

HSBC InvestDirect (India) Limited

HSBC  InvestDirect

# Annual Report and Accounts 2009-2010

**BOARD OF DIRECTORS**

Mr. Hardeep Singh                - Chairman  
Mr. Manasije Mishra           - Managing Director & CEO  
Dr. Ajay Dua  
Ms. Naina Lal Kidwai  
Ms. Louisa Cheang  
Ms. Sonal Dave

**HEAD – LEGAL, COMPLIANCE & SECRETARIAL**

Ms. Kashmira Mathew        - Company Secretary

**REGISTERED OFFICE**

Dhana Singh Processor Premises,  
J. B. Nagar, Andheri- Kurla Road,  
Andheri (East), Mumbai 400059

**AUDITORS**

M/s. B S R and Company  
Chartered Accountants  
KPMG House, 448, Senapati Bapat Marg,  
Mumbai - 400 013, India

**REGISTRARS AND SHARE TRANSFER AGENTS**

**Karvy Computershare Pvt. Ltd.**  
17-24, Vittal Rao Nagar  
Madhapur, Hyderabad – 500 081

**BANKERS**

The Hongkong and Shanghai Banking Corporation Limited  
Axis Bank Limited  
HDFC Bank Limited  
ICICI Bank Limited  
Kotak Mahindra Bank Limited  
Standard Chartered Bank  
State Bank of India

## CONTENTS

Director's Report.....	3
Auditor's Report .....	11
Balance Sheet.....	14
Profit and Loss Account.....	15
Cash Flow Statement .....	16
Schedules .....	18
Balance Sheet Abstract and Company's General Business Profile.....	39
Financial Highlights of Subsidiaries.....	40
<b>Consolidated Financial Information</b>	
Consolidated Balance Sheet.....	42
Consolidated Profit and Loss Account.....	43
Consolidated Cash Flow Statement .....	44
Schedules .....	46

## Directors' Report

The Shareholders

### HSBC InvestDirect (India) Limited

The Directors of your Company present the Thirteenth Annual Report along with the Audited Accounts for the financial year ended March 31, 2010.

### FINANCIAL RESULTS

Performance of your Company during the financial year 2009-10 is summarized below:

(Rupees in Mn.)

Particulars	For the year ended 31.03.2010	For the year ended 31.03.2009
Total Income	145.06	257.00
Loss before interest, depreciation, amortization, prior period items and taxation	(27.09)	(101.62)
Interest and Finance charges	0.01	0.03
Depreciation / Amortization	11.73	8.28
Loss before prior period items and Taxation	(38.83)	(109.93)
Prior Period Credit	86.71	-
Profit / (Loss) before Taxation	47.88	(109.93)
Provision for Tax (including Current, Deferred and Fringe Benefit Tax)	62.80	42.15
Loss after Tax	(14.92)	(152.08)

The consolidated financial performance of your Company along with its subsidiaries for the financial year 2009-10 is summarized below:

(Rupees in Mn.)

Particulars	For the year ended 31.03.2010	For the year ended 31.03.2009
Total Income	1,740.02	2,242.90
Loss before interest, depreciation, amortization, prior period items and taxation	(365.35)	(400.21)
Interest and Finance Charges	65.13	372.71
Depreciation / Amortization	230.34	227.35
Loss before prior period items and Taxation	(660.82)	(1,000.27)
Prior Period Credit	89.83	-
Loss Before Tax	(570.99)	(1,000.27)
Provision for Tax (including Current, Deferred and Fringe Benefit Tax)	111.56	89.87
Loss after Tax	(682.55)	(1,090.14)

### DIVIDEND

In the absence of profits, directors are unable to recommend dividend for the financial year 2009-10.

### OPERATIONS & OUTLOOK FOR THE CURRENT YEAR

During the financial year under review, the Company and its subsidiaries / associate were successful to a large extent in getting various processes aligned to the HSBC Group Standards.

## Directors' Report

During the financial year 2009-10, your Company, through its subsidiaries / associate company, has focused on the following key initiatives:

### **Technology**

Your Company's management understands the criticality of Technology in view of the business of underlying companies and has invested considerable time and effort in improving customer experience by using best of technology, people and processes.

During the year under review, your Company has made substantial improvements in IT Infrastructure thereby providing 99.91% uptime on Trading and critical applications. Significant enhancements were made to the application to offer a comprehensive trading platform thereby enhancing user satisfaction and experience.

As part of the integration to HSBC Group standards, the branch network backbone has been optimized resulting in significant uptimes, cost savings, manageability and security. The systems are currently being modified to ensure adherence to Group standards thereby improving user experience, security and performance.

As the Depository Participant business commences, the IT Infrastructure is setup to handle Clients' Demat Holdings in CDSL and NSDL. This would ensure a smooth 3-way seamless transaction facility to clients between Trading, Demat and Bank Accounts.

Business Continuity and Disaster Recovery is an absolute necessity in current times where businesses are faced with increasing threats of uncertainty. To mitigate this, your Company is setting up a Disaster Recovery site in Kolkata which ensures that clients do not suffer any downtime in times of disaster affecting the primary setup.

### **Human Resources (HR)**

The year 2009 witnessed four main action areas as part of the 'People' agenda for your Company. The Global People Survey for 2009 had a response rate of 86% and a Best in Class score of 80% on the Employee Engagement Index.

The Internal Job Advertisement continued to advertise opportunities across the organisation with a total of 189 jobs being advertised and 66 employees moving across the HSBC Group. The online performance management system for all employees was rolled out with a formalized feedback and performance rating mechanism, twice a year, in alignment with the Group standards.

Your Company also participated in the market benchmarking study with Hewitt Associates. 7 comparators were selected for the study pool from among the top organisations in the Banking Financial Services and Insurance (BFSI) sector and 60 positions were benchmarked along with a study done on benefits. The market benchmarking analysis was done to ensure a strong linkage between pay and performance. The incentive schemes were also launched for frontline staff.

The "Discovery" employee induction program was launched in early 2010 to ensure a more consistent on-boarding experience for all new joiners thus moving ahead on our journey to make your Company the 'Best Place to Work'.

### **Service Delivery**

During the year under review, a dedicated Service Delivery department was created. This is a unified function bringing together voice and non-voice operations. Functions include account opening, trade initiation, welcome calling, tele-trade, trade confirmation, settlement of trades and funds, debit calling, customer service, securities lending operations and distribution operations. The objective was to be able to share and propagate the best practices in various operations units and create a central function with overall responsibility of service to the customer.

Recently your Company has leveraged the HSBC Group's technology to replace the telecom platform for the call centre and tele-trade operations. This has allowed expansion in online equity business at virtually no extra cost. With the recent launch of DP operations, your Company has enhanced the bouquet of services available to the customers.

## **SUBSIDIARIES AND ASSOCIATE COMPANIES**

### **Investsmart Financial Services Limited**

During the year under review, the Company made a net loss of Rs. 174.25 Mn. The loss was on account of exiting concentrated exposures in the promoter financing segment which lead to lower average assets for the year. As the year progressed the

## Directors' Report

Company further strengthened its risk policies to ensure better asset quality. The Company despite exiting concentrated promoter financing exposures has been successful in increasing its asset book to Rs. 3,301.32 Mn. as on March 31, 2010, from Rs. 2,415.77 Mn. as on March 31, 2009.

During the year, the Company witnessed a gradual revival in its lending business due to improved sentiment in Indian capital markets. The Company added 236 new clients into its fold for the financial year taking the total client base to 1320. The Company has decided to focus on building a vibrant retail NBFC business going forward and has realigned the NBFC operations with a renewed retail focus. The Company reduced the non retail business and has defined a revised retail organization structure.

### **HSBC InvestDirect Securities (India) Limited (previously known as IL&FS Investsmart Securities Limited)**

The income from operations increased from Rs. 9.62 Mn. in the financial year 2008-09 to Rs. 12.12 Mn. in the financial year 2009-10, the Company incurred a loss before prior period items and tax of Rs. 4.92 Mn. for the year ended March 31, 2010 as compared to Rs. 10.15 Mn. incurred in the previous year.

Revenues earned out of Equity broking increased by 21% from Rs. 732 Mn. during financial year 2008-09 to Rs. 889 Mn. during the financial year 2009-10, while income earned from distribution of the financial products increased from Rs. 102 Mn. to Rs. 105 Mn. during the same period. The overall revenues from the retail business have fallen by 23% from Rs. 2,175 Mn. to Rs. 1,673 Mn.

During the year under review, the Company received the approval from Securities and Exchange Board of India to act as Depository Participant (DP) of National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) and the Company commenced its CDSL DP operations w.e.f. May 10, 2010. The Company has also received licence from Insurance and Regulatory Development Authority to act as a Corporate Agent of Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited.

With a view to align the business with the long term strategy of HSBC InvestDirect, the Board of Directors of the Company vide resolution passed on January 28, 2010 and May 19, 2010 approved the discontinuation of Institutional Equities business and surrender of its Merchant Banking licence respectively.

The last year saw the Company aligning itself to HSBC Group policies and procedures in a significant way. Several procedures and processes within the Company were enhanced and strengthened including for all branches and sub brokers of the Company.

### **HSBC InvestDirect Distribution Services (India) Limited (previously known as IL&FS Investsmart Commodities Limited)**

During the year under review, the Company completed the process of surrendering the memberships with Multi Commodity Exchange of India Limited, National Commodity & Derivatives Exchange Limited, NCDEX Spot Exchange Limited and Indian Energy Exchange Limited.

Post surrender of the aforesaid memberships, the main objects of the Company were amended to commence the business of distribution of third party financial products and to act as an Authorised Person of HSBC InvestDirect Securities (India) Limited, a fellow subsidiary and a member of Bombay Stock Exchange Limited and National Stock Exchange of India Limited.

Further, to reflect the change in main objects and business of the Company, the name of the Company was changed from 'HSBC InvestDirect Commodities (India) Limited' to 'HSBC InvestDirect Distribution Services (India) Limited' w.e.f. February 11, 2010.

In view of the surrender of the commodities broking licences, there was no income from operations during the financial year 2009-2010.

### **HSBC InvestDirect Academy for Insurance and Finance (India) Limited (previously known as IL&FS Academy for Insurance and Finance Limited)**

The Company incurred a net loss of Rs. 0.12 Mn. for the year ended March 31, 2010 as compared to Rs. 9.24 Mn. in the previous year.

## Directors' Report

The Management is looking at various business strategies or options available to decide on the future course of action for the Company.

### **IL&FS Investsmart Asia Pacific Private Limited, Singapore**

During the financial year under review, the Company did not carry on any commercial activity under the Capital Markets Service Licence (CMS Licence) obtained from Monetary Authority of Singapore (MAS) and no liability existed in respect of dealing in securities. In view of the same, the Company surrendered its CMS Licence to MAS on August 14, 2009.

### **HSBC InvestDirect Sales & Marketing (India) Limited (previously known as IL&FS Investsmart Insurance Brokers Limited)**

During the financial year under review, the Company incurred a net loss of Rs. 43.67 Mn. as on March 31, 2010 as compared to loss of Rs. 15.97 Mn. as on March 31, 2009.

The Company was licensed as an insurance broker by the Insurance Regulatory and Development Authority ("IRDA"). With a view to align the business with the long term strategy of HSBC InvestDirect, the Company surrendered its Insurance Broker Licence to IRDA and the same was cancelled by IRDA w.e.f. May 14, 2010.

Post surrender of the Insurance Broker licence, the main objects of the Company were amended to commence the business of distribution of Mortgage, Home Loan products and other third party products.

Further, to reflect the change in main objects and business, the name of the Company was changed from 'IL&FS Investsmart Insurance Brokers Limited' to 'HSBC InvestDirect Sales & Marketing (India) Limited' w.e.f. May 6, 2010.

### **CHANGE IN NAME OF THE COMPANY**

During the financial year under review, the name of the Company was changed from 'IL&FS Investsmart Limited' to 'HSBC InvestDirect (India) Limited' w.e.f. August 3, 2010 upon receipt of fresh Certificate of Incorporation from the Registrar of Companies, Maharashtra.

### **EMPLOYEES STOCK OPTION PLAN (ESOP)**

Your Company has allotted 1,430,000 equity shares of Rs. 10 each at a premium of Rs. 170 per share to the Option holders who have exercised Options allotted under ESOP – 2006. In view of the same, the paid up share capital of your Company has increased to Rs. 712.66 Mn. The underlying book value of your Company is Rs. 79.11 per share as on March 31, 2010 as compared to Rs. 87.79 as on March 31, 2009.

Disclosures in compliance with clause 12 of the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 for the financial year ended March 31, 2010 are set out in the Annexure to this Report.

### **DELISTING OF YOUR COMPANY**

The Board of Directors of your Company at its meeting held on June 16, 2009, approved the delisting of equity shares of the Company from Bombay Stock Exchange Limited (BSE) and the National Stock Exchange of India Limited (NSE) subject to the approval of the Shareholders of the Company. Further the Shareholders of your Company vide resolution passed through Postal Ballot on July 28, 2009 approved the delisting of the equity shares from BSE and NSE.

As per SEBI (Delisting of Equity Shares) Regulations, 2009 (Delisting Regulations), your Company received the in-principle approval from BSE and NSE on March 31, 2010 and March 25, 2010 respectively for delisting the equity shares of your Company.

In this connection, HSBC Securities and Capital Markets (India) Private Limited (HSCI) and HSBC Violet Investments (Mauritius) Limited, (Violet) promoters of your Company made an open offer through Public Announcement (PA), dated April 9, 2010 and first corrigendum dated April 26, 2010 to the public shareholders of your Company for acquiring 52,41,330 shares representing 7.40% of the paid-up equity share capital of the Company.

Your Company had granted 25,00,000 Options to its employees under the ESOP Scheme-2006 in terms of SEBI (Employee Stock Option and Employee Stock Purchase Scheme) Guidelines, 1999. Out of the above, 5,000 vested Options are outstanding with the ex-employee as on date. Assuming that all the vested Options are exercised, the equity share capital of your Company would increase to Rs. 712,712,730 consisting of 71,271,273 equity shares of Rs. 10/- each.

## Directors' Report

The Bidding period for determination of Exit Price was from Wednesday, April 28, 2010 to Tuesday, May 4, 2010. The Exit Price determined in accordance with the book building process was Rs. 400. The Announcement of Exit Price of Rs. 400 and the Acquirers' acceptance of the same was published by them on Friday, May 14, 2010. HSCI and Violet acquired 3,840,471 equity shares from the public shareholders through open offer. The consideration to all the public shareholders whose bids have been accepted was dispatched by May 18, 2010.

In accordance with Delisting Regulations, the remaining public shareholders will have the option of tendering their equity shares at the Exit Price of Rs. 400 (Rupees Four Hundred Only) per Share in the exit window, which shall remain open for a period of one year commencing from July 16, 2010 (i.e. upto July 15, 2011).

As per Delisting Regulations and notice issued by BSE and NSE, the trading in the equity shares of your Company was discontinued w.e.f. July 7, 2010 and your Company was delisted from the Stock Exchanges w.e.f. July 15, 2010.

### DIRECTORS

The Board of Directors of your Company appointed Ms. Naina Lal Kidwai and Ms. Louisa Cheang as Additional Directors of the Company w.e.f. October 29, 2009 and July 5, 2010 respectively. In terms of Section 260 of the Companies Act, 1956, Ms. Kidwai and Ms. Cheang vacate their office as Directors at the ensuing Annual General Meeting. The Company has received notice in writing from the Members proposing the candidature of Ms. Kidwai and Ms. Cheang for the office of Director.

Pursuant to provisions of the Companies Act, 1956, Ms. Sonal Dave and Dr. Ajay Dua, Directors of your Company, retire by rotation at the ensuing Annual General Meeting and being eligible, have offered themselves for re-appointment.

The required resolutions reappointing the above Directors at the forthcoming Annual General Meeting are included in the Notice of the said Annual General Meeting.

Mr. Conrado Engel and Mr. Tarun Kataria resigned as Directors of the Company on May 23, 2009 and June 30, 2010 respectively. The Board places on record its sincere appreciation for the contribution made by Mr. Engel and Mr. Kataria during their tenure as Directors of your Company.

### AUDITORS

The retiring auditors, namely, M/s. B S R and Company, Chartered Accountants, Mumbai hold office until the conclusion of the ensuing Annual General Meeting and are seeking their reappointment. Members are requested to consider their appointment and authorise the Board of Directors to fix their remuneration for the financial year 2010-11.

### TRANSFER OF UNPAID/ UNCLAIMED DIVIDEND

As there were no unpaid / unclaimed dividends which are due for a period of seven years, the provisions of Section 205A(5) of the Companies Act, 1956 relating to transfer of the unpaid / unclaimed dividends to the Investor Education and Protection Fund by the Company shall not apply.

### FIXED DEPOSITS

Your Company has not accepted any deposits from the public or employees during the year under review.

### EMPLOYEES

Your Directors place on record their appreciation for the effort and dedication of the employees during the year under review. In line with its policy, your Company continues to place great emphasis on training programs for all-round development of staff at all levels. Your Company has been actively concentrating on development of human resources, which is a prime asset for its substantial growth.

### PARTICULARS OF EMPLOYEES

The information required under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, are set out in the Annexure and forms part of this Report.

### DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956 as amended, the Directors, based on the representations received from the Operating Management, and after due enquiry, confirm that:



## Directors' Report

- (1) In the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- (2) The Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of your Company at the end of the financial year and of the profit or loss of your Company for that period;
- (3) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities;
- (4) The Directors have prepared the annual accounts on a going concern basis.

### CONSERVATION OF ENERGY TECHNOLOGY ABSORPTION, EXPORT & FOREIGN EARNING AND OUTGO

The particulars of foreign exchange earnings and expenditure/outgo is provided under Item 6 of Schedule L (Page no. 28) in the Notes to the Accounts. Since your Company does not own any manufacturing facility, the Statement giving details of conservation of energy and technology absorption in accordance with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is not applicable.

### FINANCIAL STATEMENTS OF SUBSIDIARY COMPANIES

The Ministry of Corporate Affairs has granted exemption to your Company under Section 212(8) of the Companies Act, 1956 with regard to attaching the Balance Sheet, Profit & Loss Account and other documents of the subsidiaries for the financial year ended March 31, 2010. However, the accounts of the subsidiaries will be made available for inspection to any Member of the Company at its registered office and also at the registered office of the respective subsidiaries and a copy of the same will be made available to the Members on receipt of a request from them. The financial information of subsidiary companies is disclosed along with the consolidated financial statements. In accordance with the aforesaid approval of the Ministry of Corporate Affairs, the consolidated financial statements of your Company together with its subsidiaries are annexed to the Annual Report.

### ACKNOWLEDGEMENTS

Your Company maintained cordial relationships with Securities and Exchange Board of India, Reserve Bank of India, National Stock Exchange of India Limited, Bombay Stock Exchange Limited, Insurance Regulatory and Development Authority, National Securities Depository Limited, Central Depository Services (India) Limited, other Regulatory Authorities, Financial Institutions, Banks and Customers during the year under review. Your Directors are grateful for the support extended by them and look forward to receiving their continued support and encouragement.

**For and on behalf of the Board of Directors**

**Hardeep Singh**  
Chairman

Mumbai, 29 July 2010

**Directors' Report****ANNEXURE TO THE DIRECTORS' REPORT****DETAILS OF THE ESOP SCHEME – 2006 IN TERMS OF CLAUSE 12 OF SEBI (EMPLOYEE STOCK OPTION AND EMPLOYEE STOCK PURCHASE SCHEME) GUIDELINES, 1999**

	Particulars	ESOP SCHEME – 2006
		(face value of Rs. 10)
a.	Options Granted	2,500,000
b.	Exercise Price per Equity Share	Rs. 180/-
c.	Options Vested	1,845,000
d.	Options Exercised (As at March 31, 2010)	893,500
e.	Total number of shares arising as a result of exercise of options	893,500
f.	Options Lapsed or Cancelled	10,65,000
g.	Variation of terms of options	Scheme has been revised in June 2008 to increase exercise period from three years to seven years
h.	Money realized by exercise of options (Rs.)	160,830,000
i.	Total number of options in force (vested but not exercised)	541,500
j.	Person-wise details of options granted to:	
	(i) Directors and key managerial employees	Please see Table below
	(ii) Identified employees who are granted Options, during any one year equal to or Exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant	None
k.	Diluted Earning Per Share (EPS) pursuant to issue of shares on exercise of options	(0.29)
l.	Vesting Schedule	Vested on November 19, 2008
m.	Lock-in	None However, employees are required to hold the shares allotted under ESOP Scheme for a minimum period of 30 days from the date of allotment in terms of the Employee Trading Policy of the Company

Sr. No.	Name of Director or Key Managerial Personnel	Number of Options granted	Number of Equity Shares of Rs.10/- each to be allotted upon exercise of options
Key Managerial Personnel			
1)	Mr. Sachinn R Joshi*	175,000	175,000
2)	Mr. Sandeep Presswala*	175,000	175,000
3)	Mr. Avdhoot Deshpande#	150,000	150,000

\* Resigned as directors w.e.f. September 29, 2008

# Resigned w.e.f. November 13, 2009