

 **DSP**
Merrill Lynch



DSP MERRILL LYNCH LIMITED
25TH ANNUAL REPORT 1999-2000

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

Ms. Jyoti Vineet Tandon

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

**Registered Office of the Company has shifted to Mafatlal Centre, 10th Floor, Nariman Point, Mumbai - 4000 21 with effect from 1st July, 2000.*

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	12-17
Significant Accounting Policies and Notes on Accounts	18-23
Auditors' Certificate to the Cash Flow Statement	24
Cash Flow Statement.....	25
Annexures to the Schedules	26-35
Statement pursuant to Section 212.....	36
Subsidiary Company's Report and Accounts.....	37-52

Directors' Report to the Shareholders

Your Directors have pleasure in presenting the Twenty Fifth Annual Report of the Company together with the Audited Statement of Accounts for the financial year ended 31st March, 2000.

The financial results for the year are summarised below :

	1999-00 Rs.'000	1998-99 Rs.'000
Gross income	1,965,906	923,052
Profit before depreciation and tax	1,017,773	375,896
Depreciation	(31,025)	(34,490)
Provision for tax	(396,256)	(122,442)
Operating profit after tax	590,492	218,964
Add/(less): profit/(loss) on sale of assets (net)	(644)	(3,053)
Net profit for the year	589,848	215,911
Less : prior year's adjustment		
Taxation	(75,969)	(628)
Balance brought forward from the previous year	13,472	477
	527,351	215,760

Dividend

Your Directors had at their meeting held on the 25th March, 2000, declared an interim dividend of Rs. 10/- per Equity Share and the same was paid to the members whose names appeared on the Register of Members on the 28th of April, 2000. Your Directors recommend a further dividend of Rs. 2/- per Equity Share, bringing the total dividend for the year 1999-2000 to Rs. 12/- per Equity Share. If approved, the dividend will be paid to the members whose names appear in the Register of Members on the 16th August, 2000.

Transfer to Reserves

Your Directors recommend the transfer of Rs. 250mn to the General Reserve. Additionally, Rs. 102.8mn has been transferred to a Reserve Fund created in accordance with the Section 45-IC of the Reserve Bank of India Act, 1934 and Rs.12.5mn has been transferred to the Capital Redemption Reserve in accordance with Section 80 of the Companies Act, 1956.

Market Overview

During the year capital market activities picked up significantly despite political uncertainty due to the Central Government losing a vote of confidence and conflicts on the international border. The Technology/ Media/ Telecommunications ("TMT") sector emerged as a major area of focus for the future with the market recognising the potential of this sector. This resulted in a major rerating of firms across the TMT sector. Consequently, issuers from the technology sector lined up a significant number of offerings, a number of which were completed during the

year by your Company. Activity in Mergers & Acquisitions also gained momentum as the consolidation and restructuring of Indian industry continued.

A total of Rs.30bn in equity and Rs.570bn in debt was raised by Indian issuers in the domestic capital market during the year. The high level of issuance in the equity market was supported by a healthy long term trend that witnessed a widening of the investor base. For the first time in the last three years, domestic mutual funds became active equity investors, and the retail investor returned to the primary market. Net Foreign Institutional Investor (FIIs) investment in secondary market equities as at 31st March, 2000 stood at US\$ 10.8bn, showing an increase of US\$ 2.2bn during the year. Consequently, The Stock Exchange, Mumbai Sensex ("BSE Sensex") performed strongly gaining 34% over the course of the year.

During the year your Company continued to enhance its strong position in investment banking, sales and trading. It was the only leading player to have performed strongly in areas of debt and equity issuance, in both domestic and international markets as also in Mergers & Acquisitions.

Equity Capital Markets

Domestic Equity

The year began on a subdued note with political uncertainties, but sentiments improved in the second quarter and markets remained bullish for the remaining part of the year. Technology, media, and telecom sectors mainly led the recovery. One of the important milestones in the evolution of the Indian capital markets was the introduction of primary issuance through book-building in domestic markets. An accepted norm internationally, book-building was introduced to the domestic market only very recently. This is a very important development for the domestic capital market, and will ensure that your Company will be able to appropriately leverage its strong research and sales franchise in a far more effective manner. Your Company has built a strong position in this area by managing four out of the five book-built offerings completed during the year. Some of the important equity transactions managed by your Company during this year included:

Cadila Healthcare Limited

Rs. 3,721mn initial public offering (IPO), was the largest Indian pharmaceutical IPO to date

HCL Technologies Limited

Rs. 8,236mn software IPO, was the largest domestic equity transaction completed during the year

Cinevista Communications Limited

Rs. 760mn media offering, was the first IPO from the media sector as well as the most successful book-building issue to date having been oversubscribed approximately 100 times in the book-built portion and over 200 times in the fixed price portion

Glenmark Pharmaceuticals Limited

Rs. 534mn issue, opened up the domestic capital markets for future pharma IPO's

Shree Rama Multi-Tech Limited

Rs. 1,637mn IPO, was the first book-built issuance from the manufacturing sector

Since the close of the financial year, the Indian markets have responded to the global correction in the equity markets in general and the TMT sectors in particular. Consequently, the level of activity in the domestic markets has reduced in first quarter of the current year, a trend that could take a few months to reverse. Your Company, however, continues to have a positive outlook for Indian equities, given the strong underlying fundamental growth story of Indian industry.

International Equity

The American equity markets continue to be the deepest source of capital for issuers all over the world. In a very positive long term development for offerings by Indian issuers, the focus of international equity issuance from the country shifted from Global Depository Receipts ("GDRs") to American Depository Receipts ("ADRs"). Your Company, working closely with its partner Merrill Lynch, performed very strongly in this area. Continuing to build on our strong position in this segment, your Company alongwith Merrill Lynch managed all four ADR offerings, and one GDR offering, during the current year, resulting in a dominant market share. The notable transactions completed during the year were:

Satyam Infoway Limited

US\$ 86mn ADR, the first internet offering from India

ICICI Limited

US\$ 315mn ADR, was the first New York Stock Exchange (NYSE) listing by an Indian issuer

ICICI Bank Limited

US\$ 175mn bank offering, was the first ADR offering by an Indian bank, and the second by an Asian bank

Satyam Infoway Limited

US\$ 150mn ADR add-on offering

SSI Limited

US\$ 87mn GDR offering

Your Company in association with Merrill Lynch has a strong pipeline of ADR issues for the current year, and is expecting to continue to perform strongly in this area.

Debt Capital Markets

The growth in debt capital markets continued with interest rates showing a declining trend owing to reasonable liquidity in the system due to a reduction in bank rates and low inflation rates. A stable Rupee vis-a-vis the US Dollar also

contributed towards the softening of interest rates.

Private placement of debt remained the favourite mode of raising debt, though margins in the business came under pressure because of intense competition in this market. Financial Institutions remained the most active issuers while public sector units ("PSUs"), state governments, banks, corporates also accessed the capital market for raising debt. Your Company maintained a leading position in this market.

Your Company was able to execute significant debt transactions for a wide range of issuers. A few noteworthy deals executed by your Company during the year include:

Indian Oil Corporation Limited (IOC)

Rs. 16.2bn issue, was one of the largest borrowing programmes by IOC and included a single tranche of Rs. 7.3bn through book-building

Maharashtra State Road Development Corporation Limited

Rs. 9.7bn issue, was one of the largest issuances (single tranche) by a State Government Corporation

Union Bank of India

Rs. 5bn book building Tier II bond issue, was the largest in FY 1999-2000

Reliance Industries Limited

Rs. 7.1bn issue was raised in four tranches over the year

No activity took place in international debt issuance from India, as local interest rates were more attractive for issuers, though the syndicated loans market did witness some activity.

Mergers and Acquisitions (M&A)

Your Company continued to lead the field in the Mergers and Acquisitions area during the year, having advised on several landmark deals. These deals were not only exceptional for their size but also for the fact that they broke new ground in signalling a fundamental change in several industries :

Satyam Infoway Limited

Acquisition of Indiaworld Communications, the first major internet transaction in India

Hindalco Industries Limited

Purchase of Indal by Hindalco from Alcan was the largest domestic all cash deal by an Indian company

Mphasis Corporation

Acquisition of Mphasis by BFL Software Limited was the first share for share exchange transaction in India

Indian Rayon & Industries Limited

Acquisition of Madura Garments Ltd. by Indian Rayon was the largest transaction in the textiles sector

Dr. Reddy's Laboratories Limited

Acquisition of American Remedies Limited by Dr. Reddy's Limited was one of the largest acquisition deal in the pharmaceutical sector

The first authoritative listing of Indian M&A deals compiled by *Acquisitions Monthly* of UK in September 1999 showed your Company to be the top M&A advisor in India in every category.

Equity Sales

During 1999-2000 FII's continued to be significant players in the secondary market and your Company maintained a leading market share in this segment. Your Company continues to build strong relationships with all major institutional clients. Your Company's sales, research and operations teams work very closely with their counterparts in Merrill Lynch offices worldwide to provide the highest level of service to clients.

The Stock Exchange, Mumbai (BSE) and the National Stock Exchange (NSE) launched futures trading in June 2000. This will provide a new business area for your Company in its pursuit for growth and expansion.

Primary Dealership

Your Company commenced operations as a Primary Dealer in government securities in May, 1999. Despite competition, your Company achieved a turnover of Rs.163.39bn during the period of operation. The success came by adopting an active trading strategy supported by a favourable economic environment. Your Company also took advantage of market conditions to establish its image as a prominent participant in the government securities market. All the regulatory requirements in terms of bidding commitments, success ratio, turnover ratio were comfortably met. The business has also been strengthened by support from fixed income research, risk management, operations, systems and controls.

Private Client Business

Your Company had decided to grow the Private Client business and the business has now been reorganized to meet this business objective. Your Company is glad to report that the focus last year on growth of direct Private Client business has paid off and business grew significantly. Your Company emerged as a significant distributor of mutual fund products last year and also initiated secondary market equity business for retail clients. Your Company believes that Private Client business will become a profitable long-term business and accordingly has initiated steps towards integration with International Private Client Group (IPCG) of

Merrill Lynch.

Research

Your Company's focus on research has led to it being recognised as one of the best research houses in the country. This is reflected in the research rankings, where your Company has been ranked among the top 3 in most of the well recognised surveys including Institutional Investor, etc. The research team continues to work closely with Merrill Lynch, and its products are on a par with international standards. Research 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.

Technology

Your Company successfully greeted the new millennium without any impact to business due to the Y2K issue. In this year many new initiatives have been embarked upon to enable your Company to come on a par with Merrill Lynch standards. This was a primary objective while installing the technology at the new office at Mafatal Centre (Mumbai). Additionally, your Company is in the process of developing new systems and streamlining existing ones so as to improve support to businesses, thus enhancing productivity.

Subsidiaries

DSP MERRILL LYNCH ASSET MANAGEMENT (INDIA) LIMITED (DSP MLAM)

The Audited Statement of Accounts for the year ended 31st March, 2000 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.

As a part of Merrill Lynch's world-wide exercise to unite and integrate Merrill Lynch's asset management business, under a common brand name, DSP MLAM is in the process of changing its name to DSP Merrill Lynch Investment Managers Limited. It has already obtained the approval for availability of the name from the Registrar of Companies, Maharashtra, Mumbai and the Shareholders, and is in the process of obtaining Central Government approval for the same.

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

The Statement of Accounts certified by the Directors for the period ended 24th December, 1999 of DSP MLJ together with the Report of the Directors, as required under Section 212 of the Companies Act, 1956 are attached.

Shifting of Registered Office of the Company

In a move towards consolidating our offices in Mumbai, your Company has recently taken office premises

measuring 31,290 sqft at Mafatal Centre, Nariman Point, Mumbai. All departments except Private Client group will move to this new location. Accordingly, the Registered Office of your Company will be shifted to Mafatal Centre, 10th Floor, Nariman Point, Mumbai - 400021 with effect from 1st July, 2000.

Directors

Mr. Christopher Reeves and Mr. Kevan Watts retire by rotation and, being eligible, offer themselves for re-appointment. The Board recommends their re-election. During the year, the Board re-appointed Mr. Shitin Desai as the Vice-Chairman and Managing Director of your Company for a period of 5 years effective 27th March, 2000. In terms of the provisions of the Companies Act, 1956, your approval is sought for the re-appointment as detailed in the notice convening the Annual General Meeting.

Auditors

M/s. C.C. Chokshi & Co., Chartered Accountants, who retire at the end of the ensuing Annual General Meeting have sent an intimation that they do not wish to be re-appointed as Statutory Auditors of your Company. In the meanwhile your Company has received notices from shareholders proposing to appoint M/s Deloitte Haskins & Sells, Chartered Accountants, Nirmal, 19th Floor, Nariman Point, Mumbai - 400021, as the Statutory Auditors of the Company in place of M/s C.C.Chokshi & Co. The Company has also received a letter from M/s Deloitte Haskins & Sells stating that their appointment, if made, will be in conformity 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 19 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
24th June, 2000

Auditors' Report to the Shareholders

We have audited the attached Balance Sheet of DSP Merrill Lynch Limited as at 31st March, 2000 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 accounts;
 - d) The Balance Sheet and Profit and Loss Account comply with the Accounting Standards referred to in sub-section 3C 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 :

- (a) in the case of the Balance Sheet of the State of affairs of the Company as at 31st March, 2000; and
- (b) in the 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
24th June, 2000

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, 2000.

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 the 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 the 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. We are informed that there are no companies under the same management as defined under sub-section (1-B) 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. We are informed that there are no companies under the same management as defined under sub-section (1-B) of Section 370 of the Companies Act, 1956.
10. In respect of the 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 nature of the business of the Company.
12. In our opinion and according to the explanations given to us, the transactions of purchase of securities and sale of securities 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 and 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 during the year. Attention is invited to Note 3 of Schedule 19 regarding call borrowings from mutual funds.
14. In our opinion, the Company's Internal Audit System operated in-house/ by a firm of Chartered Accountants is commensurate with the size and nature of business of the company.
15. According to the 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, Custom Duty and Excise Duty were outstanding as at 31st March, 2000 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 employees or directors have been charged to revenue account, other than those payable under contractual obligations or in accordance with the generally accepted business practice.
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 the issue of stores and the 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 other securities, except by way of repo transactions and badla finance for which adequate documents and records have been maintained.
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 dealing 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
24th June, 2000

Balance Sheet as at 31st March, 2000

	Schedule No.	As at 31st March, 2000 Rs. '000	As at 31st March, 1999 Rs. '000
I. SOURCES OF FUNDS			
1. Shareholders' Funds			
I. Share Capital	1	112,500	100,000
II. Share Capital Suspense		-	25,000
III. Reserves & Surplus	2	1,905,855	1,544,648
		2,018,355	1,559,648
2. Loan Funds			
I. Secured Loans	3	1,386,548	331
II. Unsecured Loans	4	1,326,326	63
		4,731,229	1,670,042
II. APPLICATION OF FUNDS			
1. Fixed Assets	5		
Gross Block		332,166	309,897
Less : Depreciation		163,048	137,654
Net Block		169,118	172,243
2. Capital Work in Progress (in respect of leased premises)		16,130	-
3. Investments	6	611,381	452,974
4. Current Assets, Loans & Advances			
I. Current Assets			
(a) Interest Accrued on Investments and Stock-in-trade	7	55,844	10,906
(b) Securities held as Stock-in-Trade	8	2,862,953	323,902
(c) Sundry Debtors	9	2,141,723	1,285,087
(d) Cash & Bank Balances	10	268,335	325,882
II. Loans and Advances	11	974,946	644,425
	(A)	6,303,801	2,590,202
Less: Current Liabilities & Provisions			
I. Current Liabilities	12	1,367,340	1,018,876
II. Provisions	13	1,001,861	542,501
	(B)	2,369,201	1,561,377
Net Current Assets	(A - B)	3,934,600	1,028,825
5. Miscellaneous Expenditure (to the extent not written off or adjusted)			
Deferred Revenue Expenditure - Non-competition Fees		-	16,000
		4,731,229	1,670,042
Significant Accounting Policies & Notes On Accounts	19		

Schedules 1 to 19 annexed hereto form part of these accounts

As per our attached report of even date

For and on behalf of Board of Directors

For C. C. Chokshi & Co.
Chartered AccountantsH. M. Kothari
ChairmanS. D. Desai
Vice Chairman &
Managing DirectorR. Salivati
PartnerJyoti Tandon
Company SecretaryMumbai :
24th June, 2000Mumbai :
24th June, 2000