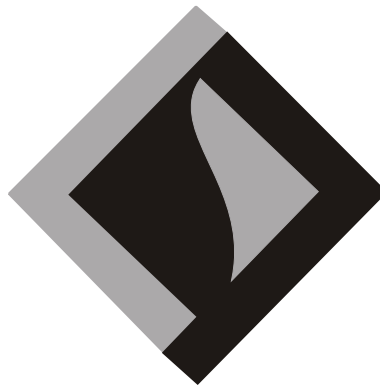


**EIGHTEENTH  
ANNUAL REPORT  
2010-11**



**KHANDWALA  
SECURITIES  
LIMITED**

## *OUR MANTRA*

*TO PROVIDE UNIQUE SOLUTIONS TO  
MEET CLIENT SPECIFIC NEEDS, GIVEN  
TIME AND RESOURCE PARAMETERS*

**BOARD OF DIRECTORS**

Mr. Shreedhar Parande (Chairman)  
Mr. Paresh J. Khandwala (Managing Director & CEO)  
Mr. Rohit Chand  
Mr. Kalpen Shukla  
Mr. Ajay Narasimhan  
Mr. Brijmohan Rai Bahl

**COMPANY SECRETARY & COMPLIANCE OFFICER**

Ms. Manisha Srivastava

**REGISTERED OFFICE**

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

**CORPORATE OFFICE**

Ground Floor, 'White House Annexe'  
White House, 91, Walkeshwar Road,  
Walkeshwar, Mumbai – 400 006.

**AUDITORS**

UDYEN JAIN & ASSOCIATES  
Chartered Accountants,  
540, 5th Floor, D Wing, Clover Centre,  
7 Moledina Road, Pune 411 001

**BANKERS**

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

Axis Bank Limited  
Sir P. M. Road, Fort, Mumbai 400 001.

HDFC Bank Ltd.,  
Manekji wadia Bldg.,  
Nanik Motwani Marg, Fort, Mumbai 400 001

**REGISTRARS & TRANSFER AGENTS**

KARVY COMPUTERSHARE PRIVATE LIMITED  
46, Avenue 4, Street No. 1,  
Banjara Hills, Hyderabad – 500 034.

**LEGAL ADVISOR**

Mulla & Mulla & Craigie Blunt & Caroe,  
(Advocates, Solicitors & Notaries),  
Mulla House, 51, M.G. Road,  
Mumbai 400 001

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**NOTICE**

Notice is hereby given that the Eighteenth Annual General Meeting of the Members of **Khandwala Securities Limited** will be held at C. K. Naidu Hall, Cricket Club of India (CCI), Brabourne Stadium, Churchgate, Mumbai 400 020 on Monday, 25<sup>th</sup> day of July at 4:00 p.m. to transact the following business:

**ORDINARY BUSINESS:**

1. To receive, consider and adopt the audited Balance Sheet as at 31st March 2011 and Profit and Loss Account for the period ended as at that date and the Reports of the Directors and Auditors thereon.
2. To appoint a Director in place of Mr. Rohit Chand who retires by rotation and being eligible, offers himself for re-appointment.
3. To re-appoint Auditors M/s. Udyen Jain & Associates, Chartered Accountants, the retiring auditors of the Company, to hold office from the conclusion of this Annual General Meeting until the conclusion of next Annual General Meeting and to authorize the Board of Directors to fix their remuneration.

**SPECIAL BUSINESS:**

4. To consider and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution;

**RESOLVED THAT** in accordance with the provisions of Section 257 and all other applicable provisions, if any, of the Companies Act, 1956 or any other statutory modification(s) or re-enactment thereof, Mr. Brijmohan Rai Bahl who was appointed as an Additional Director pursuant to Section 260 of the Companies Act, 1956 in the Board meeting held on 28th January, 2011, be and is hereby appointed as a Director of the Company subject to retirement by rotation under the provision of Articles of Association of the Company”.

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

**“RESOLVED THAT** pursuant to provision of Section 198, 269, 309 Schedule XIII and other applicable provisions of the Companies Act, 1956 and such other approvals as may be necessary, the consent of the members be and is hereby accorded to the payment of remuneration to Mr. Paresh J Khandwala, Managing Director of the Company, for the further period of 3 years from 1<sup>st</sup> January 2011 to 31<sup>st</sup> December 2013 on the remuneration as specified below:

**a) Salary**

Salary of Rs. 31,25,000/- p.a. (payable monthly) inclusive of perquisites, conveyance, medical allowance and leave travel allowance. Contribution towards Provident fund, gratuity and leave encashment at the end of the tenure would be extra.

**b) Commission:**

At 1% of the Net Profits of the Company calculated as per provisions of Section 349 & 350 of the Companies Act, 1956 will be payable on yearly

basis subject to approval of the same by the Board of directors.

**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, the above mentioned remuneration, be paid as minimum remuneration.

**RESOLVED FURTHER THAT** for the purpose of giving effect to this resolution any of the Director or Ms. Manisha Srivastava, Company Secretary be and are hereby authorised to do all such acts, deeds, matters and things as it may, in its absolute discretion deem necessary, proper or desirable to give effect to resolution and to settle any question, difficulties or doubts that may arise in this regard.’

**By Order of the Board of Directors**

**Manisha Srivastava**  
Company Secretary

**Date: 27<sup>th</sup> May, 2011**

**Place: Mumbai**

**NOTES**

1. Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956, setting out the material facts in respect of special business for Item No. 4 is annexed hereto.
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 / PROXIES NEED NOT BE A MEMBER OF THE COMPANY. THE INSTRUMENT APPOINTING A PROXY / PROXIES SHOULD, HOWEVER, BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.**
3. The Register of Members and the Share Transfer Books of the Company will remain close from Tuesday 19<sup>th</sup> July 2011 to Monday 25<sup>th</sup> July 2011 (both days inclusive) for the purpose of Annual General Meeting.
4. Pursuant to the provisions of Section 205A and 205C of the Companies Act, 1956, there is no dividend or interest which remains unpaid / unclaimed for a period of 7 years which should be transferred by the Company to IEPF. Members are requested to note that no claims shall lie against the Company or IEPF in respect of any amounts which were unclaimed and unpaid for a period of seven years from the dates that they first became due for payment and no payment shall be made in respect of any such claims.
5. Members are informed that in the case of joint holders attending the meeting, only such joint holder who is higher in the order of names will be entitled to vote.
6. Corporate Members are requested to send a duly certified copy of the Board Resolution authorizing their representatives to attend and vote at the AGM.
7. Members are requested to bring their copy of the Annual Report, as copies of the Report will not be distributed again at the Meeting.

8. Members are requested to bring their attendance slip, duly signed, so as to avoid any inconvenience.
9. Members desiring any information on the accounts at the Annual General Meeting are requested to write to the Company at least ten days in advance, so as to enable the Company to keep the information ready.
10. Members holding shares in physical form are requested to notify, immediately, any change in their address or bank details to the Company. Shareholders are requested to quote ledger folio / beneficiary numbers in all their correspondence. Members holding shares in electronic form should update such details with their respective Depository Participants.
11. Ministry of Corporate Affairs ("MCA"), Government of India has taken a "Green Initiative in Corporate Governance" by allowing paperless communication by Companies. MCA vide its circular nos. 17/2011 and 18/2011 dated April 21, 2011 and April 29, 2011 respectively allowed the service of notice / documents by a company to its Members to be made through electronic mode, after giving an advance opportunity to the Member to register his e-mail address and changes therein from time to time with the Company or with the concerned depository. Keeping this in view, your Company proposes to send documents such as the Notice of the Annual General Meeting, Audited Financial Statements, Directors' Report, Auditors' Report, Explanatory Statement etc., henceforth to such Members in electronic mode, who opt for the same. We have enclosed a Form for you to exercise your option by submitting the same to us either by e-mail at [regcomm@kslindia.com](mailto:regcomm@kslindia.com) and / or [investorgrivances@kslindia.com](mailto:investorgrivances@kslindia.com) and / or by sending registered post at the Registered Office of the Company addressed to the Company Secretary after your signature. In this behalf, we are confident that you would appreciate the "Green Initiative" taken by MCA. We solicit your co-operation in helping the Company to implement the e-governance initiatives of the Government.

#### **EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956 IN RESPECT OF THE SPECIAL BUSINESS TO BE TRANSACTED**

##### **ITEM NO. 4**

The Board of Directors of the Company ('the Board'), under Section 260 of the Companies Act, 1956 ('the Act') and the Articles of Association of the Company, appointed Mr. Brijmohan Rai Bahl as an Additional Directors of the Company with effect from 28<sup>th</sup> January, 2011.

In terms of Section 260 of the Act, Mr. Brijmohan Rai Bahl will hold office up to the date of ensuing Annual General Meeting.

A notice has been received from a member as required proposing Mr. Brijmohan Rai Bahl as a candidate for the office of Director under Section 257 of the Act. Mr. Brijmohan Rai Bahl have confirmed that he is not disqualified from being appointed as Directors under Section 274 (1) (g) of the Act.

Details regarding the person proposed to be appointed as the Director and his brief resume is appended below.

Name	Mr. Brijmohan Rai Bahl
Date of Birth	19-12-1946
Address	307/308 Green House, Green Street, Fort, Mumbai – 400 023
PAN Number	AABPB0614N
Educational Qualification	B.Com, LLB, FCA, FCS, Post Graduate in Business Management – UK, Associate Member of the Institute of Company Secretaries of India, London.
Profession	Presently Managing Partner in - B.R.Bahl and Associates – Legal Division - B.R. Bahl and Associates – Placement Division
Experience	Presently practicing as Company Secretary and Legal Adisors. Handling Legal assignments of around 82 companies and has an experience of more than 35 years in Corporate Section.
Other Directorship	- Associated Building Company Limited - Tata Services Limited - VJM Media Private Limited - Bhakti Capital Advisers Private Limited

The Board of Directors are of the view that the skills and knowledge of Mr. Brijmohan Rai Bahl would be of immense benefit to the company and recommends his appointment for your approval. Approval of the shareholders is sought by way of an Ordinary resolution in the Annual General Meeting for his appointments as Director.

None of the Directors except Mr. Brijmohan Rai Bahl are concerned or interested in the resolution

##### **ITEM NO. 5**

The Members are informed that the tenure of appointment of Mr. Paresh J Khandwala – Managing Director is for the period of five years from 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2014. He was appointed by the Board of Directors at its Meeting held on 14<sup>th</sup> December 2009 and his remuneration was approved by the Remuneration Committee at its Meeting held on the same day, pursuant to and subject to provisions of Sections 198, 269, 309, Schedule XIII and other applicable provisions of the Companies Act, 1956.

The approved payment of remuneration was only for the period of one year i.e. from 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2010. Hence the Board in its meeting held on 13<sup>th</sup> November 2010 and the Remuneration Committee in its meeting held on the same day approved for the payment of remuneration to him for a period of 3 years starting from 1<sup>st</sup> January 2011 to 31<sup>st</sup> December 2013 on the same terms as was approved earlier by the shareholders.

None of the Director's except Mr. Paresh J Khandwala are concerned or interested in the said resolution.

Your Board recommends the Special resolution for your approval.

**By order of the Board of Directors**

**Manisha Srivastava**  
Company Secretary

**Date: 27<sup>th</sup> May, 2011**

**Place: Mumbai**

## Come; let's join hands for a new experience

### DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in presenting herewith the Eighteenth Annual Report along with Audited Statement of Accounts for the year ended on 31<sup>st</sup> March 2011.

### FINANCIAL HIGHLIGHTS

The performance of the Company for the Financial Year ended 31<sup>st</sup> March, 2011 is summarized below:-

(Rs. in Lakhs)

Particulars	Year ended 31 <sup>st</sup> March 2011	Year ended 31 <sup>st</sup> March 2010
Total Income	893.76	813.43
Interest & other Financial Charges	36.53	65.92
Depreciation	44.72	45.70
Profit / (Loss) before Tax and prior period item	43.11	(167.94)
Less: Prior Period item	-	7.24
Provision for Tax (including Deferred Tax & Fringe Benefit Tax)	(0.27)	(0.00)
Profit / (Loss) after Tax	43.37	(175.17)
<b>Appropriations</b>		
Dividend on Preference Shares	-	20.00
Provision for Corporate Tax on Dividend	-	3.40
Surplus / (Deficit) carried forward	791.99	748.61
Reserves and Surplus	1676.40	1633.03

### RESULTS OF OPERATIONS

The Revenue for the year increased from Rs. 813.43 lacs to Rs.893.76 lacs. The Profit before interest, exceptional items, prior period expenses and taxation registered an increase from Rs. (167.94) Lacs loss in the FY 2010 to a profit figure of Rs. 43.11 Lacs in the current FY 2011.

The detailed information on operational and financial performance, etc., is also given in the Management Discussion and Analysis Report which is annexed to the Directors' Report and has been prepared in compliance with the terms of Clause 49 of the Listing Agreement with the Indian Stock Exchanges.

### DIVIDEND

Your Directors do not recommend Equity dividend for the financial year under review to conserve the resources.

### DIRECTORS

Mr. Brijmohan Rai Bahl was appointed as an Additional Director effective from 28<sup>th</sup> January 2011. In terms of Section 260 of the Companies Act, 1956 he will hold the office only upto the date of ensuing Annual General Meeting. The Company has received requisite notice in writing from a

member proposing his candidature for the office of Director liable to retire by rotation.

In accordance with Section 255 and 256 of the Companies Act 1956 and with reference to Article 109 of the Articles of Association of the Company, Mr. Rohit Chand, a Non-Executive Independent Director retires by rotation and, being eligible, offers himself for re-appointment at the ensuing Annual General Meeting of the Company.

Brief resume of the Director proposed to be re-appointed, qualification, experience and the name of the Companies in which he holds directorship, membership of the board committees, as stipulated in the clause 49 of the listing agreement is provided in the Report on Corporate Governance forming a part of the annual report.

### CORPORATE GOVERNANCE

Your Company has complied with all the mandatory provisions of the Clause 49 of the Listing Agreement with the Stock Exchanges. As part of the Company's efforts towards better corporate practice and transparency, a separate report on Corporate Governance compliances is included as a part of Annual Report.

A certificate from the auditors, M/s Udyen Jain & Associates, Chartered Accountants, of the Company regarding compliance with the conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement is attached to this Directors' Report.

### RECONCILIATION OF SHARE CAPITAL

Your Company voluntarily appointed M/s. Bhuvnesh Bansal & Associates, Practicing Company Secretary, to conduct Share Capital Audit of the Company for the financial year ended March 31, 2011. The Reconciliation of share Capital Audit Report confirms that the Company has complied with all the applicable provisions of the Listing Agreement, the Companies Act, 1956, and the Depositories Act, 1996.

### MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis Report for the year under review as required under Clause 49 of the Listing Agreement, is given as a separate statement in the annual report.

### EMPLOYEES

Your Company is consciously aware that its well being largely depends upon the quality and strength of human resource. The Company endeavors to attract and retain talent. The Company ensures that its operations are adequately staffed. Your Company's human resource policies are designed and implemented to achieve these objectives.

The Board wishes to place on record its appreciation for sincere and dedicated efforts put in by all the employees. Employee-Management relations continued to remain cordial throughout the year under review.



**AUDITORS' REPORT**

Observations made by the Auditor in their Report, have been appropriately dealt with in the notes forming part of the accounts for the year, which are self-explanatory and therefore do not call for any further comments under Section 217 (3) of the Companies Act, 1956.

**AUDITORS**

M/s. Udyen Jain & Associates, Chartered Accountants, who retires on the conclusion of this Annual General Meeting has requested to consider their re-appointment at the ensuing AGM of the Company. A Certificate from the Auditors has been received to the effect that their re-appointment, if made, would be within the prescribed limits under section 224 (1B) of the Companies Act, 1956 and they are not disqualified for such an appointment within the meaning of sub section (3) and (4) of Section 226 of the Companies Act, 1956.

**PARTICULARS OF EMPLOYEES**

The Company doesn't have any employee drawing remuneration as per monetary ceiling prescribed under Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975.

**COMPLIANCE CERTIFICATE**

A certificate from the auditors of the Company regarding compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement is attached to this report.

**DIRECTOR'S RESPONSIBILITY STATEMENT**

In pursuance of Section 217(2AA) of the Companies Act, 1956, the Directors state, as an averment of their responsibility, that:

- (i) The Company has, in the preparation of the annual accounts, followed the applicable accounting standards along with proper explanations relating to material departures, if any;

- (ii) The Directors have selected such accounting policies 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 as at March 31, 2011 and of the profit or loss of the Company for the year ended March 31, 2011.
- (iii) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) The Directors have prepared the annual accounts for the financial year ended March 31, 2011 on a going concern basis.

**DEPOSITS**

Your Company has not accepted any deposits from the public and, as such, no amount of principal or interest was outstanding as of the balance sheet date.

**ACKNOWLEDGMENTS**

The Board expresses its sincere gratitude for the continued support and guidance received by the Company from the Securities and Exchange Board of India, the Stock Exchanges and other government and regulatory agencies. The Board would like to acknowledge the continued support of its bankers, registrars, vendors, clients and investors. The Directors also wish to place on record their gratitude and appreciation of the employees' hard work, dedication, teamwork and professionalism which made the phenomenal growth possible year after year.

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

**S M Parande**  
**Chairman**

Date: 27<sup>th</sup> May, 2011  
Place: Mumbai.

**ANNEXURE A TO DIRECTORS REPORT****PARTICULARS REGARDING CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO****a) Conservation of Energy:**

Your Company consumes electricity mainly for the operation of its computers. Though the consumption of electricity is negligible as compared to the total turnover of the Company, your company has taken effective steps at every stage to reduce consumption of electricity.

**b) Technology Absorption**

This is not applicable to your Company as it has not purchased or acquired any Technology for development of software from any outside party.

**c) Foreign Exchange Earnings / Outgo**

Foreign Exchange Earnings	: Rs. 0.52 Lacs	(previous year – Rs. 1.07 Lacs)
Foreign Exchange Outgo	: Rs. 5.62 Lacs	(previous year – Rs. 11.66 Lacs)

For and on behalf of the Board of Directors

**Khandwala Securities Limited**

**S M Parande**

Chairman

Date: 27<sup>th</sup> May, 2011

Place: Mumbai.



## MANAGEMENT DISCUSSION AND ANALYSIS

### ECONOMY OVERVIEW

After almost two years of end of the great recession, it remains unclear what the financial crisis has done to GDP growth of advanced economies. However, emerging markets continue to show resilient growth. The year 2010-11 has been a year of steady performance for the Indian Economy. The gross domestic product for the financial year 2010-11 is expected to grow by 8.6%, up from 7.2% in the previous year.

This sustained growth performance has attributed India as one of the most promising economies today. A recent report by Citi goes on to name India as a global growth generator in the years to come. The report comments on the sustainability of this high growth performance, stating that India has generations of catch-up growth yet to be witnessed. As per recent World Bank estimates, combined GDP in developing countries will grow by 6.0% and 6.1% in CY11 and CY12 respectively, after a 7.0% rise in CY10. According to the IMF, world GDP (measured at PPP US dollars) amounted to \$73trn in 2010. According to their forecasts, world GDP will more than double to \$180 Tn by 2030, measured in comparable units, i.e. constant 2010 PPP US dollars, and then more than double again to \$378 Tn by 2050. The economic center of gravity has already started shifting eastwards where India & China are expected to be its focal point by 2050.

The announcement of Union Budget 2012 also allayed concerns over a burgeoning fiscal deficit. The policy may not have been the best for the corporate players, but sure took care of issues of common man and paved way towards long term stability.

### INDUSTRY OVERVIEW

#### INDIAN EQUITY MARKET

The Indian capital markets have performed better than most others during this financial year. With recessionary concerns left behind and positive economic data, investors both foreign and domestic joined the Indian growth story.

However, the major negative against the markets this year have been political & corporate governance issues and inflation. The outburst of political and corporate scams only exacerbated the problem. Both in May 2010 and January 2011, indices were pulled down due to these factors. Till March 2011, there had been no conclusive action on 2G and Common Wealth Games scams. Rising crude oil prices, a major component of inflation indices, kept inflation higher and RBI on its toes. However, strong performance from India Inc. and economic data suggesting healthy growth raised investor confidence in November 2010.

The penetration of asset classes like bonds and currencies remains low. However, as Indian investors become more sophisticated, they are bound to start branching out into various asset classes and this will boost the markets.

Also, markets will further develop with greater efficiency

owing to the forward-looking policies of the regulators and the government. The projected growth of the Indian economy with the resultant growth in the capital markets, compels us to identify the enabling factors and to work towards putting them in place, at the earliest.

#### The Primary Market

India Inc raised Rs 46,627 crore through the public equity offerings in the financial year 2010-11, 3.7% higher than Rs 47,302 crore mopped up in the last fiscal. The public offerings dominated by the state-run firms, which raised Rs 27,537 crore or 56 per cent of the total amount.

The figure for the year could have been higher but due to the continuing volatility in the secondary market and poor post-IPO performance of some companies in the early part of the fiscal, fund-raising plans failed to breach the record level of Rs 52,219 crore raised in 2007-08. Nevertheless, the financial year's figure is the second-highest ever and is almost double of each of the preceding years of 2004-05, 2005-06 and 2006-07.

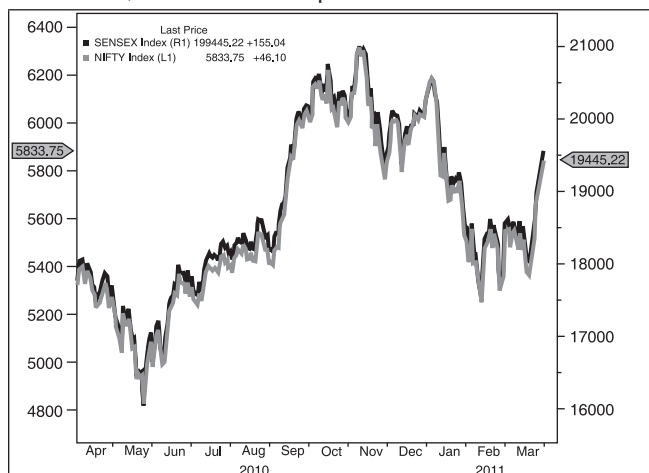
The last time when the PSUs had raised the biggest amount was in the previous year – Rs 30,942 crore. This year they raised Rs 27,537 crore, of which Rs 22,763 crore was through divestments and Rs 9,780 crore through fresh capital. A total of seven PSU companies entered the market in FY11, led by the country's largest-ever initial public offering (IPO) of Coal India at Rs 15,199 crore, which accounted for 33 per cent of the year's mobilization. The other IPOs were from MOIL, SJVN, and Punjab and Sind Bank. The rest three were follow-on public offers – Power Grid, Shipping Corporation and Engineers India.

#### The Secondary Market

Encouraged by the strong growth performance exhibited by the economy, the equity markets saw a surge by the end of 2H 2010-11. With the debt worries in the Euro zone and slowly recuperating US economy, investors increased their focus towards Indian equities. The investment by foreign institutions for the year was around US\$ 24.47 Bn, maintaining last year's level and even growing. Though the YoY performance may not seem attractive, markets were very volatile and gave huge returns for value-investors. The year started weak with investors getting cautious of political concerns and rising crude oil prices. They rebounded from its trough in May 2010 to an all time high in November 2010. However, they witnessed a downswing again in the new calendar year, initially driven by political concerns and later by inflationary.

The Benchmark BSE SENSEX, which had dipped to 15,960 in May 2010, rebounded to 21108 in November 2010. The index closed at 19445.22 as on March 31 2011; an increase of 9.91% in FY11 and increase of 21.84% its trough. As a result, valuations that are beginning to emerge as a key concern in India, coupled with the ongoing developments in the Euro zone, have the potential to cause a correction.

The key benchmark indices, BSE Sensex and NSE Nifty both ended with approximately 11% growth over the year. Even, the shares of small and mid-cap companies outperformed the key indices during the same period due to expectation of higher returns and revival in investor confidence. FIIs invested more than \$24.47 billion in equities.



During the financial year 2010-11 there was a fall in the aggregate secondary market turnover both on NSE and BSE. The average daily turnover on NSE and BSE decreased by 16% and 30% respectively to Rs 11,623 crore and Rs 3,293 crore.

Over the financial year, Central Government and RBI took some firm decisions to control a stubborn inflation. The government also withdrew certain stimulus measures. RBI started exiting from its accommodative stance beginning April 2010. During this financial year, RBI has increased REPO & reverse REPO rate by 175 bps and 225 bps respectively.

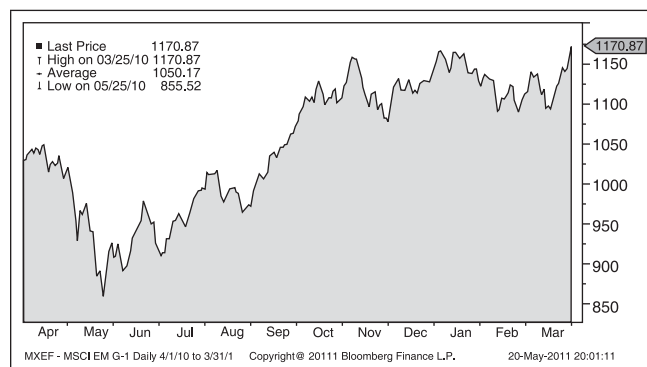
After mid-March 2011, the Indian currency appreciated to trade in the Rs. 44-45 per dollar range. Earlier, it was trading in the range of Rs. 45-46 per dollar range. Reports attribute the appreciation more to the weakening the dollar in the international markets and to the improvement in the capital inflows in to the country. The dollar is said to have depreciated against Euro following signals of rate hikes in the Euro zone. The rupee did depreciate and breached Rs. 47.5 per dollar mark in May, but over the year just showed a gain of mere 0.7%.

## EMERGING MARKETS

Emerging-market equity markets attracted more money this year, putting them on course for a record year as Europe's debt worries diverted cash away from developed-market. Although 2010 produced mostly positive returns, a few markets such as Japan and a number of heavily-indebted European markets closed in loss-making territory. In the wake of these conditions, emerging markets proved better investment destinations.

Notwithstanding a period of underperformance during the fourth quarter, the MSCI Emerging Markets Index rose by 11% for the 2010-11, enough earlier in the year to outperform

the MSCI World Index by a wide margin for the year as a whole. The following chart gives a picture of the index over FY 2010-11.



## DEBT MARKET:

The corporate debt markets which witnessed a lackluster FY09 following the global credit crisis and liquidity crunch, failed to improve the levels of activity. Primarily, this happened because most corporate houses preferred to follow the equity route for their investment plans. Traditionally, the debt penetration in India has been low compared to the developed countries. In addition, the debt markets in India are by simple, plain vanilla loans. Do not seem to view the debt markets as a credible alternative to equity capital markets, yet. Moreover, the Indian market: is crowded by Government bonds, which find buyers in many Commercial Banks in view of the high reserve requirements; in the country. The corporate debt markets, therefore, continue to be shallow in spite of having great potential.

However, the advent of Interest Rates Futures and the, likely introduction of corporate bonds reputability and credit default swaps coupled with other reforms is expected to turn the debt markets around. This would help in making bonds a cheaper and more efficient alternative for raising resources compared to the traditional commercial loans from banks. We are hopeful that the government and the regulators will bring out the necessary reforms in order to make the debt market a vibrant one.

## Performance

Indian fixed income market witnessed subdued activity from the investors' fraternity during the financial year 2010-11. Factors such as high WPI inflation, rising interest rates, extreme tight liquidity in the banking system, high fiscal deficit, government borrowing and spending and geo political issues influenced and resulted in inching up of the yields on debt securities.

Government securities market observed yields hardened over the course of the financial year and the 10 yr benchmark security reached a high of 8.23% before closing the year at 7.98% (vs last year's year end yield of 7.85%).

The Reserve bank of India (RBI) increased policy rates – Repo and Reverse Repo rates by 175 and 200 basis points respectively during the FY 2010-11.