Tenth Annual Report
2001-2002

KHANDWALA
SECURITIES
LIMITED

Board of Directors

Paresh J. Khandwala (Chairman and Managing Director)

Sema Desai

Sreedhar Parande

Prakash Shah

Mahesh Gandhi

Company Secretary

Sameer V. Upadhyay

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 Pherozshah 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
Maneckji Wadia Bldg.,
Nanik Motwani Marg, Fort,
Mumbai - 400 001

Bank of Punjab
Surya Mahal,
118, Nagindas Master Road,
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 Tenth Annual General Meeting of the Members of Khandwala Securities Limited will be held as scheduled below :-

DATE	:	March 03, 2003
DAY	:	Monday
TIME	:	10.00 a.m.
PLACE	:	M. C. Ghia Hall 2nd Floor, Bhogilal Hargovindas Building, 18/20, Kaikhushru Dubash Marg, (behind Prince of Wales Museum), Mumbai -400 001

To transact the following business

AS ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet as at September 30, 2002 and Profit and Loss Account for the year ended on September 30, 2002 and the Reports of the Directors and Auditors thereon.

2. To appoint a Director in place of Mr. Paresh Shah who retires by rotation and being eligible, offers himself for re-appointment.

3. To appoint a Director in place of Mr. Mahesh Singhi who retires by rotation and being eligible, offers himself for re-appointment.

4. To appoint Auditors and fix their remuneration.

As Special Business

5. To consider, and if thought fit, to pass, with or without modifications, the following Resolution as a Special Resolution

"RESOLVED THAT subject to approval of the Central Government, if any required, and pursuant to Sections 198, 269, 309 and other applicable provisions of the Companies Act, 1956 and subject to such other approvals, as may be necessary, that the Company do appoint Mr. Paresh J. Khandwala as the Managing Director of the Company, subject to overall supervision, control and direction of the Board of Directors, for a period of two years, with effect from January 1, 2003 with authority to the Board of Directors to pay to Mr. Paresh J. Khandwala remuneration specified below

a) **Salary :**
Salary of Rs. 1,50,000/- p.m. inclusive of all perquisites, conveyance, medical allowance, provident fund and leave travel allowance.

b) **Commission**
At 1% of the Net Profits of the Company calculated as per provisions of Section 349 & 350 of the Companies Act, 1956 payable on yearly basis subject to approval of accounts.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to alter, vary and modify the said remuneration in such manner as may be agreed to between the Board and Mr. Paresh J. Khandwala or any amendments and / or statutory modifications as may be stipulated by the Central Government and as may be agreed to accordingly between the Board and Mr. Paresh J. Khandwala.

RESOLVED FURTHER THAT in case of loss or inadequacy of profit in any financial year, if any, during the tenure of Mr. Paresh J. Khandwala, above remuneration, subject to approval of the Central Government if so required, be paid as minimum remuneration.

RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board of Directors be and are hereby authorized to do all such acts, deeds, matters and things as it may in its absolute discretion deem necessary, proper or desirable and to settle any questions, difficulties or doubts that may arise in this regard."

6. To declare the results of General Meeting in respect of the following Special Resolution for alteration of the existing Objects Clause of the Memorandum of Association of the Company required to be transacted through Postal Ballot

"RESOLVED THAT pursuant to Section 17 and 192A and other applicable provisions, if any, of the Companies Act, 1956 the existing Objects Clause of the Memorandum of Association of the Company be altered by inserting Clause 1(A) after the existing clause 1 under the heading III (A) THE MAIN OBJECTS OF THE COMPANY TO BE PURSUED BY THE COMPANY ON ITS INCORPORATION

"1(A) To carry on and / or solicit Insurance Business as Corporate Insurance Agent(s) and / or Insurance Broker(s) and / or Consultant(s) and / or Insurance Broking Firm and / or by any other name for Life and / or Non-life and / or General Insurance in India and / or out side India and also to carry on activity as Pension Fund Agent(s) and / or Broker(s) and / or Consultant(s) and / or marketing, selling, distributing, soliciting any other insurance related business and agency work within India / out side India"

RESOLVED FURTHER THAT the Board of Directors be and are hereby authorised to accept such modification / alteration as may be suggested by the Registrar of Companies, (Maharashtra) & to take all such necessary steps including to sign such papers, forms etc. as may be required for the above"

RESOLVED FURTHER THAT Mr. Sanjay V. Upadhyay, Company Secretary of the Company be and is hereby authorised to comply with the necessary formalities, with respect to change in object clause, with Registrar of Companies, Mumbai (RoC).

7. On the Special Resolution at item 7 of the foregoing Notice, being declared as passed, to consider and if thought fit, to pass the following resolution as Special Resolution:

"RESOLVED THAT pursuant to Section 149 and other applicable provisions if any, of the Companies Act, 1956, that the Company may commence business as provided in the clause 3(A) in paragraph III (A) under the heading THE MAIN OBJECTS OF THE COMPANY TO BE PURSUED BY THE COMPANY ON ITS INCORPORATION of the Memorandum of Association of the Company from such date as the Directors of the Company may deem fit."

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

"RESOLVED THAT pursuant to the provisions of Sections 81, 81(1A) and other applicable provisions, if any, of the Companies Act, 1956, the Articles of Association of the Company and subject to the Rules / Regulations / Guidelines issued by the Securities and Exchange Board of India (hereinafter referred to as "SEBI"), including the Guidelines on Preferential issues, Listing Agreements entered into by the Company with the recognised Stock Exchanges in India where the equity shares / securities of the Company are listed and such approvals, permissions, sanctions and consents as may be necessary including from RBI, if any, applicable and required under applicable Laws, Rules, Regulations, Agreements and Contracts on such terms, conditions, alterations, modifications, corrections, changes and variations, if any, that may be stipulated or imposed or prescribed under such approvals, permissions, sanctions and consents, which may be agreed and accepted by the Board of Directors (which term shall include any duly constituted and authorised "Committee of Directors" thereof), if the Members of the Company accords its consent to issue 1.2 lacs equity shares of face value of Rs. 10/- at premium of Rs. 12/- each per equity share of aggregate value of Rs 26.40 lacs (Rupees Twenty Six Lacs Forty Thousand Only) at a price not less than the price arrived in terms of the guidelines issued by SEBI for Preferential issues, dated August 4, 1994 as amended upto date to (i) Mr. Paresh P. Khandwala and (ii) Mr. Pranav P. Khandwala as detailed in the Explanatory Statement annexed to this Notice.

RESOLVED FURTHER THAT for the purpose of giving effect to the said Special Resolutions under Sections 81, 81(1A) and other applicable provisions of the Companies Act, 1956, the Board of Directors of the Company, be and are hereby authorised to take such steps and to do all such acts, deeds, matters and things and agree and accept any alteration(s) or amendment(s) or correction(s) or modification(s) as they may deem fit and appropriate and give such directions / instructions as may be necessary to settle any question or difficulty for the offer, issue and allotment of further equity shares in such manner as may be deemed fit and appropriate by the Board of Directors and / or any legal / regulatory body as be most beneficial to the Company.

RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorised to delegate any or all the powers conferred upon it by this resolution, to any Committee formed thereof for this purpose or to any individual so authorised by the Board.

RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorised to determine the terms and conditions of the issue including face value, quantity, issue price (including price range), manner of calls etc. in such manner as the Board may deem fit and proper at its absolute discretion to be most beneficial to the Company and to approach SEBI and / or any other competent authority for offer, issue, allotment and listing of the equity shares on the stock exchanges where the Company's shares are listed and to do all such acts, deeds, matters, and things as may be necessary, appropriate and proper or expedient for giving effect to the above special resolution."

For Khandwala Securities Limited.

Paresh J. Khandwala
Chairman and Managing Director

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

Place : Mumbai

Date : January 07, 2003

NOTES

1. As per Section 192A of the Companies Act, 1956 read with the Companies (Passing of the Resolution by postal Ballot) Rules, 2001, the consent of the shareholders for the item no 6 is required to be obtained by means of a postal ballot. Accordingly the said draft Special Resolution and the Explanatory Statement is being sent to you along with a Postal Ballot Form for your consideration. The Company has appointed Mr. Nilesh Shah, Practising Company Secretary as Scrutinizer for conducting the postal ballot process in a fair and transparent manner.

   You are requested to carefully read the instructions printed in the Postal Ballot Form and return the Form duly completed in the attached self addressed postage paid envelope so as to reach the Scrutinizer on or before 27th February 2003. The Scrutinizer will submit his report to the Chairman after completion of the scrutiny and the results of the postal ballot will be announced by the Chairman in the Annual General Meeting to be held on 3rd March 2003 at M. C. Ghia Hall 2nd Floor, Bhogilal Hargovindas Building, 18/20, Kaikhushru Dubash Marg, (Behind Prince Of Wales Museum), Mumbai - 400 001.

2. 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.

3. 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.

4. Explanatory Statement as required by Section 173(2) of the Companies Act, 1956 in respect of Special Business is annexed hereto.

5. The Register of Members and Share Transfer Books of the Company will remain closed from Wednesday, February 26, 2003 to Monday, March 03, 2003 (both days inclusive) for transfer of Equity Shares.

6. Members are requested to bring their copy of the Annual Report as copies of the Report will not be distributed again at the Meeting.

7. Members are requested to bring their attendance slip duly signed so as to avoid any inconvenience.

8. 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.

ANNEXURE TO THE NOTICE

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

Item No. 5 of the Notice

The Board of Directors of the Company at their meeting on January 07, 2003 appointed Mr. Paresh J. Khandwala as Chairman and Managing Director of the Company unanimously for a period of two years with effect from January 01, 2003. The appointment and remuneration is subject to the approval of the Shareholders and Central Government, for which purpose resolution as set out in the Notice is proposed. The remuneration has been fixed by the Board of Directors as recommended and approved by the Remuneration Committee of Directors. Above shall be deemed to be as per the terms of appointment under section 302 of Companies Act, 1956.

Shri Paresh J. Khandwala, 47, has experience of over 30 years in Financial Industry. Shri Paresh J. Khandwala has been Director of the Company since its incorporation, during the period the Company has recorded a remarkable progress.

Draft of agreement to be entered into between Mr. Paresh J. Khandwala and Company is available for inspection at the Registered Office of the Company on any working days excluding Saturday, Sunday and any Public Holidays between 11.00 a.m. to 1.00 p.m.

Your Directors recommend the proposed Resolution for acceptance by the Members.

None of the Directors of the Company other than Shri Paresh J. Khandwala may be deemed to be concerned with or interested in the Resolution.

Item No. 6 of the Notice:

In view of the encouraging measures taken by the Government to liberalise the economy and in order to diversify into certain new business ventures, your Directors have been always considering various proposals. Amendments proposed by way of additions to the Object Clause in the Memorandum of Association as set out in the resolution under this item are to facilitate diversification and to enable the Company to enlarge its area of operation. With the globalisation and opening of economy corporate Insurance Advisory Services, pursuant to Section 17 of the Companies Act, 1956, a Company can alter its object clause by passing a Special Resolution at the general meeting. The proposed business can be conveniently carried on with the existing business and will add to its profit. The draft copy of Memorandum and Articles of Association aforementioned above for change in the object clause is available for inspection at the Registered Office of the Company on any working day excluding Saturday and Sunday and any public holidays, between 11.00 a.m. to 1.00 p.m. upto March 03, 2003.

Your Directors recommend the proposed Resolution for acceptance by the Members.

None of the Directors of the Company may be deemed to be concerned or interested in the Resolution.

Item No. 7 of the Notice

As is explained in the proposed resolution under item no. 5 of the said notice, your company has taken initiative to commence with the business of Corporate Insurance Agent and / or as Pension Fund Agent. Board of your company has strong feeling that business in Insurance will be a profitable area. Pursuant to Section 149 (2A) of the Companies Act, 1956, no Company can commence any new business which is not germane to the business it is carrying on unless the Company has approved the commencement of such new business by Special Resolution passed in that behalf at a General Meeting. As the Commencement of the proposed new business as specified in clause 2(A) and 2(B) of clause III(A) of the Memorandum of Association of the Company may be considered to be commencement of new business within the meaning of Section 149(2A) of the Companies Act, 1956, it is necessary to obtain the approval of the members by way of Special Resolution to such commencement of new business pursuant to said section and the resolution is intended for this purpose.

Your Directors recommend the proposed Resolution for acceptance by the Members.

None of the Directors of the Company may be deemed to be concerned or interested in the Resolution.

Item No. 8 of the Notice

The details of the proposed allotment as required under guidelines issued by SEBI for Preferential Issues and SEBI (SAST) Regulations are as follows:

(i) **Terms of the Offer / Issue:**

Equity Shares. (i) Number of equity shares offered – 1,20,000 (One Lac Twenty Thousand Only); (ii) Face Value Rs. 10/- at Premium of Rs. 12/- each per equity share.

(ii) **Objects of the Issue/ Purpose of and Reasons for Preferential Allotment:**

The main object for generating amount by issue of equity shares on preferential basis will be for the purpose of Working Capital of the Company.

(iii) **Intention of Promoters to subscribe to the offer:**

Subscribers are relatives of one of the promoters and intend to subscribe the offer.

(iv) **Name of the Person(s) who intend to subscribe to the Offer**

Name of Subscriber	No. of equity shares	% of the post preferential issue capital
Mr. Paras P. Khandwala	60,000	0.59
Mr. Pranav P. Khandwala	60,000	0.59
TOTAL	1,20,000	1.18

(v) **Shareholding Pattern before and after the proposed Allotment:**

The information on shareholding pattern before and after the proposed allotment is given below:

Sr. No.	Particulars	Existing (As on 31.12.2002)	After allotment of proposed Equity shares
1	Promoters Holding	6,19,086 (6.18%)	6,19,086 (6.11%)
2.	Persons acting in concert	37,87,669 (37.80)	39,07,669 (38.54%)
3	Mutual Funds and UTI	66,912 (0.67%)	66,912 (0.66%)
4	Banks, FIs, Insurance Cos (Central / State Govt. Inst. / Non-Government Institutions)	2,40,000 (2.40%)	2,40,000 (2.37%)
5	Private Corporate Bodies	35,97,247 (35.90%)	35,97,247 (35.48%)
6	Indian Public	9,68,325 (9.66%)	9,68,325 (9.55%)
7	NRIs / OCBs	7,40,761 (7.39%)	7,40,761 (7.31%)
	Total	1,00,20,000 (100.00%)	1,01,40,000 (100.00%)

(vi) **Proposed time within which the Offer / Issue would be completed:**

The said Preferential Issue is proposed to be completed / implemented within a period of three months from the date of the general meeting approving such an issue.

(vii) **Offer / Issue Price:**

The offer / issue price, is Rs. 22/- per equity share, is higher than Rs. 15.91 per Equity Share, which is the price allowed as in terms of the guidelines issued by SEBI for Preferential Issues, dated April 4, 1994, and has been certified to be correct by the Statutory Auditors of the Company M/s. RSM & Co in terms of the Preferential Issue Guidelines issued by SEBI.

(vii) Board of Directors/Control/Management:

Preferential Allotment of 1,20,000 equity shares represent 1.20% of the present Equity Capital and 1.18% of the enhanced capital.

On allotment of Equity Shares as stated hereinabove, there will be no change in the constitution of the Board of Directors and / or control and / or management of the Company and the voting rights will change in tandem with the shareholding pattern as stated hereinabove.

The certificate from Statutory Auditors of the Company M/s. RBM & Co. certifying that issue of fresh equity shares on the abovementioned terms is in accordance with the guidelines issued by SEBI for Preferential Issues is kept open for inspection at the registered office of the Company between 11.00 a.m. to 1.00 p.m. on any working day excluding Saturday, Sunday and Public Holidays upto March 03, 2003.

Pursuant to Section 81 of the Companies Act 1956, whenever a Company increases its subscribed capital, it has to first offer the proposed securities to the existing shareholders / members otherwise a special resolution to that effect is passed in the General Meeting of the Company.

The consent of the Members is therefore sought to authorise the Board of Directors of the Company to offer, issue and allot these equity shares in the manner set out in the Special Resolution.

Mr. Paresh J. Khandwala, Chairman and Managing Director is deemed to be interested / concerned in the resolution to the extent of the equity shares that may be allotted to his relatives. No other Director is interested / concerned in the resolution.

Your Directors recommend the Special Resolution set out in the Notice of this meeting for approval of the Members.

For Khandwala Securities Limited,

Paresh Khandwala
Chairman and Managing Director

Registered Office:
Ground Floor, Vilas Building
Green Street, Fort, Mumbai 400 023

Place : Mumbai

Date : January 07, 2003

MANAGEMENT DISCUSSION AND ANALYSIS

In India the Financial sector has grown exponentially and has become an integral part of the Indian financial system. The various players in the financial services industry including banks and financial institutions are restructuring their business strategies and are moving into retail financing more aggressively. This has resulted in severe competition. These companies play an important role as mobilisers of savings to channelise these into productive uses in the manufacturing and the services sector. Khandwala Securities Limited as one of the reputed finance company, has weathered the storms of liberalization and economic downturn and has responded to these emerging trends of competitive environment by building on its core strengths of distribution team, product innovation, cost efficiencies, focused customer service, effective risk management and efficient collection mechanism. Khandwala Securities has built for itself a reputation as a well managed Investment Banker and financial advisor, which serves different customer segments with a range of superior products and services. Khandwala Securities Limited management practices that are in the best interest of its shareholders. Khandwala Securities expects to continue to deliver sustainable growth in the years to come.

The core strategy team of Khandwala Securities is currently in the process of planning and developing the future organization, including but not restricted to specifying the capabilities and competencies that will be required to meet the challenges of a dynamic business environment possessed with a myriad of opportunities. The success of this organization will be gauged purely by its ability to adapt to an ever-evolving environment identifying opportunities and its ability to create a niche for itself in a market that is also characterized by a high degree of competition.

Business Analysis

This year your Company has made remarkable performance in the Debt Market Segment, which is made up of Whole Sale Debt Market, more commonly known as WDM, and Retail Debt Market (RDM). In WDM we have made a volume of approx. 20000 crores and in Retail Debt Market also 100 crores during the year under review. Your Company always believes in the diversification rather only concentration on the same line of business.

Your Company has initiated process of setting up the Insurance Advisory Services beside the Mutual Fund Advisory Services. Your Company has in place the systems, adequate professional manpower and the initiative to maximise future opportunities with limited resources. Your company continues to focus on the Corporate Advisory Services (CAS) and it remains one of the thrust areas of operations.

For discussion on financial and segmentwise performance - refer Directors Report.

Internal Control

As Shareholders are aware, the Company has set up an Audit Committee of the Board and has appointed a leading firm of accountants to carry out its Audit functions. The Internal Auditors have been mandated to identify and analyse areas of risk with a view to strengthen internal controls. IT systems are being strengthened and leveraged to ensure system based controls of high risk areas. Khandwala Securities has adequate internal control systems to ensure operational efficiency, protection and conservation of resources, accuracy and promptness in financial reporting and compliance of laws and regulations. The Audit Committee of the Board reviews the internal audit reports and the adequacy of internal controls.

Risk Management

The risk management process is to evaluate various risks associated with the business and to introduce suitable mechanism to effectively reduce such risks. The preferred approach is proactive and driven by operational strategy driven from each business group. Khandwala Securities has effectively implemented the process of evaluation of risk factors involved in the business through its Risk Management Committee. Your company has formed Risk Management Committee who meets as and when required to monitor possible risk going on in the market considering the macro economic factor and to bring adequate solutions for it. The ability to successfully manage risks calculated or otherwise is recognized as a critical performance factor in a business environment that is principally characterised by dynamic variability. Khandwala Securities has formulated a system of monitoring operational, financial, strategic and market risks at various levels and frequencies.

The Company is also subject to concentration risk in its investment portfolio. Khandwala Securities is formulating a structure which limits securities concentration risk through the use of systems and procedures, including specifying maximum limits, by each security, by type, business group and sector. Effective hedging mechanisms are constantly adopted to reduce exposures. Adequate monitoring mechanisms have also been incorporated to sound early warning signals within the system.

Human Resources / Manpower

Efficiency being the key parameter of financial services industry, your Company has streamlined its manpower to achieve its stated objective. Industrial Relations continued to be cordial. In terms of managing human resources, your Company, as an ongoing exercise, reviews and adopts appropriate measures to ensure that the team is continuously motivated and updated. To ensure that employees working in the organization are adequately motivated, your Company has organised get together programmes which was addressed by Chairman and Managing Director and was followed by brief introduction of each employee and their job profile. The Company's strategy strives towards providing the right place, right person, environment to encourage people to grow and develop capabilities, within the organization. As on September 30, 2002, 73 no. of employees were employed.

DIRECTORS' REPORT

The Members,
Khandwala Securities Ltd.

Dear Sir / Madam,

Your Directors present herewith the Tenth Annual Report with the Audited Accounts of your Company for the year ended September 30, 2002.

FINANCIAL HIGHLIGHTS

(Rs. in millions)

	Year ended September 30, 2002	Period ended September 30, 2001
Total Income	90.00	383.91
Interest & other Financial Charges	43.30	114.48
Depreciation	12.80	24.30
Profit before Tax	(96.15)	(23.75)
Provision for Tax (including Interest Tax)	0.30	30.74
Profit after Tax	(96.45)	(60.49)
Appropriations		
Dividend on Preference Shares	4.33	4.18
Dividend on Equity Shares	0.00	0.00
Provision for Corporate Tax on Dividend	0.44	0.85
Transfer to General Reserve	0.00	0.00
Surplus carried forward	47.98	152.77
Reserves and Surplus	91.59	177.77

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 judgements 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, 2002 and of the loss of the Company for the said 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.

THE YEAR UNDER REVIEW

Macro Economic Scenario

The 12-month period between October 2001- September 2002, spanning across two financial years, has been an eventful one for the Indian economy on the developmental and political fronts. Extraneous developments like the deleterious effect of 9/11 and an erratic monsoon left a clear impact on the Indian economy and capital market. The year also led to a realignement of the underlying robustness of the economy notwithstanding the abovementioned externalities.

India has managed to stave off the global pessimism by reporting higher growth rates on both the industrial and export fronts. In fact, the Government has revised the export figures for the month of August according to which exports for the first five months of the fiscal have actually grown at a much faster pace than reported earlier.

The year also marked the resurgence of software sector during the first half of the ongoing fiscal year, which was manifested in the upward revision of growth prospects for Indian IT companies. The stellar role played by the software industry in sustaining India's export growth as well as economic development was reaffirmed during the last quarter as all the major software service providers reported improved outlook for business. The improved outlook on the sector led to the BSE IT index posting 22% growth since October 31, 2002.

The other major trend witnessed during the year was the emergence of wholesale debt market. The total volume traded in the debt market has outstripped the total volume of equity traded on BSE and NSE put together. At the core of this new found vigour in this segment of the capital market was a softer interest rate regime which was given further impetus by the government.

The wholesale debt market witnessed more volume during the current year than in any other years. The exponential growth in the volume of debt paper is also attributable to aggressive treasury management by banks. Within the debt segment, there has been an immense demand for sovereign paper – it accounted for over 94.2% of the total volume of debt securities traded.

The year also marked a major milestone in the Indian reform process with the government deciding to undertake big-ticket divestment by selling its stake in some major companies to strategic buyers. The major companies where the government has divested its stake are VSNL, IBP, CMC, HTL, PPL, BALCO and certain ITDC hotels.

For the current fiscal, the government has taken credit to the tune of Rs 120bn on account of divestment of PSU stocks. This 20% rise (vis-à-vis the previous Budget) is a clear signal of the government's intention of undertaking second-generation reforms. It need not be mentioned that the move would also have a salutary impact on the fiscal position by enabling the government to bridge the fiscal deficit.

However, the process has hit a speed breaker in the recent months with the disinvestment of petroleum stocks like HPCL and BPCL facing some opposition. Though this could pose some problems in meeting the target set during the Budget, the Government is committed to continue with the process and has recently announced another batch of companies to be taken up for disinvestment – a motley mix of profit-making and loss-making.

GDP growth for the first half of current financial year has been substantially better than the more, rather subdued, estimates that followed in the aftermath of a retarded monsoon. The improved performance has been owing to good export growth and a buoyant industrial performance. The effect of poor monsoon on the overall GDP growth has been very localized and it is hoped that the rabi output would ameliorate the situation to a great extent as rabi season sowing was rescheduled in order to capitalize on a unusual monsoon.

Industrial growth during the first six months was up by 5.2% despite the poor world trade scenario. Exports were higher by 13.6% during the same period. The higher than earlier anticipated industrial growth was chiefly due to a robust performance by the automobile sector which in turn witnessed rapid growth owing to higher private consumption and increased government spending towards infrastructure development. The rapid development of the Golden Quadrilateral Project, emphasis on setting up SEZs and the constitution of a high powered committee for connecting all major rivers of the country over the next ten years at an estimated outlay of Rs 5.6trln have been some recent developments which brings a positive light on the intent of the incumbent government.

One of the high points of the current year's performance has been the country's external sector led by strong export and forex remittances. The current account balance turned positive with a surplus of US $ 325 million. This strong performance by external sector is also reflected in the foreign exchange reserve of US $ 68 billion as on November 15 as against US $ 54 billion during the beginning of the financial year.

Imports too increased by 8.5% during the first half of current financial year. The increase in imports is partly explained by the 13.4% increase in the value of crude, besides a 6.4% increase in non-oil imports.

Amidst all the positives like, low interest rate and inflation rate, rapidly expanding foreign exchange reserve, fiscal deficit sticks out like a sore thumb. The temporary setback to divestment has further compounded the problem. Like in the previous years, the budget deficit target of 5.3% of GDP set for the current year is likely to be missed. However at the consolidated level, some progress is being made vis-à-vis the Fiscal Responsibility Management Bill and states are gradually falling in line.

We note with great satisfaction the attempts being made by state governments of all hues – be it the traditionally aggressive Maharashtra government or a complacent counterpart like Kerala – at attracting FDI. A concomitant fallout of such an endeavour would be the inevitability of undertaking reforms.

INDIAN CAPITAL MARKET SCENARIO

Primary Market

Last twelve months have also witnessed a modicum of revival in the primary market. The amount of money raised from the public has increased steadily, especially in the wake of some big-ticket public issues like Bharati Televentures and I-Flex, injected life into an otherwise lackluster primary market. The situation further improved during the latter stage of the first half of the current year with a spate of PSU banks hitting the capital market to raise capital for the purpose of expanding their operations. The last twelve months witnessed raising of Rs 87.8 billion through public issues. The first seven months of current financial year saw companies raising Rs 22.97 billion as against Rs. 24.39 billion for the corresponding period in the previous year. Mr. D. R. Mehta retired and Mr. G. N. Bajpai (ex-Chairman of LIC) took over as new Chairman of SEBI in February 2002. The economy and the capital markets all over the world headed for severe recession subsequent to the terrorist attack on the twin towers of the World Trade Center in New York in the U.S. This also had an impact on the economy and the capital markets in India. SEBI took cognizance of these external developments and acted swiftly to tackle the after effects. SEBI made serious and concerted efforts to remove rut created in the last quarter of the previous fiscal and vigorously pursued its efforts to make market operation more and more efficient and robust to new economic changes as a result of various adverse events during the year. The new Chairman of SEBI inherited the severely battered capital markets and was forced to look into innovative ways and means to handle and tackle problems. One of the major steps initiated by SEBI was related to expeditious completion of the ongoing investigations, enquiries and litigations.

SEBI allowed buyback of securities under SEBI (Buy Back of Securities) Regulations, 1998 but the activity gathered momentum in the year 2000-01 after some initial teething trouble and the capital markets saw hectic activity in this segment during 2001-02.

The global recessionary trends forced corporates to use all possible means to cut the cost and remain competitive and profitable. The investors and fund managers became very choosy and diverted their flow of capital worldwide, into businesses that could generate value, on a steady and