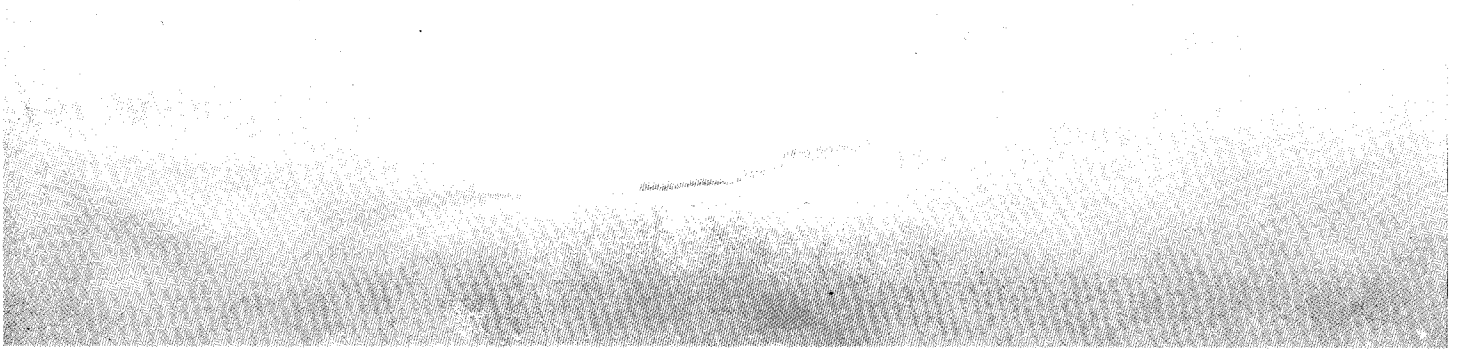

HSBC InvestDirect (India) Limited

Annual Report and Accounts 2013

HSBC InvestDirect

BOARD OF DIRECTORS

Ms. Naina Lal Kidwai - Chairperson
Mr. Sanjay Nair - Managing Director & CEO
Ms. Sonal Dave
Mr. Saurav Saha
Mr. Sanjay Bajaj

COMPANY SECRETARY

Ms. Sneha Doshi

REGISTERED OFFICE

Shiv Building, Plot No. 139, 140B, 1st Floor
Western Express Highway, Sahar Junction
Vile Parle (East), Mumbai 400057

AUDITORS

M/s. B S R and Company
Chartered Accountants
KPMG, 5th Floor, Lodha Excelus
Apollo Mills Compound, NM Joshi Marg
Mahalaxmi, Mumbai 400011

REGISTRARS AND SHARE TRANSFER AGENTS

Karvy Computershare Pvt. Ltd.
17-24, Vittal Rao Nagar
Madhapur, Hyderabad 500081

BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Axis Bank Limited
HDFC Bank Limited

Directors' Report

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Directors' Report

The Shareholders
HSBC InvestDirect (India) Limited

The Directors of your Company present the Sixteenth Annual Report along with the Audited Accounts for the financial year ended March 31, 2013.

FINANCIAL RESULTS

The consolidated financial performance of your Company along with its Subsidiaries and the standalone performance of your Company for the financial year 2012-13 are summarized below:

(Rupees in Mn.)

Particulars	Consolidated Financials		Standalone Financials	
	For the year ended 31.03.2013	**For the year ended 31.03.2012**	**For the year ended 31.03.2013**	**For the year ended 31.03.2012**
Total Income	1,145.97	1,380.71	280.89	380.01
Total Expenses	1,415.41	1,822.80	79.64	183.53
Profit before tax and provision for diminution in value of investments in Subsidiaries	---	---	**201.25**	**196.48**
Provision for diminution in value of Investments in Subsidiaries and advances	---	---	2,434.00	---
(Loss)/ Profit before Taxation	(269.44)	(442.09)	**(2,232.75)**	**196.48**
Provision for Tax (including Current, Deferred and Fringe Benefit Tax)	117.30	6.59	34.66	4.28
(Loss)/ Profit after Tax	**(386.73)**	**(448.68)**	**(2,267.42)**	**192.20**

During the year, your Company has made provision for diminution in value of Investments and advances for one of its Subsidiaries which has accumulated losses and consistent erosion in its net-worth.

DIVIDEND

Due to loss incurred by your Company, the Directors are unable to recommend dividend for the financial year 2012-13.

OPERATIONS & OUTLOOK FOR THE CURRENT YEAR

During the financial year under review, your Company through its Subsidiaries offered a comprehensive range of value-added products and services backed by a professional service orientation for retail and corporate customers. The business activities undertaken by your Company through its Subsidiaries include (i) Securities Broking; (ii) Securities related financing (NBFC) (iii) Depository Participant Services and (iv) Distribution of wealth management products (i.e. mutual funds and insurance). The provision of some of these services was rationalised during the year as stated in the Report.

SUBSIDIARIES AND ASSOCIATE COMPANIES

HSBC InvestDirect Financial Services (India) Limited (HIFSL) [formerly known as Investsmart Financial Services Limited]

The name of Investsmart Financial Services Limited changed to **"HSBC InvestDirect Financial Services (India) Limited"** with effect from June 5, 2013 upon receipt of fresh Certificate of Incorporation from Registrar of Companies, Maharashtra.

During the financial year 2012-13, HIFSL made a net profit of Rs. 161.79 Mn. as against net profit of Rs. 169.88 Mn. in the previous year.

As on March 31, 2013, loan asset book of HIFSL dropped to Rs. 4,452.84 Mn. from Rs. 5,847.59 Mn. as on March 31, 2012 due to a strategic call by HIFSL to exit broker funding. However, gross revenue of HIFSL dropped marginally by 1.87% to Rs. 714.52 Mn. as against Rs. 728.12 Mn. in the previous year. HIFSL discontinued Margin Trade Funding in August 2013.

During the financial year 2012-13, HIFSL declared interim dividend of Rs.1.50 per equity share amounting to Rs. 154 Mn.

HSBC InvestDirect Securities (India) Limited (HISL)

During the financial year 2012–13, HISL incurred net loss of Rs. 538 Mn. as against Rs. 544 Mn. incurred in the previous year.

Revenues earned from Equity broking reduced by 39% from Rs. 468.9 Mn. during financial year 2011-12 to Rs. 285.1 Mn. during the financial year 2012-13 and income earned from distribution of financial products decreased by 50% from Rs. 62.8 Mn. to Rs. 31.1 Mn. during the year under review. The overall revenues from operations of business have fallen by 33% from Rs. 660.3 Mn. to Rs. 441.5 Mn. Expenses reduced by 19% from Rs. 1204.6 Mn. in the previous year to Rs. 979 Mn. during the year under review on account of rationalization of branches and restructuring of operations, including closure of the dealing infrastructure for all franchisee outlets. Margins remained under pressure. Market conditions continue to be challenging. During the year under review, HISL discontinued franchisee operations due to lack of viability. To address the ongoing losses, HISL has commenced a strategic review of its operations and all possible options are being explored.

Due to change in market conditions and rationalisation of branches, HISL has taken additional charge of Rs.137 Mn. towards impairment of some of its assets and detailed breakup of impairment charges is provided in note no. 26.19 of the Consolidated Financial Statement.

HSBC InvestDirect Distribution Services (India) Limited, HSBC InvestDirect Academy for Insurance and Finance (India) Limited and HSBC InvestDirect Sales & Marketing (India) Limited

During the year under review, on December 13, 2012 the Directors approved the merger of HSBC InvestDirect Distribution Services (India) Limited (HIDSL) and HSBC InvestDirect Academy for Insurance and Finance (India) Limited (HIAIFL) with HSBC InvestDirect Sales & Marketing (India) Limited (HISML) and reduction of the equity paid up capital of HISML below Rs. 50 Mn. Your Company holds 100% equity share capital in HIDSL, HIAIFL and 45% equity share capital in HISML. The scheme of arrangement filed with the Hon'ble High Court of Judicature at Bombay in April 2013 is pending approval of the Court.

HSBC InvestDirect Distribution Services (India) Limited (HIDSL)

During the financial year 2012–13, HIDSL earned net profit of Rs. 1.01 Mn. as against loss of Rs. 2.15 Mn. incurred in the previous year.

The scheme of arrangement of HIDSL and HSBC InvestDirect Academy for Insurance and Finance (India) Limited with HSBC InvestDirect Sales & Marketing (India) Limited (HISML) and reduction of the equity paid up capital of HISML below Rs. 50 Mn. is pending approval of the Hon'ble High Court of Judicature at Bombay.

HSBC InvestDirect Academy for Insurance and Finance (India) Limited (HIAIFL)

During the financial year 2012–13, HIAIFL earned net profit of Rs.1.83 Mn. as against profit of Rs. 1.67 Mn. earned in the previous year.

The scheme of arrangement of HIAIFL and HSBC InvestDirect Distribution Services (India) Limited with HSBC InvestDirect Sales & Marketing (India) Limited (HISML) and reduction of the equity paid up capital of HISML below Rs. 50 Mn. is pending approval of the Hon'ble High Court of Judicature at Bombay.

HSBC InvestDirect Sales & Marketing (India) Limited (HISML)

During the financial year 2012–13, HISML earned net profit of Rs. 19.8 Mn. as against profit of Rs. 41.8 Mn. earned in the previous year.

Directors' Report

During the year, effective July 1, 2012, HISML discontinued distribution and marketing of home loan product. HISML is in the process of finalising its new business plan.

The scheme of arrangement of HSBC InvestDirect Distribution Services (India) Limited and HSBC InvestDirect Academy for Insurance and Finance (India) Limited with HISML and reduction of the equity paid up capital of HISML below Rs. 50 Mn. is pending approval of the Hon'ble High Court of Judicature at Bombay.

DELISTING OF YOUR COMPANY

The equity shares of HSBC InvestDirect (India) Limited were delisted from the Stock Exchanges with effect from July 15, 2010. Post delisting, HSBC Securities and Capital Markets (India) Private Limited (HSCI), the Acquirers had sent a communication to all the public shareholders intimating the process for tendering their shares in the exit window. As per the Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009, the exit window was kept open for a period of one year from the date of delisting (i.e. upto July 15, 2011).

Post closure of the exit window, the Acquirers have advised that they do not intend to accept any further shares from the remaining public shareholders. However, in case the Acquirers decide to accept further shares, the same would be intimated to the shareholders.

As on August 16, 2013, your Company has approximately 4,651 public shareholders holding approximately 324,914 equity shares constituting 0.45% of the paid up capital, who have not tendered their shares under the said Offer.

DIRECTORS

During the year under review, Mr. Gannesh Bharadhwaj resigned as Director of your Company w.e.f. close of business hours on May 29, 2013.

The Board placed on record their sincere appreciation for the contribution made by Mr. Bharadhwaj during his tenure as Director of your Company.

Pursuant to provisions of the Companies Act, 1956, Ms. Sonal Dave and Mr. Sanjay Bajaj, the 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 re-appointing the above Directors at the forthcoming Annual General Meeting are included in the Notice of the said Annual General Meeting.

AUDIT COMMITTEE

As per Section 292A of the Companies Act, 1956, your Company has constituted Audit Committee to review the financial statements of your Company and perform other functions as empowered by the Board, from time to time. Presently, the members of the Audit Committee are Ms. Sonal Dave, Mr. Sanjay Bajaj and Mr. Saurav Saha.

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 re-appointment. Members are requested to consider their appointment and authorise the Board of Directors to fix their remuneration for the financial year 2013-14.

TRANSFER OF UNPAID/ UNCLAIMED DIVIDEND

Pursuant to the provisions of Section 205A(5) of the Companies Act, 1956, the amount of dividend which remain unclaimed or unpaid for a period of seven years from the date of transfer of such amount to the Unpaid Dividend Account opened in pursuance of sub-section (1) of the said section, is required to be transferred to the Investor Education and Protection Fund (IEPF) established by the Central Government. Accordingly, your Company is in the process of transferring Rs. 173,988 being unclaimed dividend for the financial year 2005-06 to IEPF.

FIXED DEPOSITS

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

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:

(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 ABORPTION, EXPORT & FOREIGN EARNING AND OUTGO

The particulars of foreign exchange expenditure/outgo are provided under note no. 20.4 in the Standalone Financial Statement. 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 vide circular dated February 8, 2011 has granted general exemption to all companies from attaching the Balance Sheet and Profit and Loss Account of its Subsidiaries to its Annual Report, provided certain conditions are fulfilled.

In view of the above, the Balance Sheet and Statement of Profit and Loss Account of the subsidiary Companies are not attached to the Annual Report. 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 also 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 circular, 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, National Securities Depository Limited, Central Depository Services (India) Limited, Insurance Regulatory and Development Authority, other Regulatory Authorities, Financial Institutions, Banks and Customers during the year under review.

The 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

Naina Lal Kidwai
Chairperson

Place : Mumbai
Date : August 28, 2013

ANNEXURE TO THE DIRECTORS' REPORT

Statement of particulars of employees pursuant to the provision of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended March 31, 2013

Sr. No.	Name	Designation	Qualifcation	Total Experience (Years)	Age (Years)	Date of commencement of Employment	Remuneration received (Gross) (Rupees)	Last Employment held
1	Ankush Tandon	Head-Distribution	BE (Computer) + MBA (Marketing)	18	41	15-Feb-11	8,038,818	The Hongkong and Shanghai Banking Corporation Limited
2	Shailesh S Karkera	SVP & Head Dealing Distribution	Graduate in Economics, Diploma in Financial Management	20	39	16-Jan-04	6,672,984	Motilal Oswal Securities Limited
3	Animesh Raizada	SVP Customer Value Management	BTECH + IIM	14	39	2-May-12	6,188,358	The Hongkong and Shanghai Banking Corporation Limited
4	Chandrasekaran Diwakar	Chief Operating Officer	BSC (Maths) + MSC (Maths) + Diploma in Computer Applications	19	45	2-May-12	8,937,111	HSBC Securities and Capital Markets (India) Limited
5	Vipul Malkan	Chief Risk Officer	CA+BCOM	18	38	5-May-09	11,049,120	JM Financial Services Private Limited

Notes:

1. Gross Remuneration includes salary, taxable allowances, value of perquisites as per Income-tax Rules, 1962 & Company's contribution to Provident Fund, Family Pension Fund, Superannuation Fund and Gratuity Fund.
2. The nature of employment in all cases is contractual and is as per Company's Rules.
3. None of the above employees are related to any Director of the Company.

Independent Auditors' Report

To the Members of
HSBC InvestDirect (India) Limited

Report on the financial statements

We have audited the accompanying financial statements of HSBC InvestDirect (India) Limited ('the Company') which comprise the balance sheet as at 31 March 2013, the statement of profit and loss and the cash flow statement for the year ended on that date annexed thereto and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ('the Act'). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013;
(ii) in the case of the statement of profit and loss, of the loss for the year ended on that date; and
(iii) in the case of cash flow statement, of the cash flows for the year ended on that date.

Report on other legal and regulatory requirements

1 As required by the Companies (Auditor's Report) Order, 2003 ('the Order') issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Independent Auditors' Report

HSBC InvestDirect (India) Limited

2 As required by section 227(3) of the Act, 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 the 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 those books;

(c) The balance sheet, statement of profit and loss and cash flow statement dealt with by this report are in agreement with the books of account;

(d) In our opinion, the balance sheet, statement of profit and loss and cash flow statement comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;

(e) On the basis of the written representations received from the directors of the Company as on 31 March 2013, and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2013 from being appointed as director in terms of clause (g) of sub section (1) of section 274 to the Act.

For **B S R and Company**
Chartered Accountants
Firm's Registration No: 128900W

N Sampath Ganesh
Partner
Membership No: 042554

Mumbai
28 August 2013