



(A subsidiary of Punjab National Bank)



18th

Annual Report
2013-14

Board of Directors



Shri K. R. Kamath
Chairman



Shri P. K. Mohapatra
Non-Executive Director



Shri S. K. Dubey
Managing Director



Smt. Sunita Gupta
Executive Director & CFO



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
and
Quality Conscious Company maximising wealth for
Shareholders**

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Chairman's Letter to Shareholders

Dear Shareholders,

It gives me immense pleasure to present the Annual Report of your Company for the Financial Year 2013-14.

The year 2013-14 was full of challenges both for economy and financial sector. GDP grew by 4.7% while industrial production showed a negative growth of 0.1%. Other significant challenges faced by the economy during the year were, persistent high inflation, fiscal imbalances, decelerating saving rate and external sector vulnerability. These macroeconomic weaknesses were reflected in large capital outflows and sliding currency. Rupee witnessed historic low of 68.88 INR per USD on August 28, 2013 and shortage of liquidity in the system added further stress in the economy. Short term interest rates were raised by Reserve Bank of India. It also hiked the Marginal Standing Facility (MSF) rate by 200 basis points and sucked off excess liquidity with a view to defend rupee exchange rate. Monetary policy thus had to face an extra ordinary spell of financial turbulence. Ten year government security yield, which opened at 7.95% as on March 31, 2013, witnessed extreme volatility touching a low of 7.09% to high of 9.46% before closing at 8.80%.

Faced with the aforesaid macro economic conditions and market challenges, your company maneuvered to its best ability to maintain its profitability during the year. The company made some important changes internally, streamlined its risk management and trading operations and also revamped its HR practices. I am happy to inform you that your company registered a Profit Before Tax of Rs. 90.70 crore in FY 2013-14 as against Rs. 88.76 crore in FY 2012-13. Despite significant increase in yields, trading profit of the company amounted to Rs. 31.40 crore. The total secondary market outright turnover stood at Rs. 3.08 lac crore.

During 2013-14, the company made a bonus issue of 1 : 3 (one equity share for every three shares held). On the enhanced equity, for the year 2013-14, the Board of Directors has recommended a dividend of 9%. The Net Worth of your company increased by nearly 7% to Rs. 662.53 crore as on March 31, 2014 as against Rs. 620.08 crore in previous year. The company is adequately capitalized with capital adequacy ratio of 49.14% as on March 31, 2014, against RBI's minimum stipulation of 15%. The company fulfilled all its obligations as a Primary Dealer by successfully achieving the minimum stipulations laid down by the regulator. Besides, robust risk management systems kept the Company's risk profile in check throughout the year.

This year's performance is a testimony to our capabilities, strategic orientation, the discipline of our risk management systems and the dedication of the employees. Continued support of all our shareholders has also been a huge motivating factor for us to improve our endeavors in delivering better results. We are immensely grateful to you for your unwavering support and cooperation, which has helped us to sail smoothly through all these years.

Way forward

With the new fiscal year upon us, the positive signs of recuperating Indian economic scenario will bring its own mix of opportunities and challenges. Accordingly, we shall continue to realign our strategies and resources in order to ensure the best returns for our shareholders and sustain those returns in the long term. The unseen challenges that lie ahead of us shall be met making best use of our skills, competencies and experience. Your company's competent trading skills and robust risk management systems will ensure that the performance is strengthened in the current year.

We value your partnership as we position the company to lead into the future and I firmly believe that it will be an exciting journey for all of us. I take this opportunity to express my gratitude to all the stakeholders for being with us and providing the opportunity to serve them. I assure that the company will continue to remain focused to deliver more value to all the stakeholders.

(K.R.Kamath)
Chairman

DIRECTORS' REPORT

Your Directors have pleasure in presenting the Eighteenth Annual Report together with the audited financial statements of the Company for the year ended March 31, 2014.

1. FINANCIAL RESULTS

The financial results for the year ended March 31, 2014 along with comparative figures for the previous year are given below:

(Rs. in lacs)

	For the year ended 31.3.2014	For the year ended 31.3.2013
Total Income	34626.38	28865.00
Total Expenditure	25556.11	19988.47
Profit/(loss) Before Tax	9070.32	8876.53
Less : Provision for Income Tax (including deferred tax)	2932.13	2751.97
Profit /(loss) After Tax	6138.19	6124.56
Add: Balance in Profit & Loss Account brought forward	8271.51	6057.48
Amount available for Appropriation	14409.70	12182.04
Proposed Appropriations		
Transfer to Statutory Reserve	1227.64	1224.92
General Reserve	—	—
Capital Reserve	1183.62	1106.09
Proposed Dividend	1620.09	1350.08
Dividend Distribution Tax	275.33	229.44
Balance carried forward	10103.02	8271.51

During FY 2013-14, Company fulfilled all its obligations as a Primary Dealer in both primary and secondary market. With regard to Treasury Bills commitment, Company exceeded the stipulated success ratio of 40 per cent, achieving 40.17 per cent and 46.57 per cent in H1 and H2 respectively. In G-sec category, Company fulfilled the underwriting commitments, thereby supporting the government borrowing program. Company delivered good performance during the year by astutely deriving advantage from volatile G-sec market condition and judicious deployment of funds in high yielding assets. The total Profit Before Tax for FY 2013-14 stands at Rs. 9070.32 lacs as against Rs. 8876.53 lacs in FY 2012-13.

The profitability was boosted by trading performance and judiciously taking advantage of arbitrage opportunity by the Company. During FY 2013-14, Company posted trading income of Rs. 3140.78 lacs under extreme volatility in the bond market. The G-Sec Yields rose due to surging headline inflation, falling domestic currency, apprehensions on U.S stimulus tapering and spike in short term borrowing rates. The commencement of term repo auctions served to infuse adequate liquidity into the market. While short term rates remained under continuous upward pressure due to tight liquidity conditions and hike in policy rates, long term yields rose due to heavy supply over the year. Amid these factors, the yield on 10-yr benchmark paper closed the year at 8.80 per cent after touching a high and low of 9.46 per cent and 7.09 per cent respectively as against 7.95 per cent as on March 31, 2013.

2. CAPITAL ADEQUACY

Capital adequacy ratio as on March 31, 2014 stood at 49.14 per cent as against the RBI stipulation of 15 per cent.

3. BONUS ISSUE

During the year 2013-14, your Board announced a Bonus Issue in the ratio of 1:3 i.e. 1 (one) Bonus Equity Share of Rs. 10/- for every 3 (three) fully paid-up Equity Shares of Rs. 10/- each held. As a result, the paid-up equity capital of the Company increased from Rs. 13500.76 lacs to Rs. 18001.01 lacs.

4. DIVIDEND

Your Board has recommended a final dividend of Rs. 0.90 per share (i.e. 9 per cent) for the financial year 2013-14 on enhanced equity and the proposed dividend amounts to Rs.1620.09 lacs. The total outflow on account of said dividend shall be Rs. 1895.42 lacs (including Dividend Distribution Tax).

5. OTHER MATTERS

5.1. Directors

During the year, the Board of Directors met five 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 six times and Shareholders'/Investors' Grievance Committee met twelve times.

Changes during the financial year 2013-14

The following changes took place in the Board of Directors of the Company during the financial year 2013-14:

- **Sh P. K. Mohapatra** (DIN : 02660553), General Manager – Punjab National Bank, has been appointed as an Additional Director by the Board in its meeting held on August 10, 2013.
- **Sh. S. R. Bansal** (DIN : 06471984), Executive Director – Punjab National Bank, has resigned from the Directorship of the Company w.e.f. October 4, 2013 on his elevation to the office of Chairman and Managing Director of Corporation Bank.

Retirement of Directors by Rotation

As per Article 99 of the Articles of Association of the Company, Sh. S. K. Dubey (DIN : 01770805) shall retire by rotation in the forthcoming Annual General Meeting and is eligible for reappointment.

Appointment of Independent Directors

In terms of Section 149 of the Companies Act, 2013, your Board proposes to fix tenure of Independent Directors [Dr. O. P. Chawla (DIN : 00026712), Dr. Kamal Gupta (DIN : 00038490), Sh. S. K. Soni (DIN : 00046856) and Sh. P. P. Pareek (DIN : 00615296)] for a period of five years w.e.f. the date of ensuing Annual General Meeting i.e. from August 30, 2014. All these directors have submitted the required declaration of independence as required under Section 149(7) of the Companies Act, 2013. In the opinion of Board, the Independent Directors, proposed to be appointed, fulfill the conditions specified under the Companies Act, 2013 and Rules made thereunder and they are independent of the management.

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. (Firm Registration No. 000608N), Statutory Auditors of the Company regarding compliance of conditions of Corporate Governance stipulated by stock exchanges is enclosed with the 'Report on Corporate Governance'.

5.2. 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, 2014 and the Profit and Loss Account for the year ended March 31, 2014.
- 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.

5.3. Audit, Internal Control Systems & their adequacy

M/s S. Mohan & Co., Chartered Accountants (Firm Registration No. 000608N), Delhi were appointed as the Statutory Auditors of the Company by the Comptroller and Auditor General of India for the financial year ended March 31, 2014. 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 2013-14, the Board appointed M/s Ernst & Young LLP as the Internal Auditor 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 said firm also audited and reviewed related party transactions on monthly basis and 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.

5.4. Human Resources

Total number of employees of the Company as on March 31, 2014 was 33 (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.

During the year 2013-14, the Company has not received any case relating to sexual harassment from its employees.

5.5. 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 is 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 IDRBT 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.

5.6. Public Deposits

During the year ended March 31, 2014, 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 January 31, 1998.

5.7. Acknowledgement

Your Directors thank Government of India, Reserve Bank of India, Securities and Exchange Board of India, National Stock Exchange of India Ltd., Bombay Stock Exchange Ltd., Parent Bank, Commercial Banks, Cooperative & Regional Rural Banks, Financial Institutions, PF Trusts, Public Sector Undertakings, 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 : June 26, 2014

Place : New Delhi

(K. R. Kamath)

Chairman

DIN : 01715073

Address : 20, Rajdoot

Marg, Chanakyapuri,

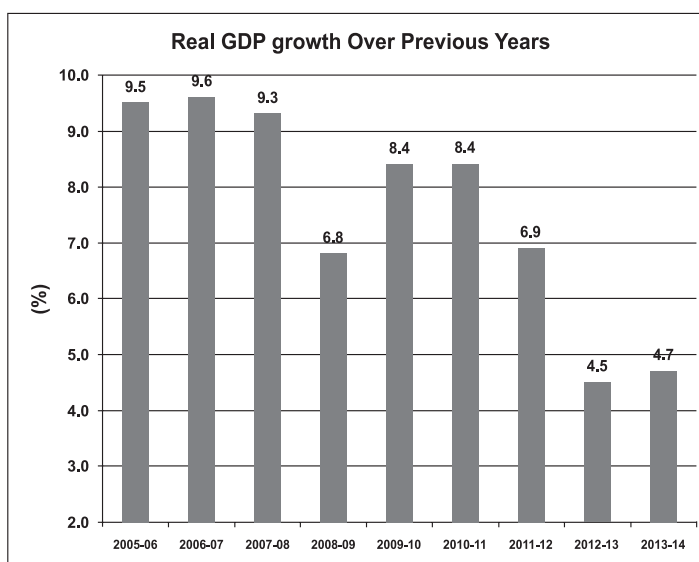
New Delhi - 110021

MANAGEMENT DISCUSSION AND ANALYSIS

MACROECONOMIC REVIEW: 2013-14

Domestic Overview

During 2013-14, the GDP growth at 4.70 percent was marginally higher than it was in 2012-13 though, it continued to be sub-5 per cent for the second consecutive year. This largely reflected a contraction in the industrial sector even as agricultural growth improved due to the good monsoon while the services sector remained unchanged. Inflation remained elevated during the year mainly due to high food prices. Inflation in terms of the All India Consumer Price Index (CPI)-Combined (Rural + Urban) declined to 8.31 per cent in March, 2014 from a high of 11.16 per cent in November, 2013 induced by a fall in vegetable prices. Despite the moderation, inflation



remained persistent with the average CPI inflation at 9.49 per cent during 2013-14 compared to 10.21 per cent in 2012-13. Excluding food and fuel segments, the CPI inflation was around 8 percent.

Low domestic growth and high inflation continued to have an adverse effect on saving-investment dynamics. While household's financial savings (which include bank deposits) as per cent of GDP have been falling, expenditure on valuables (which includes gold) has risen over the last few years though it declined in 2013-14. This trend reflects financial disintermediation with households switching away from financial savings to valuables mainly gold.

India's current account which had been under stress since 2011-12 was brought to a sustainable level during 2013-14 and CAD fell from 4.7 per cent during 2012-13 to 1.7 per cent during 2013-14. Modest recovery in key partner economies and the depreciation of the rupee helped India boost its exports in 2013-14 and robust demand for software exports also improved earnings from invisibles. With a fall in gold imports mainly due to restrictions, the trade balance improved to USD (138.59) billion from USD (190.36) billion in 2012-13. This along with strong capital inflows, particularly NRI deposits, brought stability to the external front. Reduction in CAD, improvement in capital inflows, accretion to foreign exchanges reserves and stability of the exchange rate improved the external sector's resilience.