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ANNUAL REPORT

For the year ended 31st March, 1998

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 TIMES GUARANTY



CORPORATE PURPOSE

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



TIMES GUARANTY

REPORT AND ACCOUNTS

For the year ended 31st March, 1998

DIRECTORS

Shri Vineet Jain

Chairman

Shri Raman Kaicker

Vice Chairman and Executive Director

Shri Dinesh Vyas

Shri Gurcharan Das

Shri D.N. Shukla

Shri C.R. Balasubramanian

Shri S. Ramesh Kumar

Executive Director and Chief Executive Officer

Shri G. Ramachandran

*Executive Director***BANKERS**

United Bank of India

Times Bank

STATUTORY AUDITOR

M/s. Haribhakti & Co.

*Chartered Accountants***INTERNAL AUDITOR**

M/s. Price Waterhouse & Co.

*Chartered Accountants***REGISTERED OFFICE**

The Times of India Building,

Dr. D.N. Road,

Munabai - 400 001.

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DIRECTORS' REPORT

The Directors present their report with the audited accounts for the year ended 31st March, 1998.

The Environment

If one were to examine the performance of the Indian economy, we will find that low performance levels continue to plague the economy, in general and the financial markets in particular. The surpluses from the households continue to find their way to the banks resulting in bank deposits growing at a significant rate. The slowdown in industrial activity has adversely affected the banking sector's loan portfolios, which in turn has led to the banks investing their surpluses in debt instruments of the government and corporates with high ratings. The investment behaviour of banks has led to many of the industrial entities being denied access to funds. This prevailing scenario makes it most pertinent to examine the reason behind this unconvincing performance and the sequence of events that have led to this.

The Industrial Sector

During the last decade the focus of most Indian corporates has been on asset growth, which in turn was expected to enable sales growth and the consequential growth in profits. While this might have happened in some cases, it appears that the growth processes and plans for most corporates have been rather traumatic and financially disastrous. In fact, there are many companies with under-utilised and unutilised fixed assets that eat into their profits resulting in a high capital output ratio. Particularly, during the last two years the problem had become more acute and as a result the Industrial economy seems to have gone into a bind.

The permissive lending climate of the early 90's had led to a situation of corporate financial sickness with very few solutions in view. Although most of the lending agencies were attributing the whole problem to lack of liquidity in the system, it was becoming clear that the diagnosis was inaccurate and the real problem was unplanned growth in asset creation leading to inappropriate allocation of financial resources. Some key issues that appear to be common to most of the non performing assets (NPAs) are the low operating cash generation, poor contribution on sales, growth in sales not commensurate with growth in assets. The problem could be on account of quantity of capital used, the cost of capital or both. A sudden growth in the asset base has rendered the corporates weak in terms of management capability and most of these corporates need inputs in the area of financial management and access to the market as a consequence of corporate restructuring activity.

Some of the mid-sized corporates also face the problem of having low acceptability in the financial markets on account of lack of information about the company's performance and track record of the promoters.

The revival process for most corporates would therefore revolve around the company's ability to generate sustainable operational cashflows. Further the sensitivity of the cash flows to the price and quantity variations in sales and different capital structures would also need to be ascertained.

The Financial Sector

Just as the corporates have their issues, the commercial bankers too have their reservations, which make them reticent in lending to corporates. This enables only the top tier of corporates to access the financial markets for funds, leaving the mid-sized corporates strapped for growth funds.

While on one hand there is not enough reliable information about these mid-size companies, on the other hand even in organisational terms creating a cadre to monitor this segment is not feasible from a cost benefit point of view. The lender also needs to examine the willingness of the borrower to pay, ability to pay and the enforceability of contracts. This in turn results in high transaction and transformation costs for both the borrower and the lender. These issues restrict the commercial bankers from tapping a segment that otherwise offer significant opportunities in terms of providing annuity returns and potential fee based activities.

The Information Interface

In any economy, information is taken from the real sector, interpreted by the financial sector and as a result funds are allocated by the financial sector into the real sector. Thus, while the real sector deals with product efficiency, the financial sector plays a key role in the allocation of funds to the real sector. To ensure that funds are allocated efficiently by the financial sector to the real sector, authentic and adequate information are of critical importance.

On comparing the Indian markets in this context, we find that one critical issue is the lack of information symmetry between the real sector and the financial sector leading to a possible misallocation of assets. Information asymmetry coupled with capital scarcity may in turn lead to adverse selection, as only large corporates will be able to access the financial markets, whereas, the others would become victims of high transaction and transformation costs.

The Need for Information Intermediation

One possible solution to the concerns of both the borrower and the lender would be to provide a meeting ground for both of them. Clearly there exists a persuasive need in the information market to facilitate financial market access and improve productive efficiency.

Thus, there is a need for an “*Information Intermediary*” to serve both sides, thus bridging the information gap that exists and facilitate in the flow of reliable and clean information and its disclosure. This in turn would ensure that decisions taken are both knowledge driven and information based thereby improving the process by which funds are allocated resulting in the reduction of costs and establishing a mandate of *engagement* between the corporates and the commercial bankers.

Role of the Information Intermediary

On the basis of the above, the role of the information intermediary will revolve more around moving *information* between balance-sheets rather than the conventional practice of moving *funds* between balance-sheets. Once information moves authentically and rigorously, funds will move automatically. Thus the Information Intermediary shall facilitate in improving allocative efficiency and creating trust thereby reducing the transaction and transformation costs.

The understanding of the issues relating to both the real sector and the financial sector has informed the role of your company as an Investment Bank.

The Corporate Response

Three years ago, a major initiative was taken in formulating and defining the purpose of the company to *facilitate allocative efficiency in the financial markets through knowledge-driven and information-based people, processes and products*. With this your company made a conscious move to exit from the NBFC activities and position itself as an Information Intermediary.



TIMES GUARANTY

The Role

Given the fragility and formative state of the financial markets it was considered necessary for your company to play a role in addressing the fundamental disciplines about markets and their mechanics in order to achieve the desired outcome. Your company therefore opted to be a demonstrative organisation whereby its strategy would be informed by its *institutional* role. In this way the returns to your company would not be at the cost of disturbing or depleting the market.

Your company operationalised its role as an *Investment Bank* to *facilitate allocative efficiency* (the most productive asset goes to the most deserving user) thus creating a productive interface between the financial markets and the real sector. To emerge as an intermediary for information between issuers (users) and investors (providers), matching their risk-return profiles, your company needs to develop its capability to assess the sustainability and predictability of corporate cash flows and their mismatches. Accordingly, efforts are being made to orient the people, institute processes and develop products.

The Approach

Most of the corporates are obsessed with the liability side of the balance sheet without understanding whether the assets side can be better utilised without increasing the liabilities. Contrary to this, the focus of your company would be on the asset side; understanding the cash flows generated by the assets and how they can be best utilised. After having done this only will any further liabilities be generated by the requisite market action.

The approach of your company will be to act as a specialist financial management entity for corporates whereby they will either be serviced by the market or service it. This will be through a process where cashflows are first *Assessed*, corporates are then *Advised* where internal improvements are possible to strengthen their operating capability and if necessary, your company will engage in market *Action* in four distinct ways: -

1. *Asset utilisation* through advise on working capital and operational finance management;
2. *Asset distribution* through advise on mergers, acquisitions, and privatisation based on economics of the activity;
3. *Asset creation* through advise on project finance;
4. *Asset liability management* of corporates through treasury and risk management.

Thus the Information Intermediary shall create a relationship of engagement rather than exchange between the corporates and the lenders which would assist corporates in ensuring congruence between their *strategic goals* and *financial capabilities*.

The Focus

As a result of the information asymmetry that exists between the real sector and the financial sector, it is only the top tier corporates who enjoy a preferred status from the viewpoint of the lenders. Although the mid-sized corporates have a significant potential for growth they often face problems in accessibility, affordability and availability of funds for their projects as they have a low acceptability in the financial markets due to lack of information. There exists no institutional mechanism to address the needs of this segment, who inspite of being most significant to the growth of the economy and having potential for growth are often neglected.

The focus of your company therefore is more towards addressing the issues confronting this segment of companies and providing them with the requisite financial management advice. This would in turn enable these companies to improve their utilisation of assets and enhance their manifest attractiveness, thus allowing them access to the financial markets when required.

Corporate Initiatives

Given the approach adopted by your company of exiting from the NBFC activities and establishing itself as an Information Intermediary would mean that Research and Distribution would be the key drivers of your company and developing these capabilities would form the priority items on the corporate agenda. These initiatives would then set the stage for focusing on cash flow assessment of corporates, providing them with the necessary advice and taking them to the markets when required. The initiatives are thus listed as under:

1. To continue to *maximise cashflows and capital of your company* by recovering of outstanding assets through the recovery process (a major initiative over the past three years) including the consequential impact of taxation, thus *exiting from the NBFC business*;
2. To develop the capability to *assist entities or projects to manage and improve their cashflows*. This will mean gaining an understanding of cashflows and mismatches by:
 - Assessing the sustainability and predictability of cashflows and business/ project risk through a consistent framework of analysis, diagnostic and predictive models with appropriate technology interface;
 - Assessing mismatches in cashflows and attendant financial risk and mitigating it through a risk management framework;
 - Enabling market action, relating to issuers and investors, across a range of financial instruments for mid-size corporates;
3. To *harness methodologies relating to the capturing of information, analysis of cashflows and product-market interface* (trading and distribution) through the usage of appropriate technology by developing an Information System and Analytics Plan;
4. To *influence the financial markets* through information dissemination, education and facilitate policy making;
5. To *enable people to continuously enhance their learning orientation and the ability to abstract from specific experiences*. In addition to 'on the job' learning, supportive institutional training will be provided to help people to accomplish this objective.

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 the appropriate years.

In line with the strategy to exit from the NBFC business, the focus was primarily on recovery of our lending portfolio in terms of both exposure and number of clients, thus maximising the "*Net realisable present value*" (NRpV).



(Rs. in lac)

	Year ended 31.03.98	Year ended 31.03.97	Year ended 31.03.96
Net financing & investment income	468	534	733
Recovery from amounts written off	146	—	—
Fee Income	120	233	294
Expenses	(495)	(517)	(754)
Operating profit / (loss)	239	250	273
Provision for bad debts	(146)	(4864)	(602)
Provision for tax and deferred tax	98	293	(42)
Profit / (Loss) for the year after tax	191	(4321)	(371)
Total Assets	8867	11381	17265
Net Interest Margin %	2.1	3.4	3.4
Net worth	1431	620	4973

Your company has identified the risk of the portfolio based on the creditworthiness of the client, based on the cashflow of the company in its context, the behaviour of these cashflows and the risk modifiers. The behaviour indicates the willingness to pay and cashflows determines the ability to pay. All loans are subject to continuous scrutiny and grading, as based on credit risk.

For the year ended 31st March, 1998 prior period adjustments of Rs.3 lac arising due to settlement of a broker and excess provision written back of Rs.24 lac on account of mismatch in the maturity of security deposits collected from the clients have been related back to 31st March, 1997. Similarly 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.

Your company issued 10% non-cumulative redeemable preference shares amounting to Rs. 6 crore as a private placement to the holding company, Bennett Coleman and Co. Ltd. Your company has repaid all its bank borrowings. Currently it has borrowings in the form of 6% unsecured non-convertible debentures of Rs.15 crore redeemable at a premium of Rs.15.84 per debenture in August 1998, which were privately placed with Bennett, Coleman & Company Ltd. and fixed deposits of Rs.12 crore.

As per the guidelines laid down by RBI on capital adequacy, a minimum of 10% is required to be maintained by the non-banking financial companies and the company has a Capital adequacy ratio of 19% as on 31st March, 1998.

Auditor's Observations

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

With reference to para II (d)(i) of the Auditor's Report regarding confirmation from lessee of physical existence of assets given on lease, the company has received confirmation 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 Auditor's Report para II (d)(ii), the company has sent letters to 986 clients (Rs.320 lac) seeking confirmation of balance as on 31st March, 1998. 962 clients have confirmed their balances and 24 clients (Rs.6.91 lac) have sought certain clarifications which are being processed.

Statutory Declarations

Fixed Deposits

Out of the amount of Rs.1124.40 lac of fixed deposits, an amount of Rs.53.38 lac representing 389 fixed deposits matured at the end of the year and was not claimed by the depositors. Your company has issued letters reminding the depositors to collect their deposits.

Particulars of conservation of energy, technology absorption and foreign exchange earnings

This being a hire purchase and leasing company, there are no particulars to be furnished for conservation of energy and technology absorption. There was no foreign exchange outgo on account of foreign travel, books, etc. during the year. There was also no foreign exchange earning during the year.

Stock Exchange Listing

The company is listed with The Stock Exchange – Mumbai, The National Stock Exchange of India Ltd., The Stock Exchange – Ahmedabad, The Delhi Stock Exchange Association Ltd., Madras Stock Exchange Ltd. The necessary listing fees for the financial year 1998-99 have been paid.

Directors

Shri Dinesh Vyas, Shri D N Shukla retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

For and on behalf of the Board of Directors,



Raman Kaicker
Vice Chairman

Mumbai

Dated: 26th June, 1998

ANNEXURE TO THE DIRECTORS' REPORT

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

Sr. No.	Name	Designation	Age (yrs.)	Qualification	Experience (in yrs.)	Date of commencement of service	Remuneration (Rs.)	Last employment held and designation
Employed throughout the year								
1.	Mr. Raman Kaicker	Vice Chairman & Executive Director	43	B.Com., ACA (England & Wales), ACA (India) DBM (Norwich, England)	20	04.08.95	1,996,349	Senior Management Strategist, Bennett, Coleman & Co. Ltd.
2.	Mr. S. Ramesh Kumar	Executive Director & Chief Executive Officer	41	B.Com., CAIIB	21	07.07.95	1,961,433	Chief Executive Officer, Reliance Capital Ltd.
3.	Mr. G. Ramachandran	Executive Director	38	B.Sc. Hons. (Physics), ACA	14	07.07.95	1,572,013	Vice President, Reliance Capital Ltd.
4.	Mr. Vivek Daphtary	Assistant Vice President-Delhi Branch	38	MA (Economics & Sociology)	19	27.12.95	548,771	Vice President, James Capel Batliwala & Karani Pvt. Ltd.
5.	Mr. S. Sekhar	Senior Manager	32	ACA, Grad. CWA, Lic. CS	10	08.03.95	327,843	Deputy Manager, Gujarat Ambuja Cements Ltd.
Employed for part of the year								
1.	Mr. Manish Jindal	Senior Manager	32	ACA, Grad. CWA	5	23.05.97	309,776	Consultant, A.F. Ferguson

Notes :

- 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 finance year (including arrear salary) and perquisites valued in accordance with the Income Tax Act, 1961 and rules made thereunder.