

ANNUAL
REPORT
1996-97

Meifcom Capital
Markets Limited

Report Junction





PART OF THE CORPORATE OFFICE FLOOR



MUMBAI OFFICE DEALING ROOM



STAFF & CLIENTS MEETING ROOM

MD	<input checked="" type="checkbox"/>		BKC	<input type="checkbox"/>
CS	<input checked="" type="checkbox"/>		DPY	<input type="checkbox"/>
RO	<input checked="" type="checkbox"/>		DIV	<input checked="" type="checkbox"/>
TRA	<input checked="" type="checkbox"/>		AC	<input checked="" type="checkbox"/>
AGM	<input checked="" type="checkbox"/>		SHI	<input checked="" type="checkbox"/>
YE	<input checked="" type="checkbox"/>			<input type="checkbox"/>

Attitude – A State of Mind

*“Attitude to me is more important than facts,
than money, than circumstances,
than failures, than success.
It can make or break a company,
a person, a home.*

We cannot change our past

*We cannot change the fact that people will continue to
act in a certain way,*

We cannot change the inevitable.

*The only thing we can do is play on the one string we have
and that is our positive attitude.*

*Life is 10% what happens to us and
90% how we react to it.”*

CHARLES SWINDOLL.

BOARD OF DIRECTORS

MR. VIJAY MEHTA — CHAIRMAN
MR. D.C. SINGHANIA
MR. DEEPAK TALWAR
MRS. INDU MEHTA
MR. JAGJEET SINHA

COMPANY SECRETARY

MR. DEEPAK ARORA

AUDITORS

V.K. DHINGRA & Co.
1E/15 Jhandewalan Extension
New Delhi-110 055

BANKERS

STANDARD CHARTERED BANK
ANDHRA BANK
TIMES BANK

REGISTERED OFFICE

12/3 Asaf Ali Road
New Delhi - 110 002.

CONTENTS

Chairman's Address	1-4
Mefcom Capital Markets Ltd. Balance Sheet	5-21
Mefcom Securities Ltd. Balance Sheet	22-30
Mefcom Financial Services Ltd. Balance Sheet	31-38

CHAIRMAN'S ADDRESS

CHAIRMAN'S ADDRESS

Dear Shareholders

I have great pleasure in presenting the 12th Annual Report of your company for the period ending 30th June 1997.

This Annual Report is for a period of 12 months as compared to the 15 months period of the last Annual Report. Needless to say that you should annualize the results of the previous year so as to have a better Comparative picture of the accounts of your company. However, it would be appropriate to clarify a few aspects of the Balance Sheet. The Gross Income of the company has increased by about 43% from the previous year (Annualized) but the Profit After Tax has come down. It has been mainly on account of the Provision for Bad Debts (Rs. 63 lacs) which is only about 8% of the funds deployed by the company, Provision for Sub-Standard Assets (Rs. 15 lacs) as per the new guidelines of Reserve Bank of India, Higher Outgo on account of Commission paid for procuring Business (Rs. 27 lacs) and Higher Depreciation (Rs. 13 lacs). Most of it has happened due to an extreme adverse situation prevailing in the financial markets. Our Expenses though, have marginally come down due to strict supervision & controls.

The year gone-by has probably been among the worst years in my memory – both for the Capital Markets as well as for the industry in general. Despite good monsoon, Reduction in SLR/CRR and Continued policies of liberalisation, the economy has not shown any signs of improvement. Surplus money is available with the banking system but with few eligible takers. Industry is not expanding and no new projects are being set up resulting in an over all slow down of economy and retrenchment of man power. Interest rates have been falling continuously, still no good borrowers are available in the corporate sector thereby creating a paradoxical situation. A number of high flying companies have



become defaulters in the ICD market and their failure has further aggravated the situation. The failure of CRB Group probably acted as the "last straw on the Camel's Back" thereby creating an atmosphere of total distrust and loss of confidence in the investing public. It was clearly reflected by a run on fixed deposits of the medium level private sector companies in general and NBFCs in particular.

I am happy to report that despite these adverse circumstances, your company has shown a satisfactory performance and has maintained the dividend.

Since the atmosphere of distrust for NBFCs is still prevailing, I would like to take this opportunity to discuss with you the rationale for NBFCs in general and MCM in particular so that you, yourself, can evaluate your company.

Non-Banking Finance Companies (NBFCs) industry in India

The Indian financial intermediation industry in India can be broadly classified into 4 categories:-

- Govt. owned banks and financial institutions
- Foreign owned banks and financial institutions
- Indian business houses owned NBFCs
- Professionally owned NBFCs including Private financial intermediaries.

The strength and long term future of the first category is derived fundamentally from the fact that the Govt. stands behind them and provides necessary sustenance if and when required. The second category fundamentally are based on the strength of the foreign institution standing behind them. Foreign owned banks and financial institutions have shown an extraordinary growth rate in the 1980's and have created many innovations that they have brought into the Indian markets, from



CHAIRMAN'S ADDRESS

their global reservoir of products. They have also spawned many Indian versions, some of whom have succeeded. The third category derives its fundamental strength from the financial muscle of the large Indian Business Houses behind them. In terms of efficiency and innovation, this third group lies somewhere between the first and the second.

The last category includes companies promoted and managed by professionals and entrepreneurs who have grown over a time period both in Stature & Financial soundness. The best among them have stood the test of time despite all odds and have continued to prosper even now. Your company comes in the last category. To have a clear picture of your company, we need to understand and comprehend the need for our category of companies despite the financial muscle and institutional backing of other three categories.

Generally speaking, all the above four categories are engaged in some or all of the following fee/fund based activities.

1. Investment/Merchant Banking
2. Vehicle Finance/Equipment Leasing
3. Consumer Finance
4. Corporate Finance
5. Stock Broking
6. Stock Investment & Portfolio Management
7. Foreign Exchange
8. Other Misc. specialised Areas like, Insurance, Banking, Mutual Funds etc.

Underlying all these businesses must be a very strong customer rationale. It is probably true to say that unfulfilled needs of present and potential customers in each of these businesses is the *raison d'être* for the Professional NBFCs capacity to create extensive market share. In addition to the role that they are playing in servicing customers, (who for some reason or the other are not covered for target marketing by the first three categories) leading Professional NBFCs are at the forefront in creating innovative products, which the first three categories either have overlooked or do not wish to pursue.

Professionally owned NBFCs including Private Financial Intermediaries Segment – An Overview

Most of the reasons why Professional NBFCs are able to create extensive market share are rooted in the fact that the customer needs are not being fully met by the first three categories. Typically, the Govt. owned banks establish their cut-off criteria in selecting their customers. Those who find themselves unable to access finance from them, turn to either the foreign owned banks or finance companies owned by Indian business houses who too have stringent rules to follow as per their Rule-Book and more so because of their Policy of separation in Ownership & Management. Large sectors of the Indian economy therefore, end up dealing with Professional NBFCs. This is true for Consumer Finance Business, wherein until recently, customers found that their financing needs were either not been met from their existing bankers or the price was too high. Thanks to the extensive foray made by foreign banks in particular, today's consumer of domestic household goods is able to have his financing needs satisfied, though even now a very large section remains unserved either due to their limited reach or difficult lending criteria. There is a similar story in the Road Transport sector where operators of commercial vehicles were unable to access finance from the earlier three categories. Professional NBFCs found a huge niche position in this business.

There are many other extremely meaningful sectors which are not able to grow because of absence of access to finance. Second could be the Power Sector and the third may be Infrastructure sector and the numbers could be further added. It is a fact that some policy measures need to be modified by government intervention. But unfortunately, the first three categories have also so far not been able to create products designed for the specific market despite availability of finance. There are other examples where both in the present and in the future, huge opportunities are awaiting solutions.

In the Capital market business, there are a large number of customers who find that their needs are better served



CHAIRMAN'S ADDRESS

by Private Financial Intermediaries rather than banks or finance companies owned by govt or foreign institutions or business houses. The large number of Private Financial Intermediaries active in the stock market provide a platform of choices for many foreign financial institutions, who wish to engage in the Indian capital markets. Banks and Companies belonging to the first three categories are usually not considered for potential partnership by such foreign owned institutions. Consequently, as and when the Indian capital markets become more integrated with the World markets, you will find increasingly large number of partnerships with Indian Private Financial Intermediaries.

NBFCs and the Indian Regulatory Agencies

There are a large number of NBFCs in India, out of which some are responsible for creating a bad name with investors thereby making a general impression that investing in NBFCs is unsafe. While the concerns

are prudent, obviously, same yardstick cannot be applied to the industry as a whole and selective evaluation of each NBFCs should make investors comfortable. Both SEBI & RBI have become over conscious after the failure of CRB Group and have come out with stringent provisions plugging almost all loopholes under which an NBFC could dupe investors. These have been welcomed by the long term players in the industry and paved way for growth of genuine NBFCs

The yardstick by which safety level for investors are usually defined is their asset quality. The RBI has laid down rules by which asset quality for NBFCs are regularly monitored. They also have established Capital Adequacy Norms (CAR). The CAR makes it possible for an investor to compare the Asset Quality of an NBFC with that of a Bank or Financial Institution. The RBI rules are applicable to all NBFCs, and consists of : a) income on non performing asset must not be booked on accrual basis. b) Any asset which becomes NPA should be classified

as sub-standard upto a period of 2 years. A provision upto 10% must be made on the outstanding amount. c) For the assets remaining as NPA after two years, they should be classified as "doubtful asset." RBI requires that NBFCs should realise any marketable collateral; and to make provision on the remaining amount of 20% upto the first 12 months, 30% upto 24 months and 50% upto 36 months: Those assets which have no chance of recovery and loss is foreseen should be classified as a "loss asset", & provision should be 100%.

Despite all regulations, it is most important for the general investors to continue to update himself about the industry in which he is going to put his hard earned

money. Market reputation of the NBFC, Quality of their management, Quality of their assets and their Standing in business can be some of the criterias which the prudent investor should apply before selecting any NBFC.



Mefcom Capital Markets

Ltd. (MCM) – A Steady Performer

Your company has been performing satisfactorily over the last 2 years despite all odds. Infact the overall economic situation has continuously deteriorated after your company went public in February 1995. All these conditions are still continuing but your company has not only satisfied the criterias laid down by SEBI, RBI or any other regulating agencies in the country but has not defaulted on any front whatsoever. MCM has tested itself against various policy measures and have come out with flying colours. It will be appropriate at this juncture to bring a few facts into the knowledge of our esteemed shareholders, as well.

RBI has defined the methodology by which assets are risk weighted and capital funds are calculated. The ratio of the two provides the CAR which, in the case of MCM, is 94% as against RBI's requirement of a minimum capital adequacy of 8%. Infact MCM's CAR is stronger



CHAIRMAN'S ADDRESS

than most Banks and Financial Institutions.

The reason for our strong CAR is primarily due to the fact that MCM balance sheet is virtually debt free. While we have sufficient balance sheet strength to borrow more than Rs. 150 crores, we have been prudent in not so leveraging, given the nature of funding that is currently possible. The Fixed deposit market could have been a legitimate way of expanding our borrowings but it makes our balance sheet vulnerable especially when investors shift monies from one company to another in times of increasing risk. This happened during the course of the last year when a large number of NBFCs underwent a crisis of confidence in the investors market.

We have therefore realized that it is important to keep our CAR at a sufficiently high level till the time we are able to ensure investors' confidence in us and till the first few years of general crisis and our consolidation are over. While that meant lower earnings than what could have been possible, we nevertheless, are pleased to report a satisfactory balance sheet.

Our Asset Portfolio consists mainly of three sub-groups;

- a) Corporate Stock Portfolio
- b) Corporate Debt Portfolio
- c) Vehicle Finance Portfolio

The approximate deployment in the Corporate Stock Portfolio is about Rs.300 Lacs, Rs.800 Lacs in the Corporate Debt portfolio and Rs.200 Lacs in the Vehicle Finance Portfolio. The higher proportion employed in fixed income was justified based on the weakness that appeared in the stock markets. Many portfolios that were largely invested in the stock markets have had to undergo substantial depreciation as a result of steep fall in indexes. Our fixed income portfolio (debt as well as vehicle finance) together have consistently been able to obtain return of over 20% per annum. In fact the higher deployment in fixed income have largely contributed to the sustained growth in earnings that MCM has been able to achieve.

Future Plans

It will not be right to say that we are not having our share of problems during this on-going crisis. What has, however, kept us growing is our POSITIVE ATTITUDE, Lower Expenses & WILL TO FIGHT which is abundantly present in the team of your company. Your Management is fully conversant with the problems and I can assure you that we shall be doing our best to safeguard your interests.

In the last Annual Report, I had explained in detail the new areas which were identified by us for future expansion. While some of them have been implemented, many others could not be initiated due to adverse circumstances. We are still passing through uncertain political conditions prevailing in the country due to which it is not possible to plan any long term growth. Your management has therefore, decided to strengthen the existing areas only till the situation improves and a stable political and economic climate prevails in the country.

I understand that a few shareholders have not yet paid ALLOTMENT MONEY on their shares even after more than 2 years have passed. In view of the overall Bad scenario, your board of directors have already waived the interest on call payment for a period of 2 years from the date of allotment. I would request the shareholders to avail of this opportunity failing which the company shall be constrained to forfeit the shares. Some of the shareholders are maintaining MULTIPLE FOLIOS also which creates extra secretarial work & unnecessary expenditure. I would suggest them to consolidate the same for better working. The relevant shareholders in both categories are also being sent separate communication by the Secretarial Department.

I would like to end this communication by thanking you for not only continuing to repose your trust in the company but also by seeking your blessings and guidance for all times to come.

With kind regards and best wishes for
a Happy and Prosperous 1998

(VIJAY MEHTA)

MERCOM CAPITAL MARKETS LTD.



DIRECTORS' REPORT

DIRECTORS' REPORT

Dear shareholders

We have pleasure in presenting the 12th Annual Report of the Company alongwith the Audited Statement of Accounts for the year ended 30th June, 1997.

Financial Results	(Rs. in lacs)	
	Year ended 30th June, 1997	Year ended 30th June, 1996 (15 months)
Gross Income	284.85	247.75
Profit before Interest depreciation and tax	72.75	121.55
Interest	.19	6.47
Depreciation	25.79	13.07
Provision for tax	22.01	54.81
Profit after tax	24.76	47.20

Operations

Despite a continuously sluggish Capital Market & Falling interest rates, the Gross Income of the Company has shown significant growth and has increased to Rs. 284.85 lacs from Rs. 247.75 lacs in the previous accounting year of 15 months showing an annualized increase of about 43%. The Company's profit before tax has however decreased to Rs. 24.76 lacs as compared to Rs. 37.76 lacs of the previous year (Annualised) which has been mainly due to the provision of Bad Debts (Rs. 63 lacs) & Provision of Sub-Standard Assets (Rs. 15 lacs) as per the new guidelines of Reserve Bank of India.

During the year under review, the major income has been from short term fund deployment by the Company. However, due to heavy reduction in interest rates and poor overall Corporate Scenario, your Company has decided to give more thrust to Leasing & Hire Purchase business from this year alongwith other activities of the Company. Business as MONEY CHANGERS was discontinued during the year in view of its High Risk & Low Income.

Dividend

Your Directors are pleased to recommend payment of dividend @ 12% for the 12 months period ended 30th June, 1997, which is equivalent to the 15% dividend declared last year for a period of 15 months. The dividend will be paid to all those shareholders whose name appear on the Register of Members as on 30th Dec., 1997 and shall be free of Income-Tax in your hands as per provisions of the new finance act, 1997.

Directors

Mr. Jagjeet Sinha and Mr. Deepak Talwar Directors of the Company are liable to retire by rotation and being eligible, offer themselves for reappointment. The Board recommends their reappointment.

Mr. Shirdul S. Shroff resigned from the Board during the year due to his preoccupation. Your Directors place on record their appreciation and acknowledge the valuable contribution made by him during his tenure.

Auditors

M/s. V.K. Dhingra & Co., Chartered Accountants, New Delhi retire at the conclusion of this Annual General Meeting and being eligible for reappointment have expressed their willingness to be reappointed, as statutory auditors of the Company. Your Directors recommend their reappointment.

Fixed Deposits

The Company does not have any Fixed Deposit currently.

Considering the increasing resource requirement, your Company is shortly planning to start mobilising Public Deposits, and invites your participation towards making it a success.

Notes on Accounts

The notes to the accounts referred to by the auditors in their report are self explanatory except in short fall of depreciation. The Company is not providing income in all those cases where assets have become "Non Performing Assets" as per rules of Reserve Bank of India. Due to this, depreciation is not provided on these assets so as to have uniformity in income and expenses related to a particular Asset.

Particulars of Employees

The Company has no employee in the category of employees specified under section 217 (2A) of the Companies Act, 1956.

Conservation of Energy, Technology Absorption & Foreign Exchange Earnings & Outgo.

Your Company has no activity relating to conservation of energy or technology absorption.

During the year under review, the Company did not have any foreign exchange earning and outgo except in respect of travel expenses.

Subsidiary Companies

Annual Reports and Audited Accounts of the subsidiary companies viz. Mefcom Securities Ltd. and Mefcom Financial Services Ltd. for the year ended 31st March, 1997 are enclosed herewith, pursuant to the provisions of section 212 of the Companies Act, 1956.

Acknowledgement

Your Directors wish to place on record their appreciation of the continued support from its Bankers, Government Authorities, Business Constituents, shareholders & employees.

for and on behalf of the Board

Place : New Delhi
Date : 29th Nov., 1997.

(Vijay Mehta)
Chairman

AUDITORS' REPORT**AUDITORS' REPORT****THE MEMBERS****MEFCOM CAPITAL MARKETS LIMITED**

We have audited the attached Balance Sheet of **MEFCOM CAPITAL MARKETS LIMITED** as at 30th June, 1997 and also the Profit and Loss Account of the Company for the year ended on 30th June, 1997 annexed thereto and report that :

1. As required by the Manufacturing and Other Companies (Auditors' Report) Order, 1988 issued by the Company Law Board in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said report.
2. Further to our comments in the annexure referred to in paragraph 1 above :
 - a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.
 - b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books.
 - c) The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account.
 - d) In our opinion and to the best of our information and according to the explanations given to us, the accounts, subject to Note No.6 regarding shortfall in the provision for depreciation resulting into overstatement of Reserves and Surplus amounting to Rs.5,70,813.91 and overstatement of fixed assets by the same amount, Note No. 8 regarding Non Provision for Income-tax for the three months ended on 30th June, 1997 and read with other notes thereon, given in Schedule 'K', give the information required by the Companies Act, 1956, in the manner so required and given a true and fair view :
 - i) In case of Balance Sheet, of the State of Affairs of the Company as at 30th June, 1997, and
 - ii) In case of Profit and Loss Account of the Profit of the Company for the year ended on that date.

FOR V.K.DHINGRA & CO.
CHARTERED ACCOUNTANTS

PLACE: NEW DELHI.
 DATED: NOVEMBER 29, 1997.

(V.K.DHINGRA)
 PARTNER

MEFCOM CAPITAL MARKETS LTD.