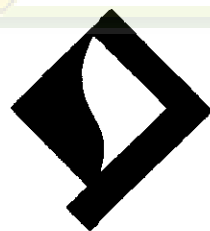


Seventh Annual Report
1998 - 99

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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

RSM & Co.

Chartered Accountants,
Union Co-op. Insurance Bldg.,
2nd Floor, 23, Sir Phirozshah Mehta Road,
Fort, Mumbai - 400 001.

BANKERS

Union Bank of India

Mumbai Samachar Marg,
Mumbai - 400 023.

Lakshmi Vilas Bank Limited

Kalaghoda,
Mumbai - 400 001.

Centurion Bank Ltd.

25/26, Maker Chambers III,
Nariman Point, Mumbai - 400 021.

IndusInd Bank Ltd.

Nariman Point Branch,
Hoechst House, 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 Seventh Annual General Meeting of the Members of Khandwala Securities Limited will be held as scheduled below :-

DATE	:	September 18, 1999
DAY	:	Saturday
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, 1999 and Profit and Loss Account for the year ended on March 31, 1999 and the Reports of the Directors and Auditors thereon.
2. To declare dividend on Equity/Preference Shares.
3. To appoint a Director in place of Mr. S. M. Parande who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint an Auditor and fix their remuneration.

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

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

Paresh Khandwala
Director

Date : July 19, 1999.

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 Tuesday, September 7, 1999 to Friday, September 10, 1999 (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.
6. Dividend, if approved in the Seventh Annual General Meeting will be paid to those members whose names appear in the Company's Register of Members on September 10, 1999.
7. Members desiring any information on the accounts at the Annual General Meeting are requested to write to the Company atleast seven days in advance, so as to enable the Company to keep the information ready.

KHANDWALA SECURITIES LIMITED

DIRECTORS' REPORT

To,
The Members,
Khandwala Securities Limited.
Dear Sir(s) / Madam,

Your Directors present herewith the Seventh Annual Report with the Audited Accounts for the year ended March 31, 1999.

FINANCIAL HIGHLIGHTS

(Rs. in millions)

	Year ended March 31, 1999	Year ended March 31, 1998
Total Income	129.81	52.68
Interest & other Finance Charges	17.76	13.86
Depreciation	10.74	13.44
Profit before Tax	54.54	5.76
Provision for Tax (including interest tax)	21.18	0.74
Profit after Tax	33.36	5.03
Appropriations		
Dividend on Preference Shares	3.46	3.31
Proposed Dividend on Equity Shares	10.02	5.01
Provision for Corporate Tax on Dividend	1.45	0.83
Transfer to General Reserve	2.53	1.14
Surplus carried forward	35.29	29.83
Reserves and Surplus	156.06	137.62

- The above figures include an amount of Rs. 10.63 million, being depreciation on certain investments now treated as stock-in-trade and marked to market.

DIVIDEND

In view of the improved performance, your Directors are pleased to recommend payment of dividend (tax-free) for the year ended March 31, 1999 at the rate of 20% (previous year 10%) on the outstanding equity share capital, resulting in an outflow, on account of dividend of Rs. 10.02 million (previous year Rs. 5.01 million).

Dividend is also being recommended for other categories of Capital as under

	Share Capital	Dividend	Amount (Rs. Mln.)
1.	Cumulative Redeemable Preference Share	13.5%	1.263
2.	Cumulative Redeemable Preference Share	12.5%	0.292
3.	Cumulative Redeemable Preference Share	12.0%	1.900

THE YEAR UNDER REVIEW

Macro Economic Scenario

This has definitely been a very eventful year, especially at the macro level. Many diverse factors including political and fundamentally sensitive ones had a profound effect on the overall economic performance.

The fiscal year 1998-99 ended on an optimistic note, vis-à-vis the previous year (1997-98). The overall economic growth in terms of GDP which had decelerated significantly to 5% in 1997-98, recovered and registered a gain at 5.8% for the year 1998-99. However, the driving factor for the increase in GDP has been the good monsoon and the resultant increase in agricultural production, which recorded an increase of 6.8% as against a negative growth rate of 5.4% last fiscal.

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However, the industrial and service sector being performance based judgemental factors of a progressive economy, registered a drop in growth rates to 3.7% (5.9% in 1997-98) and 6.5% (8.2% in 1997-98) respectively in 1998-99. The cement and fertiliser sectors led the fall in growth rates, by recording huge declines. The drop in domestic demand and the negative growth in exports during the year, had its impact in terms of lower than expected growth rate of the GDP. Overall, a GDP growth rate of 5.8% can still be considered impressive, when viewed in the backdrop of similar developing and infact certain developed countries for the same period.

The first quarter of 1999-2000, has been encouraging. Certain core sectors such as steel, cement and electricity, being the barometers of the health of an economy, have recorded an increase in growth over last year. On the export front, there was a marginal increase at 2.09% in April 1999 over the corresponding period in 1998. The economy is expected to end on a much healthier note this fiscal.

Most other macro issues which are sensitive to the overall economical performance, have to a large extent, been successfully resolved. These would include, amongst other the loss of confidence vote by the existing government, the minimisation of the impact of the fallout of nuclear test, the successful military defence of Indian territory by insurgents in the North and North-East etc.

Indian Capital Market Scenario

The capital market witnessed a turbulent but mixed year in terms of performance. While the secondary market recorded an increase in turnover of around 25%, the primary markets saw a drop in the capital issues being made by around 12%. There exists a time lag between the revival of the secondary market and that of the primary market. The year saw a few software companies and banks access the capital markets, with an encouraging response. The current financial year is also expected to witness a host of software companies entering the primary markets in order to ride the software wave. Your company is already targeting fundamentally sound corporates to assist them in their process of accessing the capital markets.

With the resolving of most fundamentally sensitive issues, the capital market is expected to witness renewed interest and vigour. Selected stocks are still price attractive, by global standards. This has become increasingly the single most important factor for international investors, with the continuation of the reform and liberalisation processes and the steady merger of the Indian economy with the international community. Infusion of large funds, especially from the international business houses as well as investors, even during difficult times, has been sustained. This factor is expected to essentuate the upturn from the current sluggishness being witnessed.

Structural Changes

1998-99 saw significant legislative changes being introduced with regard to the functioning of the capital markets. The par value of an equity share, a hitherto sacrosanct feature for the pricing of equity, has been abolished. Indian corporates were this year permitted by an ordinance, to buyback their own equity, a long standing demand of most corporates. The year also saw amendments to the Take Over Guidelines, with regard to the threshold limit for triggering the Take Over Code and the provisions for creeping acquisition.

The Union Budget for the fiscal year 1999-2000, abolished stamp duty on secondary market debt transactions, routed through a depository. This is expected to play a prominent role in the development of the debt markets.

July 8, 1999 was a red letter day in the history of the Indian debt markets with the introduction of interest rate swaps and forward rate agreements, derivative tools in the fixed income markets. These are expected to substantially assist Indian corporates in hedging their interest rate risks.

Mutual Funds in India, an industry shunned by the investors for the past few years, has been given the much needed boost by the Government's declaration enabling dividend received from Mutual Funds to qualify for tax exemption. This has already resulted in reviving the channelisation of this scarce resource to industry.

Your Company's Performance

The status of the primary and secondary market notwithstanding, your company has recorded an impressive performance for the year under review. It has recorded an aggregate income of Rs.129.81 million as against Rs. 52.68 million for the previous year 1997-98, recording an increase of over 146% over the previous year. While the operating margin for 1998-99 stood at 64%, the net margin at 26%, has also witnessed a substantial growth over 10% of last year. Your company continues to enjoy a low debt equity ratio of 0.47 : 1. The entire process of consolidation of all activities under a single roof has been successfully completed, resulting in overall improvements in margins and controls.

Our report of last year had informed the shareholders of the process of consolidation and cost cutting measures being embarked. We are pleased to inform that this process has been satisfactorily completed and results have already started bearing fruit. Your Company has made substantial progress in establishing itself as a primary contender in the fee based segment of the Capital Markets by not only undertaking difficult but prestigious assignment but also further augmenting its manpower and infrastructural requirements.

The objective of offering an array of Capital Market services under a single corporate umbrella has resulted in your Company being mandated to undertake certain large, long term assignments which would ensure steady income streams in future. This also results in a permanent association with the client in all future projects, enabling us to achieve our goal of becoming a partner of the client in his business.

KHANDWALA SECURITIES LIMITED

Many firsts have been achieved in successfully planning and executing complicated structured transactions involving global markets. It suffices to say that your Company is well entrenched in these niche areas. This segment represents a major growth opportunity, both in terms of exposure and revenue and has been identified as a primary thrust area for the future.

The primary asset of any growing company, especially in the services sector, is its manpower. It has been a constant endeavour of your Company to motivate and provide the most opportune environment conducive to efficiency and growth. This process undertaken almost two years ago, has resulted in the establishment of inhouse MIS, for the dual flow of information. Periodical reviews at all levels alongwith variance analyses are undertaken to more objectively assess performance and suggestions/ grievances.

The brand building exercise is steadily progressing with the awareness being primarily restricted to the financial and industrial circles.

The Future

As mentioned earlier, inspite of the very difficult year just completed, augmented by the fall of the Government and the subsequent problems on the border, the overall economy, though not the overall capital market, has performed satisfactorily. The process of liberalisation and global consolidation has been perused resulting in many exciting emerging activities. There is optimism that the country as well as the economy is in a position to further consolidate itself and be healthier by the end of the current year. Your Directors are confident that the worst is over and the future is very bright.

Your Company has been positioning itself specifically for this takeoff stage as a boutique investment bank, which has now been achieved. The consolidation and systems developmental phase of your Company, just completed, would greatly enhance the ability to maximise opportunities. The constant endeavour to adapt to the ever changing environment and options, an objective of positioning, has resulted in the performance just achieved and is expected to improve further in future.

Structured transactions involving international market, varied instruments, complex and conflicting legal statutes, large funding etc. are the identified thrust areas. The assignments being currently undertaken and the positioning of your Company, both internally and externally are expected to yield substantial returns in future. Adaptability to a fluid and emerging marketplace alongwith all its variants would be the key to success, for which your Company is now optimally geared.

Taking into account the exciting new horizons as well as the improved environment, your Directors have identified new and diversified thrust areas. These would further leverage on the expertise as well as the brand built over the decades and at the same time provide both a cushion to absorb shocks as well as growth opportunities at an enhanced pace in future. Your Directors would be separately approaching the shareholders for their consent to enter these territories.

Your Company is confident of achieving further improve performance through an array of diversified activities in future.

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.

DIRECTORS

Mr. S.M. Parande is retiring by rotation at the ensuing Seventh Annual General Meeting and being eligible, offer himself for re-appointment. Your Directors recommend his re-appointment.

AUDITORS' REPORT

Observations made by the Auditors 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 explanations.

AUDITORS

M/s. RSM & Co., Chartered Accountants, Auditors of the Company, retire and are eligible for re-appointment. The members are requested to consider their reappointment for the financial year 1999-2000.

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, 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 in foreign exchange and the expenditure in foreign exchange was Rs. 1,093,748/-.

Y2K COMPLIANCE

The company has upgraded its hardware systems and now all hardware systems are Y2K compliant. All software packages are also Y2K complaint. Your Company has obtained relevant certificates from the software vendors / maintenance agencies. The company has formulated a comprehensive Y2K plan, which has already been implemented.

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LISTING

Your company shares are listed at stock exchanges of Mumbai, Ahmedabad, Hyderabad and Chennai. All applicable listing fees have been paid.

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.

REDEMPTION OF SECURED NON CONVERTIBLE DEBENTURES & PREFERENCE SHARES

During the year your company redeemed 17.5% Secured Non-Convertible Debentures aggregating Rs. 5 201 million.

Your company also redeemed 13.5% Cumulative Redeemable Preference Shares worth Rs. 14.00 million.

ISSUE OF PREFERENCE SHARES

Your company has issued 12.5 % Cumulative Redeemable Preference Share worth Rs. 5.00 million and 12% Cumulative Redeemable Preference Shares worth Rs. 14.00 million.

DEPOSITS

Your Company has not accepted any deposits from the public. Your company has, however, accepted other regulated deposits, namely, Inter-Corporate Deposit (ICD), as per NBFC (RBI) Directions, 1977 and has repaid or renewed the same as the case may be, on due dates and no amount remains unclaimed or unpaid as on the last date of the financial year. The Debt : Equity ratio has been sustained at a comfortable 0.47 : 1, as against a prescribed ratio of 2 : 1 by RBI.

ACKNOWLEDGEMENTS

The Board would like to place on record its grateful support from the Members of your company for their continued support and confidence reposed in the Management of your 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
Director

Date : July 19, 1999.

Place : Mumbai

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 Director's 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	37	Asst. Vice-President (IBG)	679,258	11	16-Jan-95	Ashok Leyland Investments Services 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
V.V.L.N. Sastry B.Com, M.Com, ICWAI, MBA, Ph.D in Commerce	32	Vice-President (Special Projects)	483,427	5	01-Aug-98	Koshika Telecom Limited

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, 1999 and the Profit and Loss Account 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 sub-section (4A) of Section 227 of the Companies Act, 1956 and on the basis of such checks of the books and records of the Company as we considered necessary and appropriate, and according to the information and explanations given to us during the course of the audit, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
2. Further to our comments in the 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 purposes 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 those books;
 - c) The Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of account;
 - d) In our opinion, the Profit and Loss Account and Balance Sheet comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.
 - e) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with significant accounting policies and 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, 1999 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 **RSM & Co.**
Chartered Accountants

Vijay N. Bhatt
Partner

Mumbai
Date : July 19, 1999

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ANNEXURE TO THE AUDITORS' REPORT

(REFERRED IN PARAGRAPH 1 OF OUR REPORT OF EVEN DATE)

1. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. We are informed that the fixed assets of the Company, other than those given on lease, have been physically verified by the management during the year and no material discrepancies have been noticed on such verification. In our opinion, the frequency of physical verification of fixed assets is reasonable, having regard to the size of the Company and the nature of assets.
2. The Company has not revalued any of its fixed assets during the year.
3. The management has carried out physical verification of the stock of shares and securities at the end of the year, which, in our opinion, is reasonable. In respect of the shares and securities lying with third parties, confirmations have been obtained.
4. In our opinion and according to the information and explanations given to us, the procedures followed by the management for physical verification of stocks are reasonable and adequate in relation to the size of the Company and the nature of its business.
5. We are informed that discrepancies noticed on physical verification of stocks as compared to the book records have been properly dealt with in the books of account.
6. On the basis of the examination of stock records, we are of the opinion that the valuation of stocks is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the preceding year.
7. The Company receives and pays amounts on current account with its subsidiary company and companies, firms or parties listed in the register maintained under Section 301 of the Companies Act, 1956, which in certain cases has resulted in the taking of interest-free unsecured advances from them. The terms and conditions of such advances are *prima-facie* not prejudicial to the interest of the Company. The Company has not taken any loans, secured or unsecured, other than advances referred herein before, from companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956, and/or from companies under the same management as defined under sub-section (1B) of Section 370 of the said Act.
8. The Company receives and pays amounts on current account with its subsidiary company and companies, firms or parties listed in the register maintained under Section 301 of the Companies Act, 1956, which in certain cases has resulted in the granting of interest-free unsecured advances to them. The terms and conditions of such advances are *prima-facie* not prejudicial to the interest of the Company. The Company has not granted any loans, secured or unsecured, other than advances referred herein before, to companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956, and/or to companies under the same management as defined under sub-section (1B) of Section 370 of the said Act.
9. The Company has granted loans and advances in the nature of loans to employees and parties, which are being recovered along with interest where applicable as stipulated.
10. In our opinion and according to information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and nature of its business with regard to purchase of fixed assets.
11. There are no transactions of purchase and sale of goods and materials made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956, and aggregating during the year to Rs.50,000/- or more in respect of each party. In respect of sale of services to such parties, the rates charged to the parties are reasonable having regard to prevailing market prices.
12. Having regard to the nature of business of the Company, the question of determination of unserviceable or damaged stores and raw materials does not arise.
13. The Company has not accepted deposits from the public within the meaning of provisions of Section 58A of the Companies Act, 1956.

KHANDWALA SECURITIES LIMITED

14. The Company does not have any by-product or saleable scrap.
15. The Company has an internal audit system, which is commensurate with its size and the nature of its business.
16. The Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Companies Act, 1956 for any of the activities of the Company.
17. The Company has been generally regular in depositing the Provident Fund and Employees' State Insurance dues with the appropriate authorities.
18. As explained to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, custom duty and excise duty were outstanding as on March 31, 1999 for a period of more than six months from the date they become payable.
19. On the basis our examination of the books of account and according to the information and explanations given to us, no personal expenses other than those payable under contractual obligations and normally accepted business practices have been charged to revenue account.
20. The provisions of clause (c) of sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985 is not applicable to the Company.
21. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
22. As explained the provisions of special statutes applicable to chit fund, nidhi or mutual benefit societies are not applicable to the Company.
23. The Company has maintained proper records of the transactions and contracts in respect of trading in shares and have made timely entries for the same. The shares and debentures held as investments except those indicated in the note in Schedule F hereto, have been held by the Company in its own name.

For **RSM & Co.**
Chartered Accountants

Vijay N. Bhatt
Partner

Mumbai
Date : July 19, 1999