



16th Annual Report 2011-12



A Subsidiary of Punjab National Bank

Board of Directors



Shri K. R. Kamath
Chairman



Shri Rakesh Sethi
Non-Executive Director



Shri S. K. Dubey
Managing Director



Shri P. K. Chhokra
Non-Executive Director



Dr. O. P. Chawla
Independent Director



Dr. Kamal Gupta
Independent Director



Shri S. K. Soni
Independent Director



Shri P. P. Pareek
Independent Director

OUR MISSION

To be a leader in the
Primary Dealer Business
and
to be known as a Knowledge Based Research Oriented
&
Quality Conscious company maximising wealth for
Shareholders



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Chairman's Letter to Shareholders

Dear Shareholders,

I have immense pleasure in presenting before you the highlights of your Company's performance during the financial year 2011-12. It is heartening that your company continued to deliver good performance notwithstanding the prevailing difficult economic conditions throughout the globe.

Domestic macroeconomic environment during the year was quite testing as a result of continued uncertainties in the global economy. The European economies were plagued with sovereign debt crisis, which continued to unfold throughout the year. As a result, growth in Emerging and Developing Economies also was adversely affected as the Euro crisis dented demand for exports.

In the backdrop of this global scenario, Indian economy entered the slowdown phases. The year 2011-12 was marked by increasing inflationary pressures, tight liquidity and slowing economic growth. GDP growth has declined to 6.5% in 2011-12 as against 8.4% in previous year. While there was an upward pressure on short term rates as a result of anti inflationary policy stance, fiscal deficit for the FY 2011-12 turned out to be much higher at 5.9% against the envisaged 4.6%. Moreover, Current Account Deficit increased sharply due to slowing exports.

Increase in gross market borrowings by 22.3% over the budgeted amount and significant recourse to Treasury Bills and Cash Management Bills exerted further pressure on the liquidity conditions. Though the liquidity stress was addressed to some extent through open market operations, including CRR cuts and repos under the LAF, the sentiments continued to remain cautious. This was reflected

in 10-year yield moving up to as high as 8.97% as against 7.98% as on March 31, 2011 before closing at 8.57% on March 31, 2012.

Your company smoothly sailed through aforesaid challenging conditions and delivered good performance during the FY 2011-12. Your company registered a Profit before Tax of Rs. 29.64 crore in the FY 2011-12. This was despite the fact that the overall profitability of the company was impacted by the high cost of borrowing compressing Company's net interest margin by 15% over the previous year. However, your Company counteracted the impact of high borrowing cost and sharp rise in yields via nimble and quick trading and by maintaining a balanced portfolio in line with market conditions. Net Worth of your company increased to Rs. 574.69 crore as on March 31, 2012 as against Rs. 568.92 crore previous year. Besides, total secondary market turnover increased significantly to Rs. 2,08,982 crore as against Rs. 68,745 crore registered in FY 2010-11.

I am pleased to share with you that your company fulfilled all its obligations as a Primary Dealer successfully achieving the minimum stipulations laid down by the regulator. Besides, strong risk management systems kept the Company's risk profile in check throughout the year.

Undoubtedly, this steady performance has been as a result of the support of all our shareholders. We are thankful to you for your cooperation through all these testing times, which helped us to grow with confidence and weather all unpredictable scenarios.

Way Forward

Future remains challenging during the year ahead when we are likely to witness volatility in the G-sec market. This is expected as the opposite forces of very high and continuous supplies and the probable policy rate changes pull the yields in either direction. To meet these challenges, your company's endeavor will be to encash the profitable opportunities. Through our competent trading skills and strong risk management systems, we shall endeavor to generate better risk adjusted returns. Towards this, your Company has inducted both fresh and experienced human capital for different functions, which would translate into improved performance in the near term.

We can assure you that your Company is well placed in today's environment and we will always strive to maintain our profitable performance in order to maximize our shareholder value.

Your continuous patronage and cooperation over the years has helped your company to grow to this stature. We are confident that your constant support in company's endeavors will help company to enhance its performance in future as well.

With warm regards,

Yours sincerely,

Date : June 14, 2012

(K.R.Kamath)

Place : New Delhi

Chairman

DIRECTORS' REPORT

Your Directors have pleasure in presenting the Sixteenth Annual Report together with the audited accounts of the company for the year ended March 31, 2012.

1. FINANCIAL RESULTS

The financial results for the year ended March 31, 2012 along with comparative figures for the previous year are given below:

(Rs. in lacs)

	For the year ended 31.3.2012	For the year ended 31.3.2011
Total Income	16529.71	10321.28
Total Expenditure	13565.58	5916.88
Profit/(loss) Before tax	2964.13	4404.40
Less : Provision for Income Tax (including deferred tax)	858.87	1346.55
Profit /(loss) After Tax	2105.26	3057.85
Add: Balance in Profit & Loss Account brought forward	5982.82	5503.14
Amount available for Appropriation	8088.08	8560.99
Proposed Appropriations		
Transfer to Statutory Reserve	421.05	612.00
General Reserve	-	77.00
Capital Reserve	40.46	-
Proposed Dividend	1350.08	1620.09
Dividend Distribution Tax	219.01	269.08
Balance carried forward	6057.48	5982.82

During the year, the company continued to fulfill all its obligations as a Primary dealer in both Primary and Secondary market. In Treasury Bills, the company exceeded the stipulated success ratio of 40 per cent. Due to significant rise in interest rates in general and short term rates in particular, the company's Net Interest Margin was affected. However, to minimize the risks in a rising interest rate environment, the company traded aggressively with the total secondary turnover increasing significantly to Rs. 208982 crore from Rs. 68745 crore in 2010-11. The total Profit Before Tax stood at Rs. 2964.13 lacs as against Rs. 4404.40 lacs in 2010-11.

This was achieved despite the challenging conditions of deteriorating fiscal position, inflationary pressures, tight liquidity and slowing economic growth. Reserve Bank of India hiked the reverse repo and repo rate by 175 basis points each. This put an upward pressure on short term rates significantly. Increase in gross market borrowings by 22.3 per cent over the budgeted amount and significant recourse to Treasury Bills and Cash Management Bills (CMBs) exerted further pressure on the liquidity conditions. The liquidity stress to some extent was handled by the Reserve Bank through CRR cut by 125 basis points and open market operations (OMO) including repos under the LAF, but the sentiments continued to remain cautious with the 10 yr yield moving up to as high as 8.97per cent as against 7.98per cent on March 31, 2011 before closing at 8.57per cent.

2. CAPITAL ADEQUACY

Capital adequacy ratio as on March 31, 2012 stood at 74.42 per cent as against the RBI stipulation of 15 per cent.

3. DIVIDEND

Your Board has recommended a final dividend of Re. 1.00 per share for the financial year 2011-12 amounting to Rs. 1350.08 lacs. The total outflow on account of said dividend shall be Rs. 1569.09 lacs (including Dividend Distribution Tax).

4. OTHER MATTERS

4.1. Directors

During the year, the Board of Directors met six times to review strategic, operational, technological and financial matters besides laying down policies and procedures for operational management of the company against the required minimum of 4 meetings in a year. The Audit Committee of the Board met four times; the Share Transfer Committee met twenty four times and Shareholders' / Investors' Grievance Committee met twelve times.

Changes during the financial year 2011-12

The following changes took place in the Board of Directors of the company during the financial year 2011-12 :

- **Sh. A. S. Agarwal** and **Sh. M. S. Aftab** resigned from the Directorship of the company w.e.f. May 20, 2011 and May 21, 2011 respectively.
- **Sh. Rakesh Sethi**, Executive Director – Punjab National bank has been appointed as an Additional Director by the Board in its meeting held on October 24, 2011.
- **Sh P. K. Chhokra**, General Manager – Punjab National Bank has been appointed as an Additional Director by the Board in its meeting held on January 28, 2012.
- **Sh. D.V.S.S.V. Prasad** resigned from Directorship and Managing Directorship on February 1, 2012 due to recall of his services by the parent bank, Punjab National Bank.
- **Sh. S. K. Dubey**, who is already holding Directorship of the company, has been appointed as Managing Director by the Board w.e.f. February 1, 2012. He retired from Punjab National Bank on December 31, 2011.

Retirement of Directors by Rotation

As per Article 99 of the Articles of Association of the company, Dr. Kamal Gupta and Sh. S. K. Soni shall retire by rotation in the forthcoming Annual General Meeting and are eligible for reappointment.

Corporate Governance

Corporate Governance for the company means achieving high level of accountability, efficiency, responsibility and fairness in all areas of operations. Our workforce is committed towards the protection of the interest of the stakeholders including shareholders, creditors, investors, customers, employees, etc. Our policies consistently undergo improvements keeping in mind our goal i.e. maximization of value of all the stakeholders. The Corporate Governance practices followed by the company are given in the Annual

Report. A certificate from M/s S. Mohan & Co., Statutory Auditors of the company regarding compliance of conditions of Corporate Governance stipulated by stock exchanges is enclosed with the 'Report on Corporate Governance'.

4.2. Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies (Amendment) Act 2000, the Directors confirm that in the preparation of the annual accounts:

- The applicable accounting standards have been followed.
- Appropriate accounting policies have been selected and applied consistently. Judgements and estimates made are reasonable and prudent so as to give true and fair view of the state of affairs of the company at the end of the financial year ended March 31, 2012 and the Profit and Loss Account for the year ended March 31, 2012.
- 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.
- The annual accounts have been prepared on a going concern basis.

4.3. Audit, Internal Control Systems & their adequacy

M/s S. Mohan & Co., Chartered Accountants, Delhi were appointed as the Statutory Auditors of the company by the Comptroller & Auditor General of India for the financial year ended March 31, 2012. The report of the auditors is self-explanatory.

The company considers Internal Audit to be a very significant part of its Corporate Governance practices. For the year 2011-12, the Board appointed M/s Deloitte Haskins & Sells as the Internal Auditors of the company. The scope of Internal Audit included audit of treasury transactions on a monthly basis and reporting to the Audit Committee of the Board that the company has operated within the limits of various risk parameters laid down by the Board, Reserve Bank of India and other statutory authorities. Besides, the firm also audited and reviewed key business processes, including IT systems of the company on quarterly basis. All the reports of the Internal Auditors were submitted to the Audit Committee and the monthly audit reports were submitted to Reserve Bank of India as well.

4.4. Human Resources

Total number of employees of the company as on March 31, 2012 was 36 (including 4 employees on deputation from parent bank). The company has maintained peaceful and harmonious relations with its employees.

The information required under Section 217 of the Companies Act, 1956 read with the Companies (Particulars of Employees)(Amendment) Rules, 2011 be treated as NIL as none of the employees of the company draws remuneration in excess of Rs. 500000/- p.m. No employee is related to any Director of the company.

4.5. Particulars required to be furnished by the Companies (Disclosure of particulars in the report of the Board of Directors) Rules, 1988.

- a) Part A pertaining to the conservation of energy are not applicable to the company.

With regard to Part B pertaining to technology absorption, the company has installed the integrated treasury management software and RBI's Negotiated Dealing System with the help of IDBRT and reputed IT companies. The company recognizes the growing importance of Information Technology in the emerging business environment. The company has also implemented Business Continuity Plan (BCP) and Disaster

Recovery Plan (DRP) with the help of IDRBT (consultants for implementation of BCP and DRP) to identify and reduce risk exposures and proactively manage any contingencies.

b) Foreign Exchange earnings and outgoing:

The company has neither used nor earned any foreign exchange during the year under review.

4.6. Public Deposits

During the year ended March 31, 2012, the company has not accepted any deposits from the public within the meaning of the provisions of the Non- Banking Financial Companies (Reserve Bank) Directions, 1977 and RBI's notification no. DFC.118DG/(SPT)-98 dated 31st January 1998.

4.7. Acknowledgement

Your Directors thank Government of India, Reserve Bank of India, Securities and Exchange Board of India, National Stock Exchange Ltd., Bombay Stock Exchange Ltd., Parent Bank, Commercial, Cooperative & Regional Rural Banks, Financial Institutions, PF Trusts, Public Sector Undertakings and Private Sector Corporate Bodies and other valued clients for their whole-hearted support. We acknowledge the sincere and dedicated efforts put in by employees of the company at all levels.

On behalf of Board of Directors

Date : May 29, 2012

Place : New Delhi

(K.R.Kamath)

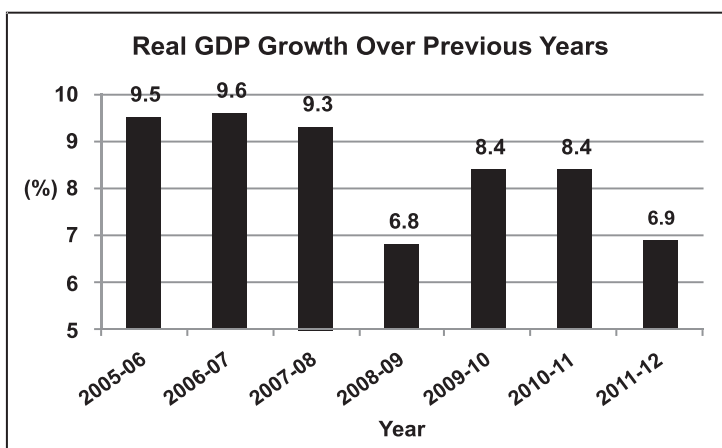
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

MACROECONOMIC REVIEW

Gross Domestic Product

The Indian economy slowed down significantly during FY 2011-12 as a result of tight monetary conditions and recession like conditions in Euro region. The deceleration in economic activity was sharper than anticipated at the onset of the year. The decline in growth rates in previous quarters of the year turned out to be seemingly disappointing. RBI itself has revised its growth projection for the FY 2011-12 sharply by 100 basis points from 8 per cent to 7 per cent, which is the lowest in previous nine years barring the year of recession, i.e. 2008-09. The industrial sector was largely responsible for the deceleration in overall growth.

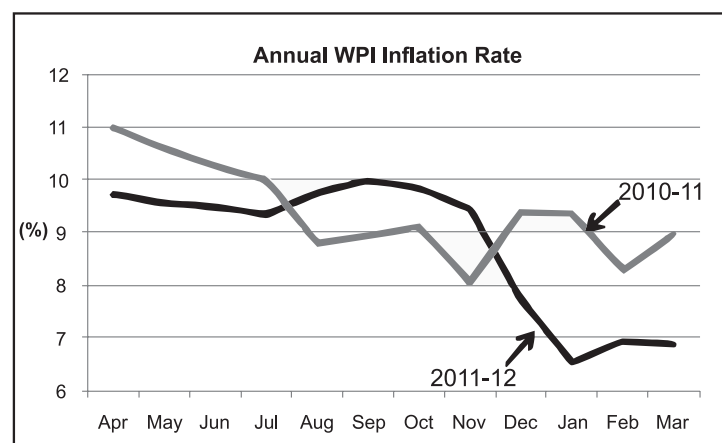


Frail economic recovery in the US and Euro area and moderately restrained investment sentiments domestically took a toll on the industrial output during the year. Industrial growth during April-December, 2011 stands at 3.6 per cent compared to 8.3 per cent in the corresponding period of the previous year. Agriculture and Service sectors' near the trend output however, helped offset the impact of weak industrial sector performance to some extent. Agriculture sector is expected to grow by 2.5 per cent during the year as against 7 per cent growth recorded in the previous year. While Service sector is expected to grow by 9.4 per cent, marginally up from 9.3 per cent in the previous fiscal.

On the expenditure side, private consumption and net exports were the major contributors towards the overall GDP growth. The same is expected to grow by 6.5 per cent during the year as against 8.1 per cent in the previous year. On the other hand, growth in government final consumption expenditure moderated sharply to four year low of 3.9 per cent. Growth in gross fixed capital formation also remained lukewarm at 5.6 per cent as against 7.5 per cent in previous year. Exports remained resilient during the year growing by 14.3 per cent, while imports grew by 17.5 per cent.

International Trade and Debt

India's exports grew robustly in the first half of the year, notching a growth rate of as high as 61 per cent in the month of July. However, as Euro debt crisis intensified, the growth in exports decelerated from October, 2011 onwards. Cumulative exports were at USD 242.8 billion, registering a growth of 23.5 per cent during 2011-12 (April- January). On the other hand, imports continued to remain buoyant partly owing to high crude oil prices, registering growth rate of 29.4 per cent in the period April to January cumulating at USD 391.5 billion. Low export growth and moderate import growth led to high trade deficit during the FY 2011-12 taking



current account deficit to record levels. With sharp rise in trade deficit, the current account deficit (CAD) widened