking

Being one of the largest institutional brokers, your Company is committed to building strong relationships with all major clients, which include Foreign Institutional Investors (FIIs), Domestic Financial Institutions (DFIs), mutual funds, and banks. In the past year, FIIs continued to be significant players in the secondary market and remained the main source of revenue for your Company. Additionally, with the expansion of the Demat segment, secondary market trading has gained momentum in the past year and will, in the future, prove positive for the broking business.

In its efforts to achieve the highest levels of excellence in processes, on a par with international standards, your Company has been concentrating on closer integration with Merrill Lynch's Sales & Research teams worldwide. Your Company will continue to invest in Information Technology and solutions to achieve greater efficiency in operations and provide quality service to clients.

Primary Dealership

Your Company has been appointed as a Primary Dealer in Government Securities by the Reserve Bank of India and has commenced the business from May 1999.

Research

Your Company's initiatives taken over the last few years to upgrade the quality of research products are now bearing fruit. The research team works closely with Merrill Lynch, and its products are on a par with international standards. This is reflected in the research rankings, where your Company has been ranked among the top 3 in most of the well recognised surveys such as - *Greenwich* and *Institutional Investor*. The Research team is currently focusing on further expanding the depth and breadth of its coverage. Your Company believes that such initiatives will consolidate our position further as a superior research house and this would translate into greater benefits for international as well as domestic clients.

Year 2000 (Y2K) Readiness

The primary focus of the Technology department of your Company during this year has been to overcome Y2K issues to enable seamless business continuity after the millennium. The Company has a dedicated team of Y2K experts and existing technology resources to mitigate the risks associated with Y2K.

All systems of your Company ranging from servers, desktops, routers, hubs, audio and video equipment and applications have been rigorously tested for Y2K compliance.

Your Company has taken the initiative to manage Y2K related risks. As the Company relies upon external parties for its business, the latter's systems failure led by Y2K incompatibility can present material risks to your Company. Your Company's business risk assessment team has already identified key market participants and is now in the process of assessing their Y2K programs.

The Y2K team is also involved in business contingency planning. The purpose of these plans is to establish workable and effective solutions to allow business to continue to operate at an effective rate in the event of failure of one or multiple business systems.

Information Technology units are presently working to test and verify all the contingency procedures under real world conditions in order to prove their effectiveness. Documentation and testing of these procedures are underway and will be completed shortly.

The total sum being spent on the Y2K program is not likely to be significant.

Merger of DSP Merrill Lynch Securities Ltd. (DSPMLSec) with the Company

Pursuant to the order of Honorable High Court, Mumbai dated 7th April, 1999, DSP Merrill Lynch Securities Ltd. (DSPMLSec) was merged with your Company with effect from 1st April, 1998. Consequently, consolidated annual accounts of both the entities for FY99 have been presented in the report. N.M. Rajji & Co., Chartered Accountants advised the Boards of both companies on valuation and in accordance with the Scheme of Amalgamation approved by the Honorable High Court, Mumbai, one equity share of your Company was issued in exchange for every four equity shares of DSPMLSec. to shareholders whose names appeared in the list of members of DSPMLSec. on 24th May, 1999.

Similarly, 1,250,000 preference shares carrying dividend @ 15% p.a. were allotted to preference shareholders of DSPMLSec., whose names appeared in the Register of Preference Shareholders on 24th May, 1999, in the ratio of one preference share for every one preference share held by them in DSPMLSec. The preference shares were redeemed on 1st June, 1999 together with dividend thereon until 31st May, 1999.

Subsidiaries

DSP MERILL LYNCH ASSET MANAGEMENT (INDIA) LTD. (DSP MLAM)

The audited statement of accounts for the year ended 31st March, 1999 of DSP MLAM together with the report of the Directors and the Auditors, as required under Section 212 of the Companies Act, 1956 are attached.

DSP MERRILL LYNCH (JERSEY) LTD. (DSP MLJ)

The statement of accounts certified by the Directors for the period ended 18th December, 1998 of DSP MLJ together with the report of the Directors, as required under Section 212 of the Companies Act, 1956 are attached.

Directors

Mr. Prem Saigal and Mr. Winthrop Smith Jr. retire by rotation and, being eligible, offer themselves for re-appointment. The board recommends their re-election.

During the year, two directors viz. Mr. Stephen Van C, Wilberding, who also held office as Managing Director and Chief Operating Officer, and Mr. Daniel Cochran who was Alternate Director to Mr. Christopher Reeves ceased to hold office. The Board places on record its appreciation for the valuable contribution made to the Company by Mr. Stephen Van C Wilberding and Mr. Daniel Cochran.

The Board has appointed Mr. Hemendra Kothari as Executive Chairman of your Company for a period of 5 years effective 8th July, 1999. In terms of the provisions of the Companies Act, 1956, your approval is sought for the remuneration payable to him as detailed in the notice convening the Annual General Meeting.

The Board has appointed Mr. Paul Roy, Head of Global Equities, Merrill Lynch, as Additional Director of your Company effective 8th July, 1999.

Auditors

M/s. C.C. Chokshi & Co., Chartered Accountants would 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 conform with the provisions of section 224 (1-B) of the Companies Act, 1956.

Particulars of Employees

The particulars in accordance with 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, according to 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 not been associated with manufacturing activities. Hence, there is no report pertaining to conservation of energy or technology absorption. The details of earnings and expenditure in foreign currency are given in Notes No. 8(a) and 8(b) respectively of Schedule 17 of Profit & Loss Account and Balance Sheet.

Acknowledgement

Your Directors place on record their appreciation of the contribution made by the employees, without whose diligence and commitment the Company could not have achieved the results that it has.

For and on behalf of the Board

H.M. Kothari
Chairman

Mumbai
Date: 8th July, 1999

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Auditors' Report to the Shareholders

We have audited the attached Balance Sheet of DSP Merrill Lynch Limited as at 31st March, 1999 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;
 - d) The Balance Sheet and Profit and Loss Account comply with the Accounting Standard referred to in sub-section 3 C of Section 211 of the Companies Act, 1956.

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, 1999; 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 31st May, 1999

Annexure to the Auditors' Report

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, 1999.

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 (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 securities held as stock-in-trade have been physically verified by the management during the year at regular intervals.
5. The procedure of physical verification of securities held as stock-in-trade followed by the management are reasonable and adequate in relation to the size of the company and nature of its business.
6. We are informed that no material discrepancies have been noticed on physical verification of securities held as stock-in-trade as compared to the book records.
7. On the basis of our examination of stock reports, we are of the opinion that the valuation of securities held as stock-in-trade is fair and proper and in accordance with the normally accepted accounting principles and is on the same basis as in the preceding year.
8. 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, or from the companies under the same management as defined under sub-section (1B) of section 370 of the Companies Act, 1956.
9. 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, or to the companies under the same management as defined under sub-section (1B) of section 370 of the Companies Act, 1956.
10. In respect of loans and 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.

11. In our opinion, Internal Control procedures of the Company relating to purchase of Capital Assets are adequate and commensurate with the size and the nature of the business of the Company.
12. 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.
13. The Company has not accepted any deposits from the public.
14. In our opinion, the Company's Internal Audit system operated in-house/ by a firm of Chartered Accountants, is commensurate with the size of the Company and the nature of its business.
15. According to records of the Company, Provident Fund and Employees State Insurance dues have been regularly deposited during the year with the appropriate authorities.
16. 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, 1999 for a period of more than six months from the date they became payable.
17. 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.
18. 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.
19. 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.
20. 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.
21. The provisions of any special statute applicable to Chit-Funds, Nidhi or Mutual Benefit Society do not apply to the Company.
22. 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 timely entries have been made therein; also 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 : 31st May, 1999

Balance Sheet as at 31st March, 1999

	Schedule No.	As at 31st March, 1999 Rs. '000	As at 31st March, 1998 Rs. '000
I. SOURCES OF FUNDS			
1. Shareholders' Funds			
I. Share Capital	1	100,000	100,000
II. Share Capital Suspense (Refer Note 2 (vi) of Schedule 17)		25,000	-
III. Reserves & Surplus	2	1,544,648	1,314,828
		1,669,648	1,414,828
2. Loan Funds			
I. Secured Loans	3	331	-
II. Unsecured Loans	4	63	-
		1,670,042	1,414,828
II. APPLICATION OF FUNDS			
1. Fixed Assets	5		
Gross Block		309,897	256,732
Less : Depreciation		137,654	114,423
Net Block		172,243	142,309
2. Investments	6	452,974	566,350
3. Current Assets, Loans & Advances			
I. Current Assets			
(a) Interest Accrued on Investments		10,906	11,933
(b) Securities held as Stock-in-Trade	7	323,902	106,566
(c) Sundry Debtors	8	1,285,087	478,694
(d) Cash & Bank Balances	9	325,882	45,417
II. Loans and Advances	10	644,425	666,798
	(A)	2,590,202	1,309,408
Less: Current Liabilities & Provisions			
I. Current Liabilities	11	1,018,876	301,932
II. Provisions	12	542,501	333,307
	(B)	1,561,377	635,239
Net Current Assets	(A - B)	1,028,825	674,169
4. Miscellaneous Expenditure (to the extent not written off or adjusted) Deferred Revenue Expenditure - Non-competition Fees		16,000	32,000
		1,670,042	1,414,828

Significant Accounting Policies & Notes On Accounts

17

Schedules 1 to 17 annexed hereto form part of these accounts

As per our attached report of even date

For C. C. Chokshi & Co.
Chartered Accountants

R. Salvati
Partner

Mumbai
31st May, 1999

For and on behalf of Board of Directors

H. M. Kothari
Chairman

S. D. Desai
Vice Chairman &
Managing Director

R. K. Kataria
Company Secretary

Mumbai
31st May, 1999