

Sixth Annual Report
1997 - 98

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KHANDWALA

SECURITIES

L I M I T E D

KHANDWALA SECURITIES LIMITED

BOARD OF DIRECTORS

Ashok J. Khandwala
S. M. Parande
Ramniklal D. Modha
Paresh J. Khandwala
Samir S. Doshi
Mayank A. Khandwala
Jatin A. Khandwala

REGISTERED OFFICE

Ground Floor, Vikas Building,
Green Street, Fort,
Mumbai - 400 023.

AUDITORS

Gautam Doshi & Associates
Chartered Accountants
A/15, Nootan Nagar,
Turner Road, Bandra (West),
Mumbai - 400 050.

BANKERS

Union Bank of India
Mumbai Samachar Marg,
Mumbai - 400 023.

Lakshmi Vilas Bank Limited
Kalaghoda,
Mumbai - 400 001.

Oman International Bank S.A.O.,
Nariman Point,
Mumbai - 400 021.

REGISTRARS & TRANSFER AGENTS

Karvy Consultants Limited
46, Avenue 4, Street No. 1,
Banjara Hills,
Hyderabad - 500 034.

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NOTICE

Notice is hereby given that the Sixth Annual General Meeting of the Members of Khandwala Securities Limited will be held as scheduled below: -

| | | |
|-------|---|--|
| DATE | : | September 30, 1998 |
| DAY | : | WEDNESDAY |
| TIME | : | 10.00 A.M. |
| PLACE | : | Cooch Behar Room, The Cricket Club of India (CCI), Dinshaw Wachha Road, Churchgate, Mumbai 400 020. |

to transact the following business

AS ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet as at March 31, 1998 and Profit and Loss Account for the year ended on March 31, 1998 and the Reports of the Directors and Auditors thereon.
2. To declare / confirm dividend on Equity Shares / Preference Shares.
3. To appoint a Director in place of Mr. Ramniklal D. Modha who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Ashok J. Khandwala who retires by rotation and being eligible, offers himself for re-appointment.

AS SPECIAL BUSINESS

5. To appoint Auditors in place of M/s. Gautam Doshi & Associates, Chartered Accountants and fix their remuneration. To consider and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution.

"RESOLVED THAT M/s. Ratan S. Mama & Co., Chartered Accountants, Mumbai be and are hereby appointed Auditors of the Company in the place of retiring Auditors M/s. Gautam Doshi & Associates to hold office until the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration".

6. To increase the Authorised Share Capital.

To consider and if thought fit, to pass with or without modification, the following resolution as a Special Resolution:

"RESOLVED THAT Authorised Share Capital of the Company be and is hereby increased from Rs. 12,00,00,000/- (Rupees Twelve Crores only) divided into 90,00,000 Equity Shares of Rs. 10/- (Rupees Ten only) each and 3,00,000 Cumulative Redeemable Preference Shares of Rs. 100/- (Rupees One Hundred only) each to Rs. 16,00,00,000/- (Rupees Sixteen Crores only) consisting of 90,00,000 Equity Shares of Rs. 10/- (Rupees Ten only) each and 7,00,000 Cumulative Redeemable Preference Shares of Rs.100/- (Rupees One Hundred only) each."

7. To amend the Memorandum of Association.

To consider and if thought fit, to pass with or without modification, the following resolution as a Special Resolution:

"RESOLVED THAT the Company's Memorandum of Association be and is hereby altered as follows:

In Clause V of the Memorandum of Association of the Company, the words and figures, 'The Authorised Share Capital of the Company is Rs. 12,00,00,000/- (Rupees Twelve Crores only) divided into 90,00,000 Equity Shares of Rs.10/- (Rupees Ten only) each and 3,00,000 Cumulative Redeemable Preference Shares of Rs. 100/- (Rupees One Hundred only) each' be substituted by the following words and figures:

The Authorised Share Capital of the Company is Rs. 16,00,00,000/- (Rupees Sixteen Crores only) divided into 90,00,000 Equity Shares of Rs. 10/- (Rupees Ten only) each and 7,00,000 Cumulative Redeemable Preference Shares of Rs. 100/- (Rupees One hundred only) each'."

KHANDWALA SECURITIES LIMITED

8. To amend the Articles of Association.

To consider and if thought fit, to pass with or without modification, the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to Section 31 and other applicable provisions, if any, of the Companies Act, 1956, the Company's Articles of Association be and is hereby altered as follows:

In Article 3 of the Articles of Association of the Company, the words and figures, 'The Authorised Share Capital of the Company is Rs. 12,00,00,000/- (Rupees Twelve Crores only) divided into 90,00,000 Equity Shares of Rs. 10/- (Rupees Ten only) each and 3,00,000 Cumulative Redeemable Preference Shares of Rs. 100/- (Rupees One Hundred Only) each' be substituted by the following words and figures:

'The Authorised Share Capital of the Company is Rs. 16,00,00,000/- (Rupees Sixteen Crores only) divided into 90,00,000 Equity Shares of Rs. 10/- (Rupees Ten only) each and 7,00,000 Cumulative Redeemable Preference Shares of Rs. 100/-(Rupees One Hundred only) each'."

9. Authority to Buy-Back Shares.

To consider and if thought fit, to pass with or without modification, the following resolution as a Special Resolution:

"RESOLVED THAT subject to all applicable provisions of the Companies Act, 1956, (including any statutory modification(s) or re-enactment thereof and any Ordinance being promulgated in this regard) and subject to such other approvals, permissions and sanctions as may be necessary and further subject to such conditions and modifications as may be prescribed thereon or imposed while granting such other approvals, permissions and sanctions, if any, which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board"), the Board be and is hereby empowered to buy-back from the existing holders of shares and / or other securities giving right to subscribe to the Equity Shares of the Company, on a proportionate basis and / or from the open market and / or from the odd lots, being smaller than market lots and / or through negotiation or other arrangement, the Equity Shares or such other securities having such voting rights as may be prescribed by the Central Government or any other regulatory authority from time to time (hereinafter referred to as "Securities") of the Company, out of its free reserves, securities premium account or the proceeds of a prior issue made specifically for the aforesaid purpose or from such other sources as may be permissible by Law on such terms and conditions and in such manner as may be prescribed by Law from time to time."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorised to do all such acts and things and to deal with all such matters and take all such steps in this regard as it may, in its absolute discretion, deem necessary, fit or proper."

By Order of the Board of Directors,
For **Khandwala Securities Limited**,

Rajesh Agarwal
Authorised Signatory.

Date : September 3, 1998.

Place : Mumbai.

NOTES

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF / HERSELF AND THE PROXY NEED NOT BE A MEMBER.
2. The instruments of proxy should be deposited at the Registered Office of the Company not less than forty eight hours before the time fixed for the Meeting.
3. The Register of Members and the Share Transfer Books of the Company will remain closed from Wednesday, September 9, 1998 to Friday, September 11, 1998 (both days inclusive) for transfer of Equity Shares.
4. Members are requested to bring their copy of the Annual Report as copies of the Report will not be distributed again at the Meeting.
5. Members are requested to bring their attendance slip, duly signed, so as to avoid any inconvenience.

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ANNEXURE to the Notice

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

Item Nos. 6, 7 & 8

The Present Authorised Share Capital of the Company is Rs. 12,00,00,000/- divided into 90,00,000 Equity Shares of Rs. 10/- each and 3,00,000 Cumulative Redeemable Preference Shares of Rs. 100/- each. The present issued, subscribed and paid-up Equity Capital is Rs. 5,01,00,000/- and Cumulative Redeemable Preference Share Capital is Rs. 2,90,00,000/-. In order to strengthen the capital base of the Company and with a view to augment the financial resources, it is proposed to increase the Authorised Capital from Rs. 12 Crores to Rs. 16 Crores.

The amendments to Clause V of Memorandum of Association and Article 3 of Articles of Association as set out in item Nos. 6, 7 and 8 of the Notice respectively are consequential to the increase in the Authorised Share Capital.

Your Directors therefore, recommend the resolutions for your approval. None of the Directors of the Company is in any way concerned or interested in above resolutions.

Item No. 9

The present Companies Act, 1956 does not allow buy-back of shares and other securities convertible into Equity Shares. The Companies Bill, 1997 had a provision allowing companies to buy-back its own shares and other securities. No Law, however, has been promulgated till date in this regard. However, it is expected that, in due course of time, the Law would be amended to allow such buy-back of shares / securities.

It is proposed to buy-back, if permissible, shares and / or other securities from the existing security holders on proportionate basis and / or from the open market and / or from the odd lots, being smaller than market lots and / or through negotiation or other arrangement subject to such Law coming into force. The buy-back of shares shall be met out of its free reserves and / or securities premium account and / or the proceeds of a prior issue made specifically for the aforesaid purpose or from such other sources permissible by the Law on such terms and conditions and in such manner as may be prescribed by the Law from time to time.

The Board is of the opinion that it will be in the best interest of the Company, if the shareholders approve the said Resolution, subject to such Law coming into force. If approved, this Resolution will be operative for and given effect within a period of 15 months from the applicable date.

The Resolution is an enabling provision, aimed at facilitating the Company to buy-back its own shares, after it is legally permissible.

The Directors recommend the Resolution for approval of the Shareholders.

None of the Directors of the Company are, in any way, concerned or interested in the Resolution, except as Members of the Company.

By Order of the Board of Directors,
For **Khandwala Securities Limited**,

Rajesh Agarwal
Authorised Signatory.

Date : September 3, 1998.

Place : Mumbai.

KHANDWALA SECURITIES LIMITED

DIRECTORS' REPORT

To,
The Members,
Khandwala Securities Limited.

Dear Sir(s) / Madam,

Your Directors take pleasure in presenting the Sixth Annual Report with the Audited Accounts for year ended on March 31, 1998.

FINANCIAL HIGHLIGHTS

(Rs. in millions)

| | Year ended March 31, 1998 | Year ended March 31, 1997 |
|--|------------------------------|------------------------------|
| Total Income | 50.386 | 49.507 |
| Interest & other Financial Charges | 13.861 | 14.288 |
| Depreciation | 13.435 | 12.532 |
| Profit before Tax | 5.763 | 1.831 |
| Provision for Tax (including Interest Tax) | 0.737 | 0.298 |
| Profit after Tax | 5.027 | 1.533 |
| Appropriations | | |
| Dividend on Preference Shares | 3.305 | 3.240 |
| Proposed Dividend on Equity Shares | 5.010 | 4.971 |
| Provision for Corporate Tax on Dividend | 0.831 | 0.497 |
| Transfer to General Reserve | — | 0.155 |
| Surplus carried forward | 29.830 | 37.586 |
| Reserves and Surplus | 137.622 | 141.741 |

DIVIDEND

Your Directors are pleased to recommend payment of dividend (tax-free) for the year ended March 31, 1998, which is maintained at the rate of 10% (previous year : 10%) on the outstanding Equity Share Capital, resulting in an outflow, on account of dividend of Rs. 5.010 million (previous year : Rs. 4.971 million).

During the year 1997-98, your Company has issued 13.5% Cumulative Redeemable Preference Shares to the extent of Rs. 5 million. Dividend at the rate of 13.5% on the outstanding Cumulative Redeemable Preference Share Capital amounting to Rs. 3.305 million (previous year : Rs. 3.240 million) including dividend on a *pro-rata* basis on above mentioned Preference Shares issued, has been appropriated for the year 1997-98.

THE YEAR UNDER REVIEW

Macro Economic Scenario

The overall economic growth in terms of GDP has decelerated significantly to 5% in 1997-98 from 7.5% in 1996-97. At a more fundamental level, the growth slowdown can be traced to a combination of underlying supply factors and temporary demand instability. The slowdown in demand can be attributed to several factors including a sharp deceleration in exports, substantial uncertainty in domestic and international environments, tightening of money and credit policies and other cyclical factors.

The reduction in the domestic investments / savings gap during 1996-97 and the extremely low inflation rate during 1997-98 support such a demand side explanation. Some signs of recovery were, however, observable in the sharp rise in sanctions and disbursements of All India Financial Institutions and the rise in stock market prices during March and April, 1998. Though the recovery of markets need to be sustainable over a period of time, it needs to adjust with the changes that are taking place internationally in the South East Asian, Russian and Japanese economies.

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Indian Capital Market Scenario

In the Indian Capital Markets, there exists a time lag between the revival of the secondary market and that of the primary market. The economic slowdown coupled with political instability were key factors for a lacklustre secondary market. As a consequence, the primary market remained depressed with substantial decline in number of issues as well as amount raised, which in turn had an adverse effect on the business prospects of investment bankers.

Structural Changes

Structural changes that have been brought into the merchant banking activity have stipulated that multiple categories of merchant bankers have been abolished and replaced by a single category which can only carry out issue management besides fee based activities. This clear cut demarcation between fund and non fund based activities has seen consolidation amongst the players in the financial services sector. Your Company having identified fee based activities as the core area has an edge over others and could emerge as one of the leading players in fee based activities.

Your Company's Performance

The above factors notwithstanding, your Company has for the year under review been able to maintain its performance by recording an aggregate income of Rs. 50.386 million as against Rs. 49.507 million for the previous year 1996-97. The operating margin for 1997-98 stands at 65.61%, compared to 57.87% for 1996-97, whereas the net margin has increased by 6.88%. Your Company continues to enjoy a low debt equity ratio of 0.40:1. To further enhance productivity, efficiency and a further step towards consolidation, your Company has shifted its entire operation to its own spacious office premises located at the heart of the financial market in Mumbai.

In a year of lacklustre activity levels, your Company has embarked on an extensive exercise of consolidation, supplemented by long term cost cutting measures. With the primary long term objective of becoming a strong contender in fee based activities, your Company has identified and targeted niche market segments offering high growth opportunities, both in the medium and long term. A large part of the year under review has been directed at positioning your Company to a takeoff stage in these specified areas by building a base in terms of expert manpower and support infrastructure. The benefit of the exercise would be evident immediately upon revival of the capital markets. The same is evident from its positioning in niche areas of Corporate Advisory Services, wherein your Company has been able to execute prestigious assignments during the year inspite of aggressive competition.

Your Company has embarked on a brand building exercise to leverage the reputation it commands in the financial circles. Brand awareness is becoming imperative for long term sustenance in the changed economic scenario. The objective is to become more than just a provider of financial services, to effectively become a partner of the client in his business.

The Future

The management is of the opinion that we are at the threshold of an exciting new horizon for the financial services sector, with ever emerging new areas. Capitalising on these opportunities would be imperative for growth. The entire effort of the last two years of consolidation has been towards this goal.

Your Company would effectively be able to conclude the consolidation process during 1998-99, as a boutique investment bank. The concentration would be in further augmenting its specialised manpower resources, being the single most important resource of your Company. This expansion is being undertaken without losing sight of the adaptability and personalised service aspects.

Further, new opportunities and high growth areas are being evaluated for concentration in terms of value added assignments by focusing on Corporate Advisory Services, Investment Banking and Investment Counselling. However, your Company is fully geared to reposition itself to effectively optimise on opportunities being generated by the process of liberalisation and globalisation of the market place. Flexibility to respond effectively and aggressively to the dynamics of the market place, is imperative in the current fluid financial services sector in India.

Your Company is confident that the expertise built up and the niche created would enable it to augment its performance. The future for your Company appears encouraging in the medium to long term.

By concentrating on focused areas of activity, previously identified as thrust areas, your Company could record impressive financial results for the first quarter of 1998-99, with an income of Rs. 49.98 million and a net profit of Rs. 22.87 million, based on unaudited figures.

SUBSIDIARY COMPANY

During the year under review, the subsidiary, Khandwala Finances Limited, has performed well in the brokerage activities. Activities of the subsidiary are detailed in the Directors' Report together with the audited accounts, which are attached to this Report.

KHANDWALA SECURITIES LIMITED

DIRECTORS

Mr. Ramniklal D. Modha and Mr. Ashok J. Khandwala are retiring by rotation at the ensuing Sixth Annual General Meeting and being eligible, offer themselves for re-appointment. Your Directors recommend their re-appointment.

AUDITORS' REPORT

Observations made by the Auditor in their report, have been appropriately dealt with in the notes forming part of the accounts for the year which are self-explanatory and hence do not require any further explanation.

AUDITORS

M/s. Gautam Doshi & Associates, Chartered Accountants, retire at the ensuing Annual General Meeting and are eligible for reappointment as Auditors. However, they have intimated to your Company their inability to continue as Statutory Auditors from the close of the ensuing Annual General Meeting, since, M/s. Gautam Doshi & Associates is being merged with M/s. Ratan S. Mama & Co., Chartered Accountants.

M/s. Ratan S. Mama & Co., Chartered Accountants, have expressed their willingness to be appointed as Statutory Auditors of your Company. They have also confirmed that, if approved, their appointment would be in accordance with the limits specified in Section 224(1b) of the Companies Act, 1956. M/s. Ratan S. Mama & Co., established in 1952, is a reputed firm of Chartered Accountants with an affiliation since 1976, with Pannell Kerr Forster, one of the top ten International Accounting firms. The Directors are of the opinion that your Company would substantially benefit from this appointment. A resolution for their appointment as Auditors is being placed before the Shareholders for their approval at the ensuing Annual General Meeting.

PARTICULARS OF EMPLOYEES

The information required under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 in respect of certain employees of your Company and forming part of this report, is annexed hereto.

PARTICULARS REGARDING CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Your Company is not engaged in any manufacturing activity and therefore, there are no particulars to be disclosed under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy or technology absorption. During the year under review, your Company has not earned any income or incurred any expenditure in foreign exchange.

PRUDENTIAL NORMS AND GUIDELINES FOR NON-BANKING FINANCIAL COMPANIES

The Directors wish to state that your Company continues to comply with all the prudential norms prescribed by the RBI governing capital adequacy, provisioning of bad and doubtful debts and income recognition norms. **The capital adequacy ratio, according to the norms prescribed by the Reserve Bank of India is 60.97% as at March 31, 1998, well above the prescribed minimum of 8%.**

ISSUE OF SECURED NON-CONVERTIBLE DEBENTURES

During the year, your Company issued Secured Non-convertible Debentures aggregating Rs.15.201 million on Private Placement basis, with tenure of 30 months incorporating put and call options.

DEPOSITS

Your Company has not accepted any deposits from the public. The Debt Equity ratio has been sustained at a comfortable 0.40:1, as against a prescribed ratio of 2:1.

ACKNOWLEDGEMENTS

The Board would like to place on record its appreciation of the Members of your Company for their continued support and confidence reposed in the Management of the Company. The Directors also express their gratitude to the Bankers for their continued support. The achievements of your Company would not be possible without the dedicated support and hard work of the employees.

For and on behalf of the Board of Directors
Khandwala Securities Limited

Paresh J. Khandwala
Samir S. Doshi

Director
Director

Date : September 3, 1998.
Place : Mumbai.

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ANNEXURE TO DIRECTORS' REPORT

Statement Pursuant to Section 217(2A) of the Companies Act, 1956 and Companies
(Particulars of Employees) Rules, 1975 (forming part of the Directors' Report)

| A. EMPLOYED THROUGHOUT THE YEAR | | | | | | |
|---|--------------|----------------------------------|------------------------|--|------------------------------------|---|
| Name and Qualification | Age in years | Designation/ Nature of Duties | Gross Remuneration Rs. | Experience in No. of Years of Employment | Date of Commencement of Employment | Last Employment |
| Rajnish Rangari B. Tech., P.G.D.B.M. | 36 | Asst.Vice- President (IBG) | 591,570 | 10 | 16-Jan-95 | Ashok Leyland Investment Services Limited |
| Bhavana Mehta B. Sc., M.M.S. | 30 | Sr.MGR (CFG) | 430,560 | 7 | 18-Jan-95 | D.C.W. Home Products Limited |
| B. EMPLOYED FOR PART OF THE YEAR | | | | | | |
| Name and Qualification | Age in years | Designation/ Nature of Duties | Gross Remuneration Rs. | Experience in No. of Years of Employment | Date of Commencement of Employment | Last Employment |
| J. Ferrao B.E, M.M.S. | 31 | Vice President | 799,603 | 8 | 01-Apr-93 | M/s. Jayantilal Khandwala & Sons |
| Nitin Rao B.E, M.B.A. | 31 | Senior Research Analyst | 292,334 | 8 | 18-Jul-94 | A.F. Fergusson. & Co. |
| Manish Gupta B.E, M.M.S. | 32 | Senior Research Analyst | 361,719 | 7 | 18-Jul-94 | A.F. Fergusson & Co. |
| Rajesh Parekh M.Com. | 26 | NSE-Dealer (CMS) | 281,216 | 6 | 01-Apr-93 | M/s. Jayantilal Khandwala & Sons |
| Vinay Bajpai B.Tech, P.G.D.B.M. | 34 | Asst.Vice- President (PMG) | 243,156 | 7 | 16-Sep-97 | SBI Funds Management Ltd. |

Notes :

- (1) Gross remuneration includes salary, bonus, house rent allowance, leave travel assistance, reimbursement of medical expenses, allowances, value of perquisites as per Income Tax Act, 1961 and Rules made thereunder and Company's contribution to provident fund, but excludes leave encashment / gratuity unless paid / payable.
- (2) All appointments are non-contractual.
- (3) None of the above Employees are relatives of any of the Directors.

KHANDWALA SECURITIES LIMITED

AUDITORS' REPORT

To,
The Members of
KHANDWALA SECURITIES LIMITED.

We have audited the attached Balance Sheet of **KHANDWALA SECURITIES LIMITED** as at March 31, 1998 and also the annexed Profit and Loss Account of the Company for the year ended on that date annexed thereto and report that :-

1. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Company Law Board in terms of Section 227 (4A) of the Companies Act, 1956 and on the basis of such checks of the books and records as we considered necessary and appropriate and according to the information and explanations given to us during the course of the audit, we annexe hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order to the extent applicable.
2. Subject to Note No. 7 in Schedule M regarding non availability of information and diminution, if any, in the value of investment in Equity Shares of Kowa Spinning Limited and further to our comments in Annexure referred to in paragraph 1 above:
 - a) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - b) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books;
 - c) the Balance Sheet and Profit and Loss Account dealt with by the report are in agreement with the books of account; and
 - d) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the notes thereon, give the information required by the Companies Act, 1956 in the manner so required and present a true and fair view :
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 1998 and
 - ii) in the case of the Profit and Loss Account, of the Profit of the Company for the year ended on that date.

For and on behalf of
GAUTAM DOSHI & ASSOCIATES
Chartered Accountants

Hiten Kotak
Partner.

Date : September 4, 1998.
Place : Mumbai.