PRIMARY DEALERS' ASSOCIATION OF INDIA

7th Annual Report
2003 - 2004

PRIMARY DEALERS' ASSOCIATION OF INDIA
BOARD OF DIRECTORS

Shri V. SRINIVASAN
Chairman, PDAI
Director,
J.P. Morgan Sec.

Shri R. V. JOSHI
Managing Director,
STCI

Shri VISHNU DEUSKAR
Director,
ABN Amro Sec.

Shri NITIN JAIN
Sr. Vice President
ICICI Sec.

Shri JAYESH MEHTA
Executive Vice President
DSP Merrill Lynch

Shri I. D. SINGH
Managing Director,
PNB Gilts

Shri V. SUBBARAMAN
Managing Director,
Citicorp Capital Markets

Shri PRADEEP MADHAV
Executive Vice President
IDBI Capital Market Services

Registered Office : C/o. Discount & Finance House of India Ltd.
Voltas House (3rd Floor), 23, J. N. Heredia Marg, Ballard Estate,
Mumbai - 400 001. • Tel.: 2262 5970 / 2262 5972 • Fax : 2262 5968

Auditors
M/s. M. P. Chitale & Co.
Chartered Accountants

DIRECTORS' REPORT

To
The Members

Your Directors have great pleasure in presenting the Seventh Annual Report of the Primary Dealers' Association of India (PDAI) together with the Audited Statement of Accounts for the year ended March 31, 2004.

PROLOGUE :

PDAI was established as an Association for the Primary Dealers (PDs) accredited by Reserve Bank of India (RBI) to represent their interests and evolve suitable market practices for the participants which is essential for proper functioning and healthy development of the market. The Association provides a platform for addressing issues of common interest and benefit to its member fraternity and seeks to establish itself as a Self Regulatory Organisation. The Association commenced its activities initially with six PD members which has since grown to eighteen.

OPERATING ENVIRONMENT :

The Reserve Bank of India's monetary policy continued to focus on providing adequate liquidity to meet credit and investment demand in the economy. Liquidity conditions remained comfortable due to strong foreign capital inflows. WPI Inflation averaged 5.4% for the year while at the year-end headline inflation was at 4.6%, in line with RBI expectations.

The Reserve Bank of India completed the Government's market borrowing programme at lower yields as the year progressed. The central government's net borrowing was budgeted at Rs.1,07,194 crore for the year but only Rs.88,807 crore was necessary. The share of total primary purchases by the PDs was 67% for Treasury Bills and 50% for dated Government Securities in financial year 2003-04. In the secondary market, PDs contributed 25.21% of annual trading value reported by Clearing Corporation of India Limited. The weighted average yield on government borrowings through dated securities decreased to 5.71% during 2003-04 from 7.34% during 2002-03. The weighted average maturity of borrowing increased marginally to 14.94 years from 13.83 years in the preceding year. RBI conducted the first ever Government Securities buy- back auction during the year. The presence of ample liquidity and accommodative policy stance helped generate overwhelming response in all securities' auctions and enabled RBI to avoid devolvement.

Ample liquidity in April fuelled a rally in prices of government securities. Though the rally subsequently moderated on concerns of rising inflation, sentiment remained strong until June 2003 before settling into a range. The 50 basis point reduction in repo rate on August 25, 2003 triggered a sharp realignment in yields. The 10-year yield touched a low of 5.23% the following day. In September 2003, the RBI reduced the interest rate cap on NRE deposits, which hurt the liquidity outlook and weakened sentiment, though the announcement of modest borrowing target for second half of financial year 2003-04 again sparked a bond rally. The 10-year yield hit a historic low of 4.95% in the run-up to the mid-term policy review in October 2003. But RBI refrained from easing, and subsequently, the combination of rising inflation, hardening US yields and concern about the Market Stabilisation Scheme dampened sentiment in the final quarter of the fiscal year. On the whole, the 10-year yield declined by106 basis points in financial year 2003-04, from 6.21% to 5.15%.

The year also witnessed the following developments with respect to the business of PDs:

1. Banks/FIs were allowed to deal in exchange traded interest rate derivatives in a phased manner with a view to enable them to manage exposure to interest rate risks.
2. A Memorandum of Understanding was signed between the Government of India and the RBI on March 25, 2004 detailing the rationale and operational modalities of the Market Stabilisation Scheme.
3. The RBI introduced revised Liquidity Adjustment Facility Scheme on March 25, 2004. The overnight repo auction was replaced by 7-day repo auctions from April 2, 2004 and the reverse repo rate was reduced by 50 basis points to 150 basis points over the repo rate.
4. Real Time Gross Settlement (RTGS) System commenced live operations on March 26, 2004 with select banks to reduce payments risk. The system has since stabilized with banks. PDs have been permitted direct membership of RTGS.
5. The RBI instructed Banks and PDs to cap their investments in unlisted debt to 10% of the investment portfolio.
6. Securities and Exchange Board of India (SEBI) issued guidelines for listed securities which require the information memorandum to contain certain specified disclosures.
7. The RBI introduced DVP III mode of settlement of Government Securities w.e.f. April 2, 2004 under which securities are settled on net basis (as against gross basis under DVP II mode).

ENTRANCE FEE/ANNUAL SUBSCRIPTION :

The admission and annual subscription fee of the Association remained at Rs.75,000/-. During the year under review, Citicorp Capital Markets Limited has become a member of the Association.

FINANCIAL POSITION :

Income and Expenditure Statement for the year ending March 31, 2004 of the Association shows a surplus of Rs.12,73,286.44 as compared to Rs.11,14,652.53 during the previous financial year. The same has been carried to the Balance Sheet under 'Reserves and Surplus'.

DIRECTORS :

During the year under review, Shri V. Srinivasan took over as Chairman of PDAI following the resignation of Shri G. V. Nageswara Rao as Director. Shri R. K. Nair and Shri Ajay Mahajan had also ceased to be the Directors. Your Directors place on record the contribution made by them during their tenure as Directors.

In terms of Article 49(a) of the Articles of Association of the Company, your directors co-opted Shri V. Subbaraman, Managing Director, Citicorp Capital Markets Limited and Shri Pradeep Madhav, Executive Vice-President, IDBI Capital Market Services Limited, as Directors on the Board of Directors of the Company who hold their office till the date of ensuing Annual General Meeting. The Company has received notices in writing under the provisions of section 257 of the Companies Act, 1956, proposing S/Shri V. Subbaraman and Pradeep Madhav as Directors of the Company.

Shri V. Srinivasan, and Shri Vishnu Deuskar will be retiring by rotation in the ensuing Annual General Meeting pursuant to Article 43(b) of the Articles of Association of the Company and being eligible offer themselves for reappointment.

DIRECTORS' RESPONSIBILITY STATEMENT :

In terms of Section 217 (2AA) read with Section 292A of the Companies Act, 1956, the Directors of the Primary Dealers' Association of India, state in respect of financial year 2003-2004 that :

(i) In preparation of the annual accounts, the applicable Accounting Standards have been followed alongwith proper explanation relating to material departures ;

(ii) The Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the surplus income of the Company for that period ;

(iii) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and

(iv) The Directors have prepared the annual accounts on a going concern basis.

PARTICULARS OF EMPLOYEES :

None of the employees of your Company were in receipt of remuneration exceeding the limits prescribed under Section 217 (2A) of the Companies Act, 1956.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO :

The Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 pertaining to Conservation of Energy in Form A and Technology Absorption in Form B are not applicable to your Company, as your Company is not a manufacturing company. Further, there were no earnings or outgo in foreign exchange, during the year under review.

AUDITORS :

The Auditors, M/s. M. P. Chitale & Co., Chartered Accountants, retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept office, if reappointed. The Board recommends to the members re-appointment of the Auditors and fixation of their remuneration.

ACKNOWLEDGEMENT :

Your Directors take this opportunity to express their grateful thanks to all the concerned officials of Reserve Bank of India for their unstinted support, guidance and co-operation to the Association and its members. The Directors also wish to express their appreciation to PDs for their generous support.

For and on behalf of the Board of Directors

Place : Mumbai
August 27, 2004.

V. Srinivasan
Chairman

AUDITORS' REPORT

TO THE MEMBERS OF
PRIMARY DEALERS' ASSOCIATION OF INDIA

We have audited the attached Balance Sheet of Primary Dealers' Association of India (the Organisation) as at 31st March 2004 and the Income and Expenditure Account for the financial year ended on that date, both of which we have signed under reference to this report. These financial statements are the responsibility of Primary Dealers' Association of India. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by organisation's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We report as follows :

(a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

(b) In our opinion, proper books of account as required by law have been kept by the organization, so far as appears from our examination of the books;

(c) The Balance Sheet and Income & Expenditure Account dealt with in this report are in agreement with the books of account;

(d) In our opinion, the Balance Sheet and Income & Expenditure Account comply with the accounting standards referred to in Section 211 (3C) of the Companies Act, 1956;

(e) On the basis of the written representations received from the Directors as on March 31, 2004 we report that none of the Directors are disqualified as on March 31, 2004 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;

(f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the notes thereon, give information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India :

   (i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2004;

   (ii) in the case of Income and Expenditure Account, of the Surplus for the period ended on that date.

In our opinion and to best of our information and according to the explanations given to us, the Companies (Auditor's Report) Order, 1988 does not apply to the Organisation since it is a company licensed to operate under section 25 of the Companies Act, 1956.

Ashutosh Pednekar
Partner - ICAI M. No. 41037
For and on behalf of
M.P. Chitale & Co.

Mumbai :
August 27, 2004.

PRIMARY DEALERS' ASSOCIATION OF INDIA
BALANCE SHEET AS AT 31ST MARCH, 2004

(Amount in Rs.)

Particulars	Schedule No.		As at 31.03.2004		As at 31.03.2003
SOURCES OF FUNDS					
Corpus Contribution	A		1,350,000.00		1,275,000.00
Reserves and Surplus	B		5,577,145.21		4,303,858.77
TOTAL			**6,927,145.21**		**5,578,858.77**
APPLICATION OF FUNDS					
Current Assets, Loans & Advances	C	6,945,505.21		5,597,218.77	
Less : Current Liabilities & Provisions	D	18,360.00		18,360.00	
Net Current Assets (C-D)			6,927,145.21		5,578,858.77
TOTAL			**6,927,145.21**		**5,578,858.77**
Notes to Accounts	E				

This is the Balance Sheet referred to in our report of even date.

For **PRIMARY DEALERS' ASSOCIATION OF INDIA**

Ashutosh Pednekar
Partner
For and on behalf of
M.P. Chitale & Co.

Mumbai :
August 27, 2004.

Srinivasan Varadarajan
Chairman
(Director, J.P. Morgan Securities (I) Pvt. Limited)

R. V. Joshi
Director
(Managing Director, Securities Trading Corporation of India Limited)

Vishnu Deuskar
Director
(Director ABN Amro Securities (I) Pvt. Limited)

Jayesh Mehta
Director
(Executive Vice President, DSP Merrill Lynch Limited)

I. D. Singh
Director
(Managing Director, PNB Gilts Limited)

Nitin Jain
Director
(Sr. Vice President, ICICI Securities Limited)

V. Subbaraman
Director
(Managing Director, Citicorp Capital Markets Limited)

Mumbai :
August 27, 2004.

PRIMARY DEALERS' ASSOCIATION OF INDIA
INCOME & EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2004

(Amount in Rs.)

Particulars		Year Ended 31.03.2004	Year Ended 31.03.2003
INCOME			
Membership Fees		1,350,000.00	1,350,000.00
Interest on Fixed Deposits (TDS Rs. 57,238/-)		449,831.19	416,454.23
Interest on IT Refund		---	1,227.00
TOTAL (I)		**1,799,831.19**	**1,767,681.23**
EXPENDITURE			
Salary		329,000.00	123,332.00
Printing & Stationery Expenses		30,377.25	33,118.25
Registration Charges for Domain Name		5,030.00	---
Bank Charges		800.00	55.00
Filing Fees		181.00	250.00
Professional Fees		84,000.00	84,000.00
Postage & Telephone		9,422.50	6,310.00
Conference & Seminar Expenses		17,959.00	382,896.45
Profession Tax		16,200.00	---
Sundry Expenses		---	1,895.00
Conveyance		6,661.00	2,812.00
Service Tax		7,664.00	---
PAYMENT TO AUDITORS			
Audit Fees		10,000.00	10,000.00
Tax Matters		7,000.00	7,000.00
Service Tax		1,360.00	1,360.00
Out-of-Pocket		890.00	---
TOTAL (II)		**526,544.75**	**653,028.70**
Surplus Transferred to Reserve and Surplus	**(I-II)**	**1,273,286.44**	**1,114,652.53**

This is the Income and Expenditure Account referred to in our report of even date.

For **PRIMARY DEALERS' ASSOCIATION OF INDIA**

Ashutosh Pednekar
Partner
For and on behalf of
M.P. Chitale & Co.

Mumbai :
August 27, 2004.

Srinivasan Varadarajan
Chairman
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R. V. Joshi
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(Sr. Vice President, ICICI Securities Limited)

V. Subbaraman
Director
(Managing Director, Citicorp Capital Markets Limited)

Mumbai :
August 27, 2004.

PRIMARY DEALERS' ASSOCIATION OF INDIA
SCHEDULE FORMING PART OF BALANCE SHEET
AS AT 31ST MARCH, 2004

(Amount in Rs.)

		As at 31.03.2004		As at 31.03.2003
SCHEDULE A				
Corpus Contribution				
Opening Balance	1,275,000.00		1,050,000.00	
Add : Entrance Fees received during the year	75,000.00	1,350,000.00	225,000.00	1,275,000.00
TOTAL		**1,350,000.00**		**1,275,000.00**
SCHEDULE B				
Reserves & Surplus				
Opening Balance	4,303,858.77		3,189,206.24	
Add : Excess of Income over Expenditure as per Income & Expenditure Account	1,273,286.44	5,577,145.21	1,114,652.53	4,303,858.77
TOTAL		**5,577,145.21**		**4,303,858.77**
SCHEDULE C				
Current Assets, Loans & Advances				
a) Tax Deducted at source on FD Interest		172,781.80		115,543.80
b) Accrued Interest on FD with Bank		497,165.00		467,939.81
c) Balance with Scheduled Bank				
In Current Account	168,401.41		80,817.56	
In Fixed Deposit Account	6,107,157.00	6,275,558.41	4,932,917.60	5,013,735.16
TOTAL		**6,945,505.21**		**5,597,218.77**
SCHEDULE D				
Current Liabilities				
Creditors For Expenses				
Payable to Auditors		18,360.00		18,360.00
TOTAL		**18,360.00**		**18,360.00**

PRIMARY DEALERS' ASSOCIATION OF INDIA

SCHEDULE FORMING PART OF ACCOUNTS
SCHEDULE "E"
NOTES TO ACCOUNTS

1. Primary Dealers' Association of India is a Company Limited by Guarantee registered under Section 25 of the Companies Act, 1956.

2. **Significant Accounting Policies**
   a) The Accounts of the company are maintained on historical cost convention.
   b) Membership fee is considered as Income.
   c) Entrance Fees received from the members as contribution towards the corpus of the Association.

3. There was no expenditure or income or remittance in foreign currency during the year.

4. Profession Tax payment includes prior period charge of Rs. 11,700/-

5. Information pursuant to para 4C and sub clause a, b, c and e of para 4D of part 11 of schedule VI of the Companies Act, 1956 has not been given as they are not applicable to the company.

6. No provision for taxation has been made in the accounts in view of the exemption eligible to the Company under section 11 read with Section 2 (15) of the "Income tax Act 1961".

7. Previous year's figures are regrouped, reclassified and rearranged wherever necessary.

Signatures to the Schedules A to E forming part of the Balance Sheet and Income & Expenditure Account.

For **PRIMARY DEALERS' ASSOCIATION OF INDIA**

Ashutosh Pednekar
Partner
For and on behalf of
M.P. Chitale & Co.

Mumbai :
August 27, 2004.

Srinivasan Varadarajan
Chairman
(Director, J.P. Morgan Securities (I) Pvt. Limited)

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Director
(Managing Director, Citicorp Capital Markets Limited)

Mumbai :
August 27, 2004.

PRIMARY DEALERS' ASSOCIATION OF INDIA

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

a) Registration Details

Registration No.	11-112605	State Code	11
Balance Sheet Date	31-03-2004		

b) Capital raised during the year (Rs. In lacs)

Public Issue	NIL	Right Issue	NIL
Bonus Issue	NIL	Private Placement	NIL

c) Position of Mobilisation and Deployment of funds (Rs. In Lacs)

TOTAL LIABILITIES Sources of Funds :		TOTAL ASSETS Application of Funds :	
Corpus Contribution	13.50	Net Fixed Assets	NIL
Reserves & Surplus	55.77	Investments	NIL
Secured Loans	NIL	Net Current Assets	69.27
Unsecured Loans	NIL	Misc. Expenditure	NIL
		Accumulated Losses	NIL

d) Performance of the Company (Rs. In Lacs)

Turnover - Income	18.00
Total Expenditure	5.27
Profit Before Tax	12.73
Profit After Tax	12.73
Earnings per Share in Rs.	N.A
Dividend Rate %	NIL

e) Generic Names of Three Principal Products / Services of Company
(as per Monetary Terms)

Item Code No. Service Description	NIL Not Applicable
Item Code No. (ITC Code) Service Description	NIL Not Applicable
Item Code No. (ITC Code) Service Description	NIL Not Applicable