



HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED



Breaking the Ice

twenty second annual report 1998-1999

HIGHLIGHTS

OPERATIONAL HIGHLIGHTS

	1994-95	1995-96	1996-97	1997-98	1998-99	Cumulative
Approvals (Rs. in crores)	1,494.55	2,071.46	2,521.70	3,251.27	4,071.76	18,909.64
Disbursements (Rs. in crores)	1,211.66	1,683.55	2,100.78	2,753.61	3,424.27	15,657.26
Cumulative Investment made possible in the housing sector (Rs. in crores)	15,137.77	19,928.88	26,207.51	32,710.05	40,540.36	

1 Crore = 10 million

1 Lac = 100,000

FINANCIAL HIGHLIGHTS

	1994-95	1995-96	1996-97	1997-98	1998-99
Gross Income	780.33	982.18	1,265.33	1,444.68	1,752.73
Profit After Tax	146.15	195.69	247.89	293.36	333.90
Shareholders' Funds	874.85	1,501.82	1,662.75	1,777.24	1,971.84
Share Capital - Equity	101.24	119.11	119.11	119.11	119.11
- Preference	—	50.00	50.00	—	—
Reserves and Surplus	773.61	1,332.71	1,493.64	1,658.13	1,852.73
Long Term Borrowings	2,583.10	2,552.34	3,035.47	3,724.66	4,571.18
Deposits	1,853.24	2,512.69	3,502.19	4,423.79	5,252.40
Loans Outstanding	3,747.55	4,740.68	5,709.32	6,944.07	8,219.26
Dividend per Share (Rs.)	32	37	45	75*	85
Book Value per Share (Rs.)	864	1,219	1,354	1,492	1,655
Earnings per Share (Rs.)	144	161	203	243	280

*Includes special dividend of Rs. 20 per share to mark the completion of HDFC's 20th anniversary.

Cover theme

Break the ice (fig.) : To get through first difficulties.

Chambers Twentieth Century Dictionary of the English Language

Break the ice, To

To be the first to do something

Brewster's Dictionary of Phrase & Fable

The only limits to our realization of tomorrow

will be our doubts of today.

Let us move forward with strong and

active faith.

Franklin D. Roosevelt

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NOTICE**HDFC**

NOTICE IS HEREBY GIVEN THAT THE TWENTY-SECOND ANNUAL GENERAL MEETING OF THE MEMBERS OF HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED WILL BE HELD AT 3.30 P.M. ON FRIDAY, JULY 9, 1999, AT 'BIRLA MATUSHRI SABHAGAR', 19, MARINE LINES, MUMBAI 400 020 TO TRANSACT THE FOLLOWING BUSINESS :

ORDINARY BUSINESS

1. To consider and adopt the audited profit and loss account for the year ended March 31, 1999, the balance sheet as at that date and the reports of the directors and the auditors thereon.
2. To declare dividend on equity shares.
3. To appoint a director in place of Mr. S. B. Patel who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a director in place of Mr. M. Narasimham who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a director in place of Dr. S. A. Dave who retires by rotation and being eligible, offers himself for re-appointment.
6. To appoint a director in place of Dr. Ram S. Tarneja who retires by rotation and being eligible, offers himself for re-appointment.
7. To appoint auditors and to fix their remuneration and in this connection,

to pass, with or without modifications, the following resolution as an ordinary resolution: Provided that in the event of the provisions of section 224A of the Companies Act, 1956, becoming applicable to the corporation on the date of holding of this meeting the same will be proposed as a special resolution:

"RESOLVED THAT Messrs S. B. Billimoria & Company, Chartered Accountants, be and are hereby re-appointed auditors of the corporation to hold office from the conclusion of this meeting until the conclusion of the next annual general meeting, on a remuneration of Rs. 16,00,000 (Rupees sixteen lacs) plus applicable service tax and reimbursement of out-of-pocket expenses incurred by them for the purpose of audit of the corporation's accounts at the head office as well as at all branch offices of the corporation in India."

SPECIAL BUSINESS

To consider, and if thought fit, to pass, with or without modifications, the following resolutions:

8. As an ordinary resolution or in the event of the provisions of section 224A of the Companies Act, 1956, becoming applicable to the corporation on the date of holding of this meeting, as a special resolution:

"RESOLVED THAT pursuant to the provisions of section 228 of the

Companies Act, 1956, Messrs Ratan Mama & Company, Chartered Accountants, be and are hereby re-appointed branch auditors of the corporation for the purpose of audit of the accounts of the corporation's branch office at Dubai, to hold office from the conclusion of this meeting until the conclusion of the next annual general meeting, on such terms and conditions and on such remuneration as may be fixed by the board of directors of the corporation, depending upon the nature and scope of their work."

9. As an Ordinary Resolution:

"RESOLVED THAT the consent of the corporation be and is hereby accorded under the provisions of section 293(1)(d) of the Companies Act, 1956, to the board of directors of the corporation to borrow from time to time such sum or sums of money as they may deem necessary for the purposes of the business of the corporation notwithstanding that monies to be borrowed together with the monies already borrowed by the corporation (apart from temporary loans obtained from the corporation's Bankers in the ordinary course of business) and remaining outstanding at any point of time will exceed the aggregate of the paid-up share capital of the corporation and its free reserves, that is to say, reserves not set apart for any specific purpose: Provided that the total amount upto which monies may be borrowed by the board of directors and which shall remain

outstanding at any point of time shall not exceed the sum of Rs.20000.00.00.000 (Rupees twenty thousand crores)."

10. As a Special Resolution

"RESOLVED THAT pursuant to the provisions of section 17 and other applicable provisions, if any, of the Companies Act, 1956 (including any amendment to or re-enactment thereof), and subject to the approvals, consents, permissions and sanctions as may be necessary from the appropriate authorities or bodies and subject to such conditions as may be prescribed by them while granting such approvals, consents, permissions and sanctions, the Other Objects in the Objects Clause of the Memorandum of Association of the corporation be and is hereby altered by inserting the following sub-clauses as new sub-clauses 83 and 84 immediately after the existing sub-clause 82:

'83. To undertake and carry on, whether directly or indirectly, the business of providing personal finance, whether by way of loans or otherwise for various purposes including for acquisition of consumer products of all types, consumer durables, equipment and machinery, vehicles, home appliances etc. and to provide finance for all purposes relating to real estate related projects including for furniture and fixtures, furnishings, airconditioners, etc.

84. To carry on and undertake the business of arranging/providing of

financial assistance, whether directly or indirectly, in the form of lending or advancing money by way of a loan (including long term loan), working capital finance, overdraft, cash credit, refinance, providing guarantees, counter guarantees and indemnities or in any other form to institutions, bodies corporate (whether or not incorporated), firms, associations, authorities, bodies, trusts, agencies, societies or any other person or persons engaged in or in connection with urban infrastructure development work or providing urban infrastructure facility or engaged in urban infrastructure activities."

11. As a Special Resolution

"RESOLVED THAT on the special resolution at item No. 10 for alteration of Other Objects of the Objects Clause of the Memorandum of Association being duly passed and becoming effective, the approval of the members of the corporation be and is hereby accorded pursuant to section 149(2-A) and other applicable provisions, if any, of the Companies Act, 1956, for commencing and carrying on all or any of the business and activities specified in the newly incorporated sub-clauses 83 and 84 in the Other Objects of the Objects Clause of the Memorandum of Association of the corporation, at such time as may be deemed fit by the board of directors."

12. As a Special Resolution

"RESOLVED THAT pursuant to the provisions of sections 198, 309 and other applicable provisions, if any, of the Companies Act, 1956, the non-wholetime directors of the corporation in addition to sitting fees being paid to them for attending the meetings of the board and its committees, be paid every year for a period of five years with effect from April 1, 2000, commission of an amount as may be determined by the board from time to time, subject to a ceiling of 1% (one percent) of the net profits of the corporation (computed in the manner specified in section 198(1) of the Companies Act, 1956), to be divided amongst them in such manner as the board of directors of the corporation may, from time to time, determine."

13. As an Ordinary Resolution

"RESOLVED THAT pursuant to the provisions of section 94 and other applicable provisions, if any, of the Companies Act, 1956, and the provisions of the Articles of Association of the corporation, and subject to the approvals, consents, permissions and sanctions as may be necessary from the appropriate authorities or bodies, the equity shares of the corporation having nominal face value of Rs. 100 (Rupees one hundred) per share be sub-divided into equity shares having nominal face value of Rs. 10 (Rupees ten) per share and the relevant Capital Clauses in the Memorandum and Articles of

Association of the corporation be accordingly altered as proposed in the resolutions at item No. 14 and 15 of the Notice convening this annual general meeting."

"RESOLVED FURTHER THAT the board of directors of the corporation be and are hereby authorised to do all such acts, deeds, matters and things including issue of fresh share certificates and execute all such documents, instruments and writings as may be required in the said connection and to delegate all or any of the powers herein vested in them to any committee of directors or any director(s) to give effect to the aforesaid resolution."

14. As an Ordinary Resolution

"RESOLVED THAT on the resolution for sub-division of the nominal face value of equity shares being duly passed and becoming effective as stated in resolution at item No. 13 of the notice convening this annual general meeting, Clause V of the Memorandum of Association of the corporation be deleted and in place thereof the following new Clause V be substituted:

"The authorised share capital of the corporation is Rs 220,00,00,000 (Rupees two hundred and twenty crores) consisting of 15,00,00,000 equity shares of Rs. 10 each and 70,00,000 cumulative redeemable non-convertible preference shares of Rs. 100 each."

15. As a Special Resolution

"RESOLVED THAT on the resolution for sub-division of the nominal face value of equity shares being duly passed and becoming effective as stated at item No. 13 of the notice convening this annual general meeting and pursuant to section 31 and other applicable provisions, if any, of the Companies Act, 1956, the Articles of Association of the corporation be altered by deleting the existing Article 3 and substituting in place thereof the following as Article 3 -

"The authorised share capital of the corporation is Rs 220,00,00,000 (Rupees two hundred and twenty crores) consisting of 15,00,00,000 equity shares of Rs. 10 each and 70,00,000 cumulative redeemable non-convertible preference shares of Rs. 100 each."

16. As a Special Resolution

"RESOLVED THAT pursuant and subject to section 81 and other applicable provisions, if any, of the Companies Act, 1956 (including any amendment to or re-enactment thereof), the relevant provisions of the Memorandum and Articles of Association of the corporation, the relevant laws and regulations prescribed by the Securities & Exchange Board of India as also other authorities, as applicable from time to time and subject to such consents, permissions and sanctions as may be required from appropriate authorities or bodies, the board of directors of the corporation

(hereinafter referred to as the 'board'), be and is hereby authorised to issue, offer and allot equity shares of the aggregate nominal face value not exceeding Rs. 6,00,00,000 (Rupees six crores), to the present and future employees and directors of the corporation including employees and directors of the subsidiary companies of the corporation, being employees who on request of the corporation have joined the employment of the subsidiary company (hereinafter referred to as the 'employees'), under an Employees Stock Option Plan on the terms and conditions as set out in the explanatory statement to this item and on such other terms and conditions and in such tranche as may be decided by the board in its absolute discretion."

"RESOLVED FURTHER THAT without prejudice to the generality of the above but subject to the terms as approved by the members, the board be and is hereby authorised to formulate a scheme detailing all the terms of the Employees Stock Option Plan (including terms relating to eligibility of the said employees under the Plan), to grant the options under the said Plan (detailing the terms of the option) at such time or times as it may decide in its absolute discretion and is also authorised to determine, in its absolute discretion, as to when the said equity shares are to be issued, the number of shares to be issued in each tranche, the terms or combination of terms

subject to which the said shares are to be issued (including the combination of terms for shares issued at various points of time), the terms relating to dividend on the shares to be issued and all such other terms as could be applicable to the offerings of similar nature."

"RESOLVED FURTHER THAT subject to the terms stated herein, the equity shares allotted pursuant to the aforesaid resolution shall in all respects rank *pari passu* inter se and shall also in all respects rank *pari passu* with the existing equity shares of the corporation."

"RESOLVED FURTHER THAT for the purpose of giving effect to the above

resolutions, the board be and is hereby authorised to do all such acts, deeds, matters and things and execute all such deeds, documents, instruments and writings as it may in its absolute discretion deem necessary or desirable and pay fees and commission and incur expenses in relation thereto."

"RESOLVED FURTHER THAT the board be and is hereby authorised to settle all questions, difficulties or doubts that may arise in relation to the implementation of the Employees Stock Option Plan and to the shares (including to amend or modify any of the terms thereof) issued herein without being required to seek any

further consent or approval of the members or otherwise to the end and intent that the members shall be deemed to have given their approval thereto expressly by the authority of this resolution."

"RESOLVED FURTHER THAT the board be and is hereby authorised to delegate all or any of the powers herein conferred to any committee of directors or any wholtime director or directors or any officer or officers of the corporation to give effect to the aforesaid resolutions."

May 3, 1999.
Registered Office :
Ramon House,
169, Backbay Reclamation,
Churchgate, Mumbai 400 020

By Order of the Board

SUSIR KUMAR M.
Company Secretary &
Chief-Recoveries

NOTES :

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE CORPORATION. The proxy form should be lodged with the corporation at its registered office at least 48 hours before the time of the meeting.
2. Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, in respect of special business is annexed hereto.
3. The register of members and share transfer books of the corporation will remain closed from Friday, June 11, 1999 to Friday, July 9, 1999, both days inclusive.

4. Members are requested to promptly notify any changes in their address/ bank account details to the corporation's share dept. at 'Tel Rasayan Bhavan', Ground Floor, Tilak Road, Dadar T.T., Mumbai 400 014.
5. All documents referred to in the notice and explanatory statement are open for inspection at the registered office of the corporation during office hours on all days except Saturdays, Sundays and public holidays: between 11.00 a.m. and 1.00 p.m. upto the date of the annual general meeting.
6. The corporation has transferred the unclaimed dividends declared for the financial year 1994-95 to the General Revenue Account of the Central Government. All members who have

either not received or have not encashed their dividend warrants for the financial years 1995-96, 1996-97 and 1997-98 are requested to write to the corporation's share department at the aforesaid address, mentioning the relevant folio No.(s), for issuance of duplicate dividend warrant(s).

MEMBERS WHO HOLD SHARES IN THE DEMATERIALISED FORM, ARE REQUESTED TO BRING THEIR DEPOSITORY ACCOUNT NUMBER FOR IDENTIFICATION.

MEMBERS ARE REQUESTED TO BRING THEIR COPIES OF THE ANNUAL REPORT TO THE MEETING.

ANNEXURE TO THE NOTICE

HDFC

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956.

Item No. 8

Messrs Ratan Mama & Company, Chartered Accountants were appointed as branch auditors of the corporation for the purpose of the audit of the accounts of the corporation's branch office at Dubai. Their office as branch auditors expires at the conclusion of this meeting and the board recommends their re-appointment as branch auditors. Resolution for this purpose, pursuant to section 228 of the Companies Act, 1956, is placed before the members for their approval.

None of the directors of the corporation, is in any way, concerned or interested in the said resolution.

Item No. 9

In accordance with the resolution passed by the members of the corporation at the twentieth annual general meeting held on June 24, 1997, the amount outstanding consequent to loans borrowed by the board of directors on behalf of the corporation cannot exceed Rs. 12,500 crores at any point of time. As on March 31, 1999, the total borrowings of the corporation amounted to Rs. 9,824 crores. In view of growth in business of the corporation, it may be necessary for the corporation to borrow monies from various sources consequent to which the amount outstanding could exceed the present limit of Rs. 12,500 crores.

The board of directors accordingly recommends the new limit to the extent as set out in the resolution, for approval of the members.

None of the directors of the corporation is in any way, concerned or interested in the said resolution.

Item Nos. 10 & 11

The main business of the corporation has been providing of housing finance for construction/purchase of houses. Several requests are received by the corporation asking it to provide loans and other forms of financial assistance for various purposes including for purchasing various types of consumer durables and vehicles as also for all purposes relating to real estate projects including loans and other forms of financial assistance for acquiring furniture and fixtures, furnishings, airconditioners, etc. There have also been several requests for providing loans for urban infrastructure and urban infrastructure related activities. In the corporation's view there is a good demand for these loans.

In view of this, the corporation proposes to carry on the activities as stated in the resolution at Item No.10 of the notice convening this annual general meeting, which can be conveniently and advantageously combined with the existing business of the corporation.

In order to carry out these operations, the Other Objects of the Objects Clause in the Memorandum of Association of the corporation will have to be altered by adding thereto the sub-clauses specified

in the said resolution. Accordingly a special resolution for alteration of the Objects Clause of the Memorandum of Association of the corporation is placed before the members for their approval.

Pursuant to the provisions of section 149(2-A) of the Companies Act, 1956, the approval of the members in general meeting is required before commencement of any new activity set out in the Other Objects of the Objects Clause of the Memorandum of Association of a company. Approval of the members is sought for commencement and carrying out the activities as set out in the new proposed Other Objects specified in the resolution at item No.10 of this notice. The said activity would be commenced at such time or times as the board may deem fit in the interest of the corporation.

None of the directors of the corporation, is in any way, concerned or interested in the said resolutions.

Item No. 12

The members of the corporation had at the annual general meeting held on July 25, 1995, approved the payment of commission to the non-wholetime directors of the corporation of an amount in the aggregate to all of them, equivalent to such sum as may be determined by the board of directors, subject to a ceiling of 1% of net profits of the corporation. This resolution was with effect from April 1, 1995. In accordance with section 309 of the Companies Act, 1956, the resolution of the members approving the payment of

commission would remain in force for a period of five years and could be renewed for a further period of five years. Accordingly the validity of the said resolution would expire on March 31, 2000.

A fresh approval of the members is sought by way of a special resolution for payment of commission to the non-wholetime directors as set out in the resolution at item No. 12 to this notice.

All directors of the corporation except the wholetime directors, are concerned and interested in this resolution.

Item Nos. 13, 14 and 15

Currently the nominal face value of the equity shares of the corporation is Rs. 100 per share. Most of the companies listed on the stock exchange have the nominal face value of their equity shares at Rs.10 per share. Many companies, which had their face value of equity shares at Rs. 100 per share, have sub-divided the shares to bring down the face value at Rs. 10 per share. Also several shareholders of the corporation have been requesting the corporation to sub-divide the face value of its equity shares from Rs. 100 per share to Rs. 10 per share.

In view of this, it is proposed to sub-divide the nominal face value of the equity shares of the corporation from Rs. 100 per share to Rs. 10 per share. The resolutions for altering the Capital Clauses in the Memorandum and Articles of Association of the corporation as set out in item Nos. 14 and 15 of the notice convening this annual general meeting

are to reflect in the Capital Clauses in the Memorandum and Articles of Association of the corporation the consequential change in the nominal face value of the equity shares of the corporation from Rs. 100 per share to Rs. 10 per share.

The board of directors recommends the resolution for approval of the members. None of the directors of the corporation, is in anyway concerned or interested in the said resolution, except to the extent of their shareholding in the corporation.

Item No. 16

In order to reward and motivate employees as also to attract and retain the best talent, the corporation proposes an Employees Stock Option Plan as per which, employees who comply with certain eligibility criteria would be given options to subscribe to a specified number of equity shares of the corporation, offered to them at a price to be determined as mentioned hereinbelow. The employees could exercise the option after a stipulated time and after complying with the conditions subject to which the options are granted, by paying the appropriate consideration, consequent to which the shares would be allotted to them. The object of the Employees Stock Option Plan is to motivate the employees and thereby improve the profitability of the corporation. In accordance with the terms of this resolution and the scheme (to be formulated for implementing the said Employees Stock Option Plan), the options would be granted to and exercisable by the eligible employees over a maximum period of 8 years and the paid-up equity share capital would

accordingly increase to the extent of the shares allotted under the Plan over a maximum period of 8 years. In accordance with this resolution the shares under the Employees Stock Option Plan would be issued to the employees and directors of the corporation including employees and directors of the subsidiary companies of the corporation, being employees who on request of the corporation have joined the employment of the subsidiary company (hereinafter referred to as the 'employees').

The following would inter-alia be the broad terms and conditions of the Employees Stock Option Plan -

Maximum nominal face value of shares that could be issued under the Plan

Equity shares of the aggregate nominal face value of Rs. 6,00,00,000.

Formula for determining the price at which the shares would be issued to the employees

The equity shares would be issued to the eligible employees at a price being the average of the closing price of the equity shares of the corporation quoted on the Stock Exchange, Mumbai for a period of one month preceding the date of grant of the options.

Granting, Vesting and Exercise of Options

Subject to the provisions of relevant laws, regulations and guidelines issued by statutory authorities, the options would be granted and vested by the board of directors to the said employees within such period and upon such terms as it may stipulate under any Scheme or Plan

evolved in that behalf by it. The options will be exercisable in terms of the Scheme or Plan, by the said employees within such time from the date of vesting as may be stipulated by the board of directors. The options would be exercisable by the said employees by payment of the consideration amount in cash and submitting the requisite application form after which the shares would be allotted. Notwithstanding anything contained in this resolution or the explanatory statement thereto, the board of directors would have the absolute discretion to determine the employees eligible to be granted options under the scheme and the quantum of options to be granted to any eligible employee.

Listing

The shares allotted pursuant to the exercise of the stock option shall be listed on the Mumbai and National Stock Exchanges and necessary applications would be made to these Stock Exchanges in that behalf.

Appraisal process for determining eligibility of the employees to the stock option plan

The board of directors shall as aforesaid be entitled to formulate a Scheme detailing the eligibility criteria for the said employees under the said Plan, the terms and conditions subject to which shares would be

issued, the modus of grant, exercise and vesting of the shares under the Plan and such other terms relating to the Plan. Before granting the options to the employees under the Plan, the board of directors would inter alia consider the length of service, grade, performance, merit, future potential contribution and conduct of the employee and such other factors as may be deemed appropriate by it.

Accounting policies and disclosures

In accordance with the applicable provisions of law and regulations prescribed by statutory authority from time to time, the corporation shall comply with the accounting policies to be followed consequent to issue of shares under the said Plan and shall disclose all details relating to shares issued under the Plan in the Directors' Report to its members.

Pursuant to the resolution at item No. 16 of the notice convening this annual general meeting the equity shares of the corporation may be issued to persons other than the existing members of the corporation as specified in section 81(1) of the Companies Act, 1956. Consent of the members in general meeting would therefore be necessary pursuant to the provisions of sub-section (1-A) of section 81 of the Companies Act, 1956 and the

listing agreement with the stock exchanges. This resolution and the terms stated therein as also the terms stated in the explanatory statement hereinabove shall be subject to the guidelines/regulations to be issued by statutory authorities in that behalf and the board shall have the absolute authority to modify the terms herein which do not conform with the provisions of the said guidelines regulations.

The board of directors recommend the resolution for approval of the members.

Since the shares under the Stock Option Plan could be issued to the directors of the corporation, all the directors are concerned and interested in the said resolution at item No. 16 of the notice. The members' approval in accordance with this resolution is inter alia also being sought for authorising the board of directors and the compensation committee of directors to do acts stated in the resolution and hereinabove where they would be the beneficiaries.

May 3, 1999.

Registered Office:

Ramon House,
169, Backbay Reclamation,
Churchgate, Mumbai 400 020.

By Order of the Board

SUSIR KUMAR M.
Company Secretary &
Chief-Recoveries

MODUS OF HOLDING AND DEALING IN SHARES AND SECURITIES IN DEMATERIALISED FORM IN THE DEPOSITORY SYSTEM

The Depositories Act, 1996 interalia enables holding, trading and transfer of shares and securities through book entries.

In the physical mode, the transfer of securities takes place in the following manner:

1. The seller and buyer of securities place order with the brokers for sale/purchase of securities at a particular price.
2. The sale and the purchase bids are entered by the brokers in the screen based trading system (e.g. the Bombay Stock Exchange on-line Trading System).
3. As and when the bids match, the transaction takes place.
4. Before the pay-in day the seller of securities is required to lodge the certificates in respect of securities sold by him along with a transfer deed duly signed by him as transferor, with his broker and the buyer is required to pay the relevant amount in respect of securities purchased by him to his broker.
5. The brokers would have to lodge the relevant securities/amounts with the clearing house/bank of the Stock Exchange for the purpose of clearing. After the clearing, on the pay-out day, the selling broker would get the relevant amount and the buying broker would get the relevant securities, which they would in-turn deliver to their respective clients.
6. After receipt of the securities by the buyer, he has two options - either to resell the securities using the blank transfer deed or to send it to the relevant company for registering the transfer in his favour (after executing the transfer deed and affixing the relevant share transfer stamps).

7. The company receiving such transfer requests would check the correctness of the transfer forms and share certificates and thereafter transfer the securities and return the certificates to the transferee duly endorsed.

The difficulties faced by transferees in the aforesaid system include:

- a) The securities are normally not transferred and delivered in time by the companies. As per the listing agreement with the Stock Exchanges, the certificates in respect of securities sent to the company for transfers ought to be transferred and despatched within 30 days of receipt by the company.
- b) The securities purchased could be stolen property, in which event the transferee could be subjected to police enquiries.
- c) The transferee may lose the blank transfer form(s) along with the certificates in which case it is very difficult for him to get a duplicate certificate issued in favour of the original transferor and transferred in his favour. He would, in such case be required to lodge an FIR, procure an injunction Order from the Court and execute a host of other documents.
- d) The transfers could be rejected on various technical grounds like mismatch of signatures, transfer form being mutilated, transfer form not being duly executed, stamp duty not being adequately affixed etc.
- e) The securities could be lost in transit either at the time it is sent for transfer or whilst being sent by the company after it is transferred.

- f) The transfers which are rejected for technical reasons are to be returned by the transferee to his broker from whom he had purchased the securities, within a stipulated time, in which event the relevant buying broker would replace the securities along with the transfer forms. This process could take as long as two months. In case the rejected transfer deeds are not returned to the buying broker in the stipulated time, the replacement of securities could take substantial time - which could extend upto an year.
- g) During the course of the securities being replaced by the buying broker in respect of rejected transfer deeds, the company may declare certain benefits to its registered shareholders like dividend, bonus shares, rights shares etc. and the transferee may either lose such benefits or would have to take substantial pain and effort to get the benefits from the actual owner/buying broker.

To overcome these difficulties as also the difficulties faced by the Stock Exchanges in the process of clearing (which involves handling huge amount of papers being transfer deeds and share certificates), the Depositories Act, 1996 was passed to provide for a mechanism of electronically clearing the transaction and electronically transferring shares and securities traded on the Stock Exchanges.

The Depository system, would interalia have the following constituents:

- Main Depository
- Depository Participant
- Registrar
- Issuer/Company