

Indiabulls Securities Limited

Annual Report 2010-11



Empowering your growth

Indiabulls
SECURITIES

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Company Information

Board of Directors:

Mr. Divyesh B. Shah
Mr. Ashok Sharma
Mr. Aishwarya Katoch
Mr. Karan Singh
Mr. Prem Prakash Mirdha
Brig. Labh Singh Sitara

Company Secretary:

Mr. R. K. Agarwal

Internal Auditors:

N.D. Kapur & Co.
Chartered Accountants
2-A, Shanker Market,
Connaught Circus, New Delhi – 110 001

Statutory Auditors:

Deloitte Haskins & Sells
Chartered Accountants
Opp. Shiv Sagar Estate
12, Dr. Annie Besant Road
Worli, Mumbai – 400 018

Registrars & Transfer Agents:

Karvy Computershare Pvt. Ltd.
Plot No. 17 to 24,
Vittal Rao Nagar,
Madhapur,
Hyderabad – 500 081

Registered Office:

F-60, Malhotra Building,
2nd Floor, Connaught Place,
New Delhi – 110 001

Corporate Offices:

8&9/F, Indiabulls Finance Centre,
Tower 1, Elphinstone Mills,
Senapati Bapat Marg,
Mumbai – 400 013

“Indiabulls House” 448-451,
Udyog Vihar, Phase V,
Gurgaon – 122 016

Bankers:

Allahabad Bank
Andhra Bank
Axis Bank
Bank of Baroda
Bank of India
Bank of Maharashtra
Bank of Rajasthan
Canara Bank
Citi Bank
Dena Bank
HDFC Bank

HSBC Bank
ICICI Bank
IDBI Bank
Indian Bank
Indusind Bank
ING Vysya Bank
Karnataka Bank
Karur Vysya Bank
Oriental Bank of Commerce
Punjab and Sind Bank
Punjab National Bank

Royal Bank of Scotland
Standard Chartered Bank
State Bank of India
State Bank of Patiala
Syndicate Bank
UCO Bank
Union Bank of India
United Bank of India
Vijaya Bank
Yes Bank

Letter from the CEO

The year 2010-11 was marked by periods of volatility and lackluster performance in the Indian Capital Markets. Global uncertainties continue to rise primarily driven by the sovereign and banking sector default risks in part of Europe, and most recently in the United States. A rise in the global equity markets may shift investor preference away from emerging markets to advanced economies.

Global uncertainties as well as domestic developments impacted Indian Financial Markets. They however remained largely orderly, despite the challenges posted by persistent inflation and the consequent monetary tightening by the Reserve Bank of India, culminating in eleven successive rate hikes. Therefore, markets remained range bound for most part of the year. The subdued activities of FII, interest rates moving north, inflationary pressures, rising crude prices and the Tsunami in Japan all contributed to the markets remaining depressed. The primary markets also echoed this sentiment as large number of IPOs did not reach subscription levels as anticipated, due to significantly lower retail participation.

In India, another major factor affecting the performance of most capital market players was the dynamic shift of volumes from Cash Segment to Future & Options Segment. This has resulted in significantly lower broking incomes, thereby affecting the overall performance.

Your Company too has to an extent, withstood the challenge of the dynamic shift of volumes from Cash Segment to Future & Options Segment. Our strong fundamentals focus on processes, people and technology has helped us through this challenging phase. Your Company is actively looking into alternate revenue generating models to recoup the yields lost on account of this dynamic shift.

Notwithstanding the difficult and challenging environment, we have continued with our maxim to reward our shareholders by announcing a 50% interim dividend (i.e. Re. 1/- per equity share on face value of Rs. 2/- per equity share) during the year. I am also pleased to announce that CRISIL has yet again reaffirmed our BQ-1 Grading, which is once again a reflection on our quality of operations and customer service strengths.

The long term outlook remains positive for the Indian Equity Market in the overall context of positive demography, economic growth and earnings momentum. The growth prospects and the related capital requirements of Indian Companies will continue to drive strong growth in the Indian Capital Markets. Your company is well positioned to capitalize on the positive momentum once these temporary dark clouds of uncertainty are behind us.

Thank you.



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Mr. Divyesh B. Shah
CEO, Indiabulls Securities Limited

Management Discussion and Analysis

Economic Review

2010 was the year of the Emerging economies. Equity markets across the world delivered positive returns in 2010, even though sovereign issues in Europe caused periods of market volatility. Quantitative easing brought a flood of liquidity to Indian equity markets. Domestic factors also influenced Indian market performance, from the RBI's Exit to questions on government's Execution on reforms and the debates on corporate and political Ethics. Despite the uncertainty, backed by strong Earnings, India posted outperformance vs the global indices for the second consecutive year.

However, the year 2011 began on not so sanguine a note. India's economic growth rate has moderated to 8.2 per cent in 2011 from 10.4 percent in the previous year and likely to fall further in the next year, mainly because of tight monetary policy measures. The biggest concern over the last one year or so has been high level of inflation. The Reserve Bank of India (RBI) has already hiked policy rates ten times since March 2010 to tame inflation. The headline inflation in India stood at around 9 per cent in end May 2011, which is higher than the RBI's projection of 8 per cent, and much above the comfort level of 5-6 per cent. There could be additional risks from higher commodity prices, volatile capital inflows and possible spillovers from global uncertainties, particularly those stemming from the credit woes of Euro zone countries like Greece, Spain, Italy and Ireland.

Current macro-economic outlook is underpinned by three major concerns: high inflation, a widening current account deficit and tight inter-bank liquidity due to low deposit growth. Overall macro conditions will remain vulnerable over the next 4-5 months. Inflation, while moderating, will remain above the RBI's comfort zone; while we believe the current account deficit will also stay relatively high. Recent optimism (though somewhat muted due to recent reversals in the state of U.S. economy) in the developed world growth outlook has increased the risk of a potential rise in crude oil prices to \$110-120/bbl. Similarly, there is additional risk of pass through of agricultural and commodity prices. Thus, we expect the near term horizon to be characterized by dark clouds, for the next six months. We are expecting a distinct change in the economic outlook from the second half of the FY 2011-12 with inflationary expectations suitably tamed, accelerating infrastructure spending, FDI liberalization in retail; and fiscal deficit being reined in more aggressively.

Capital Markets Overview

Indian capital markets operated with in a broad range in

the first six months ending June 2011. The sentiment in the market dampened on account of several factors like the Euro zone troubles (perception of Greece default being the most conspicuous one), continuing net withdrawals by the FIIs from the Indian markets, and the tightening liquidity situation in the banking system.

Notwithstanding the near term hiccups, India remains in a structural bull market, so any dip will enhance returns and provide an opportunity to buy equities. India's policy favours a change in mix of growth from consumption to capital spending. An improving global growth environment could be the trigger for higher-than anticipated capex. A disciplined capex cycle in 2011 and capex related sectors, such as industrials, property and materials (most of these have underperformed in 2010) are likely to gather pace. We therefore, expect capex proxies such as industrials, materials and property to perform better relative to consumption sectors.

The long term outlook, therefore, remains positive for Indian equities as economic growth momentum remains healthy with real GDP growth estimates ranging between 7.5% and 8.2%. We expect this growth to result in healthy corporate earnings. While the long term positive outlook remain intact, the near term challenges can influence market as it gets impacted by events/news flows with negative near term implications. Currently, the markets across the world are facing headwinds from the rising crude prices. In the Indian context, tightening interest rate cycle and inflationary pressures add to the near term challenges.

However, in the overall context of positive demography, economic growth, and earnings momentum, we are positive on the long term story of India's capital market.

Business Review

The Company's core business is stock and share broking. It is also in commodities broking through a subsidiary. To complement these businesses, the Company provides depository services, equity research services and IPO distribution to its clients. The Company is a corporate member of the Capital Market, Wholesale Debt Market and Derivative Segment of the NSE and a corporate member of the Capital Market and Derivative Segment of the BSE. The Company had over 6.95 lacs client relationships as on March 31, 2011. The Company faces newer challenges as yields shrink due to investors growing interest in options market as compared to the cash market. The Company's maxim is to consistently reward its shareholders. Keeping this intact, an interim dividend of Re. 1/- per equity share (50% of the face value of Rs. 2/- per equity share) amounting to Rs. 2,310.84 lacs

(excluding corporate dividend tax) was declared by the Board of Directors of the Company in its meeting held on October 18, 2010 and paid for the financial year 2010-2011.

Strengths

Equity, Debt and Derivative Brokerage

The Company's retail equity business primarily covers secondary market equity broking and mainly targets retail investors. It offers automated on-line investing trading facilities as well as broker assisted trade execution to its customers. Investors have full access to personalised portfolio tracking, charting and quote applications, real-time market commentary, and real-time quotes and news. The Company also offers brokerage services for debt and derivatives markets.

Online Trading Channels

At the core of the Company's on-line trading system is an in-house developed application that interfaces with the exchanges on a satellite-based network, which allows investors to carry out stock transactions online. The Company was one of the first companies to develop an in-house real-time link with the NSE. On-line trading can occur either on Indiabulls Group Professional Network, a browser-based network accessible via the internet, or via a specialized advanced trading platform which has direct connectivity with the Company, Power Indiabulls. On-line trading is convenient for clients and also minimizes the typical off-line costs incurred in responding to and processing routine client transactions. The Company has also introduced a seamless funds transfer platform for its clients where in the clients can transfer funds from their own bank accounts to Indiabulls Securities Limited bank accounts through payment gateways. The credit for the same is given instantly to the client's linked Trading Account.

Indiabulls Group Professional Network

Indiabulls Group Professional Network is an on-line trading portal which is accessed through IBSL's website. Clients can execute the sale and purchase of securities, with or without the assistance of off-line relationship managers. Once a client sends a trade request, it is routed through the Risk Management System. The Risk Management System verifies that there are sufficient funds in the client account for the trade, and a confirmation reference number for the order will be sent to the client. The order request is then sent via high speed links to the NSE or the BSE where the trade is executed. On trade execution, the client receives confirmation. The IBSL trading website, <https://trade.indiabulls.com> provides many other facilities

to clients such as objective financial information on the top 400 Indian stocks to assist their investment decisions, streaming real-time quotes, integrated risk management, and support for trading in equity, debt & derivatives.

Power Indiabulls

Power Indiabulls is an on-line trading system designed for the high volume traders, which provides enhanced trade information and order execution on an integrated software-based trading platform. Power Indiabulls, once installed on the client's computer, operates like an on-line dealer terminal, and has direct connectivity with the Company via internet. It provides integrated market watch for securities, equity, commodity and currency derivatives, advanced technical analysis of various securities, risk management reports, single key stroke order entry and split second order confirmation turnaround time, even in peak hours of trading.

Mobile Power Indiabulls

Mobile Power Indiabulls is the state-of-the-art mobile trading platform from Indiabulls Securities that makes trading on the move a totally seamless experience. The application allows the client to view live streaming quotes, trade in equities as well as derivatives segment, view trading reports and account details. This latest offering from Indiabulls securities is again a benchmark trading platform in its category and its rich user interface and seamless trading options allow the clients to enjoy high speed trading on their handheld devices.

SecurID

IBSL has always been at the forefront in introducing cutting edge technologies to enhance our customers' overall broking experience. As another step in this direction we launched SecurID, a hardware authentication device for our customers. This reiterates our constant commitment towards creating a secure and robust trading platform for our customers. The SecurID device generates a new 6-digit 'Security Code' every 30 seconds and ensures highest level of security for clients' account. Clients, who have been issued SecurID, need to enter 'Security Code' being displayed in their SecurID device, along with the 'Client ID' and 'Password' to login and place orders through their Indiabulls Internet Trading Account/ Power Indiabulls (PIB). These clients are also required to quote this 'Security Code' while placing orders over phone at their Service Branch. This concept of SecurID is considered to be most advanced and safest mechanism for trading. We are thankful to our customers for their overwhelming response to this pioneering concept. The introduction of

SecurID further cements our position as an innovative and leading brokerage house of the country.

Indiabulls Signature Client

Indiabulls Signature Client is designed for self-directed experienced individual investors who want to manage their own portfolios. This service offers a stock trading account, Indiabulls Signature Account, which assists clients by allowing them to combine investments and cash in one account and trade securities on-line. Clients have full access to Indiabulls Equity Analysis, an objective analysis of stocks, usually available only on subscription. Other features of the Indiabulls Signature Account include on-line access to their portfolio statements and dedicated relationship manager support.

Off-line Trading Channels

The Company facilitates off-line trading in equity, debt and derivatives for clients via operator assisted call centres and relationship managers. Relationship managers act as a single point of contact for the client whether it is in person or via its call centre facility. Relationship managers have access to various resources such as objective analysis of market stocks and other specialists.

Depository Services

The Company is a depository participant with the National Securities Depository Limited ("NSDL") and Central Depository Services (India) Limited ("CDSL") for settlement of dematerialised shares. It performs clearing services for all securities and commodities transactions. Clients of the brokerage business are able to use the depository services to execute trades through the Company and settle transactions.

Indiabulls Equity Analysis

Indiabulls Equity Analysis is an analysis of stocks, which can be accessed online. It provides clients with customised research reports and a rating system on top Indian companies. Indiabulls Equity Analysis does not provide a recommendation based upon its own assessment; instead it uses a formula to track previous historical performance and combines this with "buy" or "sell" recommendations from analyst reports to generate a rating.

Centralised Customer Care Helpdesk

IBSL has a centralised Customer Care helpdesk, equipped with state-of-the-art facilities, to resolve customer queries. Customers can get in touch with Customer Care helpdesk through email, letters and phone. A phone

based customer care channel provides customers with the option to resolve their queries by either talking to our customer care executives or by accessing the 24/7 Interactive Voice Response System (IVRS).

CRISIL Broker Grading, Ratings and Opinions

IBSL is the first brokerage house to be accorded with the highest broker grading by CRISIL. Our Company's quality of operations and services were reaffirmed by CRISIL, which once again assigned the highest broker grading of "BQ1".

Challenges

The Company views the following as the challenges before it:

- Protecting brokerage yield in a highly competitive industry.
- Regulatory risk could bring structural changes in the industry.
- Continued upgrading of the risk management systems and monitoring policies to mitigate the associated risks especially during the periods of extreme market volatility.
- Maintaining flexible cost structure for protecting profitability in a market downturn.
- Dynamic shift in volumes from Capital Market to Derivatives Market resulting in extremely low yields.

Risk Management Systems

The Company has fully automated risk management software, which performs direct monitoring of operational controlling parameters to minimise delinquency risks. IBSL risk management team performs real time monitoring of client positions across cash and derivative segments. Clients are informed about their margin requirements through multiple channels including automated SMS and e-mail channels. The Company employs strict risk management standards to reduce delinquency risks and has developed robust recovery processes. The Company has well managed control systems working along with the external audit which performs checks at regular intervals to identify and rectify any discrepancies in the system.

Business Outlook

A healthy real GDP growth estimate, positive demography, economic growth and earnings momentum, augurs well for the Indian Capital Market. However, the dynamic shift of volumes from cash to derivative poses a challenge of

maintaining margins. The tightening interest rate cycle and inflationary pressures also add to the near term challenges. The scalability of the Company's technological platform will however help consolidate our position further in the market.

Human Resources

Your Company firmly believes that its employees are the key to driving performance and developing competitive advantage. The emphasis has been on proper recruitment of talent and empowerment while devoting resources for their continuous development. The structured recruitment process, which the Company employs, focuses on recruiting people who have the right mindset for working at IBSL, supported by structured training programmes and internal growth opportunities. The basic objective has been to unlock the people potential and further developing their functional operational and behavioural competencies so as to build a team of dedicated employees who work with passion, zeal and a sense of belongingness and play a defining role in significantly accelerating the growth and transformation of the Company, thereby, consolidating its position in the market as one of the top corporate brokerage houses in the country. It is in continuation of this process that the Company has in place, Employee Stock Option Schemes

which aim at rewarding and nurturing talent so that the Company gets to retain what is best in the industry.

Internal Control Systems

The Company has adequate system of strong internal controls for business processes, with regards to operations, financial reporting, compliance with applicable laws and regulations, etc. Regular internal audits and checks ensure that responsibilities are executed effectively. The Audit Committee of the Board of Directors actively reviews the adequacy and effectiveness of internal control systems and suggests improvement for strengthening the existing control system in view of changing business needs from time to time.

Cautionary Statement

Statements in this Management Discussion and Analysis Report describing the Company's objectives, projections, estimates and expectations may be forward looking statements within the meaning of applicable laws and regulations. Actual results might differ materially from those either expressed or implied. The Company is not under any obligation to publicly amend, modify or revise any forward looking statements on the basis of any subsequent developments, information or events.

Directors' Report

Your Directors have pleasure in presenting the Sixteenth Annual Report and the audited accounts of the Company for the year ended March 31, 2011.

FINANCIAL RESULTS

The highlights of the financial results for the year ended March 31, 2011 are as under:

| | Year ended March 31, 2011 (Amount in Rs.) | Year ended March 31, 2010 (Amount in Rs.) |
|--|---|---|
| Profit before Tax and Depreciation | 731,434,968 | 1,151,597,171 |
| Less: Depreciation | 179,212,731 | 212,153,895 |
| Profit before Tax | 552,222,237 | 939,443,276 |
| Less: Provision for Taxation & prior period tax adjustments | 178,494,657 | 327,268,409 |
| Profit after Tax and prior period Tax adjustment | 373,727,580 | 612,174,867 |
| Add: balance of profit brought forward | 1,318,093,629 | 1,594,074,288 |
| Amount available for appropriation | 1,691,821,209 | 2,206,249,155 |
| Appropriations | | |
| Interim Dividend on Preference Shares paid | - | 1,548,328 |
| Final Dividend on Equity Shares | - | 459,881,296 |
| Interim Dividend on Equity Shares paid | 231,084,236 | - |
| Corporate Dividend Tax on Preference Dividend paid | - | 263,139 |
| Corporate Dividend Tax on Final Dividend on Equity Shares | - | 76,380,535 |
| Corporate Dividend Tax on Interim Dividend on Equity Shares | 38,380,203 | - |
| Transfer to Capital Redemption Reserve: | | |
| - On buy back of Equity Shares | - | 46,972,682 |
| - On redemption of Preference Shares | - | 45,946,335 |
| Adjusted against premium paid on buy back | - | 195,880,224 |
| Transfer to General Reserves | 37,400,000 | 61,300,000 |
| Final Dividend for previous year on Equity Shares written back on shares bought back | - | (14,542) |
| Corporate Dividend Tax on Final Dividend For previous year on Equity Shares written back on shares bought back | - | (2,471) |
| Balance of profit carried forward to Balance Sheet | 1,384,956,770 | 1,318,093,629 |

OPERATIONS REVIEW

The Company is a corporate member of the capital market, wholesale debt market and derivative segment of the National Stock Exchange of India Limited (NSE) and a corporate member of the capital market and derivative segment of the Bombay Stock Exchange Limited (BSE). The Company is in the business of stock and share broking, commodities trading, distribution of Mutual Funds and other investments and tax planning products. It also provides depository services, equity research services and IPO distribution to its clients.

The Total Income of the Company during the year stood at Rs. 337.58 crores with a net profit after tax of Rs. 37.37 crores. The consolidated revenues of the Company for the year ended March 31, 2011 stood at Rs. 368.44 crores and the consolidated profit after tax stood at Rs. 37.88 crores respectively.

FUTURE BUSINESS OUTLOOK

A healthy real GDP growth estimate, positive demography, economic growth and earnings momentum, augurs well for the Indian Capital Market. However the dynamic shift of volumes from cash to derivative poses a challenge of maintaining margins. The tightening interest rate cycle and inflationary pressures also add to the near term challenges. The scalability of the Company's technological platform will however help consolidate our position further in the market.

DIVIDEND

The interim dividend of Re. 1/- per equity share (50% of the face value of Rs. 2/- per equity share) amounting to Rs. 23.11 crores (excluding corporate dividend tax) was declared by the Board of Directors of the Company in its meeting held on October 18, 2010 and paid for the financial year 2010-2011.

EMPLOYEE STOCK OPTIONS

With a view to reward performance and to retain talented employees of the Company and its subsidiaries, the Company has established two employee stock option schemes titled 'Indiabulls Securities Limited Employees Stock Option Scheme – 2008' and 'Indiabulls Securities Limited Employees Stock Option Scheme – 2009', covering 40 million stock options, convertible into equal number of Equity Shares of face value Rs. 2/- each.

The disclosures as required under Clause 12.1 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guideline, 1999, in respect of the aforesaid schemes of the Company are set out in the Annexure to this Report.

CHANGE IN SHARE CAPITAL

During the year under review, the Company has allotted an aggregate of 1,171,863 equity shares of face value Rs. 2/- each to certain eligible employees under the employee stock option scheme of the Company. Consequent to the said allotment the paid up equity share capital of the Company stood increased from Rs. 459,881,296/- divided into 229,940,648 equity shares of face value Rs. 2/- each to Rs. 462,225,022/- divided into 231,112,511 equity shares of face value Rs. 2/- each.

DIRECTORS

In accordance with the provisions of Section 255 and 256 of the Companies Act, 1956 and Articles of Association of the Company Mr. Ashok Sharma (DIN:00010912) and Mr. Aishwarya Katoch (DIN:00557488) retire by rotation at the ensuing Annual General Meeting of the Company and being eligible offer themselves for reappointment.

Brief resume of the Directors proposed to be reappointed, nature of their expertise in specific functional areas and names of companies in which they hold directorships and memberships/ chairmanships of Board Committees, as stipulated under Clause 49 of Listing Agreement with the Stock Exchanges in India, are provided in the Report on Corporate Governance forming part of the Annual Report.

Mr. Rajiv Rattan and Mr. Saurabh K. Mittal have ceased to be directors of the Company effective October 16, 2010.

FIXED DEPOSITS

The Company has not accepted any deposits from the public during the year under review.

SUBSIDIARIES

The statement pursuant to Section 212(1)(e) of the Companies Act, 1956 relating to subsidiary companies forms a part of the financial statements.

In terms of the circular no. 2/2011 No. 5/12/2007-CL-III dated February 8, 2011 issued by the Ministry of