Ninth Annual Report
2000-2001

KHANDWALA
SECURITIES
LIMITED

Board of Directors

Paresh J. Khandwala (Chairman and Managing Director)
Samir Doshi
Sreedhar Parande
Ramniklal Modha
Prakash Shah
Mahesh Gandhi

Company Secretary

Hoofrish Patel

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.

IndusInd Bank Limited,
Hoechst House,
Nariman Point,
Mumbai - 400 021

Canara Bank
NSE Branch,
Mumbai – 400 001

HDFC Bank Limited
Manekji Wadia Bldg.,
Nanik Motwani Marg, Fort,
Mumbai – 400 001

Registrars & Transfer Agents

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

NOTICE

Notice is hereby given that the adjourned Ninth Annual General Meeting of the Members of Khandwala Securities Limited (the Ninth Annual General Meeting had been convened and held on Saturday of 30th March, 2002 at 9.30 a.m. whereat the consideration of the under noted items of business was adjourned sine die) will be held at M.C. Ghia Hall, 2nd Floor, Bhogilal Hargovindas Building, 18/20, Kaikhushru Dubash Marg (behind Prince of Wales Museum), Mumbai -400 001 on Saturday, July 27, 2002 at 9.30 a.m. to transact the following adjourned business:-

ORDINARY BUSINESS

1. Item No. 1 of original notice – "To receive, consider and adopt the Directors' Report, Auditors' Report and audited Profit & Loss Account for the 18 months period ended 30th September 2001 and the Balance Sheet as at that date".
2. Item No. 4 of original notice – "To re-appoint Auditors and fix their remuneration".

By Order of the Board
For **Khandwala Securities Ltd.**

Paresh Khandwala
Chairman & Managing Director

Regd. Office Address:
Vikas Building,
Ground floor, Green Street,
Mumbai – 400 023.

Place : Mumbai
Date : June 3, 2002

Notes :

1) A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY OR PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER.
2) The proxy form duly completed must reach the Registered Office of the Company not later than forty eight hours before the time appointed for holding the meeting.
3) Explanatory Statement for item No. 1 and 2 is annexed hereto.
4) Members / proxies should bring the Attendance Slip sent herewith duly filled in for attending the meeting.

ANNEXURE TO NOTICE

Explanatory Statement to Item Nos. 1 & 2 of the Notice dated June 3, 2002

Members are aware that at the 9th Annual General Meeting (AGM) held on Saturday, March 30, 2002, the item of business regarding consideration and adoption of Annual Accounts and Directors' Report and Auditors' Report thereon, and the item of business regarding re-appointment of Auditors were deferred and the said AGM was adjourned sine die. As the Members are further aware that the Board of Directors of the Company had decided to implement the proposal for Amalgamation of Khandwala Finances Ltd., a wholly owned subsidiary with your Company under a Scheme of Amalgamation pursuant to Sections 391 to 394 of the Companies Act, 1956. The necessary approvals of the Equity Shareholders, Preference Shareholders and Creditors in respect of the said Scheme have been received, pursuant to the directions of the Hon'ble High Court of Bombay and the necessary approvals from the statutory authorities viz. National Stock Exchange of India Ltd. and Securities and Exchange Board of India have been received by your Company in March 2002. The Company has filed the Order passed by the Hon'ble High Court of Bombay approving the Scheme of Amalgamation of Khandwala Finances Limited with your Company, with the Registrar of Companies Maharashtra on April 18, 2002. As a result, Khandwala Finances Limited has ceased to exist as a legal entity without being wound up. In view thereof of the inevitable delay in getting the necessary sanctions / approvals for the said amalgamation from the statutory / regulatory bodies, the Board of Directors of the Company thought it fit to get the accounts audited for the merged entity, after obtaining the necessary approvals from all regulatory bodies concerned and place before the members of the Company for their consideration and adoption after giving effect of the said Scheme so that the shareholders are not deprived of knowing the latest financial position by way of the latest audited accounts of the merged entity. In view thereof, the above business which was sine die adjourned has now been taken up for the approval of the members.

Consequently, the business of re-appointment of statutory auditors is also being taken up for the members' approval.

By Order of the Board
For **Khandwala Securities Ltd.**

Paresh Khandwala
Chairman & Managing Director

Regd. Office Address:
Vikas Building,
Ground floor, Green Street,
Mumbai – 400 023.

Place : Mumbai
Date : June 3, 2002

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

It is easy to follow norms, to travel paths well traversed before. And success too, comes to those who do that well. Yet, in today's financial markets, in the rapidly changing scenario, client needs have grown more than just in volumes. Lateral solutions are the need of the day. The company strives not just to become a provider of services, but to become an effective partner of a client in business. We believe that it is not how much we do that counts, it's how well we do it that really matters – it is the quality of our inputs makes the essential difference. And it is this philosophy that has not only stood the test of time but has also enabled us to stand in good stead.

Economic environment in 2000-2001 has witnessed a general slowdown resulting in decline in overall GDP growth and industrial growth. Exchange rate volatility due to increase in global oil prices was compounded by volatile interest rates and uncertain domestic market conditions. Stock market movements have been erratic with dwindling volumes characterising the state of the bourses during the year. The performance of the Company needs to be viewed against its juxtaposition with this economic and industrial background.

Being a company with its core strategy being planning and developing the future organization, and specifying the capabilities and competencies required to meet the challenges of a dynamic business environment, given the multitude opportunities. The success of this organisation is gauged by the fact that it has adapted to the vibrant changes in the economy, identified opportunities for future focus and has created a forte in its area of specialization.

Business Analysis

Your company's operations are broadly broken up into two business houses (i) fee based (ii) investment and stock operations.

(i) Fee based activities

Pursuant to the merger of Khandwala Finances Limited (a wholly owned subsidiary) with your company, broking activity has become one of the focus areas of your company. Your company is a SEBI registered broker on the equity, derivatives and debt segments. It is also empanelled with major financial institutions, mutual funds, corporate, banks and foreign financial institutions.

Your company is a SEBI registered Portfolio Manager rendering investment counseling services on a discretionary and non-discretionary basis.

Your company is also a SEBI registered category I merchant banker providing services including fund raising activities, public issues, private placements and corporate advisory services for mergers and amalgamations, corporate restructuring, buybacks and takeovers.

(ii) Investment and Stock Operations

Your Company is an active player in stock and investment operations. However, due to the dismal performance in the secondary market, your company has not focused on this segment during the period.

Human Resources : Enhancing quality

The Company has successfully implemented the strategies for human development by focusing on management of the single most important asset of the Company i.e., human resources. Manpower is an invaluable asset to the service industry. Towards this, the organization has implemented structured policies and procedures for recruitment, selection, training and development, performance management and human resource development as also the process of reviewing job and role definitions, together with identification of key responsibilities of various functional and support activities. This exercise is intended to facilitate a two pronged strategy, the retention of high quality personnel and the ability to attract the best talent in the industry as well as providing the linkage of compensation with performance. The concept combines the strengths of experience, judgment, client relationships, knowledge resources and technology. In-house expertise is also blended with the technical and technological skills and experience that are absorbed on a continuous basis.

The company believes that people are the sole controlling factor of other inputs of business. Appropriate systems have been designed and implemented for competencies development, motivation development and pro-active culture building, in order to optimize the performance of individual employee / team / section / department / organization and ultimately enhancing shareholders value.

Khandwala Securities continues to focus on excellence in quality of service delivery and retaining of customer relationships as the keystone in the growth process. The Company has always ensured that at the heart of each business process is an underlying philosophy of nurturing customer relationships, by identifying and focusing on customer needs.

Paresh J. Khandwala   Samir S. Doshi

DIRECTORS' REPORT

The Members,
Khandwala Securities Limited

Dear Sir / Madam,

Your Directors present herewith the Ninth Financial Report with the Audited Accounts of your company for the period ended September 30, 2001.

FINANCIAL HIGHLIGHTS

(Rs. in millions)

	Period ended September 30, 2001 (18 months)	Year ended March 31, 2000
Total Income	333.91	941.82
Interest & other Financial Charges	114.18	30.27
Depreciation	21.30	11.01
Profit before Tax	(29.75)	811.34
Provision for Tax (including Interest Tax)	30.74	320.31
Profit after Tax	(60.49)	491 03
Appropriations		
Divided on Preference Shares	4.16	4.33
Divided on Equity Shares	0.00	50.10
Provision for Corporate Tax on Dividend	0.85	5 99
Transfer to General Reserve	0.00	60.00
Surplus carried forward	152.77	402.15
Reserves and Surplus	177.77	586.67

EXTENSION OF ACCOUNTING YEAR

Your Directors have to inform you that the accounting year of the company, which was ending on March 31, 2001, was extended upto September 30, 2001, with the permission of the Registrar of Companies, Maharashtra at Mumbai. Thus the period under review is of a period of 18 months.

DIVIDEND

Taking into consideration the performance during the period under review as well as the requirement of financial resources for the future, your Directors have decided to conserve the same for the business operations. No dividend has been recommended for the equity share capital of your company for the period ended on September 30, 2001.

However, dividend is being recommended for other categories of capital as under:

	Share Capital	Dividend	Amount (Rs. Mln.)
1.	Cumulative Redeemable Preference Share	13.50%	1.856
2.	Cumulative Redeemable Preference Share	12.50%	0.625
3.	Cumulative Redeemable Preference Share	12.00%	1.680

LISTING

The Company's equity shares are listed on The Stock Exchange, Mumbai, The National Stock Exchange of India Ltd., Madras Stock Exchange, Hyderabad Stock Exchange and The Stock Exchange, Ahmedabad and all applicable listing fees have been paid upto date.

DIRECTOR'S RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956 as amended by the Companies (Amendment) Act, 2000 we, the Directors confirm that:

(i) in the preparation of the accounts, the applicable accounting standards, have been followed alongwith proper explanation relating to the material departures, if any;

(ii) appropriate accounting policies have been selected 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 September 30, 2001 and of the loss of the company for the said 18 months period:

(iii) proper and sufficient care has been taken for the maintenance 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

(iv) that the accounts have been prepared on a going concern basis.

AMALGAMATION / MERGER OF KHANDWALA FINANCES LIMITED WITH KHANDWALA SECURITIES LIMITED

In the month of June 1998, SEBI permitted the merchant bankers to carry out various activities including stock-broking. Pursuant to the said amendment by SEBI, during the period under review, the Board of your company initiated a debate on merger of the wholly owned subsidiary, viz., Khandwala Finances Limited, then a member of the National Stock

Exchange of India Limited (NSE) with your company and appointed RSM & Co., the Statutory Auditors of your company to prepare a detailed report and recommend whether it would be feasible and advisable to merge Khandwala Finances Limited with your company. Based on the report and recommendations of RSM & Co., the management of both the companies decided to merge the said companies in terms of sections 391 / 394 of the Companies Act, 1956. Accordingly, both the companies filed petitions with the Honourable Bombay High Court in June 2001 and after complying with the statutory requirements, obtained the orders approving the scheme of amalgamation without any modification in October 2001.

The orders of the Honourable High Courts were filed with the Registrar of Companies, Maharashtra at Mumbai in April 2002, after complying with the statutory requirements of the National Stock Exchange of India Limited (NSE) and the Securities and Exchange Board of India (SEBI).

With effect from April 18, 2002, Khandwala Finances Limited, ceased to exist as a legal entity and the accounts of Khandwala Finances Limited have been merged with your company from the Appointed Date as April 1, 2000.

The Audited Accounts forming part of the enclosed Financial Report for the 18 months period from April 1, 2000 (being the Appointed Date for merger) upto September 30, 2001 incorporates the consolidated accounts.

THE YEAR UNDER REVIEW

Macro Economic Scenario

The period of 18 months during 2000-01 was a very difficult period for the Indian Economy. Immediately after the closure of the financial year 2000, the capital markets saw a significant dip world over in response to the 'dot-com' bubble bust. The effect was direct and significant for Indian Economy as the major human resources for the international technology sector is drawn from India. As matter of fact the Stock Exchange, Mumbai (BSE) Index for Information Technology, which stood at 5,749 as on March 31, 2000 fell by over 72% to 1,602 as on March 30, 2001 and stood at 954 on September 28, 2001. The cascading effect of technology sector actually changed the outlook in the other sectors, including the manufacturing and the financial services sectors to such an extent that it required very strong support at all levels whether political or otherwise for reversal of the trend. The downfall of the technology sector was not expected to have a major impact on the other business but the slow and steady depression cycle had commenced its journey taking into its fold the Indian Economy.

The Indian Government was able to keep under control, the Gross Fiscal Deficit at 5.7% of the GDP for the year ended on March 31, 2001, as against 5.4% in the previous fiscal. However, the internal outstanding debt increased marginally to 36.90% as on March 31, 2001, of the GDP from 36.50% as on March 31, 2000. External debt for the first time crossed the US$ 100 billion and stood at US$ 100.355 billion as on March 31, 2001. Forex Reserves increased to a very healthy US$ 41.95 billion as on September 28, 2001 compared to US$ 39.55 billion as on March 31, 2001.

On the external trade front for the year ended on March 31, 2001, exports grew by 20.8% to US$ 44.4 billion, while the imports marginally fell by 0.1% to US$ 49.7 billion. The Re-US$ conversion rate saw a steady depreciation of Re and traded at Rs. 46.64 per US$ as on March 30, 2001 as against Rs. 43.61 per US$ as on March 31, 2000. The Government on recommendations of its Economic Advisors / Experts systematically reduced the interest rates from 8% from year end 2000 to 7% as at year end 2001. It appeared that the Government was very keen to give a major thrust to the economy and the industry. Moreover, the monsoon was rated and declared as 'normal' and expected to give boost to the sagging economy.

The finance budget for 2001-02 (presented in February 2001) was a landmark and rated as one of the best in the previous decade by industry champions as well as the common man. Even the stalwarts of the opposition parties scrambled for words to criticise the budget and some of the members of parliament actually praised the budget provisions, indirectly. The stock market reacted sharply and positively by posting a massive jump in Sensex by 177 points on conclusion of the presentation of the budget 2001-02.

Some of the key features of the budget 2001-02 were:

1. FII inflow ceiling raised to 49% from 40%;
2. Surcharge slashed from 13% to 2% and 17% to 2% (for the highest income bracket) respectively;
3. Two-way fungibility of ADRs / GDRs was permitted for the first time;
4. Dividend tax reduced from 20% to 10%;
5. Long-term capital gains out of securities and MFs exempted from tax, if invested in equity issues;
6. Excise duty on Motor Cars and Soft Drinks reduced from 40% to 32%;

The euphoria was short lived and the second major stock market scam and the disclosures by Tehelka.com, pulled down the capital market so badly that it is yet to recover from the battering it got in March 2001. All the major brokers were affected and many faced a severe sustained liquidity crunch. The trend has not reversed conclusively thereafter.

The demolition of twin towers of the World Trade Center, New York by a terrorist group on September 11, 2001 acted as a catalyst for the recessionary trends in the Global Economy and put forth a very gloomy picture for recovery in the short term.

Indian Capital Market Scenario

The secondary market saw a major rally before and after the presentation of the budget 2001-02 but could not sustain the onslaught of the second stock market scam coupled with the disclosures by Tehelka.com as also the international pressure of recession in the Global Economy. The BSE Sensex fell by over 28.5% from its high of 5,041 on March 30, 2000 to 3,604 on March 30, 2001. Companies in the information technology, media and entertainment sectors, which had shown a significant improvement in its valuations on the stock exchanges in the previous year, saw a significant depreciation during the year.

The stampede in the primary market in the previous year changed to a hop, skip and jump game as a large number of companies in the IT and media sectors, who had received observations for the draft offer documents filed with SEBI before the budget started to play a wait and watch game and a large number of companies are still waiting for an opportunity chance to access the primary markets. However, some of the companies dared to enter the primary markets successfully like Mukta Arts, Tips Industries, Balaji Telefilms but the number could be counted on the fingertips. The general expectation of a large number of banks to access primary markets had fizzled out in view of the poor performance and expectation of results. Almost all the banks, which had planned their Initial Public Offerings (IPOs), had sought extensions from Reserve Bank of India (RBI) for meeting their capital adequacy requirements or sought other means.

SEBI reported a raising of Rs. 53.78 billion through 124 public offerings during the financial year 2000-01 compared to Rs. 62.57 billion during the financial year 1999-2000. SEBI also reported a raising of Rs. 7.30 billion through 27 rights offerings during the financial year 2000-01 compared to Rs. 15.60 billion through 28 rights offerings during the financial year 1999-2000. The fall in the capital markets was loud and bold well reflected in the figures.

Structural Changes in Primary Markets

SEBI continued its efforts to make market operation more efficient and adjust to new techno-economic realities. SEBI amended the Guidelines 2000 in August 2000 to improve the quality of the IPOs by amending and making the entry norms much stricter apart from improvement in the disclosure requirements in the offer documents. The emphasis shifted from the retail investors to Qualified Institutional Buyers (QIBs) in order to assess the quality of the IPOs and the fair pricing of securities.

SEBI also initiated and amended Guidelines 2000 and incorporated comprehensive guidelines for IPOs through stock exchange on-line system in November 2000. The effectiveness and utility of the system could not be tested in view of the slump in the capital markets. Your directors are of the opinion that SEBI is moving fast enough to make the Indian Capital Markets globally competitive atleast technologically.

In November 2001, SEBI permitted 100% Book Building Method for IPOs as has been a consistent demand by the Industry since the date Book Building Method was permitted for the first time for the IPOs. Bharti Telecom Limited was the first company to utilise the provisions of 100% Book Building Method.

SEBI allowed buyback of securities in 1998 but the activity gathered momentum in the year 2000-01 after some initial teething trouble. Your company was associated with the largest buy back in the Indian Corporate History for equity shares of Bajaj Auto Limited as referred elsewhere in this report.

Global competitiveness became the key factor driving the flow of capital worldwide, into businesses that can generate value, on a continuous basis. Historic valuation models like PE Multiples began to be questioned, as the business environment became more dynamic. Future growth and profit prospects have become the key drivers for investment decisions.

Secondary Markets

Last year was one of the most challenging years from the capital market perspective, in the recent times. Tumbling valuations, both globally and locally led to the overall erosion in the BSE market capitalization from a peak of Rs. 9,128 billion to about Rs. 6,122 billion. Trading volumes too have squeezed on the leading stock exchanges. On BSE and NSE volumes shrunk from Rs. 9,562 billion to Rs. 3,071 billion and from Rs. 12,508 billion to Rs. 5,132 billion, respectively. With very few performing sectors and stocks available and a shocked investor sentiment, your company did its most in terms of circumspection of existing activities. Your company has continued its efforts to build and strengthen client relationships. We foresee a massive consolidation of the brokerage businesses, as the profit margins are very slim and the business environment erratic. Financial prowess has become as important as Ideas and so, we have focused to gain from these developments.

The initiative of SEBI for complete de-materialization of stocks was further complemented by compulsory rolling settlement under T+5 basis for all the stocks. This made the stock market operate substantially on cash basis and the speculative activities were provided through Derivatives Segments under Futures and Options. Initially, SEBI had been very cautious in its approach towards introduction of the concept, as the receptiveness of the new and highly complicated financial instruments was doubtful. In the first phase, SEBI permitted Index Options and then Stock Options and Futures. The concept has slowly but steadily picked-up and it would not be surprising if the total market size for the Derivatives Segments takes over the Cash Segment as has been the case world over.

The average daily trading volume on Derivatives Segment has grown from Rs. 20 million in June 2000 to Rs. 2,640 million in September 2001 on the NSE. The derivatives are deemed to have arrived in India with caution. It would take some more time before the ratios on derivatives segment pick up and match International Standards when compared to the Cash Segment.

The Directors of your company believe that the present situation of the business cycle is part of the global economic phenomenon and that the business environment should improve in the coming years. With short term challenges being a fact of life, your company remains positive on the long-term prospects for this business.

Your Company's Performance

Your company has, for the period under review, generated gross income of Rs. 333.91 million as against Rs. 941.82 million for the previous year 1999-2000. The debt equity ratio as at September 30, 2001 stood at 1.13:1 against debt equity ratio of 0.42:1 in the previous year. The financial performance has suffered in view of the recessions in the Indian and Global Economy during the period under review.

Your company was forced to vigorously follow the short term cost cutting measures to beat the recessionary trends during the period under review. Your company had made a systematic effort to concentrate on high-density assignments for generating revenues with relatively smaller resources. Your company has made efforts to consolidate its operations and segregate the good quality assignments from others.

Fee Based Avenues

During the period under review, your company has been able to shift its focus from the primary markets to other merchant banking activities like takeovers, acquisitions and buy backs. The Board of your company is pleased to inform you that your company was able to successfully execute the *largest buy back till date of equity shares by Bajaj Auto Limited* of aggregate size of Rs. 7.28 billion. Apart from the buy back of Bajaj Auto Limited, your company has been also associated with a few IPOs and takeover assignments and continued its presence in the major operational segments of the financial services market.

Corporate Advisory Services (CAS) has been one of the thrust areas for your company. Your company has achieved the distinction of being amongst the select few investment banking organisations in the country that can undertake the strategisation, planning and execution of diverse assignments, sometimes having seemingly contradictory objectives, on a turnkey basis. Though, these are usually very demanding, long-term assignments, the rewards to your company occupy the pinnacle position within this niche segment. This is exactly what your company brings to the table – 'Finance and more ...', becoming a partner of the client in his business.

With the augmentation of complexities in the market place, with alarming regularity, the average investor is finding it increasingly difficult to comprehend, let alone outperform the market. Thus, there is a need for a private fund manager, being either a portfolio manager or a Mutual Fund. This has been the trend globally and India is no exception. A definite pointer towards this shift can be gauged by the funds under management of the Mutual Fund industry. The year started with an industry corpus of Rs. 681.93 billion and ended at Rs 1,079.46 billion. We believe that the funds under management by private portfolio managers, such as your company would have grown at an even higher pace.

Corporate Finance Group (CFG) is an area of operation which is being fought with stiff competition and reduced margins. The overall volumes also did not witness large growth. It therefore became necessary for the CFG to create unique sub-areas of operation, which it has successfully achieved. These activities enabled the group to not only substantially generate volumes but also charge full fee structures. CFG covers broadly the following areas:

i) Debt Market

This is a most emerging market in the present market. Your company has a unique place in this market. The debt market comprises of two divisions i.e. Whole Sale Debt Market (WDM) and Retail Debt Market (RDM). WDM is an inter-bank transaction, which deals in the Government Securities, T-Bill etc. This desk has a strong team of dealers who deal in aforesaid securities on a full time basis. RDM deals in the Government Securities, PSU Bonds, Government Loans, State Government Securities and RBI Relief Bonds etc. RDM has a very big client list and deals with Cooperative Banks, Provident Funds, High Net-worth Individuals (HNI) and Charitable Trusts etc.

ii) Private Placement

Your company has been able to execute a good number of private placements in the form of loan syndications. In the current year CFG expects to witness good credit offtake and sees great potential in this direction. Besides this, primary placement of large corporate and bank papers are also envisaged and your company has already started putting efforts in this direction.

Investments and Stock Operations

Your company carries out investments and stock operation activities which forms part of the company's income. However, with the stock markets performing dismally during the period, your company has not focused on this area during this period. Inspite of the poor conditions in the secondary markets, your company generated a gross income of Rs. 134.76 million during the period by way of investment and stock operations.

Research Group

Your company's research team is the backbone of your organization. It caters to the specialized needs of service centric organization. The research group acts as a critical and driving support function for Equity Desk, WDM Desk and Portfolio Management. The group rigorously tracks the global and local economic developments and its impact on key sectors and companies. Industry specific research is undertaken at macro level. Within specific sectors, company specific exhaustive dissection is carried out on a regular basis.

In a quest to provide new and better services to the customers / clients, several new products were introduced during the course of the year. **"KSL-India Equity Snap Shot"**, a daily morning equity market product was introduced from January 2001. Its aim is to provide the top clients with expert market opinions, research ideas, and investment strategies and also update readers' key developments.

Your company, for the first time during the previous year introduced two more support services, debt research and mutual fund research. **"KSL-India Debt Snap Shot"**, a product for the principal debt investors captures the short and possible long term volatilities in various government securities, interest rates and money supply and updates our debt clients on the market events and possibilities. Very recently, your company introduced specific advisory for the mutual funds viz. **KSL-Mutual Fund Advisory Services,** to broad-base the service profile to existing customers / clients of your company.

The key success of your company during the period was the establishment of a comprehensive derivatives research desk and the conducting of over two dozen training workshops at your company's worksite, to familiarize the clients with this new market product as also build their participation in this new, complex yet useful financial product.

Your company has soft-launched its ambitious research based e-broking website. The website contains unique features like customized online portfolio recommender, market barometer index and exhaustive company and stock details. At an appropriate time, your company intends to tag the real-time trading engine with this user-friendly website.

The endeavor of the Research Team is providing constant value-addition to the customers / clients of your company through innovation, service and discipline.

The Future

The sustained recessionary trends in the Global Economy and also the Indian Economy has led to business crunch for your company as has happened with most of the entities in the financial services companies. Your company has been quick to react to the slow down and initiated corrective steps by pruning down the non-essential resources whether human or otherwise. Your company has been in a position to curtail a good number of staff without affecting the efficiency of the remaining staff for the assignments mandated during the previous year.

Your company has in place the systems, adequate professional manpower and the initiative to maximize future opportunities with limited resources

As stated earlier, turnkey assignments under Investment Banking and CAS would still remain a key focus area for the future. Success will continue to revolve around the company's ability to adapt and respond effectively and aggressively to the dynamics of the market place, imperative in the current fluid financial services sector in India. In the prevailing conditions, your company has to maximize the available opportunities, which has been a constant endeavor of your Directors. The sustenance would be focused on or around areas of core competence of your company so as to minimize risks generally associated with high growth expansion plans.

Your Directors wish to express a note of caution in relation to the efforts made for sustenance in the near future. The liquidity position of the company has been severely hampered and need support. Your Directors are committed to focus and make efforts to see that not only the liquidity position of your company improves but also able to provide stepping-stone for future growth. Your Company is taking steps to put in place a risk management system that shall provide adequate advance warning and protection from the vagaries of the financial markets.

SUBSIDIARY COMPANY

Khandwala Finances Limited, a wholly owned subsidiary of your company has been merged with your company from April 1, 2000, being the Appointed Date.

DIRECTORS

At the Board Meeting held on October 31, 2001, Mr. V. Kapoor relinquished the position of Managing Director of the Company and was appointed as Additional Director of the Company from the same date. He however resigned from the Board of the Company from March 28, 2002. The Board places on record its appreciation for the invaluable contribution made by him to the growth and development of the company during his tenure as Managing Director / Director.

Mr. Mahesh Gandhi and Mr. Prakash Shah were appointed as Additional Directors during the year from February 6, 2001 and March 24, 2001 respectively and held office upto the date of the Annual General Meeting held on March 30, 2002, when they were appointed as Directors subject to retire by rotation. The company had received notices under Section 257 of the Companies Act, 1956, proposing the appointment of Mr. Mahesh Gandhi and Mr. Prakash Shah as Directors, subject to retire by rotation.

Mr. R. D. Modha and Mr. S. M. Parande retired by rotation and being eligible, offered themselves for re-appointment. They were reappointed at the Annual General Meeting held on March 30, 2002. A brief resume relating to directors who were re-appointed is furnished in the section on Corporate Governance.

Mr. Ashok J. Khandwala, Mr. Mayank A. Khandwala and Mr. Jatin A. Khandwala resigned from the Board of Directors of the Company during the period. The Board places on record its appreciation for the invaluable contributions made by them to the growth and development of the company during their tenure as Directors.

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 period, which are self-explanatory.

AUDITORS

M/s. RSM & Co., Chartered Accountants, retire at the ensuing Adjourned Annual General Meeting and are eligible for reappointment as Auditors. They 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 Companies Act, 1956. A resolution of their appointment as Auditors is being placed before the Shareholders for the their approval at the ensuing Adjourned Annual General Meeting. The members are requested to consider their reappointment for the financial year 2001-02.

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) Rule, 1988 relating to conservation of energy or technology absorption.

However, information in respect of foreign exchange earnings and outgo for the period under review, is an under :

Foreign Exchange Earnings : Nil (previous year – Rs. 1,05,33,707/-)

Foreign Exchange Outgo : Rs. 12,51,000/- (previous year – Rs. 14,52,334/-)

PRUDENTIAL NORMS AND GUIDELINES FOR NON-BANKING FINANCIAL COMPANIES

Your company is not a Non-banking Financial Company (NBFC) and hence not required to comply with the prudential norms prescribed by RBI.

DEPOSITS

Your company has not accepted any deposits from the public.

ACKNOWLEDGEMENTS

The Directors acknowledge the faith reposed in your company by the bankers, lenders and clients. The achievement of your company would not have been possible without the commendable efforts and dedicated commitment displayed by the employees. Team spirit has been the essence of performance and the Board wishes to places on record its appreciation.

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

Paresh J. Khandwala Chairman & Managing Director

Samir S. Doshi Director

Date: June 3, 2002.
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 Directors' Report)

EMPLOYED FOR PART OF THE 18 MONTH PERIOD

Name and Qualification	Age in years	Designation / Nature of Duties	Gross Remuneration	Experience in No. of Years of Employment	Date of Commencement of Employment	Last Employment
Virendra Kapoor M.Com, CAIIB	62	Managing Director	Rs. 28,57,080/-	38	May 1, 2000	Industrial Development Bank of India

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 there under and company's contribution to provident fund, but excludes leave encashment / gratuity unless paid/payable.

(2) The above appointment is contractual.

(3) The above employee is not a relative of any of the Directors.