# PRIMARY DEALERS' ASSOCIATION OF INDIA

8th Annual Report
2004 - 2005

# PRIMARY DEALERS' ASSOCIATION OF INDIA
## BOARD OF DIRECTORS

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

**Shri. R. V. JOSHI**
Managing Director,
STCI

**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

**Shri. M. M. LATEEF**
M.D. & C.E.O.
SBI DFHI

**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 herewith the Eighth Annual Report of the Primary Dealers' Association of India together with the Income and Expenditure Account for the period ended March 31, 2005 and the Balance Sheet as at that date.

## 1. BACKGROUND

The "Primary Dealers' Association of India" (PDAI) was established as a Company under Section 25 of the Companies Act, 1956 on December 22, 1997. The PDAI at the time of its formation had six members. Currently the Association has a strength of 17 members. PDAI has played a pivotal role in the development of fixed income markets and it is taking an active interest in furthering the development of the Government securities market in India. Primary Dealers were formed in India to act as a catalyst to develop an active market in G-Secs (government bond or securities). They are responsible for providing liquidity in the market in their role as market makers and also to act as underwriters for public debt. This has ensured that there is an active continuing market for G-Secs in the country.

## 2. OPERATING ENVIRONMENT

The operating environment for PDs in the year 2004-05 was most challenging with many PDs posting losses for the last financial year. Inflationary concerns came to the forefront and fiscal and monetary policies were focused to ensure price stability. The Reserve Bank of India's monetary policy focused on providing adequate liquidity to meet credit growth and investment demand in the economy. With headline inflation levels in October at levels much higher than that targeted in the April monetary policy, the stance in the mid-term policy review was modified to pursuing an interest rate environment conducive to maintaining the momentum of growth and macroeconomic and price stability.

The annual inflation rate as measured by variations in the WPI index peaked at 8.7% in August 2004 on a point to point basis. Fiscal and monetary measures were taken to moderate inflation levels and these proved to be effective with the inflation level receding to 5% by March 2005. The monetary measures taken during the year to restrain inflation included a 50 bps hike in CRR September 2004 and a 25 bps hike in repo rate in the October monetary policy review. The MSS was also used to efficiently mop up excess liquidity in the market.

The year 2004-05 saw Central Government borrowings being sharply lower than budgeted levels. Against a budgeted net borrowing of Rs.90,365 Crores (gross borrowings of Rs.1,50,817 Crores), actual issues aggregated a net borrowing of Rs. 46,050 Crores (gross borrowing of Rs. 1,06,501 Crores). The primary reason for the lower borrowing was higher borrowings by the State Governments under the debt swap scheme. In addition to the normal borrowings undertaken by the Central Government, an additional Rs.65,481 Crores was raised under MSS for sterilization purposes. Bond yields rose sharply during the year and the 10 year benchmark went above 7.25% during the year before settling at 6.65% in March 2005. The weighted average cost of Central Government borrowing during 2004-05 rose to 6.11% from 5.71 % in the previous year.

Primary Dealers continued to play a key role in the primary and secondary market for government securities in spite of their profitability being impaired on account of difficult market conditions. PDs continued to be large buyers of T-Bills and G-Secs in primary auctions. Their share of primary purchases in Government securities (excluding MSS) was close to 50% in 2004-05. Secondary market presence of PDs was also strong and their market share of total settlement volume through CCIL was around 25% for the year 2004-05.

### 3. ENTRANCE FEE / ANNUAL SUBSCRIPTION

The admission fee and annual subscription fee of the Association remained at Rs.75,000/-. During the year under review, no new member joined the Association.

### 4. FINANCIAL RESULTS

The Income and Expenditure Account for the ending March 31, 2005 of the Association shows a surplus of Rs.11,34,983/- as compared to Rs.12,73,286/- in the previous financial year. This has been carried to the Balance Sheet under Reserves and Surplus.

### 5. ROLE PLAYED BY THE ASSOCIATION

The Association has taken various steps during the year for improving the long term interests of the members. The Association had regular and continuous dialogue with RBI on several issues such diversifying into areas such as foreign exchange, equities and commodities as well as introduction of products that would help the PD system be more robust. The members also provided their inputs to the sub-committee of the Technical Advisory Committee that looked at issues related to Primary Dealers. The Association has also provided inputs and comments on the RBI report on the Government Securities market.

### 6. DIRECTORS

During the year under review, Shri. Vishnu Deuskar had ceased to be the Director. Shri. Anjan Barua who was appointed as additional director on 23.11.2004 resigned as Director on 10.8.2005. Your Directors place on record the contribution made by them during their tenure as Directors.

Shri. M. M. Lateef had been appointed as additional Director of the Company on 10th August 2005 and holds office till the date of the ensuing Annual General meeting. The Company has received notice from one of its members for the appointment of Shri. M. M. Lateef as Director of the Company.

Shri Manubhai K. Parekh, D. G. Kamath & CVR Rajendran have been appointed as additional directors of the Company on 24th August, 2005 and they hold their office till the date of ensuing Annual General Meeting. The company has received notices from its members for the appointment of S/Shri. Manubhai K. Parekh, D. G. Kamath & CVR Rajendran, as Directors of the Company.

In terms of Article 43(B) (b) of the Articles of Associations, S/Shri. I. D. Singh, Nitin Jain and Jayesh Mehta will retire at the ensuing Annual General Meeting and are eligible to offer themselves for re-appointment.

### 7. 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 re-appointed. The

Board recommends to the members for re-appointment of the Auditors and fixation of their remuneration.

**8. 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.

**9. 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.

**10. DIRECTORS' RESPONSIBILITY STATEMENT**

Pursuant to the requirements under Section 217 (2AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement, it is hereby confirmed that :

i. in the preparation of the annual accounts, the applicable Accounting Standards have been followed along with 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.

**11. ACKNOWLEDGMENT**

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 to all Primary Dealers. The Directors wish to place on record their appreciation for the efforts of the officials of the member organisations for their contribution in managing the affairs of the Association.

**For and on behalf of the Board of Directors**

**PLACE : Mumbai**
**DATE : 24th August, 2005**

**(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 2005 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 accounts as required by law have been kept by the Organization, so far as appears from our examination of the books;

(c) The said 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, 2005 we report that none of the Directors are disqualified as on March 31, 2005 from being appointed as a Directors 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 2005;

    (ii) in the case of the 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, 2003 and as amended by Companies (Auditor's Report) (Amendment) Order, 2004 (together the "Order") issued by the Central Government of India in terms of Section 227(4A) of the Companies Act, 1956 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 10, 2005.

# PRIMARY DEALERS' ASSOCIATION OF INDIA
## BALANCE SHEET AS AT 31ST MARCH, 2005

(Amount in Rs.)

| Particulars | Schedule No. | | As at 31.03.2005 | | As at 31.03.2004 |
|---|---|---|---|---|---|
| **SOURCES OF FUNDS** | | | | | |
| Corpus Contribution | A | | 1,350,000.00 | | 1,350,000.00 |
| Reserves and Surplus | B | | 6,712,128.71 | | 5,577,145.21 |
| **TOTAL** | | | **8,062,128.71** | | **6,927,145.21** |
| **APPLICATION OF FUNDS** | | | | | |
| Current Assets, Loans & Advances | C | 8,203,389.71 | | 6,945,505.21 | |
| **Less :** Current Liabilities & Provisions Current Liabilities | D | 141,261.00 | | 18,360.00 | |
| Net Current Assets (C-D) | | | 8,062,128.71 | | 6,927,145.21 |
| **TOTAL** | | | **8,062,128.71** | | **6,927,145.21** |
| **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 10, 2005.

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

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

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

**Shri. Jayesh Mehta**
**Director**
(Executive Vice President. DSP Merrill Lynch Limited)

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

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

**Shri. M. M. Lateef**
**Director**
(Managing Director, & Chief Executive Officer, SBI DFHI Limited )

Mumbai :
August 10, 2005.

## PRIMARY DEALERS' ASSOCIATION OF INDIA
## INCOME & EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2005

(Amount in Rs.)

| Particulars | | As at 31.03.2005 | As at 31.03.2004 |
|---|---|---|---|
| **INCOME** | | | |
| Membership Fees | | 1,275,000.00 | 1,350,000.00 |
| Interest on Fixed Deposits (TDS Rs. 51,964/-) | | 487,506.00 | 449,831.19 |
| Interest on I.T. Refund | | 3,473.00 | --- |
| **TOTAL (I)** | | **1,765,979.00** | **1,799,831.19** |
| **EXPENDITURE** | | | |
| Salary | | 380,281.00 | 329,000.00 |
| Printing & Stationery Expenses | | 28,771.50 | 30,377.25 |
| Registration Charges for Domain Name | | --- | 5,030.00 |
| Bank Charges | | 583.00 | 800.00 |
| Filing Fees | | --- | 181.00 |
| Professional Fees | | 92,626.00 | 84,000.00 |
| Postage & Telephone | | 18,406.00 | 9,422.50 |
| Conference & Seminar Expenses | | 23,900.00 | 17,959.00 |
| Profession Tax | | 2,500.00 | 16,200.00 |
| Office Expenses | | 33,174.00 | --- |
| Conveyance | | 4,440.00 | 6,661.00 |
| Service Tax | | --- | 7,664.00 |
| Computer expenses | | 5,050.00 | --- |
| Accounting charges | | 6,000.00 | --- |
| **PAYMENT TO AUDITORS** | | | |
| Audit Fees | | 20,000.00 | 10,000.00 |
| Tax Matters | | 10,000.00 | 7,000.00 |
| Service Tax | | 3,264.00 | 1,360.00 |
| Out-of-Pocket | | 2,000.00 | 890.00 |
| **TOTAL (II)** | | **630,995.50** | **526,544.75** |
| **Surplus Transferred to Reserve and Surplus** | **(I-II)** | **1,134,983.50** | **1,273,286.44** |

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 10, 2005.

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

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**Director**
(Managing Director, Citicorp Capital Markets Limited)

**Shri. M. M. Lateef**
**Director**
(Managing Director, & Chief Executive Officer, SBI DFHI Limited )

Mumbai :
August 10, 2005.

**PRIMARY DEALERS' ASSOCIATION OF INDIA**
**SCHEDULE FORMING PART OF BALANCE SHEET**
**AS AT 31$^{ST}$ MARCH, 2005**

(Amount in Rs.)

| | | As at 31.03.2005 | | As at 31.03.2004 |
|---|---|---|---|---|
| **SCHEDULE A** | | | | |
| **Corpus Contribution** | | | | |
| Opening Balance | 1,350,000.00 | | 1,275,000.00 | |
| **Add** : Entrance Fees received during the year | --- | 1,350,000.00 | 75,000.00 | 1,350,000.00 |
| **TOTAL** | | **1,350,000.00** | | **1,350,000.00** |
| **SCHEDULE B** | | | | |
| Reserves & Surplus | | | | |
| Opening Balance | 5,577,145.21 | | 4,303,858.77 | |
| **Add** : Excess of Income over Expenditure as per Income & Expenditure Account | 1,134,983.50 | 6,712,128.71 | 1,273,286.44 | 5,577,145.21 |
| **TOTAL** | | **6,712,128.71** | | **5,577,145.21** |
| **SCHEDULE C** | | | | |
| **Current Assets, Loans & Advances** | | | | |
| a) Tax Deducted at source on FD Interest | | 169,606.80 | | 172,781.80 |
| b) Accrued Interest on FD with Bank | | --- | | 467,165.00 |
| c) Balance with Scheduled Bank | | | | |
| In Current Account | 34,753.91 | | 168,401.41 | |
| In Fixed Deposit Account | 7,999,029.00 | 8,033,782.91 | 6,107,157.00 | 6,275,558.41 |
| **TOTAL** | | **8,203,389.71** | | **6,945,505.21** |
| **SCHEDULE D** | | | | |
| **Current Liabilities** | | | | |
| Creditors For Expenses | | | | |
| Payable to Auditors | | 35,264.00 | | 18,360.00 |
| Accounting charges payable | | 6,000.00 | | --- |
| Salary Payable | | 99,997.00 | | --- |
| **TOTAL** | | **141,261.00** | | **18,360.00** |

# PRIMARY DEALERS' ASSOCIATION OF INDIA

## SCHEDULES 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 NIL (Rs. 11,700/-)

5. Information pursuant to para 4C and sub clause a, b, c and e of para 4D of part II 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 10, 2005.

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

**Shri. R. V. Joshi**
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**Director**
(Managing Director, Citicorp Executive Officer, SBI DFHI Limited)

Mumbai :
August 10, 2005.

# 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 | 31-03-2005 | | |

**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 | 67.12 | Investments | NIL |
| Secured Loans | NIL | Net Current Assets | 80.62 |
| Unsecured Loans | NIL | Misc. Expenditure | NIL |
| | | Accumulated Losses | NIL |

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

| | |
|---|---|
| Turnover - Income | 17.66 |
| Total Expenditure | 6.31 |
| Profit Before Tax | 11.35 |
| Profit After Tax | 11.35 |
| 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. | NIL |
| Service Description | Not Applicable |
| Item Code No. (ITC Code) | NIL |
| Service Description | Not Applicable |
| Item Code No. (ITC Code) | NIL |
| Service Description | Not Applicable |