

# Indiabulls Securities Limited

Annual Report 2012-13

Empowering your growth

**Indiabulls**  
SECURITIES



# Contents

Company Information .....	1
Letter from the CEO .....	2
Management Discussion and Analysis .....	3
Directors' Report .....	7
Report on Corporate Governance .....	14
Consolidated Financials .....	28
Standalone Financials .....	64
Statement Pursuant to Section 212(1)(e) of the Companies Act, 1956 .....	100

# Company Information

1

## Board of Directors:

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

## Company Secretary:

Mr. R. K. Agarwal

## Internal Auditors

N D Kapur & Co.  
Chartered Accountants  
O-24B, LGF Jangpura Extension  
New Delhi – 110014

## Statutory Auditors:

Deloitte Haskins & Sells  
Chartered Accountants  
Indiabulls Finance Centre, Tower 3,  
32<sup>nd</sup> Floor, Elphinstone Mill Compound,  
Senapati Bapat Marg, Elphinstone (W),  
Mumbai - 400 013

## 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,  
2<sup>nd</sup> 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

It was another year that was characterized by an environment not conducive to the capital market. Challenges of global economic turmoil, inflation, high interest rates all contributed to the volatility and softness in the market. It was also instrumental in keeping the retail investor at bay. A further shift towards the derivatives segment put additional pressures on the Company's margins.

The current outlook looks a mixed bag. Inflationary pressures seem to have eased a bit, which would have shown some reduction in the interest rates. However, the current announcement of the Federal Reserve to scale down its stimulus program has created a turmoil in the financial markets. The rupee has weakened significantly against the US dollar and markets also reacted on cue. Gold prices moved south which created an appetite for investment, but at the cost of capital market investment.

One of the significant events in the future is the General Elections, and historically these have had a significant impact on the Capital Market in India. The markets will wait with baited breath on the outcome of these elections, which will determine the policy initiatives that may spur a revival in the Capital Markets.

Your Company too will wait and watch for these developments to pan out. To combat the pressures on margins your Company has aggressively ventured into the Retail Non Discretionary Wealth Management segment, by leveraging on it's existing network of clients. This coupled with a judicial control on costs has enabled your Company to post handsome profits in the fiscal year 2012-13 as opposed to a loss in the previous year. Continuing it's maxim of rewarding shareholders, your Company has declared 3 interim dividends of ₹ 1/- each on a face value of ₹ 2/- each for the fiscal year 2012-13.

I take this opportunity to thank all the shareholders and employees for reposing their faith in the Company in these times of uncertainty.

Thank you



Mr. Divyesh B. Shah  
CEO, Indiabulls Securities Limited

# Management Discussion and Analysis

## Economic Review

Growth indicators for the Indian economy are showing signs of stabilization but the macro economic environment still remain challenging, particularly with regards to inflation. Government projects under implementation and real estate activity indicators picked up in the third quarter of 2012 and there was sequential improvement in the region's exports but the macro environment still remains stretched. There is a dark mood in the advanced economies, especially in Europe. The slower growth in the US and in the EU will have an adverse impact on the expansion of these markets for India's exports, both of goods and services. Domestic and external environment remain "challenging" however an improving growth in the agriculture sector, a slight pick-up in export growth and more stable private capex could help improve economic growth. The Government's recent reforms include allowing FDI in multi-brand retail, aviation, hiking diesel price, capping the number of subsidized LPG cylinders, opening up pension sector to foreign investment and raising the FDI cap in insurance to 49 per cent are a positive sign and such moves will support investment sentiment. The reforms which have begun in earnest, and are likely to progress on a number of different fronts, should help in boosting trend growth. The government is serious about ending the policy paralysis and the commitment that will speedup infrastructure projects will help the economy.

## Capital Markets Overview

Despite volatile moves, the year 2012 has finally proved to be fruitful for the stock market with about 25 per cent appreciation in benchmark indices, but investors are looking forward to more stable times in 2013. The wish-list includes favourable policy initiatives by the government and regulators like RBI and SEBI, in addition to implementation of already proposed reforms, as also a better corporate earnings performance in 2013 to keep up the momentum. RBI's monetary policy looks as the biggest trigger for the Indian stock market in 2013. Going ahead, implementation of the proposed Direct Cash Transfer, if happens on the desired lines, would lift investor sentiment. Also, the much awaited GST could be a game-changer for the markets. The government's reform agenda has lifted investor sentiments and business confidence, which in turn have driven overseas investment inflow. The Indian stock market is likely to perform well in 2013 as it remains the most attractive relative to other countries.

## 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) and 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 and 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

## Management Discussion and Analysis (contd.)

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, 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.

### 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.

### 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).

## Management Discussion and Analysis (contd.)

5

### 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

The Indian Capital Market is facing strong headwinds as the Federal Reserve signals plans to scale back its massive stimulus program. Challenges will remain on the macro-economic front with the weakening rupee and widening current account deficit. There is also the added fear of increased government spending on populist welfare programmes ahead of elections due in May 2014. Markets will continue to remain volatile in the first half and will seek direction from global cues on it's movement. It is expected that markets are likely to see some recoveries in the second half of the current fiscal year. Your company has over the last couple of years prepared to protect itself from the dwindling fortunes of the capital market. We have diversified our revenue stream by tapping into the third party distribution services in the area of residential real estate, loan products, mutual fund, etc., among its clients.

This has resulted in significant increase in company's revenue and has reduced its dependence on securities broking.

### 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.

## Management Discussion and Analysis (contd.)

### 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

7

Your Directors have pleasure in presenting the Eighteenth Annual Report and the audited accounts of the Company for the year ended March 31, 2013.

## FINANCIAL RESULTS

The highlights of the financial results for the year ended March 31, 2013 are as under:

	Year ended March 31, 2013 (Amount in ₹)	Year ended March 31, 2012 (Amount in ₹)
<b>Profit before Depreciation &amp; Amortization expenses and Tax</b>	<b>569,058,924</b>	28,060,563
Less: Depreciation & Amortization expenses	76,491,625	118,718,587
Profit/(Loss) before Tax	492,567,299	(90,658,024)
Less: Provision for Taxation & prior period tax adjustments	(65,787,971)	25,362,622
Profit/ (Loss) after Tax and prior period tax adjustment	558,355,270	(116,020,646)
Add: balance of profit brought forward	1,268,936,124	1,384,956,770
<b>Amount available for appropriation</b>	<b>1,827,291,394</b>	1,268,936,124
<b>Appropriations</b>		
Interim Dividend on Equity Shares	693,337,533	-
Corporate Dividend Tax on Interim Dividend on Equity Shares	114,262,025	-
Transfer to General Reserves	55,835,527	-
Balance of profit carried forward to Balance sheet	963,856,309	1,268,936,124

## 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) and 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 Revenue of the Company during the year was ₹ 131.99 crores with a net profit of ₹ 55.84 crores. The consolidated revenue of the Company was ₹ 199.44 crores and the consolidated net profit was ₹ 63.30 crores.

## FUTURE BUSINESS OUTLOOK

The Indian Capital Market is facing strong headwinds as the Federal Reserve signals plans to scale back its massive stimulus program. Challenges will remain on the macro-economic front with the weakening rupee and widening current account deficit. There is also the added fear of increased government spending on populist welfare programmes ahead of elections due in May 2014. Markets will continue to remain volatile in the first half and will seek direction from global cues on it's movement. It is expected that markets are likely to see some recoveries in the second half of the current fiscal year. Your company has over the last couple of years prepared to protect itself from the dwindling fortunes of the capital market. We have diversified our revenue stream by tapping into the third party distribution services in the area of residential real estate, loan products, mutual fund, etc, among its clients.

This has resulted in significant increase in company's revenue and has reduced its dependence on securities broking.

## Directors' Report (contd.)

### DIVIDEND

In keeping with the Company's policy to reward its shareholders, the Board of Directors of the Company, had, for the year 2012-13, declared three interim dividends aggregating to ₹ 3/- per share on shares of face value ₹ 2/- each (₹ 1/- per equity share on October 19, 2012, ₹ 1/- per equity share on January 22, 2013 and ₹ 1/- per equity share on April 23, 2013). Your Directors recommend that the payment of the aforesaid interim dividends aggregating to ₹ 3/- per equity share on shares of face value ₹ 2/- each for the year ended on March 31, 2013 be confirmed.

In addition, the Board of Directors of the Company has on July 24, 2013 declared an interim dividend of ₹ 1/- per equity share (on the face value of ₹ 2 per share) for the financial year 2013-2014.

### 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 ₹ 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. Prem Prakash Mirdha (DIN: 01352748) and Mr. Labh Singh Sitara (DIN: 01724648) 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 2013-2014 have been paid. The Global Depository Receipts of the Company continue to be listed on the Luxembourg Stock Exchange.