

40th Annual Report 2015

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A subsidiary of
Bank of America Corporation

DSP MERRILL LYNCH LIMITED

Board of Directors

Mr. Asit Bhatia
Mr. Avinash Gupta
Ms. Ameet Parikh
Mr. Haresh Shivdasani
Mr. Rajnarayan Balakrishnan
Mr. Sundararaman Ramamurthy

Chairman and Non-Executive Director
Whole-Time Director
Independent Director
Independent Director
Whole-Time Director
Non-Executive Director

Chief Financial Officer

Mr. Ashish Adukia

Compliance Officer & Company Secretary

Mr. Nishith Mehta

Auditors

Price Waterhouse

Bankers

Bank of America N.A.
Citibank N.A.
Deutsche Bank A.G.
HDFC Bank Limited
Standard Chartered Bank
The Hongkong and Shanghai Banking Corporation Limited
Union Bank of India
JP Morgan Chase Bank N.A.

Registered Office

Express Towers, 16th Floor
Nariman Point
Mumbai 400 021
CIN: U74140MH1975PLC018618

Registrars and Share Transfer Agents

Sharepro Services (India) Private Limited
13AB, Samhita Warehousing Complex,
Sakinaka Telephone Exchange Lane,
Off. Andheri Kurla Road, Sakinaka,
Andheri (East), Mumbai - 400 072

Directors' Report to the Members

Your Directors have pleasure in presenting the 40th Annual Report together with the Audited Accounts of the Company for the financial year ended 31st March, 2015.

The State Of the Company's Affairs :

The Financial Results of the Company for the year 2014-15 are summarized as under:

Particulars	Year ended 31 st March, 2015 Rs. million		Year ended 31 st March, 2014 Rs. million	
Gross Income		7,780.69		6,403.98
Profit before depreciation and tax		3,752.12		2,462.48
Depreciation		214.68		185.95
Profit / (loss) before tax		3,537.44		2,276.53
Profit / (loss) from continuing operations before tax	3,767.07		2,587.52	
Tax expense of continuing operations	1,307.48		900.43	
Profit / (loss) from continuing operations after tax (A)	2,459.59		1,687.09	
Profit / (loss) from discontinuing operations before tax	(229.63)		(310.99)	
Tax expense of discontinuing operations	(50.54)		(101.68)	
Profit / (loss) from discontinuing operations after tax (B)	(179.09)		(209.31)	
Profit after tax (A+B)		2,280.50		1,477.78
Balance brought forward		9,666.85		8,189.07
Balance available for appropriation		11,947.35		9,666.85
Appropriations				
Utilisation for buy-back of equity shares		16.32		-
Income Distribution Tax on buy-back of equity shares		3.70		-
Transfer to Capital Redemption Reserve on buy-back of equity shares		0.05		-
Balance carried to balance sheet		11,927.28		9,666.85
Earnings per share (in Rs.)		98.47		63.81

Gross income for the year was Rs. 7,781 million, 22% higher than Rs. 6,404 million in the previous year, on account of increase in income from advisory & transactional services and other income. Expenses increased by 3% to Rs. 4,243 million vs. Rs. 4,127 million in previous year. Profit before tax was Rs. 3,537 million, 55% higher than Rs. 2,277 million in previous year and profit after tax increased by 54% to Rs. 2,281 million from Rs. 1,478 million in the previous year.

Profit after tax from continuing operations increased by 46% to Rs. 2,460 million from Rs. 1,687 million in previous year primarily driven by increase in revenues. Loss after tax from discontinuing operations (representing advisory and distribution services relating to the wealth management division) was Rs. 179 million, 14% lower than Rs. 209 million in the previous year.

Transfer to Reserves :

During the year under review, the Company transferred an amount equivalent to Rs. 0.05 million to Capital Redemption Reserve as per Section 69 of the Companies Act, 2013. This was for the transfer of face value of 4,961 equity shares bought back, by the Company, during the year from surplus in statement of profit and loss.

Dividend :

With a view to reinvest the profits of the business, the Board does not recommend any dividend on equity shares of the Company for the year ended 31st March, 2015.

Significant Developments during the Year :

Transfer of Wealth Management Business

During the year, the Shareholders of the Company resolved to transfer to the Julius Baer Group the Wealth Management (WM) division of the Company, comprising of advisory services and distribution services as undertaken by the Company, lending business relating to WM Division as undertaken by a wholly owned subsidiary of the Company, namely, DSP Merrill Lynch Capital Limited and trust services also relating to the WM Division as undertaken by DSP Merrill Lynch Trust Services Limited, a wholly owned subsidiary of the Company, together with the client relationships (including depository participant accounts, if any, relating to such relationships), employees and relevant assets relating to the WM Division. The process of the said transfer is underway.

Buy-back of Shares

During the year under review in accordance with the provisions of the Companies Act, 2013, an offer was made to all the shareholders of the Company for buy-back up to 16,095 fully paid up equity shares of the Company. During the year, the Company had bought-back 4961 equity shares from 121 shareholders of the Company.

SEBI Research Analysts Regulations

In September 2014, SEBI issued Research Analysts Regulations and the provisions there under came into effect from 30th November, 2014. As per the regulation, all Research entities including the Company were required to abide by the conditions specified in the regulations. Accordingly, the Company registered itself with SEBI for conducting research activities on Indian securities.

Corporate Update, Operations and Future Outlook :

The Indian economy in 2014-15 started on a positive note, with the election of the first single party majority government in over 3 decades, assuring political certainty for the next five years. The overall macroeconomic environment continued to improve, a process that had started in late 2014. The economy continued on a path of slow recovery as reflected by the new gross domestic product (GDP) series that registered a growth of 7.3 percent from 6.9 percent in the previous fiscal. Benefits of low crude oil prices were also felt across several macro indicators: CPI inflation continued to fall as low oil price along with a stable rupee abated imported inflation and the year ended with an average inflation of 6 percent, declining from 9.5 percent the previous fiscal; current account deficit came down further to 1.4 percent of GDP even as gold imports were liberalized; and fiscal deficit was contained at 4.1 percent of GDP, benefitting from higher excise duties on petroleum products and lower oil subsidies. Accumulation of foreign currency reserves by the Reserve Bank of India (RBI) further added to the stability of the rupee. The only disappointment came in terms of revival of capital expenditure as investment slowed down to 33.1 percent of GDP in 2014-15 from 33.7 percent the previous year. At the same time, policy rate cuts of 50 bps in 2014-15 along with a series of reforms were undertaken. This continued to provide a room for cautious optimism.

The marked improvement in overall business sentiment led to a sharp recovery in transaction volumes and revenues in Investment Banking, led by strong capital raising activity. Activity in primary markets picked up with equity raising during the year at US\$15.7 billion compared with US\$ 6.8 billion in the previous year. Debt Capital Markets (G3 and GBP) volumes also jumped 94 percent to US\$21.8 billion in 2014-15. M&A (announced) activity continued on an upward trajectory with volumes at US\$63 billion during the financial year, up 13 percent from US\$ 55.7 billion in 2013-14.

Indian equities witnessed a solid year with the markets returning 24.9 per cent in 2014-15, above the 18.8 per cent recorded in the previous fiscal year. The historic election mandate boosted hopes of decisive policy action and helped markets re-rate. Secondary markets witnessed considerably higher interest from institutional investors. The year also saw the return of retail investors in a big way with domestic mutual funds (MF) recording their biggest ever inflows into equity MF schemes. During the year, Foreign Institutional Investors (FIIs) bought about US\$ 18 billion (net) into the domestic equity markets as compared to US\$13.5 billion (net) in the previous financial year. The heartening development of the year was that domestic mutual funds became a net buyer of Indian equities for the first time in six years with inflows of US\$6.6 billion, compared to an outflow of US\$ 3.7 billion in the previous year. The buoyant market led to a pick-up in primary and secondary offerings, and drove good growth in our equities business.

The Company believes that while India will remain susceptible to volatility in international markets, the domestic business sentiment will improve hereon and will help drive transaction volumes in both Investment Banking and Equities businesses. Our deal pipeline remains strong and primary markets should revive in the coming quarters as companies see more stability in the equity markets. Our Research team has forecast GDP growth of 7.5 percent for the 2015-16 fiscal. More concrete measures need to be taken by the Government to revive growth, and to ensure sustained growth over the next few years. The Company is confident that India's long term growth prospects remain intact but one needs to be cautious keeping in mind the global uncertainties.