ICICI Securities

12TH ANNUAL REPORT AND ACCOUNTS 2004-2005

Directors

Chairman	K. V. Kamath
	Lalita D. Gupte
	Kalpana Morparia
	Nachiket Mor
Managing Director & CEO	S. Mukherji

Executives

Group Heads	Abhijeet Guin
	Devesh Kumar
	J. Niranjan
	Joseph H. Bosco
	Lovleen Joshi
	Nitin Jain
	Swapna Bhargava
	V. Harikrishnan
Company Secretary	Anderson Pollock

Auditors

M/s. S. R. Batliboi & Company
Chartered Accountants

Registered Office

ICICI Centre, H. T. Parekh Marg,
Churchgate, Mumbai 400 020

Other Offices

3rd Floor, ICICI Bank Tower
NBCC Place
Bisham Pitamah Marg
New Delhi 110 003

II Floor, ICICI Bank Tower
93, Santhome High Road,
Chennai 600 028

2B, Gorky Terrace,
Off. Lower Circular Road
Kolkata 700 017

ICICI SECURITIES LIMITED

ICICI Securities i-SEC

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12TH ANNUAL REPORT AND ACCOUNTS 2004-2005

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K. V. Kamath, *Chairman*
Lalita D. Gupte
Kalpana Morparia
Nachiket Mor
S. Mukherji, *Managing Director & CEO*

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Registered Office
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H. T. Parekh Marg
Churchgate
Mumbai - 400 020

directors' report

to the members

The Directors have pleasure in presenting the 12th Annual Report of ICICI Securities Limited (the Company), with the audited Statement of Accounts for the year ended March 31, 2005.

INDUSTRY OVERVIEW

The year FY05 saw the domestic economy overcome several constraining factors to maintain its growth momentum. The electoral verdict in the parliamentary elections in May 2004 impacted market sentiment for a while even as a poor monsoon distribution gave rise to fears about domestic growth. Global oil prices too started moving up steadily in Q1 of FY05 and notwithstanding frequent corrections, have risen by over 60% in FY05. Although households were largely insulated by Governmental policy from the full inflationary impact, the corporate sector was impacted. Other commodity prices also rose to multi-year high during the year. Overall, the economy is estimated to have grown at 6.9% despite farm output growth decelerating sharply to 1.1% (9.6% in FY04).

After remaining dormant in April 2004, inflation started moving up rapidly in the next four months to a peak level of 8.7% in August 2004 on the back of rise in fuel prices, minerals, metals and other manufactured goods. For FY05, inflation averaged 6.5% and ended the year at 5.1% in March 2005.

In response to the unforeseen rise in inflation, the Government took several steps to control prices and rein in inflation expectations. These included a mix of indirect duty cuts on various commodities and price control on petroleum products. The Reserve Bank of India (RBI) hiked the Cash Reserve Ratio (CRR) by 50 bps in September 2004 and the reverse repo rate by 25 bps in its October 2004 monetary policy review.

Interest rates remained in a narrow range in the first two months of FY05 before moving up in step with inflation. The 10 year yield, which began the year at 5.15% rose to 6.73% in August 2004 but dipped below 6.0% in September 2004 as RBI relaxed SLR accounting norms for commercial banks. The subsequent hikes in CRR and policy rate as well as renewed inflation fears on the back of the rise in oil prices saw yields rise to over 7.0% in November 2004. The 10 year yield peaked at 7.34% in November 2004 and ended the financial year at 6.66%, up 151 bps over the year.

During the year, the Federal Reserve began tightening interest rates at regular intervals in 25 bps increments and by end of the financial year had moved its policy rate to 2.75%, a cumulative rise of 175 bps. This effect of the U.S. rate rise was mitigated to some extent by the continued weakness in dollar against other major currencies and emerging market currencies. A sharp rise in FII inflows contributed to the rise in the rupee despite a widening trade deficit. The rupee ended the year at 43.76/US$, down 0.7% over the year, but up 5.8% from the year's low. The central bank's foreign exchange reserves also mirrored this pattern and rose by US$ 28 billion over the year to an all time high of US$ 135 billion.

The key feature of M&A activity in FY05 was the dominance of cross-border transactions, both inbound and outbound. The year witnessed a pick up in large, outbound cross-border M&A as Indian companies started acquiring foothold in key overseas markets, especially in sectors like steel, telecom, textiles, oil & gas and pharmaceuticals. At the same time, the year witnessed several large-sized domestic transactions in telecom, information technology and cement sectors, with MNCs increasingly viewing India as a critical element in their strategic plans, either as a manufacturing/outsourcing hub or an explosive growth market. Consolidation in the Indian public and private sector continued as large groups streamlined themselves to compete effectively on a global scale.

Capital markets went through tumultuous times in FY05 as investors initially feared uncertainty due to change in government following general elections in May 2004. Investor confidence, however, returned as the new government demonstrated commitment to the ongoing reforms and investment process. Consequently, India witnessed a record FII inflow of US$ 10 billion during FY05. Overall, the benchmark index, Nifty, returned 15% during the year. The NSE Midcap index, however, significantly outperformed with 73.5% return as investors took cognizance of the emerging stars of tomorrow. Primary markets, too witnessed, heightened activity as Indian companies raised US$ 5.8 billion (a 20% increase over last year) through IPO and rights issuances. Fund-raising through overseas offerings (FCCBs and GDRs) also gained momentum. While the year saw maiden issues in sectors like airlines and power, information technology and banking too continued to tap the capital markets. The year witnessed the IPOs of the largest listed power generating company in Asia (NTPC), India's biggest technology company (Tata Consultancy Services) and the largest private sector airline (Jet Airways). These offerings clearly underscore the deepening of Indian capital markets providing more opportunities for investors to invest in global size companies.

FINANCIAL HIGHLIGHTS

(Rupees million)

	Fiscal 2005	*Fiscal 2004*
Gross Income	1,823.28	*3,211.47*
Profit before Interest, Depreciation & Tax	1,354.19	*2,536.58*
Depreciation	13.21	*13.87*
Interest	496.42	*620.48*
Profit before Tax	844.56	*1,902.23*
Provision for Tax	280.58	*463.23*
Profit after Tax	563.98	*1,439.00*

The profit after tax for the year ended March 31, 2005 was Rs. 563.98 million (previous year Rs. 1439.00 million). After taking into account the balance of Rs. 133.49 million (previous year Rs. 151.02 million) brought forward from the previous year, the profit available for appropriation is Rs. 697.47 million (previous year Rs. 1590.02 million) of which Rs. 28.20 million (previous year Rs. 143.90 million) and Rs. 112.80 million (previous year Rs. 287.80 million) have been transferred to General Reserve and Special Reserve respectively.

DIVIDEND

During the year, the Company declared two interim dividends aggregating 13%. The Directors are pleased to recommend the aggregate of interim dividends of 13%, as final dividend for the year.

OPERATIONAL REVIEW

The Company continued to deliver remarkable performance, in line with its forefront position in the industry. During the year, the Company's net worth increased from Rs. 3.92 billion in 2003 - 2004 to Rs. 4.19 billion in 2004 - 2005, an increase of 6.89% and after-tax return on net worth was 13.90%.

directors' report

Fixed Income

During the year under review, despite the difficult operating environment your Company continued to maintain its premier position in all segments of the domestic fixed income market. In the Primary Dealership business the Company surpassed its bidding and success obligations in government auctions. The Company also achieved a turnover in excess of Rs 1.2 trillion in government securities for the first time in its history. In the non-government business, the Company increased its turnover to Rs. 139 billion. The Company was able to maintain a market share of around 10% confirming its status as one of the leading players in this market. The emphasis continued to be on profitability and out performance of the movement in the benchmark yields. In swaps, the Company almost doubled its volumes during the year and added a number of new counter parties.

The Debt Capital Markets group mobilized funding for a large cross section of clients through private placement of bonds as well as loan syndications. The group structured several innovative floating rate structures for matching the clients' requirements with that of investors, in a rising interest rate scenario. ICICI Securities was also involved as an arranger in the largest private placement transaction of the year, for Food Corporation of India, which mobilized funds in excess of Rs. 40 billion in two tranches.

Investment Banking

During the year under review, the Company strengthened its Advisory business with intensive marketing and by leveraging synergies with the ICICI Group. This has enabled your Company to increase its presence in the advisory segment by effective service delivery and enabling revenue maximization in the advisory segment. The Company launched various initiatives to strengthen its presence in the U.S. and to build presence in Singapore and U.K. markets by networking with intermediaries to identify opportunities in the cross border M&A space. The Company was actively engaged in advising clients in the FMCG, Spirits, Power, Telecom, Automotive, Chemicals, Oil and Gas, Engineering, Fertilizers and Pharmaceutical sectors.

In the recent BLOOMBERG compilation of league tables, the Company was ranked 2nd in terms of deal value for FY05, with announcement of 13 deals aggregating to US$ 1.5 billion.

Your Company has set up a focused private equity team, which has built up a healthy pipeline of transactions across a cross-section of industries. In addition, the Company has been mandated by several clients in the infrastructure sector, another fast-growing area in India.

Capital Markets

ICICI Securities emerged as the leader in Indian equity capital markets, with 9 issuances during the year. Your Company lead-managed the public offering of the biggest power utility in the country, National Thermal Power Corp. (NTPC). The issue had an overwhelming retail response with 1.4 million applications and mobilized a record amount of funds (Rs. 680 billion/ US$ 1.2 billion). This also was the biggest offering for FY05. ICICI Securities was the Book-Running Lead Manager to the follow-on public offering of Punjab National Bank, the second largest bank issue ever. Some of other issuances for the year managed/co-managed by the Company included ICICI Bank Limited, Deccan Chronicle Holdings Limited, Dena Bank, 3i Infotech Limited, Jaiprakash Hydro-Power Limited and Emami Limited.

Equity Research

With markets being in frenzy, the role of equity research has become ever so important to provide independent and analytical views. Keeping this in mind, the company augmented its research efforts to become brokers of preferred choice for views on both established as well as emerging companies. The Equity Research team's well-structured ideas as well as strategy and theme reports across sectors have been well received and appreciated by major domestic and international clients. The investors' conferences at Singapore and New York witnessed excellent response from investors across the globe.

Risk Management

As a financial services company, the Company is committed to ensure that effective risk management policies and practices are incorporated as fundamental aspects of all its business operations. The Corporate Risk Management Group of the Company has a comprehensive risk management policy in place, addressing primarily areas such as market, credit and operation risks. This policy seeks to minimise the risks generated by the activities of the Company. The group continuously develops and enhances its risk management and control procedures in order to better identify and monitor risks and to proactively take appropriate actions to mitigate the same. The Company has also constituted an internal Risk Management Committee comprising the Managing Director & CEO and Senior Executives from cross-functional areas. The Committee is responsible for managing the liquidity and interest rate risk profile of the assets and liabilities of the Company.

FUTURE OUTLOOK

Fixed Income

The domestic growth outlook is positive and despite the likelihood of a slowdown in global growth, Indian GDP growth is likely to be higher than in FY05 on back of strong investment spending and resurgent consumerism. While inflation is likely to be sticky on account of strong GDP growth and also due to pressure from international commodity prices, a repeat of the FY05 scenario appears unlikely. Demand for funds is projected to be robust, given the budgeted fiscal deficit and likely corporate capital expenditure plans. Internationally, as monetary policies get normalized, interest rates are set to harden. Higher interest rates abroad could possibly have an adverse bearing on capital flows and in conjunction with widening current account deficit in India, it implies that a sustained appreciation of the Indian rupee is unlikely. The overall macro-economic environment thus could lead to further, albeit more moderate than FY05, upward movement in benchmark interest rates and bond yields in India.

Investment Banking

The renewed focus of corporates to invest for growth and to establish an overseas footprint, assisted by the buoyancy in the capital markets will drive fund raising activities. The trend towards tapping the capital markets outside India through global offerings is expected to sustain and your Company has initiated efforts to launch these product offerings. This is already being complemented by the emergence of India as an attractive destination for private equity as well and a dedicated team of your Company is focused on opportunities in this space.

Capital markets

Continued emphasis on the economic reforms agenda by the new government has convinced investors on the political consensus towards sustaining economic growth for the country. Consequently, the Company expects India to remain the favoured emerging market destination for equity investments. The Company looks forward to another eventful year as India Inc. continues its march towards making its presence felt on the global investment map.

SUBSIDIARY COMPANIES

The Company has one subsidiary in India, namely ICICI Brokerage Services Limited and two subsidiaries in the U.S.A., namely, ICICI Securities Holdings, Inc. and ICICI Securities, Inc. As required under Section 212 of the Companies Act, 1956, the audited statements of accounts for the year 2004 - 2005 as prepared under the Companies Act, 1956, together with the Reports of the Directors and Auditors for the year ended March 31, 2005 of these subsidiaries are attached.

ICICI Securities, Inc., a broker-dealer member with the National Securities Dealers Association Inc. (NASD), had in early 2004 filed applications for commencing business in Dealing in Securities and Advising on Corporate Finance with the Monetary Authority of Singapore (MAS) and to undertake Merchant Banking activities including Underwriting in Securities with the Financial Services Authority (FSA), United Kingdom. These applications are at a final stage of consideration by both, the MAS and the FSA, and registrations are expected shortly. Accordingly, ICICI Securities, Inc. has finalised the premises for opening of its branch offices in both the United Kingdom and in Singapore and operations are expected to commence shortly.

PUBLIC DEPOSITS

During the year, the Company has not accepted any deposit under Section 58A of the Companies Act, 1956.

directors' report

DIRECTORS

In terms of the provisions of the Articles of Association of the Company, Dr. Nachiket Mor will retire by rotation at the ensuing Annual General Meeting of the Company and being eligible, offers himself for re-appointment.

AUDITORS

The Statutory Auditors, S. R. Batliboi & Company, Chartered Accountants, Mumbai, will retire at the ensuing Annual General Meeting. The Board at its Meeting held on April 21, 2005, has proposed their re-appointment as Auditors to audit the accounts of the Company for the financial year ending March 31, 2006. You are requested to consider their re-appointment.

FOREIGN EXCHANGE EARNING AND EXPENDITURE

During 2004 - 2005, expenditure in foreign currencies amounted to Rs. 30.34 million (previous year Rs. 28.66 million) and earnings in foreign currencies amounted to Rs. 26.09 million (previous year Rs. 22.42 million).

PERSONNEL AND OTHER MATTERS

As required by the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of the employees are set out in the annexure to the Directors' Report.

Since the Company does not own any manufacturing facility, the disclosure of information relating to conservation of energy and technology absorption to be disclosed in terms of Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, are not applicable and hence not given.

AUDIT COMMITTEE

During the year, the Committee met to review the half-yearly and annual accounts, to discuss the audit findings and recommendations of the internal and statutory auditors and to review the internal control systems of the Company.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that in preparation of the annual accounts for the year ended March 31, 2005 -

1. the applicable accounting standards had been followed along with proper explanation relating to material departures;
2. they had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;
3. they had 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 the company and for preventing and detecting fraud and other irregularities; and
4. they had prepared the annual accounts on a going concern basis.

CORPORATE PHILOSOPHY AND COMPLIANCE

The Company firmly believes that corporate governance and compliance practices are of paramount importance in order to maintain the trust and confidence of the stakeholders, clients, the good reputation of the Company and the unquestioned integrity of all personnel involved in the Company. To ensure transparency, fairness and objectivity in an organisation's functioning, the Company has proactively adopted best practices with regard to corporate governance and compliance, which are ahead of regulatory requirements. The Company's policy on compliance with external regulatory requirements is backed by stringent internal policies and principles to ensure, interalia, priority to clients' interest over proprietary interest, maintenance of confidentiality of client information and prevention of insider trading.

ACKNOWLEDGEMENTS

The Directors thank the clients for the confidence reposed, which has enabled the Company to successfully deliver well structured solutions and timely execution, in a preferred way.

The Directors also thank the Company's bankers, lenders, the Government of India, the Securities and Exchange Board of India, the Reserve Bank of India and other statutory authorities for their continued support to the Company.

The Directors express their gratitude for the unstinted support and guidance received from its shareholders, ICICI Bank Limited and other group companies.

The Directors also express their sincere thanks and appreciation to all the employees for their commendable teamwork, professionalism and contribution during the year.

For and on behalf of the Board

K.V. KAMATH
Chairman

Mumbai, April 21, 2005