

**Indiabulls Securities Limited**

Annual Report 2011-12

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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 Place, 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
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
The 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 2011-12 has been a challenging period for the Indian Financial Markets. The Global Economic Environment which was mired in uncertainty throughout the year, took a sharp turn for the worse in September 2011 owing to the turmoil in the Eurozone. This was further compounded by concerns raised by rating agencies on the outlook of the US economy. Monetary Policy was tightened by the RBI during the year to tame inflationary pressures, without much success. The incessant tightening, however, took its toll on the economic growth as well as industrial output.

Weak Global Economic prospects and continuing uncertainties in the international financial markets have had their impact on the emerging market economies. Sovereign risk concerns particularly in the Euro area affected Indian Markets for most part of the year. There has been a significant decline in the capital market indices and market turnover on both the exchanges, owing to the following:

- Subdued FII inflows leading to a sharp depreciation of the rupee.
- Moderation in the growth rate of the economy.
- Monetary tightening.
- Deepening European Debt crisis, and downgrade of US leading to fears of recession.

Your Company too has been affected by the extremely turbulent environment. However, we could withstand this prolonged and severe

downturn and actually emerge stronger primarily due to our strong fundamentals/processes and the scalability of our technological platforms. It would go without saying that “people” have been our biggest assets. Your Company has aggressively pursued alternate revenue generating models to offset the capital market downturn.

It gives me great pleasure 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.

A stable interest rate environment and policy triggers from the government could kick-start investment spends in 2HFY12-13, in turn resulting in healthy GDP growth in FY12-13. Besides, government’s perceived urgency in addressing policy issues, expectation of better earnings by corporate houses and an increasing global risk appetite will supplement the prospects of the equity market in the country. We remain positive on the outlook of Indian equities. I can assure you that your company is ideally positioned to capitalize on the opportunity when the capital market conditions together with our macroeconomic outlook improves.

Thank you.



Mr. Divyesh B. Shah
CEO, Indiabulls Securities Limited

Management Discussion and Analysis

Economic Review

The economic environment in India over the last year has not been very encouraging with subdued performance. Various reform programmes earlier introduced by the Government have slowed down and governance issues have not been tackled in the manner as expected by general public / foreign investors etc. The slump in the GDP growth rate due to both internal constraints and external factors has also impacted the performance of domestic stock markets. Though India is structurally strong economy with good fundamentals however it cannot isolate itself from the risk posed by the global economic turmoil. It is expected that the economy would get the desired stimulus on the back of reforms such as the Goods and Services Tax, Direct Tax Code and opening up of FDI in key sectors like Retail, Insurance etc. Progress on reforms will create a virtuous cycle of boosting production and consumption, improving India's image, attracting more investments and reviving growth, since investors rely on good governance, a predictable regulatory regime and a hassle free, rules based business environment. The fundamentals of our economy are sound and it will be back to a healthy growth levels by restoring investor confidence, cutting subsidies and fast-tracking infrastructure projects.

Capital Markets Overview

Indian stocks are being battered for various reasons - inflation, interest rates, international events, huge FII's outflows, fall in INR versus foreign currencies, oil prices etc. However, we expect FII flows to pick up in India once commodity prices come off from elevated levels thereby easing inflationary pressures. Besides government's perceived urgency in addressing policy issues, a stable interest rate environment and policy triggers from the government would kick-start investment spends in 2HFY12-13, in turn resulting in healthy GDP growth. These will supplement the prospects of the equity market in the country and may provide desired impetus to the Indian Stocks.

Business 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), a corporate member of the capital market and derivative segment of the BSE Limited (BSE), a corporate member of the currency derivative segment of the MCX-SX, registered category 1 merchant banker and registered portfolio manager. The Company is in the business of stock and share broking, commodities trading, depository service, distribution of Mutual Funds/IPOs and other investments and tax planning products.

Strengths

Equity, Debt and Derivative Brokerage

The Company's retail equity business primarily covers secondary market equity, derivative, currency and debt 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.

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 ("IBSL") 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 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.

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-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 which could impact the earning profile and 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

Indian equity market is likely to perform well in 2012-13 underpinned by the expectations of monetary easing by the RBI coupled with steps likely to be taken by the government for fiscal consolidation. Besides, government's perceived urgency in addressing policy issues, expectation of better earnings by corporate houses and an increasing global risk appetite will supplement the prospects of the equity market in the country.

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 Seventeenth Annual Report and the audited accounts of the Company for the year ended March 31, 2012.

FINANCIAL RESULTS

The highlights of the financial results for the year ended March 31, 2012 are as under:

	Year ended March 31, 2012 (Amount in Rs.)	Year ended March 31, 2011 (Amount in Rs.)
Profit before Tax and Depreciation	28,060,563	730,978,520
Less: Depreciation	118,718,587	179,212,731
(Loss)/Profit before Tax	(90,658,024)	551,765,789
Less: Provision for Taxation & prior period tax adjustments	25,362,622	178,038,209
(Loss)/Profit After Tax and prior period Tax adjustment	(116,020,646)	373,727,580
Add: balance of profit brought forward	1,384,956,770	1,318,093,629
Amount available for appropriation	1,268,936,124	1,691,821,209
Appropriations		
Interim Dividend on Equity Shares paid	-	231,084,236
Corporate Dividend Tax on Interim Dividend on Equity Shares	-	38,380,203
Transfer to General Reserves	-	37,400,000
Balance of profit carried forward to Balance Sheet	1,268,936,124	1,384,956,770

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), a corporate member of the capital market and derivative segment of the BSE Limited (BSE), a corporate member of the currency derivative segment of the MCX-SX, registered category 1 merchant banker and registered portfolio manager. The Company is in the business of stock and share broking, commodities trading, depository service, distribution of Mutual Funds/IPOs and other investments and tax planning products.

The Total Income of the Company during the year was Rs. 165.45 crores with a net loss of Rs. 11.60 crores. The consolidated revenue of the Company was Rs. 199.52 crores and the consolidated net loss was Rs. 10.26 crores.

FUTURE BUSINESS OUTLOOK

Indian equity market is likely to perform well in FY 2012-13 underpinned by the expectations of monetary easing by the RBI coupled with steps likely to be taken by the government for fiscal consolidation. Besides, government's perceived urgency in addressing policy issues, expectation of better earnings by corporate houses and an increasing global risk appetite will supplement the prospects of the equity market in the country.

DIVIDEND

In view of current year losses, the Board has not recommended any dividend.

EMPLOYEE STOCK OPTIONS

With a view to reward performance and to retain talented employees of the Company and its subsidiaries, the Company has introduced 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 required to be made under 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.

DIRECTORS

In accordance with the provisions of Section 255 and 256 of the Companies Act, 1956 and Articles of Association of the Company Mr. Divyesh B. Shah (DIN:00010933) and Mr. Karan Singh Khara (DIN:00017236) 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.

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 accordance with the Circular No. 2/2011 No. 5/12/2007-CL-III dated February 8, 2011 issued by the Ministry of Corporate Affairs, Government of India, the Balance Sheet, Statement of Profit and Loss and other documents of the subsidiary companies are not being attached with the Balance Sheet of the Company. However

the financial of the subsidiary companies is disclosed in the Annual Report in compliance with the said circular. The Company will make available the Annual Accounts of the subsidiary companies and the related detailed information to any member of the Company who may be interested in obtaining the same. The annual accounts of the subsidiary companies will also be kept open for inspection at the Registered Office of the Company and that of the respective subsidiary companies. The Consolidated Financial Statements presented by the Company include the financial results of its subsidiary companies.

LISTING WITH STOCK EXCHANGES

The equity shares of the Company continue to remain listed with the BSE Limited (BSE) and the National Stock Exchange of India Limited (NSE). The listing fees payable to both the exchanges for the financial year 2012-2013 have been paid. The Global Depository Receipts of the Company continue to be listed on the Luxembourg Stock Exchange.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Management's Discussion and Analysis Report for the year under review, as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges in India, is presented in a separate section forming part of the Annual Report.

CORPORATE GOVERNANCE REPORT

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, a detailed report on Corporate Governance is included in the Annual Report. A Practicing Company Secretary's Certificate certifying the Company's compliance with the requirements of Corporate Governance in relation to Clause 49 of the Listing Agreement is attached with the Corporate Governance Report.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 217 (2AA) of the Companies Act, 1956 your Directors confirm that:

1. in the preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures from the same;
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 the Company as at 31st March, 2012 and the loss of the Company for the year ended on that date;

3. the Directors have taken proper and sufficient care for maintaining 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. the Directors have prepared the Annual Accounts of the Company on a 'going concern' basis.

AUDITORS & AUDITORS' REPORT

M/s Deloitte Haskins & Sells, Chartered Accountants (Regn. No. 117366W), Auditors of the Company will retire at the conclusion of the ensuing Annual General Meeting and being eligible offer themselves for reappointment. The Company has received a certificate from the Auditors to the effect that their reappointment, if made would be in accordance with Section 224(1B) of the Companies Act, 1956. The Board recommends their re-appointment.

The Notes to the Accounts referred to in the Auditors' Report are self – explanatory and therefore do not call for any further explanation.

INFORMATION PURSUANT TO SECTION 217 OF THE COMPANIES ACT, 1956

The information required to be disclosed under Section 217 (1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 with respect to conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo, is given in the Annexure and forms a part of this Report.

In terms of 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 required to be set out in the Annexure to the Directors' Report. However, having regard to the provisions of Section 219(1)(b)(iv) of the said Act, the Annual Report excluding the aforesaid information is being sent to all the Members of the Company and others entitled thereto. Any member who is interested in obtaining such particulars may write to the Company Secretary at the Registered Office of the Company.

ACKNOWLEDGEMENT

Your Directors wish to express their gratitude for the continuous assistance and support received from the investors, clients, bankers, regulatory and government authorities, during the year. Your Directors also wish to place on record their deep sense of appreciation for the contributions made and committed services rendered by the employees of the Company.

For and on behalf of the Board of Directors

Sd/-	Sd/-
Divyesh B. Shah	Ashok Sharma
Whole Time Director & Chief Executive Officer	Whole Time Director

Date: August 30, 2012

Place: New Delhi