

# INVESTOR UPDATE

**Third Quarter ended December 2002**

## Financial Highlights

	<b>3 months ended Dec-02</b>	<b>9 months ended Dec-02</b>
<b>Turnover (Rs. Crores)</b>		
Relationship	10,325	19,390
Other	34,176	57,285
<b>Total</b>	<b>44,501</b>	<b>76,675</b>
<b>Average Cost of funds (%)</b>	<b>5.61</b>	<b>5.91</b>
<b>Average return on assets (%)</b>	<b>35.97</b>	<b>19.05</b>
<b>Average book size ( Rs crores)</b>	<b>1476</b>	<b>1430</b>
<b>Average amount of borrowings (Rs. Crs)</b>	<b>1108</b>	<b>1147</b>
<b>Number of mid-segment clients</b>	<b>170</b>	<b>480</b>
<b>Portfolio of CSGL clients (Rs. Crs)</b>		<b>2685</b>

## MACROECONOMIC INDICATORS

	Sept '02	Dec'02
Inflation Rate	3.22%	3.30%
Forex Reserves (US \$)	62.72 m	70.29 m
10 years G Sec YTM	7.20- 7.22%	6.06-6.08%
5 years Bond Yield	7.30-7.32%	6.30-6.32%
Repo Rate	5.75%	5.50%
Bank Rate	6.50%	6.25%
Cash Reserve Ratio	5.00%	4.75%

The market witnessed unprecedented rally during the third quarter supported by huge forex reserves build up and comfortable liquidity conditions. This led to an unabated fall in yields on government securities and bonds. The yields on the benchmark 10-year g-sec fell to historic low of 6.00% during the quarter breaching the bank rate of 6.25%. With very few good quality assets to invest in and ample money supply, banks invested heavily in government securities resulting in flattening of yield curve and 30 years paper trading at 6.65% YTM. Reduction of deposit rates by leading nationalised banks also helped sustain the fall in yields.

The non SLR bond market also witnessed increased activity in primary market with major banks, financial institutions and housing finance companies raising money from the market. Each successive issue saw further dip in yields. With compulsory demat trading in Bonds, secondary market saw enhanced activity and the market volumes jumped from an average of Rs. 100 crores a day to more than Rs. 250 crores a day. The market volumes also touched a high of Rs. 400-450 crores a day.

## HIGHLIGHTS OF FINANCIAL PERFORMANCE

### Results for 3rd Quarter ended 31.12.2002

#### Income

Total income of the company for the third quarter increased by 79% to Rs. 133.12 crores from Rs 74.17 crores in the corresponding period last year. Interest income rose by 11% to Rs. 29.89 crores from Rs. 26.88 crores and trading profit during the same period rose by 118% to Rs.102.84 crores from Rs. 47.10 crores for the same period during last fiscal. The results are attributed to comfortable market conditions, coupled with increased turnover of the company during the last quarter amounting to Rs. 43712 crores.

## **Expenditure**

Total expenditure of the company increased by 20% to Rs. 18.28 crores from Rs. 15.17 crores in the same period last quarter. The increase is mainly on account of increased interest cost of Rs. 15.81 crores from Rs. 13.33 crores in the same period last year. Increase in operating expenditure is mainly on account of CCIL settlement charges payable on electronic settlement and depreciation mainly on technical equipments.

## **Profit before Tax and Profit after Tax**

Profit before tax rose by 94% to Rs.114.84 crores from 59.00 crores in the same period last quarter. This was mainly on account of increased trading profits by 118% to Rs. 102.84 crores from Rs. 47.10 crores on a quarter to quarter basis. Profit after tax also rose by 87% to Rs. 71.09 crores from Rs. 38.03 crores.

### **Give table 1. Turnover comparison primary and secondary market turnover**

2.

## **Results for the 9 months ended 31.12.2002**

### **Income**

Total income of the company rose by 15% to Rs. 205.79 crores from Rs. 178.42 crores, attributable to higher interest income and trading profits. The interest income has increased by 8.56% to Rs. 93.61 crores from Rs. 86.32 crores due to larger book size as compared with 9 months last fiscal. The trading profit for the same period has increased by 21% to Rs. 110.66 crores from Rs.91.23 crores. Out of the total trading income, the trading income in Non SLR bonds has shown an increase of 276% to Rs. 10 crores from Rs. 3.62 crores. Higher total income emanates mainly from higher trading profits emanating from improved trading strategy. The same can be measured by the fact that the fall in yields in the current year is only 128 basis points in the 9 months this year as compared to 243 basis points fall during the same period last year.

### **Expenditure**

Total expenditure of the company rose by 18% to Rs. 57.22 crores from Rs. 48.37 crores mainly on account of increased interest expenditure for funding additional stock position. The interest expenditure rose by 18% to Rs. 51.56 crores from Rs. 43.37 crores.

### **Profit before Tax and Profit after Tax**

Profit before tax increased by 13% to Rs. 148.07 crores from Rs. 130.06 crores and profit after tax grew by 9% to Rs. 91.31 crores from Rs. 83.63 crores.

- Give table**
- 1. Turnover comparison primary and secondary market turnover**
  - 2. Sources of funds and average rate**
  - 3. Break-up giving components of Income**
  - 4. Average returns of funds deployed**

## BUSINESS REVIEW

Beginning 2002-03, the company had set itself targets for the ensuing financial year which it has been able to achieve.

- ❖ **Increasing Relationship based turnover & expansion of Client Base** – The Company maintains its focus on relationship and captive client creation. Over a period of two to three years the company intends to generate 50% of its business from this segment. The target of increasing client base from 1700 to 2500 during the year will be achieved during the year. The company is close to completing 2400 client base mark. This includes cooperative banks, PF and other trusts, NBFCs, mid segment corporates etc. With addition of new activities and new clients the client base is expected to increase to around 5000 in next 3-4 years. The company is having a market share of more than 26% in non wholesale segment business settled through CCIL as per its Bulletin figures.

### **Give table of mid-segment clients**

- ❖ **Expanding Range of Fixed Income Products-** During the nine months, the company has expanded its portfolio of Corporate Bonds. With compulsory demat trading in this segment the market volumes have risen from few dormant trades to more than Rs. 250 crores a day on average. The company has also successfully retailed many of these bonds to its mid segment clients. The trading profit of the company from this segment is Rs. 5.39 crores for three months ended 31.12.2002 and Rs. 10.01 crores for the nine months ended 31.12.2002. the total secondary market trading in this segment for the 9 months period is Rs. 1366 crores and Rs. 789.35 crores for the three months ended 31.12.2002.
- ❖ **Derivatives-** Company has already set up its derivative desk and entered into mandatory ISDA agreement with other major market players. It has undertaken few IRS transactions.
- ❖ **Income Stream Diversification and Develop Capabilities to Become Full Investment Bank-** Company had targeted to increase its income streams by adding fee based services to its traditional fund based activities and obtained merchant banking license from SEBI for a period of three years with effect from 16.12.2002. The company intends to increase its services to already established and ever growing client base in the future to become one stop shop for fund management activities for its clients. Additionally the company is focussing on advisory services to these clients and leverage on experience gained all these years.

## FUTURE OUTLOOK

**Implementation of RTGS-** The Reserve Bank of India is committed to implementing RTGS ie Real Time Gross Settlement allowing intra day short sales and daily netting of the

security transactions in this market. The same would provide additional scope to the market bringing additional volumes thereby providing greater opportunity in the markets.

**G Sec Trading through Stock Exchanges** – The central bank has recently distributed the scheme for retail participation of gsecs through stock exchanges. These steps will provide deeper penetration of the bonds market and create necessary awareness for these products to a larger client group including mainly individuals participating in the equity market through brokers and result in increased retail activity. It is understood by the company that the scheme will enhance market participation and market awareness of this segment of the financial markets to a larger community across the country increasing opportunities.

**Increased activity in Bond Market** –The current year has seen unprecedented growth in the Corporate bond market, both in the primary market and secondary market. The company has the necessary financial and technical strength to leverage in this growing market by increasing its participation and redefining its role as an aggressive market maker in both PSU and Corporate Debenture category.

**Increased G Sec Trading by Non Wholesale Players-** There is increased awareness on treasury management amongst the non-wholesale players like cooperative banks, RRBs. Independent treasury management by cooperative banks has resulted in deepening and widening of secondary markets. Foreseeing this, the company had increased its focus on this segment and is reaping benefits of this activity, which is indicative in CCIL figures. The company would continue to focus on this segment. Additionally with more and more corporates establishing treasuries for cash management, a new area is emerging for additional business for the company.

**Renewed Focus on One Stop Shop Image** – The company has progressively created an image of one stop shop for its diverse client groups and is currently offering both financial products like fixed income securities and services like advisory and consultancy on debt management.

With the merchant banking license the company proposes to increase its focus on debt segment and undertake debt origination and debt distribution activities for both Public Sector Undertakings and corporate debenture. The company is targeting its client base of banks, insurance companies, corporates and other non wholesale players for these services.

The company is also focussing on advisory services in debt related issues like restructuring, setting up and management of treasuries etc. With a host of players being new in the market, it is understood that expertise and technical skills possessed by the company will be harnessed for advisory services.

