

# **SMIFS CAPITAL MARKETS LIMITED**

## **Board of Directors**

|                                    |                            |
|------------------------------------|----------------------------|
| <b>Mr. Utsav Parekh</b>            | <b>-Chairman</b>           |
| <b>Mr. Ramesh Maheshwari</b>       | <b>-Director</b>           |
| <b>Mr. Ajay Kumar Kayan</b>        | <b>- Director</b>          |
| <b>Mr. Chandranath Mukherjee</b>   | <b>- Director</b>          |
| <b>Mr. Santosh Kumar Mukherjee</b> | <b>- Director</b>          |
| <b>Mr. Kishor Shah</b>             | <b>- Managing Director</b> |

## **Company Secretary Cum Vice President (Legal)**

**Mr. Saibal Chandra Pal**

## **Auditors**

**J.S.Vanzara & Associates**  
**Chartered Accountants**

## **Bankers**

**HDFC Bank Ltd**  
**State Bank of India**  
**Axis Bank**  
**The Federal Bank Ltd.**

## **Registered Office**

**Vaibhav, 4F,**  
**4, Lee Road**  
**Kolkata – 700 020**

## DIRECTORS' REPORT

### TO THE MEMBERS,

Your Directors have pleasure in presenting the Twenty Eighth Annual Report of the Company together with the audited statement of accounts for the year ended March 31, 2011.

#### 1(a). FINANCIAL HIGHLIGHTS

(Rupees in million)

|   | Year ended<br>31.03.2011 | Year ended<br>31.03.2010 |
|---|--------------------------|--------------------------|
| Profit / (Loss) before Interest, Depreciation & Tax       | 66.00                    | 43.49                    |
| <i>Less: Interest</i>                                     | (0.08)                   | 0.65                     |
| Profit / (Loss) before Depreciation & Tax                 | 66.08                    | 42.84                    |
| <i>Less: Depreciation</i>                                 | 3.35                     | 2.64                     |
| <b>Profit / (Loss) before Tax</b>                         | <b>62.73</b>             | <b>40.20</b>             |
| <i>Less: Provision for Tax – current / earlier years</i>  | 7.93                     | 6.28                     |
| <i>Less : Deferred tax for the year</i>                   | 0.32                     | (17.24)                  |
| <b>Profit / (Loss) after Tax</b>                          | <b>54.48</b>             | <b>51.16</b>             |
| Profit / (Loss) Account brought forward from earlier year | 41.31                    | 109.92                   |
| Profit available for Appropriation                        | 95.79                    | 161.08                   |
| Proposed Dividend including Dividend Tax                  | 11.03                    | 9.77                     |
| Transfer to General Reserve                               | 30.00                    | 110.00                   |
| <b>Profit / (Loss) carried to Balance Sheet</b>           | <b>54.76</b>             | <b>41.31</b>             |

The operations of your Company during the year were satisfactory. Operating profit (PBDIT) of the Company for the year was Rs. 66.00 million (previous year Rs. 43.49 million) which is an increase of Rs 22.51 million over the previous year. Net profit before tax for the year stood at Rs. 62.73 million (previous year Rs. 40.20 million) which is an increase of 56.04% over the previous year.

Net worth of the Company as on March 31, 2011 was Rs.739.33 million (previous year Rs. 695.89 million).

#### (b). CAPITAL

The paid up capital of the Company as on March 31, 2011 stood at Rs. 55,850,000/- divided into 5,585,000 equity shares of Rs. 10/- each.

#### (c). DIVIDEND

Your Directors recommend payment of dividend of Rs. 1.70 per equity share, i.e. @ 17 % on the paid up equity capital for the year ended 31st March, 2011 as against 15% paid in the previous year. The said equity dividend will absorb a sum of Rs. 11.03 million including the dividend distribution tax thereon.

#### **(d). MANAGEMENT DISCUSSION AND ANALYSIS**

Management Discussion and Analysis of financial condition and results of operations of the Company for the year under review as required under clause 49 of the listing agreement with the Stock Exchanges is given in the section on Corporate Governance elsewhere in the Annual Report.

#### **2. SUBSIDIARY COMPANY**

As on 31.03.2011 the Company had one wholly-owned subsidiary Company namely, SMIFS Capital Services Limited. Statement required under Section 212 of the Companies Act, 1956 in respect of the subsidiary Company is attached.

#### **3. YEAR IN RETROSPECT AND FUTURE OUTLOOK**

Indian economy recorded a GDP growth rate of around 8.5% in the year 2010-11 and is expected to register a growth of around 7.5% in the year 2011-12. The rate of growth has come down due to steep increase in interest rates by Reserve Bank of India leading to a slowdown in the Indian economy. Inflation continues to be high. Profit margins of companies have been impacted both due to high inflation and higher interest rates. The steep increase in oil prices is also a matter of great concern for the government. It appears that this will be a challenging year for the financial services industry including your company.

Stock markets performed well during the year and BSE Sensex was 19,445.22 as on March 31, 2011 against 17,527.77 as on March 31, 2010. Indian financial sector is healthy and is well placed to capitalise on growth opportunities in the domestic market. Prevalent banking system is well capitalised and well placed to manage asset quality concerns.

Your Company continues to focus mainly in the areas of Mergers and Acquisitions, Loan Syndication, Capital Market operations, Placement of Equity shares and debts.

#### **4. LISTING OF SECURITIES OF THE COMPANY**

Equity shares of your Company continue to be listed on the Stock Exchanges at Kolkata and Mumbai and the listing fees for the year 2011-12 have been paid. 97.14 per cent of the equity shares of your Company are held by the shareholders' in dematerialized form.

#### **5. DIRECTORS' RESPONSIBILITY STATEMENT**

Pursuant to the requirement under section 217(2AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement, it is hereby confirmed that:

- (i) in the preparation of the accounts for the financial year ended March 31, 2011, the applicable Accounting Standards have been followed and that there are no material departures;
- (ii) the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March 31, 2011 and of the profit of the Company for the year ended on that date;

(iii) the Directors have taken proper and sufficient care 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) the Directors have prepared the annual accounts of the Company on a 'going concern' basis.

## **6. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO**

Particulars required under Section 217(1)(e) of the Act, read with the Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988, under the heads (a) conservation of energy; and (b) technology absorption, are not applicable to the Company.

During the year there was no foreign exchange earnings (previous year 'nil'). Foreign Exchange outgo during the year aggregated to Rs. 0.70 million (previous year Rs. 2.44 million).

## **7. DIRECTORS**

Composition of the Board of Directors of the Company fulfills the criteria fixed by Clause 49 of the listing agreement with fifty per cent of the Directors being independent directors. Your Board comprises of six members out of which three are independent directors.

There was no change in the composition of Board of Directors during the year. Mr. Utsav Parekh is the Non-Executive Chairman. Mr. Kishor Shah is the Managing Director of the Company being appointed for a period of 3 (Three) years w.e.f 1/04/2009 at a remuneration approved by the shareholders in the Annual general Meeting held on September 12, 2009. On the recommendation of the Remuneration Committee and approval of the Board of Directors subject to the same being ratified by the members at the ensuing Annual General Meeting by passing a special resolution, managerial remuneration paid to Mr. Kishor Shah, Managing Director is proposed to be revised within the limits prescribed under Sections 198, 269, 309, 310, 311 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII, Part II, Section II 1 (B) to the Companies Act, 1956.

Mr. Chandranath Mukherjee, Director retires by rotation in accordance with the requirement of the Companies Act, 1956 and Articles of Association of the Company and being eligible has offered himself for re-appointment.

Brief resume of Mr. Chandranath Mukherjee, nature of his expertise in specific functional areas, names of companies in which he holds directorship and / or membership / Chairmanship of committees of the board, his shareholdings as stipulated under Clause 49 of the listing agreement with the Stock Exchanges, are given in the section on Corporate Governance elsewhere in the Annual Report.

## **8. AUDITORS**

M/s J. S. Vanzara & Associates, Chartered Accountants, who are the statutory auditors of the Company hold office in accordance with the provisions of the Companies Act, 1956 up to the conclusion of the forthcoming Annual General Meeting.

M/s J. S. Vanzara & Associates, Chartered Accountants have confirmed that their appointment, if made, would be within the prescribed limits under section 224(1B) of the Companies Act, 1956 and that they are not disqualified

for such appointment within the meaning of section 226 of the Companies Act, 1956 and they hold a valid certificate issued by the Peer Review Board of ICAI.

**9. AUDITORS' QUALIFICATION**

The qualifications in the Auditors' Report have been dealt with in the Notes to Accounts and are self-explanatory.

**10. PARTICULARS OF EMPLOYEES**

Information pursuant to Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 forming part of the Directors' Report is not required to be annexed. MCA vide its notification dated March 31, 2011 has revised the limit of disclosure to Rs.5 Lac per month or Rs. 60 Lac per annum. There are no employees in your company drawing remuneration more than Rs.5 Lac per month or Rs. 60 Lac per annum

**11. ACKNOWLEDGEMENTS**

Your Directors express their sincere appreciation of the co-operation and assistance received from the shareholders, bankers, regulatory bodies and other business constituents during the year under review.

*On behalf of the Board of Directors*

Regd. Office: 'Vaibhav' 4F, 4 Lee Road,

Kolkata - 700 020

The 27<sup>th</sup> day of May, 2011

**(UTSAV PAREKH)**

CHAIRMAN

## **ANNEXURE TO DIRECTORS' REPORT**

### **ANNEXURE – A**

#### **MANAGEMENT DISCUSSION AND ANALYSIS**

##### **1. FINANCIAL STATEMENTS**

Financial Statements are in compliance with the provisions of the Companies Act, 1956 and Accounting Standards issued by ICAI still in force. Readers are cautioned that this discussion may include “forward-looking statements” that are not historical in nature. Forward looking statements may include statements relating to future results, financial condition, business prospects, plans and objectives. Statements are based on the current beliefs, assumptions, expectations, estimates and projections about the business in which the company operates. The statements do not guarantee only positive performance, which are exposed to known and unknown uncertainties, many of which are beyond the control of your Company. Uncertainty could cause results to differ materially from the forward-looking statements, which should not be construed as representation of future performance.

##### **2. MACRO-ECONOMIC OVERVIEW**

Indian economy continued on the path of rapid resurgence which began in 2009-2010 and has virtually returned to a high growth path that it had achieved during 2005-06 before the global financial crisis and economic meltdown. However, as often happens with the strong recovery coupled with high dose of liquidity, the economy faced the heat of high inflation. Inflation continues to be high even though it has come down from where it was at the beginning of the fiscal year.

It is important to note that during the past three years Indian economy has successfully withstood two shocks in rapid succession: (a) global financial crisis in 2008-09 whose ripple effects continued in 2009-10 and (b) domestically, a period of marginal growth in agriculture and allied sectors. Yet the Indian economy has grown reasonably well with resilience and strength.

Growth in the industrial sector was remarkable during the first two quarters of the year 2010-2011. Thereafter, industrial output growth started to moderate. Domestic capital markets performed well in 2010. Primary markets were reasonably buoyant. Secondary markets also performed satisfactorily. Record foreign inflows helped to support the market. Overall capital flows into India this fiscal year increased substantially mainly due to investments made by the Foreign Institutional Investors (FII).

Indian economy this year has been characterized by robust economic growth and steady fiscal consolidation. However, there are structural challenges that need to be addressed concerning economic governance, efficiency in delivery of subsidies, higher subsidy due to higher oil prices, and building up of infrastructure. Policies formulated to take care of these can help to moderate inflation, accelerate economic inclusion, boost investment and infrastructure and lead economy to a high growth path.

##### **3. CAPITAL MARKETS**

Stock markets continued to perform well during the year. BSE Sensex was 19,445.22 as on March 31, 2011 against 17,527.77 as on March 31, 2010. Indian financial sector is healthy and is well placed to capitalise on growth opportunities in the domestic market.

#### **4. OPPORTUNITIES**

The buoyant growth of economy creates opportunities and it is important to seize them so that the growth becomes sustainable. Companies have raised capital in recent times to expand and grow inorganically. Moreover, acquiring global brands, gaining access to overseas markets and leveraging new technologies for Indian markets have been the key drivers for out of bound acquisitions by Indian companies. More merger and acquisition activities are envisaged in the coming years. Some large corporates have announced their expansion cum new investment plans. Corporates are also actively engaged in reducing cost of debt and your company is endeavoring to take up assignments in these areas to increase revenues.

#### **5. THREATS**

Indian Capital Market being inter-linked to international financial markets is seriously affected by any global crisis. Your Company being a part of the market is continuously gearing itself to meet such unforeseen situations by reducing costs and conserving resources for investment wherever possible.

#### **6. FUTURE OUTLOOK**

Indian economy recorded a GDP growth rate of around 8.5% in the year 2010-11 and is expected to register a growth of around 7.5% in the year 2011-12. The rate of growth has come down due to steep increase in interest rates by Reserve Bank of India leading to a slowdown in the Indian economy. Inflation continues to be high. Profit margins of companies have been impacted both due to high inflation and higher interest rates. The steep increase in oil prices is also a matter of great concern for the government. It appears that this will be a challenging year for the financial services industry including your company.

Your company is actively engaged in increasing business in the areas of mergers and acquisitions, loan syndication and raising of equity capital for companies.

#### **7. INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY**

Internal control systems are aimed at promoting operational efficiencies while emphasizing adherence to the policies adopted by the Board of Directors.

#### **8. CAUTIONARY STATEMENT**

Statements in the Management Discussion and Analysis describing your Company's position and expectations may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied.

*On behalf of the Board of Directors*

Regd. Office: 'Vaibhav' 4F, 4 Lee Road,  
Kolkata - 700 020  
The 27<sup>th</sup> day of May, 2011

**(UTSAV PAREKH)**  
CHAIRMAN

**CORPORATE GOVERNANCE REPORT FOR THE YEAR 2010-11***(As required under Clause 49 of the Listing agreements entered into with the Stock Exchanges)*

Your Company believes that sound ethical practices, transparency in operations and timely disclosures go a long way in enhancing the long-term shareholder value while safeguarding the interest of all the stakeholders. Corporate Governance is a reflection of our culture, policies, our relationship with stakeholders and commitment to value.

Your company believes that for a company to be successful it must maintain global standards of corporate conduct towards its stakeholders. To that end, your company has always focused on good corporate governance, which is the key driver of sustainable corporate growth.

**I. Company philosophy on Corporate Governance**

Your Company has implemented and is continuously improving the Corporate Governance procedures with the objective of fulfilling expectation of the shareholders and Company's social commitments through transparency, disclosures, accountability, compliances, ethical code, stakeholders' interests. Governance practices go beyond statutory and regulatory requirements. Your company is committed to follow the spirit of good governance than mere compliance with the conditions specified by regulatory authorities.

**Compliance with clause 49 of the Listing Agreement**

Your Company is fully compliant with the mandatory requirements of Clause 49 of the listing agreement formulated by SEBI.

Your Board presents the report on compliance of governance conditions specified in Clause 49.

**II. Board of Directors**

As on March 31, 2011 the Company had 6 Directors with a Non- Executive Chairman and Managing Director. The Board of Directors of your Company comprises of 5 Non-Executive Directors. Among them, 3 are Independent Directors. Composition of the Board of your Company is in conformity with Clause 49 (as amended). Composition of the Board is given below:

| <b>Category</b>                             | <b>Particulars of Directors</b>  |
|---|--|
| (a) Non-Executive-Independent Directors     | (i) Mr. Ramesh Maheshwari<br>(ii) Mr. Chandranath Mukherjee<br>(iii) Mr. Santosh Kumar Mukherjee |
| (b) Non-Executive –Non-Independent Director | (i) Mr. Ajay Kumar Kayan<br>(ii) Mr. Utsav Parekh, Non Executive Chairman*                       |
| (c) Executive Non Independent Director      | (i) Mr. Kishor Shah, Managing Director**   |

\* Mr. Parekh was appointed Director under Section 257 of the Companies Act, 1956 in the Annual General Meeting held on September 12, 2009.

\*\* Mr. Kishor Shah was appointed Managing Director of the Company for a period of three years w.e.f. 1<sup>st</sup> April, 2009 in the Annual General Meeting held on September 12, 2009.

None of the Directors on the Board are members of more than 10 committees and Chairman of more than 5 Committees across all companies in which they are Directors. Necessary disclosures regarding Committee position in other public companies as on March 31, 2011 have been made by the Directors.

Board members are responsible for the management of the business. Role, functions, responsibility and accountability of the Board are clearly defined. In addition to its primary role of monitoring corporate performance, functions of the Board include:

- i. approving corporate philosophy and vision;
- ii. formulation of strategic and business plans;
- iii. reviewing and approving financial plans and budgets;
- iv. monitoring corporate performance against strategic and business plans, including overseeing operations;
- v. ensuring ethical behavior and compliance of laws and regulations;
- vi. reviewing and approving borrowing limits;
- vii. formulating exposure limits; and
- viii. keeping shareholders informed regarding plans, strategies and performance.

Name and category of Directors on the Board, their attendance at Board Meetings held during the year and the number of Directorship and Committee Chairmanship / Memberships held by them in other companies is given below. Other Directorships do not include alternate directorship, directorships of private limited companies, Section 25 companies and of companies incorporated outside India. Chairmanship / Membership of Board Committees include only Audit and Shareholders / Investors Grievance Committees.

| Name of the Director                  | Category                 | Year 2010 – 2011<br>Attendance at Board Meetings | Year 2010 – 2011<br>Attendance at last AGM | No. of outside Directorships | No of other Board / Comm. of which he is a member | No of other Board / Committees of which he is a Chairman |
|---------------------------------------|--------------------------|--|--|------------------------------|---|--|
| Utsav Parekh – Non Executive Chairman | Promoter Non-Executive   | 2  | No   | 6                            | 4   | Nil  |
| Ramesh Maheshwari                     | Independent              | 3  | No   | 5                            | 5   | 3  |
| Chandranath Mukherjee                 | Independent              | 3  | Yes  | 1                            | 1   | Nil  |
| Santosh Kumar Mukherjee               | Independent              | 4  | Yes  | 2                            | 1   | 1  |
| Ajay Kumar Kayan                      | Promoter Non-Independent | 4  | No   | 2                            | Nil   | Nil  |
| Kishor Shah                           | Managing Director        | 4  | Yes  | 5                            | 3   | Nil  |

### III. Board Meetings

Four Board Meetings were held during the year and the gap between two meetings did not exceed four months. Dates on which Board Meetings were held in each quarter are as follows:

| Quarter | Date of Meetings |
|---------|------------------|
| First   | May 24, 2010     |
| Second  | July 30, 2010    |
| Third   | October 30, 2010 |
| Fourth  | January 28, 2011 |

### IV. Audit Committee

- (i) Audit Committee of the Company is constituted in line with the provisions of Clause 49 of the Listing Agreement with the Stock Exchanges read with Section 292A of the Companies Act, 1956.
- (ii) Audit Committee has been vested with the following powers:
  - a. To investigate any activity within its terms of reference.
  - b. To seek information from any employee.
  - c. To obtain outside legal or other professional advice.
  - d. To secure attendance of outsiders with relevant expertise, if it considers necessary.
- (iii) The terms of reference of the Audit Committee are broadly as under:
  - a. Overview of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements reflect a true and fair position and that sufficient and credible information is disclosed.
  - b. Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.
  - c. Reviewing the financial statements, draft audit report, including quarterly / half-yearly financial information.
  - d. Reviewing with management the annual financial statements before submission to the Board, focusing primarily on:
    - (i) any change in accounting policies and practices;
    - (ii) major accounting entries based on exercise of judgment by management;
    - (iii) qualifications in draft audit report;
    - (iv) significant adjustments arising out of audit;
    - (v) the going concern assumption;
    - (vi) compliance with accounting standards;
    - (vii) compliance with stock exchange and legal requirements concerning financial statements;
    - (viii) any related party transaction i.e. transaction of the Company of material nature with promoters or the management, their subsidiaries or relatives etc., that may have potential conflict with the interest of Company at large.