

MD	✓		BKC	✓
CS	✓		DPY	N/A
RO	✓		DIV	N/A
TRA	✓		AC	✓
AGM	✓	✓	SHI	✓
YE	✓	✓		✓

**ANNUAL REPORT**  
For the year ended 31st March, 1997

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**TIMES GUARANTY**  
FINANCIALS LTD



### **CORPORATE PURPOSE**

To facilitate allocative efficiency of the financial markets through knowledge driven and information based people, processes and products.

**TIMES GUARANTY FINANCIALS LIMITED****REPORT AND ACCOUNTS**

For the year ended 31st March, 1997

**DIRECTORS**

Shri Ashok Kumar Jain

*Chairman*

Shri Raman Kaicker

*Vice Chairman and Executive Director*

Shri Amit Judge

Shri Dinesh Vyas

Shri Mahendra Kampani

Shri Gurcharan Das

Shri D. N. Shukla

Shri S. Ramesh Kumar

*Executive Director and Chief Executive Officer*

Shri G. Ramachandran

*Executive Director***BANKERS**

Bank of Baroda

Dena Bank

Punjab National Bank

State Bank of Indore

The Federal Bank Ltd.

Union Bank of India

United Bank of India

United Western Bank

**STATUTORY AUDITORS**

M/s. Haribhakti &amp; Co.

*Chartered Accountants***INTERNAL AUDITORS**

M/s. Price Waterhouse &amp; Co.

*Chartered Accountants***REGISTERED OFFICE**

The Times of India Building,

Dr. D. N. Road,

Mumbai - 400 001.

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## TIMES GUARANTY FINANCIALS LIMITED

### DIRECTORS' REPORT

The Directors present their report with the audited accounts for the year ended 31st March, 1997.

#### The Environment

During the financial year, the financial markets have been hit with a harsh reality of their actual liquidity vis -a-vis the announced profits. The financial sector, which essentially comprises three markets – capital markets, currency markets and money markets – affects and is affected by the real sector. Hence, any real sector growth has a direct impact on the behaviour of these markets.

#### *The market in perspective*

As a consequence of the marketisation process, capital formation process is becoming increasingly market dependant, which means that the households have a direct participation in the capital mobilisation efforts in the corporate sector. In the Indian context, this process of capital disintermediation has been the first significant indicator of responsiveness of the financial sector. Conceptually, the evolution of the Indian financial markets can be understood by categorising the issues as structural and functional issues. Structural issues would essentially address the relatively permanent aspects or the 'what' aspects of the sector whereas the functional issues address the 'how' aspects of the sector. For example, the non existence of a regulator for a market would be a structural issue and the lack of competitiveness would be a functional issue. It appears that in the Indian financial market, functional problems have been addressed through structural solutions.

During the 80's, in a moderate way, and the early 90's, in a significant way, the capital market access was enhanced. Concomitant to this market activation process was the large scale growth of merchant banking entities of various sizes and shapes. While there was large scale access to the market, the discipline that is assumed with such market activity was conspicuous by its absence. Simultaneously, new entities emerged which started funding capital goods using the fiscal arbitrage through leasing. As these entities were neither banks nor financial institutions by form, the Reserve Bank of India, in a non descript manner, crowned them as 'Non Banking Financial Company' (NBFC). These NBFCs were essentially operating in areas which banks considered 'high risk'. To provide some framework for their working A C Shah Committee was formed. Many of these NBFCs were also merchant bankers, which was confusion confounded.

A natural outcome of the enhanced capital market activity was the emergence of institutional investors in the form of Asset Management Companies (AMC) popularly known as Mutual Funds. During the late 80's and early 90's large number of AMCs were formed which assured returns with no mention of risk to the ordinary investor. The moment the markets took a downturn the AMCs were caught on the wrong foot. And as a consequence the value of funds managed by them diminished. The faith in AMC as a vehicle to manage market risk for the individual investor almost vanished.

The third set of entities to emerge as a response to the emerging demands of the financial markets were the 'private sector banks'. These have come into a highly concentrated sector with the attendant risk of the pathologies of 'Liability Of Newness'. The new banks' resource mobilisation has been at the higher end of the market in terms

of cost and as a consequence deployment has had to be at higher rates with higher risks. In fact, the late entrant disadvantages are manifest in the riskiness of their balance sheets.

#### *The consequences*

Such *pot pourri* of responses to the emerging financing needs of a growing economy have had their own effects. The performance of different entities have ranged from indifferent to disastrous with investor confidence becoming elusive. We see ominous signs of a sector caught in a vicious cycle of declining performance and vanishing faith.

Transactions in the market are not based on risk-return profile leading to surprises for the investor. The distribution and pricing have been done in this market place in a manner similar to that of commodities, whereas the essence of distribution in the financial sector is to match cashflows of the provider and user of funds. The distribution infrastructure in the financial sector is largely ethereal rather than real. Regulation perceived to restrict behaviour rather than enabling it, leads to avoidance behaviour translating into higher transaction cost. Low economic literacy coupled with poor information absorption has led to misconstruing market movements as signals of economic performance. Lack of responsible expertise leading to individual interest forming the basis of transactions has distorted the market.

In response to the generally held belief of the inefficiency of the existing banking system, NBFCs and banks seem to have gone in for high speed high risk products, even though speed in conducting a transaction need not necessarily guarantee the quality of the transaction. While investment banks are expected to reduce transaction costs, however uninformed actions have had the reverse effect, for example, incentives based retailing of instruments. What was essentially a structural misfit, NBFCs sought to solve the problem functionally by attempting to attract customers through high cost branches and high cost borrowing resulting in unsustainable high risk business.

Trust in a market place is produced through institutionalising of mechanisms or practices which enable the participants in the market place to perceive and experience certainty in the action-outcome relationship. Lack of trust building mechanisms combined with inadequate information and inability to interpret actions and outcomes in the market has led to superstitious learning. As a consequence, investor behaviour is based on opinions and misplaced faith and hence leads to whimsical movements into and out of the markets which in other words is volatility. Such a situation in the market does not permit price to be a signal for the demand-supply situation, which in turn would mean that capital gets allocated in an uninformed manner.

The understanding of the financial sector, conceptualisation of the dynamics and the corporate self appraisal in the context of the market has formed the basis for the group's presence in the financial sector and the role of Times Guaranty in spearheading this endeavour.

#### **The corporate response**

##### *Review of the year*

To gain a better understanding of the performance of the company the reported financial results have been *normalised* by relating changes arising from valuation of financial instruments and prior period adjustments to

**TIMES GUARANTY FINANCIALS LIMITED**

(Rs. in lac)

	<b>Year ended 31.03.97</b>	<b>Year ended 31.03.96</b>	<b>Year ended 31.03.95</b>
Net financing income	<b>488</b>	806	213
Investment income	<b>25</b>	(73)	(394)
Fee income	<b>233</b>	294	269
Expenses	<b>517</b>	754	461
Operating profit / (loss)	<b>229</b>	273	(373)
Provision for bad debts	<b>(4864)</b>	(602)	(120)
Provision for tax and deferred tax	<b>293</b>	(42)	(556)
Profit / (loss) for the year after tax	<b>(4342)</b>	(371)	(1049)
Total assets	<b>11381</b>	17265	18607
Net interest margin %	<b>3.4</b>	3.4	1.2
Margin at interest %	<b>4.4</b>	4.4	1.6

the appropriate years. For the year ended 31st March, 1996, losses arising from valuation of investments Rs. 556 lac, prior period adjustments arising from depreciation and charge on stock-on-hire Rs. 749 lac, deferred tax liability Rs. 555 lac, operating loss on portfolio management scheme Rs. 67 lac and provision for interest tax Rs. 22 lac has been related back to 31st March, 1995. For the year ended 31st March, 1997 prior period adjustments of Rs. 12 lac arising from a mismatch in the original maturity of some hire purchase transactions has been related back to 31st March, 1996.

As a consequence of the initiatives taken in the previous year the company has restructured its finances as much as its organisation and moved further away from fund based activities. In fact, the overall riskiness of the balance sheet has been further reduced by making additional provisions on a risk basis. Towards this end, your company has endeavoured to understand its non-performing assets using a more fundamental approach based on the degree of risk inherent in the transaction determined by the client's *ability to pay* which is reflected by the quality of management, the transparency in operations and past track record, and the *intention to pay*. In this way, your company has attempted to help the clients understand their business better and cope with the environment more effectively. Where assets are under-utilised, your company has helped clients to devise better systems so as to focus on efficient asset utilisation. The company has endeavoured to provide manufacturing companies with effective techniques to manage production systems without losing sight of the financial and economic rationale for its existence.

During the year, the company made provisions for non-performing assets which are doubtful of recovery in excess of Reserve Bank of India requirements by Rs. 2296 lac. As result networth has come down from Rs. 4972 lac to Rs. 609 lac at the end of March, 1997. During the month of April 1997 your company issued 10% non-cumulative redeemable preference shares amounting to Rs. 600 lac as a private placement to the holding company, Bennet Coleman and Company Ltd.

As per the guidelines laid down by Reserve Bank of India on capital adequacy, a minimum of 8% is required to

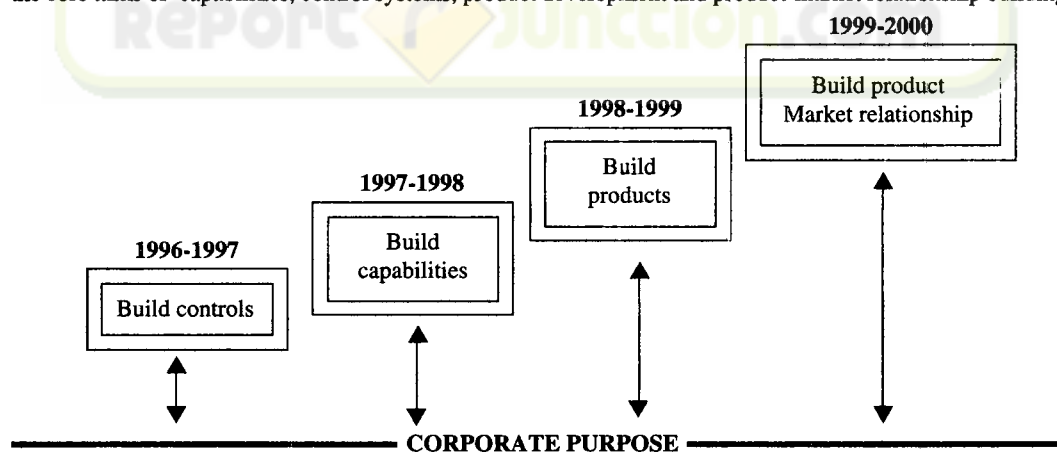
be maintained by the non banking financial companies. Your company has a capital adequacy ratio of 8.56% as on March 1997.

During the year, the company issued 15 lac, 6% non-convertible debentures of Rs. 100 each to the holding company, Bennett Coleman and Company Ltd. This amounted to Rs. 1500 lac which are redeemable after 17 months and 15 days from the date of allotment at Rs. 115.84 per debenture.

In so far as institutionalisation of professional standards is concerned, the year has been characterised by the internalisation of risk based approach to the assessment of customer assets, warehousing of financial instruments, internalising the financial control mechanism in order to enable the organisation to move in the direction of desired outcomes. While ensuring that the entry of people to the organisation and their engagement with the organisation are done on an equal opportunity basis, your company has initiated practices for enhancing the employability of every member through scientifically designed performance management systems.

#### *Initiatives for the next year*

Informed by the changes in the environment and their consequences, your company felt the need to be present in those sectors where it has a significant role to play. The sectoral choices and the actions are informed by an understanding of market's generic need. The company will endeavour to occupy a pre-eminent position by creating professional standards and therefore become a benchmark in responsive corporate behaviour. The evolution of the strategy, arising from the corporate purpose, adopted by your company is reflected in the processes shown below. Accordingly, the organisation is conceptualised as a network of roles structured around the core tasks of capabilities, control systems, product development and product-market relationship building.



In any financial market the investment opportunity is first initiated, then distributed and finally funds are allocated. This chain of events have to take place if the investment cycle is to be completed. Usually, the initiation process is done by an investment banker by advising the fund user about methods of raising the funds. Through an instrument created for transacting, a broking house intermediates between the provider of these funds and the user. As markets grow large and information complexity increases, it becomes unviable (from a risk perspective) for an individual investor or a household to invest in such instruments and there emerges the need to manage assets in an informed manner, which is the role of an asset management company. To be present in the financial markets through only one of these functions would lead to an inability to influence the markets for better practices and

## TIMES GUARANTY FINANCIALS LIMITED

eventually for better investor participation. It therefore appears that your company has to strategise to participate in the market at all points of the continuum beginning with initiation (investment banking) through intermediation (broking) to asset allocation (AMC).

Exchange of goods/products and services in this market are realised through transactions, which are an outcome of three basic elements namely, knowledge, information symmetry and trust. In line with the institutionally embedded purpose of the organisation, to facilitate the allocative efficiency of the financial market through knowledge driven and information based people, process and products the role will necessarily focus on intermediation of *information*. Intermediaries are facilitators, including individuals, professionals and/or institutions who have the necessary expertise and skill needed to fill the needs and gaps that exist between providers and users, through transactions which are complex and require a high degree of knowledge, skill and proficiency. Your company will in effect, play the role of “providers of trust” which will naturally lead to a more efficient market system and consequential reduction in transaction and transformation cost.

An observation of developed markets reveals that their dependence on and use of knowledge as a base, has contributed to the speed in their stabilisation and growth process. It is vital, therefore, to ratify the importance of the role of *Knowledge* as the base in the growth process. Knowledge is meaningfully used for interpreting information leading to informed financial decisions by converting information into the desired action. The internal processes of the organisation are consequently driven by knowledge rather than hierarchy. An effective conversion of knowledge into information happens when individuals have a professional orientation. And consequently, ethics are woven into the ethos of decision making of the organisation rather than being merely painted on it. Eventually, we would expect that such trust oriented organisational processes coupled with the ethereal professionalism would lead to manifestation of responsible expertise vis-a-vis market related transactions.

The company seeks to operationalise its role in facilitating allocative efficiency by enabling:

- Asset-liability management of corporates through treasury and risk management;
- Asset creation through advise on project finance;
- Asset utilisation through advise on working capital and operational finance management;
- Asset transfers through advise on mergers, acquisitions and privatisation based on economics of the activity.

These initiatives will be taken in the context of financial markets and with the explicit purpose of facilitating flow of financial resources based on a risk-return match of the cash flows of the users and providers of funds leading to sustainable market action.

### Auditors' observations

1. Confirmation from lessees regarding existence of assets given on lease:

With reference to para II (d) (i) of the Auditor's Report regarding confirmations from lessees of physical existence of assets given on lease, the Company has received confirmations from some lessees and has not received confirmations from others. The Company has however, assessed all the clients on a risk basis and has made appropriate provisions for the non performing assets.

2. Regarding the non-confirmation of balances as per Auditors' Report para II (d) (ii), the Company has sent



letters to 1171 clients (Rs. 984 lac) seeking confirmation of balance as on March 31, 1997. Ninety-four clients confirmed their balances and twenty-six clients (Rs. 5.92 lac) have sought certain clarifications which are being processed.

3. With regard to item 15 of the annexure to the Auditors' Report, the shares in question relate to the Company's portfolio management scheme. The Company has settled all the accounts under the portfolio management scheme. In settlement of certain accounts, the Company received shares worth Rs. 6 lac from the concerned clients. Relevant transfer deeds are however yet to be received. The Company has provided for the amount in the accounts for March, 1997.

### **Statutory Declarations**

#### *Fixed deposits*

Out of the amount of Rs. 1991.59 lac of fixed deposits, an amount of Rs. 59.10 lac representing 355 fixed deposits matured as at the end of the year and were not claimed by the depositors. Since the closing of accounts, fixed deposits of Rs. 28.80 lac representing 173 fixed deposits have been either repaid or renewed.

#### *Particular of conservation of energy, technology absorption and foreign exchange earnings*

This being hire purchase and leasing company, these are no particulars to be furnished for conservation of energy and technology absorption. The foreign exchange outgo on account of foreign travel, books etc. amounted to Rs. 4.04 lac. There is no foreign exchange earning.

#### *Directors*

Shri Ashok Kumar Jain, Shri Amit Judge, Shri Gurcharan Das and Shri Mahendra Kampani retire by rotation at the forthcoming annual general meeting and being eligible, offer themselves for re-appointment.

Shri G. Ramachandran was appointed as an additional director and a whole time director effective 30th May, 1997. He holds office upto the date of ensuing annual general meeting. Suitable resolutions proposing him for the office of director and for approval of the remuneration payable to him, are included in the notice convening the seventh annual general meeting.

For and on behalf of the Board of Directors,



**Raman Kaicker**

*Vice Chairman*

Mumbai

Dated: 26th June, 1997

## TIMES GUARANTY FINANCIALS LIMITED

## ANNEXURE TO THE DIRECTORS' REPORT

Statement of particulars of employees pursuant to the provisions of Sec. 217(2A) of the Companies Act, read with Companies (particulars of employees) Rules, 1975, as amended from time to time.

Sr. Name No.	Designation	Age (Yrs)	Qualification	Exp-erience (in yrs)	Date of commence-ment of service	Remun-eration (Rs.)	Last employment held and designation
<b>Employed throughout the year</b>							
1. Mr. Raman Kaicker	Vice Chairman & Executive Director	42	B.Com, ACA (England & Wales), ACA (India), D.B.M. (Norwich, England)	19	04.08.95	25,69,202	Senior Management Strategist, Bennett Coleman & Co. Ltd.
2. Mr. S. Ramesh Kumar	Executive Director & Chief Executive Officer	40	B.Com, CAIIB	20	07.07.95	24,29,642	Chief Executive Officer, Reliance Capital Ltd.
3. Mr. G. Ramachandran	Executive Director	37	B.Sc-Hons (Physics) ACA	13	07.07.95	13,07,800	Vice President, Reliance Capital Ltd.
4. Mr. Vivek Daphtary	Assistant Vice President-Delhi Branch	37	M.A. (Economics & Sociology)	18	27.12.95	4,99,573	Vice President, James Capel Batiwala & Karani Pvt. Ltd
<b>Employed for part of the year</b>							
1. Mr. Rajiv Phadke	Executive President	43	M.Sc (Physics), M.M.S.	22	01.02.95	1,73,842	Chief Executive, Nagarjuna AMC
2. Mr. T. R. Ramaswami	Vice President - Mumbai Branch	45	B.A. (Hons)	21	08.06.95	2,41,609	Vice President, DSP Financial Consultants Ltd.
3. Ms. Lata Chakravarthi	Head-Bangalore Branch	40	B.Com, MBA, CFA	16	15.07.94	1,83,199	Deputy Manager, Industrial Development Bank Ltd.
4. Mr. Kiran Ved	Company Secretary	40	B.Com, FCA, ACS	18	01.03.96	2,30,400	General Manager - Finance & Accounts, Metro Exporters Ltd.
5. Mr. Aniruddh Patankar	Assistant Vice President	41	M.A. (Economics)	18	14.10.96	1,45,467	Associate Vice President, Sigma Credit & Capital Services

Note :

- None of the above employees are related to any directors of the Company.
- Remuneration includes salary, commission, house rent allowance, company's contribution to provident fund, wherever applicable, other sums actually received by the employees during the financial year (including arrear salary) and perquisites valued in accordance with the Income Tax Act, 1961 and rules made thereunder.